

# TENNESSEE GOVERNMENT

## Update

### NEWS FOR THE CLIENTS AND FRIENDS OF BASS, BERRY & SIMS PLC

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The last week of the first session of the 105<sup>th</sup> General Assembly was not the last week. Next week is hoped to be the final week. Senator Jim Kyle (D-Memphis) remarked “nothing good ever happens in the legislature in June.”

#### **Cigarette Tax**

A 42-cent increase in the cigarette tax, however, was signed by Governor Bredesen on Thursday. Last week the Senate passed, on a party line vote, a 42-cent increase in the cigarette tax (Independent Mike Williams voted with the Democrats to increase the tax). The original 40-cent increase, mainly earmarked to subsidize Governor Bredesen’s BEP 2.0 education initiative, was bumped another two pennies per pack when an amendment from Senator Rosalind Kurita (D-Clarksville) passed. The extra funds generated from this increase, estimated at \$11 million, will help fund trauma centers around the state. The Senate, though, did not adopt an amendment passed and favored by House Republicans as part of an education accountability bill. The amendment, sponsored by Representative David Hawk (R-Greeneville), would have used about \$150 million in excess lottery cash to help finance school district capital projects. Frustrated House Republicans, led by Minority Leader Jason Mumpower (R-Bristol), blocked a vote on the cigarette tax last Thursday using parliamentary procedure. Ironically, it was more the Senate Republicans who were responsible for the Hawk amendment being stripped from the accountability bill.

Possibly as a peace offering, Senate Republicans, led by Jim Tracy (R-Shelbyville), sent back from the floor to a specially called Education Committee meeting a bill to accomplish the original capital project goal. It failed in the called meeting.

After intense discussion, the cigarette tax passed in the House on a 60-34 vote. Fourteen Republicans supported the 42-cent hike while four Democrats did not.

The cigarette tax takes effect on July 1, 2007. It is expected to raise about \$230 million. Most will go toward the education overhaul. It will pay for the increased cost of educating “at-risk” children (those who qualify for free or reduced lunch) and raise teacher salaries from \$37,500 to \$40,000. An allocated \$48 million will go to higher

education in an effort to keep tuition increases below 7 percent and \$21 million will be allocated for agricultural enhancements. The state spent \$3.41 billion on K-12 education this year (federal funds amounted to \$873 million). The overhaul will increase the state's spending on such education by \$500 million per year.

New accountability measures will enable the state Department of Education to take over failing schools sooner than currently allowed, create incentives to make it easier to staff some schools and subject areas, and create performance standards, with the potential for bonuses, in principals' contracts.

### **The Budget**

The legislature will now turn its attention to the state's budget for the fiscal year beginning July 1, 2007. To date, back-hall discussions have produced no agreement. The latest plan is for the House to try to adopt a budget on Monday and send it across the hall to the Senate. There is an increasing likelihood (absent an agreement between the House, the Senate and the Governor) that the budget will be thrashed out in a conference committee. Areas of disagreement include:

- whether to decrease the state sales tax or provide a sales tax holiday, and if so, how much;
- whether to provide each member the ability to direct "community enhancement grants," and if so, how much; and
- whether to fund the proposed purchase of 125,000 acres of forestland on the North Cumberland Plateau.

In the meantime, the legislature is near completion of action on non-fiscally related bills. The House worked through a 70-plus bill calendar on Thursday.

Both finance committees are meeting today and on Monday in the hope that next week is the last week.

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