

Cato's misleading report gives TN poor fiscal score, does not factor revenue jump

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The fiscally conservative Cato Institute has given Gov. Bill Lee low marks on Tennessee's fiscal management — a score lower than any other Republican governor in the nation and one that raises questions about the organization's methodology.

Cato on Monday released its "Fiscal Policy Report Card," which the Washington, D.C.-based libertarian think tank publishes every other year.

The group gave Lee a "D" rating and a score of 40, a conclusion the Cato report's author said was reached because of Tennessee's proposed budget increases under Lee, a Republican who took office in January 2019.

Just below Lee, each with F scores of 39, were Democrats Govs. Andrew Cuomo of New York, Gretchen Whitmer of Michigan and Ralph Northam of Virginia.

"Lee's low score is substantially driven by the fact that spending increased 10.8% in his first year in office, which is huge," said Chris Edwards, Cato's tax policy director who led the report. "He was a real outlier on spending."

The organization does not factor in revenue growth as a reason for increased spending — and Tennessee has been raking in the money for years now, prompting Democrats and various advocacy groups at times to criticize the state for not putting more of its revenue surplus to use.

"I would say that for Lee, the fact that spending did increase 10% last year probably put Tennessee in a worse position this year as we went into COVID," Edwards said. "A more frugal thing to do last year would be to build up the rainy day fund more."

But Tennessee did build up its rainy day fund, depositing hundreds of millions into the last-resort reserve account both last year and this year.

Cato erroneously claimed Tennessee has had to "dip into the state's rainy day fund" as a result of this year's recession, a remark Lee's office has requested Cato to retract.

State officials in recent weeks have said it's unlikely that Tennessee will need to tap into the rainy day fund in the coming year.

Following a request for comment from The Tennessean regarding the ranking, Lee's office on Monday said it was submitting a letter to the Cato Institute requesting multiple corrections and retractions, including for the overall grade.

In a statement, Lee spokesman Gillum Ferguson said there are "basic factual errors with this report," most notably that the state had used funds from the rainy day account.

He noted a 1.2% decrease in spending of state funds approved in the last budget year and the current budget.

"Not only have we not touched our rainy day fund, we have made record deposits to prepare for the future," Ferguson said. "Tennesseans know better than to judge the state's finances based on poorly conceived reports from a Washington DC think tank."

Edwards on Monday said he stood by the rating, and added that the state should "restrain spending" in order to improve its score with the organization.

According to a report released earlier this year by the nonpartisan Tennessee-based Sycamore Institute, the state in recent years has amassed "some of its largest budget surpluses ever," a result of Tennessee's "conservative forecasts" of revenue collections and resulting in larger, one-time investments in certain projects and funds rather than budgeting for a number of new recurring policy initiatives.

The Cato report made its assessments largely based on per capita spending each year, which in Tennessee has been on track to increase as state revenues have soared.

Edwards said the report looked at states' pre-pandemic proposed budgets to calculate spending increases, which in Tennessee was drastically different than the budget actually passed months later amid dire economic predictions.

Lee and the Republican-controlled legislature in March and again in June scrapped most new spending plans, cutting projects and employee raises while still keeping in place a previously promised tax elimination on investment interest.

The Cato report, meanwhile, also hit Lee for having "approved increases in taxes on online sales and sports betting," neither of which was entirely accurate.

Sports betting, previously illegal in Tennessee, was approved through legislation that also required a tax on operator revenue. The measure was not a tax increase, as there previously was no established tax rate on sports gambling revenue, which was illegal and would have been subject to forfeiture.

The legislation also failed to receive Lee's support and was one of the few bills he allowed to become law without signing.

As for the reported tax increase on online sales, the law in question merely expanded which online stores are required to collect sales taxes, reducing the threshold from companies with \$500,000 in sales to Tennessee residents to those with \$100,000 in sales.

Cato report follows Tennessee's recent positive 'taxpayer surplus' ranking

In contrast to Tennessee's poor per capita spending rating from Cato, Truth In Accounting last month ranked Tennessee No. 5 in the nation for its taxpayer surplus, which is the per capita amount left over after all the state's bills are paid.

That report came on the heels of state budget officials announcing both August and July revenues had far exceeded their expectations.

And despite this spring predicting a half-billion dollar revenue deficit at the end of the 2019-20 fiscal year in June, the state brought in \$480 million more than budget experts had anticipated during the throes of coronavirus shutdowns, surpassing last year's revenues by 2.4%.