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The 114th General Assembly Adjourns First Regular Session: An Overview

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April 24, 2025

The first regular session of the 114th General Assembly began on January 14, 2025. The next day, Governor Bill Lee announced an extraordinary or "special" legislative session to address educational scholarship program expansion, illegal immigration, and Hurricane Helene relief. After less than a week of special session work, which allowed members to dispense with several controversial topics, the legislature returned to its regular session calendars and signaled a hyper-accelerated committee and budget negotiation pace between February through April's adjournment. There are several legislative topics worth highlighting, but to avoid hiding the proverbial ball, let's jump straight to the budget.

FY25-26 Budget

The state's total annual budget for FY25-26 is $59.8B, with a general fund growth rate projection of two percent in FY26. The total revenue included $346M in TennCare shared savings as well as $113M in non-recurring funds leftover from FY24-25 franchise tax refund reversions, and $674M in interest from Treasurer's earnings. Highlights included:

- $50M for advanced nuclear development;
- $20M for energy and research grant-matching funds; and
- $10M for nuclear workforce training via the Governor's Investment in Vocational Education (GIVE) Act initiative.

Governor Lee submitted his proposed budget in February, and his amended budget was transmitted in late March, kicking off the high-stakes, private negotiations between House and Senate chambers. Shortly before Easter, legislative negotiators revealed a notably high number of budget revisions. The $179M in revisions included:

- Eliminating a $60M Starter Home Revolving Fund Initiative;
- Eliminating a $20M grant to the Nashville Zoo; and
- Eliminating a $5M grant to Moore Tech, etc.

$35.6M was added to the state's reserve "Rainy Day Fund," bringing the account's total to just over $2.1B.

Road Funding – Up to $1B in Bonds

"We pay as we go" has been Tennessee's mantra for road building and maintenance for nearly half a century. Historically, the state has utilized a combination of federal, state, and local funds to pay for roads, e.g., vehicle registration fees, a portion of the gasoline and diesel taxes, etc. Fueled by concern that those funding sources are inadequate and that recent, politically painful solutions have not resulted in a sustained funding stream capable of meeting the demand, that may soon change. This year, the legislature authorized the issuance of up to $1,009,547,000 in bonds for construction, improvements, and extraordinary repairs to existing structures;

for construction of highways, and repair, replacement, or rehabilitation of bridges; and for grants to local governments for similar efforts.

In addition to the bond issuance authorization, HB969/SB144 requires that all monies received from sales tax on new or used tires on or after July 1, 2025, must be earmarked and allocated to the highway fund. It's expected to redirect $80M in the first year and $95M in the following years. An in-depth road funding study is also anticipated. SB703/HB736 requires the Tennessee Advisory Commission on Intergovernmental Relations (TACIR) to study and prepare a report on recommendations for establishing sustainable funding sources "that meet this state's future, long-term transportation infrastructure needs." Often, these in-depth studies guide and make specific recommendations for future legislation.

Nuclear Energy Production Facilities, Tax Adjustments

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.

One of the recommendations included in the final report stressed the need to include nuclear energy production facilities as Certified Green Energy Production Facilities, alongside geothermal, hydrogen, solar, and wind energy producers. This amendment would allow nuclear energy producers to qualify for certain tax credits, providing them with financial incentives like those available for renewable energy sources. SB885/HB1133 codified that recommendation.

A Prohibition on Community Benefits Agreements

Prior to contracting to award an economic development incentive, the Department of Economic and Community Development (ECD) must execute a separate agreement with the recipient stating that ECD reserves the right to recover the amount of incentives disbursed by ECD under certain circumstances. To be eligible for the incentive, the employer must accept several prohibitions.

HB1096/SB1074 adds an additional provision prohibiting an employer from entering into a "community benefits agreement" if it impose practices, benefits, or operations that are not directly related to the performance of the employer's duties under the economic incentive, e.g., provide anything of value to a community or organization, establish employment criteria including wage and hour criteria, or agree to require the employer to utilize a trade union.

Corporate Practice of Medicine and Anesthesiologist Assistant Licensure

One of the last bills to pass this session was, to no one's surprise, one of the most contentious. SB764/HB979 went to a conference committee during the waning hours on the very last legislative day. The bill ends the long-standing, general prohibition that hospitals may not directly employ physicians.

The bill authorizes a licensed hospital, or a hospital affiliate, to employ radiologists, anesthesiologists, pathologists, or emergency physicians to provide medical services in a county with a population of 105,000 or less, according to the 2020 federal census – meaning 82 of the state's 95 counties. It also authorizes a children's hospital to employ the same professionals. It is anticipated that a bill removing the prohibition for the remaining 13 counties, aka a "full repeal," will be pursued in as little as two years.

The bill's second main component creates a licensure framework for a new, licensed profession – an anesthesiologist assistant (AA) – to be regulated by the Board of Medical Examiners (BME). It establishes the scope of practice for the profession that may only work under the supervision of an anesthesiologist. The BME will adopt rules to further outline and govern the licensure and practice of AAs.

Hemp-Derived Cannabinoid Regulations

SB1413/HB1376 made vast, material changes to the regulatory structure of hemp-derived cannabinoid products (HDCPs). Under the new law, the Department of Agriculture is relieved of all revenue generated from the sale of HDCPs, and instead, the revenue is diverted to the state's general fund, the Department of Revenue, and the Alcoholic Beverage Commission (ABC) for enforcement.

Direct shipping or delivery of HDCP to a retailer or a consumer located in this state is prohibited. Similar to existing liquor sale laws, the industry will be licensed as a three-tier system: suppliers, wholesalers, and retailers, which entail separate applications, fees, reports, and inspection requirements. Entities holding multiple licenses will be required to maintain the business conducted under each license on separately designated premises or in separate facilities.

The new law eliminates the existing six percent sales tax on HDCPs, and it instead establishes a tax on the sale of HDCPs at wholesale of $0.02 per milligram. It also establishes a tax on the sale of hemp plant parts or "hemp flower" at a rate of $50.00 per ounce at wholesale, in addition to all other applicable taxes.

Tort Reform Legislation- Raising Caps on Damages

HB5/SB419, as filed, would have increased the amount of compensation an injured party in a civil action may receive for noneconomic damages from $750,000 to $1.5M, increased the amount of compensation an injured plaintiff in a civil action may receive for noneconomic damages, and if the injury or loss was catastrophic in nature, the damages amount would be raised from $1M to $2M. The bill, which never gained significant traction until it was amended to accomplish a different objective, is notable because of Republican-led sponsorship. If approved it would have been a surprising reversal in current business-friendly policy, an approach that was a hard-won victory for Republicans in 2011.

Baker Donelson's State Public Policy Advocacy and Government Relations and Public Policy teams looks forward to working with clients to prepare for the summer's ongoing legislative activities, advancing administrative matters, and crafting legislative efforts in anticipation of the 114th General Assembly's second session convening January 13, 2026. If you have questions about the concluded legislative session or need additional information, please contact Jacob D. Baggett.