

PUBLICATION

Gov. Lee's Strategy: A New Era for Tennessee's Growth & Prosperity

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Governor Bill Lee delivered his sixth State of the State address last night in a joint convention of the state House and Senate. The video preview of the speech highlighted the advancement of rural opportunity, fiscal responsibility, business tax relief, expanding educational choice, and an executive-led effort to protect Tennessee musical artists. A closer look at the full speech revealed a much deeper, novel approach to the budget than the headlines might suggest.

Advancing Rural Health Care

In 2021, Governor Lee created the Rural Health Task Force to closely study the complex issues persisting throughout the state's rural health care. Based on task force recommendations, the Governor announced, "the single largest investment in rural health care in state history – nearly \$200 million over the next five years."

By utilizing the savings generated by the state's one-of-a-kind TennCare waiver granted during the final days of the Trump administration, "this investment in rural health care will come at no added cost to Tennessee taxpayers." The proposed budget documents include proposals that mirror [Rural Health Care Task Force recommendations](#), but we expect legislators to do a deep dive in the coming weeks. As a result, the details as to how the savings will be implemented will require close monitoring. The final product will be contained in the appropriations bill and revealed as the last budget details are hashed out between the House and the Senate in April.

Cutting Red Tape and Streamlining Construction Permitting

"Cutting red tape" is a cliché for most who propose taking on bureaucracy, but the Governor pledged to "repeal or streamline nearly 40 percent" of the latticework – or approximately 4,000 rules. It remains to be seen which entities and agencies will be impacted and to what degree, but we expect the measure will be fully contained in a single bill.

The Governor went on to advance statewide permitting reform geared toward accelerating building timelines, lowering costs, and safely streamlining construction in Tennessee. The Governor said, "This proposal will make it easier and more cost-effective to build homes, businesses, childcare facilities, everything."

Conservation Through Investment in Agriculture & Energy

Last year, conservation was a key focus of the administration's initiatives, and this year is no different, including the creation of eight new state parks. Additional dollars will be also allocated toward "investments to improve water quality across rivers and streams, making them safe to enjoy."

The agricultural sector employs 360,000 Tennesseans and generates \$89 billion annually, but the state ranks third-most threatened for farmland loss. To combat that threat, the Governor proposed a \$25 million Farmland Conservation Fund to partner with Tennessee farmers who voluntarily place a conservation easement on their land.

The Governor also noted the strong tie between energy security and conservation as well. He reiterated the importance of the ongoing work of the [Tennessee Nuclear Energy Advisory Council](#), on which Baker Donelson

shareholder Lang Wiseman serves. The Council recently produced its first report to help guide energy policy using the knowledge, expertise, and experience of some of Tennessee's brightest minds.

Statewide School Choice

In November 2023, Governor Lee unveiled the Education Freedom Scholarship Act of 2024, his flagship legislative initiative for the upcoming session. The bill proposes a statewide school choice program available for up to 20,000 Tennessee children, prioritizing low-income students and those with disabilities, but otherwise open to all families. The policy push currently has an estimated cost of \$141.5 million recurring on an annual basis.

Economic Status, Franchise Tax Reduction, and Rainy Day Fund Investment

The state's economic status is remarkable compared to other states around the country:

- Unemployment rate (3.5 percent) is below the national average;
- Tennessee's poverty rate is below the national average for the first time;
- A record low number of distressed counties; and
- AAA bond rating maintained for nine years.

As we noted in prior alerts, the administration in January signaled problems with the constitutionality of the state's franchise tax that would have substantially tightened the state's budget outlook this year. In his press release accompanying last night's speech, the Governor provided the first official estimation of that financial impact, noting that the state could expect to see \$410 million in revenue reduction going forward on an annual basis, and up to \$1.2 billion in one-time costs to satisfy three years of liability for refunds for the increased portion of prior tax payments by businesses pursuant to the existing tax scheme.

Savings has been an item of outsized importance to the Governor and the General Assembly, and the Governor recommended adding another \$20 million to the state's savings account, the Rainy Day Fund, bringing reserves to over \$2 billion – the highest in history. In recent years, the General Assembly has been known to increase the amount originally proposed in the Governor's budget for the Rainy Day Fund, and that is likely a trend that will hold true this year as well.

Budget Process Next Step: Department Budget Hearings

The Governor's proposed budget tops out at \$56.2 billion (\$25.4 billion in state-generated funds), and the House will begin budget hearings this week with the Senate set to follow next week. At the conclusion of those hearings, the Department of Finance & Administration will adjust the proposed budget document and issue a proposed administrative amendment which is usually released in the middle of March.

If you have any questions or need any additional information, please contact [Jacob Baggett](#). We will be closely monitoring legislation resulting from these proposals, are available to discuss these developments, and offer you and your clients the opportunity to engage in the legislative process as it unfolds to ensure the final efforts adequately take into account your needs and concerns.

The full 2024 State of the State address can be read [here](#).