

TENNESSEE GOVERNMENT

Update

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

The work of all committees except the Finance Committee of each house of the Tennessee General Assembly has been completed. Both the House and the Senate met all day Thursday, May 31. The House will reconvene for what everyone hopes will be the last week of the session at noon on Monday, June 4.

The hard issues, of course, are saved to last. On Thursday, both chambers debated the accountability portion of the Governor's proposed Basic Education Plan 2.0 and the Governor's proposed 40-cent tax increase on cigarettes. The accountability bill passed both houses, and a 42-cent increase passed the Senate by one vote (the additional two pennies to fund trauma centers). The House adjourned late yesterday stalemated on how to go forward on the tobacco tax bill. Some House members expressed a desire to utilize the Tennessee Education Lottery reserve fund in the amount of \$200 million to fund capital projects for new elementary and secondary schools. After a couple of hours of posturing and recriminations, the House adjourned until noon Monday.

Next week, the legislature faces additional difficult issues, the thorniest of which is the state budget.

The legislature also passed the Governor's proposed prohibition on smoking in workplaces, excepting only age-limited bars and other establishments, tobacco shops, private clubs and nursing homes.

The administration has also proposed an economic incentives package in the annual technical corrections bill from the Department of Revenue. The additional incentives are directed at large capital investment, including capital investment in excess of \$1 billion for which a credit against the excise tax would be allowed up to a maximum of 10 percent of the purchase price of industrial machinery located in Tennessee. The bill also expands the "headquarters" incentive by allowing a credit against the taxpayer's franchise and excise tax liability based on the relocation expenses incurred in establishing a headquarters facility in Tennessee. The bill would also provide incentives for data centers that house "high-tech computer systems and related equipment." Finally, the bill will provide a sales and use tax credit for a "major cultural attraction" that is a "historical

site that has been in existence for at least 25 years that attracts at least 500,000 tourists per year." Elvis does live. Graceland is the beneficiary.

The Governor's Revised Budget

At a joint meeting of the two Finance Committees on Tuesday, Commissioner of Finance and Administration Dave Goetz presented the administration's amendment to the budget. The revised proposal was expanded by \$500 million to reflect the recent good news from the state's funding board that the collections of various taxes would be above projections for this year and would be robust in the next.

The amendment reflects almost \$300 million in improvements to K-12 through the Basic Education Program (BEP) funding formula. A portion of this increase is tied to the hike in cigarette tax by 40 cents.

Also included in the funding recommendations are:

- enhancements to Tennessee History for Kids, an Internet-based curriculum free to teachers;
- conversion to digital technology for public television;
- grants to the zoos in Chattanooga, Knoxville, Nashville and Memphis ("more animals," said Goetz);
- a coal miners museum;
- purchase of 124,000 acres of north Cumberland Plateau forest land; and
- an additional \$200 million to the state's reserve or "rainy day" fund.

The Governor's revised budget does not fund any sales tax reduction or additional sales tax holiday.

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