

# PUBLICATION

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## A Preview of the 114th Tennessee General Assembly: First Session

Authors: Jacob D. Baggett

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The first regular session of the 114th Tennessee General Assembly will convene on Tuesday, January 14 at noon. Members will return fresh off an election cycle that yielded a few new members but no net change in the Republican supermajority in both state houses. An organizational period (i.e., office assignment musical chairs) as a result of new colleagues and committee assignments will slow the otherwise shotgun-start of session. No change in respective chamber leadership structures is anticipated. It is difficult to predict when the General Assembly will adjourn, but a somewhat delayed start to legislative business could move the finish line to the beginning of May.

### Budget Outlook: A Mixed Bag

According to the [Annual Comprehensive Financial Report](#), Tennessee's inflation-adjusted gross domestic product (real GDP) slowed to 1.9 percent growth in 2023. This slowdown occurred due to a reduction in consumer spending, Federal Reserve interest rates, and moderate job growth. The expectation is that Tennessee real GDP growth will end up at 2.4 percent in 2024 and 2.5 percent in 2025.

### Revenue Projections

During a recent [State Funding Board meeting](#), precise figures were given for expected FY24-25 revenue for the year ending June 30, 2025, as well as anticipated revenue growth for FY25-26, which will begin July 1, 2025. Current projections for FY24-25 show an estimated 1.91 – 2.5 percent shortfall, which could affect how the books are closed at the end of the fiscal year.

For FY24-25, the Funding Board also set an estimated recurring revenue growth rate between one and two percent. Ultimately, when crafting his budget proposal, Governor Lee will choose a figure within that range from which to develop the base revenue number. While official anticipated growth appears mild, a one-time cash infusion could be on the horizon.

### Franchise Tax Reversions

Earlier this year, lawmakers approved [a drastic change](#) in how a business's franchise tax is calculated, resulting in a recurring \$400 million loss in state revenue and a one-time \$1.5 billion cost from the associated three-year tax lookback period. The deadline to file a refund claim was December 2, 2024, after which the Department of Revenue, tasked with sorting and processing refund applications, [reported to the General Assembly](#) that just over \$1.276 billion in refund claims have been paid, meaning roughly \$225 million went unclaimed. Some disaster areas received an extension to May 1, 2025, so the final amount is not yet known. Some members of the General Assembly will be anxious for the leftover funds to revert to the state's coffers in time for budget negotiation season while others may be more wary about immediately dedicating the funds for another purpose.

### TDOT Road Maintenance and Disaster Funding

This state has a long precedent of paying for its own road projects – with cash. The Tennessee Department of Transportation (TDOT) has a 10-year plan in place to log, manage, and complete its vast number of road

projects. The state's road fund is composed almost entirely of state and federal gas and diesel tax collections as well as electric vehicle registration fees.

During a November hearing, TDOT Commissioner Butch Eley requested that Governor Lee direct an extra \$300 million per year from the state's general fund specifically for road and bridge maintenance. Many onlookers were quick to point out that tapping the general fund for this purpose would be unprecedented.

The devastation left by Hurricane Helene did nothing to alleviate the strain on TDOT's budget, with infrastructure damage estimated at \$510 million. The state received \$32 million in federal assistance, and TDOT asked state lawmakers to sign on to a letter urging the state's congressional delegation to support funding of the \$478 million gap. The continuing resolution passed by Congress on December 21 and signed by President Biden the same day contained \$100 billion in disaster relief funds to assist with recovery from the hurricane and other natural disasters.

### **Grocery Tax Cut Proposal**

In recent years, state Democrats have been more vocally supportive of bills to eliminate grocery taxes. However, on December 9, state House Republicans, fronted by Rep. Elaine Davis (R-Knoxville) announced a bold initiative to eliminate the four percent state portion of the grocery tax by filing [House Bill 21](#). Tennessee is one of 13 states that levies such a tax, and with the local option segment of the tax, purchasers can pay up to 6.75 percent on food and food ingredients. Based on the price tag of the 2022 three-month grocery tax holiday, Rep. Davis's elimination measure could easily reach a cost of \$800 million, recurring annually. As of this writing, Senate Republicans have largely remained silent on the proposal, but the bill is expected to gain the required Senate sponsor.

### **Artificial Intelligence**

In 2024, the General Assembly passed SB2530/HB2325, the Tennessee Artificial Intelligence Advisory Council Act. The law states that the purpose of the Council is to "recommend an action plan to guide awareness, education, and usage of artificial intelligence in state government that aligns with the state's policies and goals and that supports public employees in the efficient and effective delivery of customer service." The Council is charged with submitting an action plan to the Governor that addresses how to:

- Position this state competitively to ensure its citizens capture the full economic benefit from artificial intelligence opportunities, and
- Responsibly leverage artificial intelligence to improve the efficiency of state and local government services.

The Council's first status report is due by May 1, 2025. A more comprehensive report on a series of related issues is due no later than December 31, 2025. Finally, the Council's magnum opus is due no later than December 31, 2028. However, it should be noted that the Council's work does not preclude legislative discussions on the subject.

### **Property Tax Increase Cap**

There has been significant discussion surrounding local governmental property tax increases, specifically the rate of increase over a specified period of time. To no one's surprise, polling suggests that a property tax rate cap is a popular idea, but some are quick to point out that such a cap could hamstring local governments in fast-growing areas struggling to address a spectrum of growing pains, e.g., new school construction and road maintenance. Should local property tax rate increases be capped, additional sources of revenue may be needed, and few are available without a successful referendum effort.

### **Nuclear Advisory Council Final Report**

In 2023, Governor Lee established a nuclear energy supply chain investment fund administered by the Department of Economic and Community Development to recruit companies to aid in the development of a nuclear and manufacturing ecosystem. Governor Lee later issued [Executive Order 101](#) creating the Tennessee Nuclear Energy Advisory Council. The Council was charged with preparing recommendations to propel Tennessee's ability to lead the nation in nuclear energy, and on October 31, 2024, the Council issued its [final report](#) and policy recommendations. A few include:

- Recognition of the benefits of the potential future deployment of a Small Modular Reactor (SMR) at the Clinch River Nuclear Site
- A need to strengthen incentives to attract additional nuclear industry supply chain assets, including a dedicated job tax credit multiplier and amending state law to provide nuclear energy production facilities with financial incentives like those available for renewable energy
- An exigency to develop a unified roadmap that aligns Tennessee's regulatory, emergency preparedness, and workforce strategies with the needs of the nuclear industry

We can expect that all or portions of these policy recommendations will materialize into legislation that will be filed this session.

### **Broadband Funding: Will They or Won't They?**

In 2020, the General Assembly created the Emergency Broadband Fund to rapidly accelerate broadband accessibility in the wake of COVID and the highlighted demand for connectivity. The proceeding years saw a deluge of federal dollars directed at the same issue. In March 2021, the American Rescue Plan ballooned the Tennessee Emergency Broadband Fund. In November of the same year, the Broadband Equity, Access, and Deployment Program (BEAD), a part of the Infrastructure Investment and Jobs Act (IIJA), put even more funds in the state's coffers.

In September 2022, the Tennessee Department of Economic and Community Development announced a massive \$446 million grant program, but more is still to come. Tennessee was awarded \$813 million via the BEAD program, and those funds are specifically designed to address high-cost build outs in unserved areas by delivering fiber to the customers. How those resources will be divided among competing industry actors remains to be seen. With the new General Assembly member make-up and the potential cascade effect brought about by committee assignment changes, movement toward a plan to utilize these funds may be seen this spring.

### **Conclusion**

Baker Donelson's [State Public Policy Advocacy](#) and [Government Relations and Public Policy](#) Teams look forward to working with clients during the first regular session of the 114th Tennessee General Assembly and will provide timely updates as developments occur. When the General Assembly adjourns, a session wrap report will be provided. If you have questions about the legislative session or need additional information, please contact [Jacob D. Baggett](#).