

TENNESSEE GOVERNMENT

Update

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

The first session of the 105th General Assembly adjourned late Tuesday evening, June 12, 2007. The second session will convene at noon on Tuesday, January 8, 2008.

The significant issue left on the table, and the subject of some strong dispute in the late evening, was adjustment of the lottery education scholarship program. The House was prepared to act, but the Senate was not. So, that matter carries over until January. In addition, any other bills not acted upon carry over to the second session.

The Fiscal Review Committee will likely have its first meeting of the off-session before the end of the month. The shortened list of study committees approved by the General Assembly will receive appointments by the speakers and will set schedules for the fall. And members will take advantage of the legislative conferences offered through National Conference of State Legislatures (NCSL), American Legislative Exchange Council (ALEC) and Southern Legislative Conference (SLC) in July and August. After a couple of days of rest, the on-going interaction between Tennessee state government and business interests will continue.

Funding State Government

The state's budget came back to the Senate for action mid-morning on Tuesday and with only three dissenting votes the 2007-08 budget went to the Governor's desk. Governor Bredesen got most, maybe more, of what he laid out for his agenda in his state-of-the-state address in January, primarily a 40-cent increase in the tax on cigarettes devoted to a significant increase in education spending.

Highlights in the budget and the last few days:

- A 3 percent pay increase for state employees, and \$23.8 million to address pay "compression," a complaint from long-term state employees.
- Cigarette tax increase of 42-cents per pack (projected revenue - \$230 million) that will go into the general fund but is intended to pay for BEP 2.0 (\$200 million), agricultural enhancements (\$21 million), and help the state's trauma centers (\$10 million).
- Cut in the food tax from 6 percent to 5.5 percent (beginning January 1, 2008, with projected loss of revenue of \$41 million) and an additional tax holiday over Easter weekend (there is already an August tax holiday for back-to-school items).
- \$250 million added to the "rainy day" fund to bring the total to \$750 million.
- Immigration: Businesses that "knowingly" hire an illegal alien will have their business license suspended for a first offense and revoked for one year on a second offense. The

legislation does not apply to independent contractors hired to do work, i.e. construction and farm work.

- Property tax relief for seniors: Passed income ceilings in order to implement a constitutional amendment. Seniors earning less than the median income in their county will have their property taxes frozen, provided the county takes part in the program. Those with incomes below \$24,000 are eligible for property tax rebates under a separate program; 51 of the 95 counties in the state have median senior incomes less than \$24,000.
- \$40 million for increased incarceration for those who commit felonies with a gun, \$6 million for 32 new assistant district attorneys and 19 new assistant public defenders.
- A tax credit for firms that invest in building and equipment but do not “add jobs,” a requirement under the current tax credit program. A 3 percent credit against state franchise and excise tax liability for firms who invest \$100 million with an increase in the credit and up to 10 percent for \$1 billion worth of capital investment.
- \$20 million for “community enhancement grants,” money that organizations will be able to apply for through the office of the Secretary of State.

Toll Roads on the Horizon

Another Bredesen backed idea – toll roads – got a boost when the legislature authorized funding for two pilot projects, a road and a bridge, to connect Hendersonville and Nashville. Subsequent toll road proposals would have to go through the legislature and include public hearings. Some in East Tennessee are interested in toll roads to provide an alternative to Interstate 40 through Knoxville and a parkway through Jefferson and Sevier counties.

The Economic Engine of Real Estate

The National Association of Realtors projects a drop off in sales (4.6 percent for existing homes and 18.2 percent for new homes) in 2007. However, prices are expected to drop only slightly. Sales of homes in Middle Tennessee dropped 6.7 percent in May, compared to May 2006, the seventh consecutive decrease in sales activity. However, prices rose slightly in the area (3 percent in May). The median price as reported by the Greater Nashville Area Association of Realtors was \$185,405. Condominium sales actually increased 4 percent. The inventory, or stock, of unsold houses stood at 20,915, the highest level since 2000, just before the last recession.

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J. Richard Lodge, Jr.

PHONE: (615) 742-6254

FAX: (615) 742-2754

E-MAIL: dlodge@bassberry.com



Leslie K. Hafner

PHONE: (615) 259-6342

FAX: (615) 742-2801

E-MAIL: lhafner@bassberry.com

