

Tennessee

Federal Policies Have Cost Tennessee \$3.0 Billion over the Past Four Years

Federal Policies Affect Tennessee Revenue and Spending Levels, 2002-2005

Cost to
Tennessee

➤	<i>Federal Tax Changes:</i> Recently enacted federal tax cuts reduce state revenue directly.	\$38 million
➤	<i>Remote Sales:</i> States cannot collect sales taxes on goods & services purchased over the Internet due to federal law and court decisions.	\$1.7 billion
➤	<i>Internet Access:</i> States are generally prohibited from applying tax to Internet access charges.	\$88 million
➤	<i>Unfunded Mandates:</i> Federal government imposes responsibilities on states but provides insufficient funding.	\$1.3 billion
➤	<i>Medicare/Medicaid Dual Eligibles:</i> Increased use of prescription drugs shifts costs of health care for low-income elderly from federal Medicare program to state Medicaid programs.	\$357 million
➤	<i>Federal Fiscal Relief:</i> Congress approved temporary grants in 2003.	(\$424 million)
	TOTAL COST (net of fiscal relief), 2002-2005:	\$3.0 billion

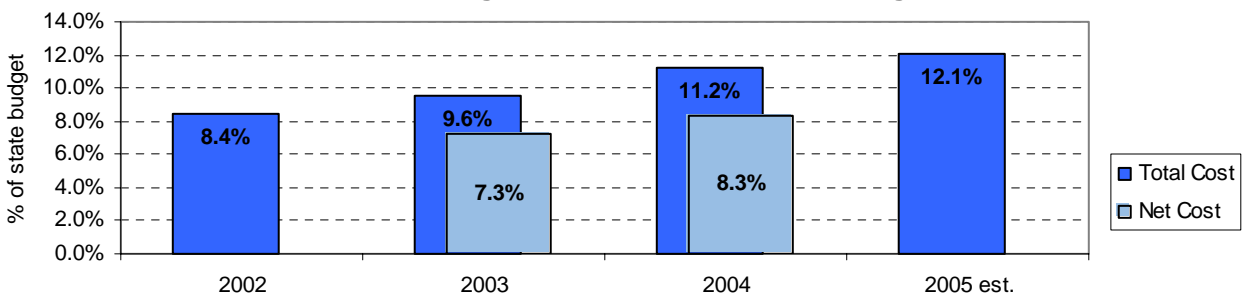
Tennessee Has Been More Affected by Federal Policies than Most States

Ranking among 50
states plus D.C.

➤	Total cost as percent of General Fund budget (2002-2005):	10.4%	16th
➤	Net cost as percent of General Fund budget, including offsetting federal fiscal relief (2002-2005):	9.1%	15th

Tennessee has been affected heavily by federal policy in part because it lacks a diverse revenue base, relying greatly on sales tax to raise revenue for the state. As a result, it is more affected by federal restrictions on sales taxation than most states. Tennessee is also among the ten states most reliant on federal revenue. States that are more reliant on federal funds are disproportionately affected by the failure of the federal government to fund mandates and prescription drug costs adequately.

Net Cost of Federal Policy to Tennessee as a Percentage of State General Fund Budget



Source: Center on Budget and Policy Priorities, *Passing Down the Deficit: Federal Policies Contribute to the Severity of the State Fiscal Crisis*, May 12, 2004.