

TENNESSEE GOVERNMENT

Update

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

State of the State – Governor’s Budget

Governor Bredesen’s proposed budget would decrease total state spending to \$27.88 billion, down slightly from \$28.05 billion, the first year-to-year decrease since 1980. Tax revenue has been growing at a slower rate than had been projected, and the state anticipates a decrease in federal money. However, the state education lottery has a surplus of \$450 million.

Some new spending will be offset by base budget spending cuts, especially TennCare and CoverTennessee, via a budgeting device known as over-appropriation, in which state agencies are directed to spend less than is budgeted.

- **Higher Education:** The University of Tennessee and Board of Regents systems will see neither an increase in their general operating budget nor money for capital projects. The Governor said he will petition colleges to exercise the “same discipline we have used” in order to avoid large tuition increases.
- **Long Term Care:** The Governor proposed \$12 million in new funding for home and community-based elderly care that is projected to affect 2,300 people as part of a long-term initiative. He pledged to “fundamentally restructure” the system using separate legislation. Tennessee, he asserted, “ranks dead last” with respect to providing alternatives to nursing homes. Currently just 3,700 seniors receive state-subsidized home and community-based care.
- **K–12 Education:** There will be \$160 million in increased funding for K–12 public schools as part of the Basic Education Program that was addressed in last year’s session and came to be known as BEP 2.0.
- **Pre–K:** Pre–kindergarten programs will expand via a \$25 million increase in funding which translates to an additional 245 pre–K classrooms.
- **State Workers:** A 2 percent raise is budgeted.
- **Rainy Day Fund:** No money will be taken from the fund. In fact, the budget calls for an injection of \$35 million.

Lottery – Funds and Scholarships

The \$450 million lottery surplus did not escape notice. Governor Bredesen wants to allocate \$200 million of it to a new endowment fund for the Tennessee Student Assistance Corporation (TSAC). TSAC provides college grants based on financial need. Its current budget is about \$50 million per year and serves 21,000 students, who receive, on average, \$2,000 per year. Roughly 62,000 students apply for the program each year, and of those, about 40,000 are eligible. The endowment increase is expected to yield earnings of \$12 million annually. The Bredesen budget proposal would also increase direct TSAC funding by \$27 million, enough to provide grants to an additional 13,500 students.

Governor Bredesen also stated his desire to modify the Hope lottery scholarship retention standards. Currently students must maintain a 3.0 GPA (2.75 in the first year). The Governor prefers a 2.75 GPA standard. The projection is that 3,000 more students per year will be able to retain the scholarship, at a cost of \$5.3 million. The existing data show that 50 percent of students lose the scholarship after the first year and less than a third have been able to maintain the scholarship until graduation.

K–12 and higher education together, in the proposed budget, account for 29 percent of state spending. For the first time since 2000, spending on education will eclipse spending on TennCare, which will comprise 27 percent of the budget.

The Republican Response

Republican Senate Speaker Ron Ramsey indicated his preference for using the lottery surplus to establish a matching fund program with local school districts to provide for K–12 capital building projects. Other Republicans expressed skepticism about expanding pre–K programs at all, which they view as the establishment of an entitlement for the middle class. Senate Republican leader Mark Norris (R–Collierville) offered that the original plan is “one thing” but “to expand it to everyone is a different kettle of fish all together.” Senator Jamie Woodson (R–Knoxville), who chairs the Senate Education Committee, expressed concern over lowering the GPA requirement associated with retaining the Hope scholarship

Healthcare

Tennessee appears to be the poster child for this year’s American Medical Society’s national healthcare policy agenda. Bills that seek to address antitrust prohibitions, “reimbursements that fail to reflect the true cost of providing care,” and insurers’ “deceptive practices” have been filed.

The most significant of these bills is Senate Bill 3429, often referred to as “standardized provider contracting.” SB 3429 affects all lines of business (i.e., group health, Medicaid and workers’ compensation) and would require substantial administrative changes to bring insurers and other health plans into compliance.

In addition to the silent PPO language introduced in SB 3429, SB 3886/HB 3475 mandates direct contracts with providers and specifically prohibits the practice of leasing or assigning of such contracts between networks within the workers’ compensation arena.

Finally, proposed bills would allow healthcare providers to bargain together with payors, a practice now violative of state and federal antitrust laws.

Ophelia Ford

Senator Ophelia Ford (D–Memphis) has a medical condition that will require continued hospitalization, according to a letter from Methodist University Hospital in Memphis. Lieutenant Governor Ron Ramsey, a Republican, will continue to excuse her absence. A spokesman for Ramsey reminded reporters that the situation is not unprecedented – former members of the Senate had had extended absences in the past. The current situation is unique in that currently, with Ford, the Senate is split 16–16 between Republicans and Democrats, with one Independent. Her absence in the evenly divided body is significant, therefore, from an institution standpoint.

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