

# PUBLICATION

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## **Tennessee's 2026 State of the State Address: Retrospective, Final Year Priorities, and Budget Details**

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### **I. Administration Retrospective and Overall Direction**

Governor Lee delivered his final State of the State address on February 2, 2026. Over the past seven years, the administration has built a narrative around measurable statewide progress. For example, Tennessee lowered its poverty rate below the national average for the first time, reached record-low recidivism, delivered historic pay raises for teachers and law enforcement, and strengthened the state's business environment to a nationally competitive level. These long-term accomplishments were achieved despite crisis leadership during tornadoes, floods, a pandemic, a bombing, hurricanes, and ice storms. Governor Lee posited that these accomplishments are proof that Tennessee is on a forward, upward trajectory.

### **II. Education Investment, Performance Gains, and School Choice Expansion**

Education remains the administration's signature policy domain, with major investments and performance gains. Tennessee has increased public school funding by more than \$2.5 billion – a 50 percent rise since 2019 – with an additional \$340 million proposed this year. Student outcomes have improved markedly, with Tennessee becoming a top five state for growth in reading and math and outpacing national averages in fourth-grade reading. Teacher pay continues to rise toward a \$50,000 minimum starting salary by 2027. School choice is set to dominate the session. Demand for the Education Freedom Scholarship program exceeds available slots, with 54,000 applications for 20,000 scholarships. The Governor is urging lawmakers to at least double the number of awards this year.

### **III. Public Safety, Memphis Crime Strategy, and Statewide Enforcement**

Public safety, particularly in Memphis, continues to be front of mind. The Memphis Safe Task Force has produced early, high-profile results, including a 55 percent drop in crime in Shelby County – the lowest monthly levels in more than 25 years – and more than 5,500 arrests. The upcoming budget includes \$80 million in new public safety grants, 100 additional permanent troopers assigned to Shelby County, and increased statewide Tennessee Highway Patrol staffing to reach a benchmark 1,300 troopers.

### **IV. Rural Health Care Transformation and Regulatory Reform**

Rural Tennessee is also poised for one of its most consequential legislative sessions in years, driven by the recently awarded \$1 billion Rural Health Transformation Fund, which will deliver federal resources to rural hospitals, emergency medical services, and primary care over the next five years. To maximize funds, the Governor urged lawmakers to consider significant policy reforms including scope of practice adjustments for nurse practitioners and physician assistants and the elimination of the certificate of need process.

## V. Economic Development, Workforce Readiness, and Business Recruitment

The administration touted landmark projects such as BlueOval City, Oracle's Nashville presence, xAi's expansion in Memphis, Orano's commitment in Oak Ridge, and In-N-Out's relocation as highlights of the state's competitive posture. Tennessee saw more than \$11 billion in investment in 2025, and 91 of 95 counties have grown in population. Since 2019, Memphis leads the state in total economic development projects, and more than half of new business investment has occurred in rural counties. Workforce development – through TCAT expansion, community college Governor's Investment in Vocational Education (GIVE) grants, and high school Career and Technical Education (CTE) programs – remains central to Tennessee's business recruitment strategy, positioning the state as a premier location for manufacturing, technology, and energy-sector growth.

## VI. Nuclear Energy, Quantum Technology, and Tennessee's Future Frontier

Finally, the Governor is positioning Tennessee as the nation's "future frontier" through ambitious investments in nuclear energy, artificial intelligence, and quantum technology. Recently, Tennessee was named the top state for nuclear development, driven by \$8 billion in private investment attracted by the state's Nuclear Fund – an initiative that the Governor proposes to expand by another \$25 million this year. Additionally, the newly announced Tennessee Quantum Initiative aims to establish the state as a national leader in quantum research and workforce development.

The full transcript of Governor Lee's final State of the State address is [here](#).

## VII. Budget Highlights

On February 4, the Governor will detail his [proposed \\$57.9 billion budget](#) to respective legislative committees. Highlights of the proposal include:

### Economic Opportunity and Tax Relief

- **\$20 million** investment in Tennessee's Rainy Day Fund, bringing Tennessee reserves to more than \$2.2 billion, the largest in state history
- **\$8 million** to expand the Tennessee Youth Employment Program, creating more opportunity for young adults to gain valuable job skills, especially in underserved communities
- **\$25 million** in further investment in the Tennessee Entertainment Commission to fund incentive grants for Tennessee's music and film industry

### Infrastructure and Housing

- **\$425 million** to the Tennessee Department of Transportation to address the state's infrastructure needs, including expediting existing road projects and funding new projects across rural and urban Tennessee
- **\$165 million** to renovate and replace Tennessee's rest areas and welcome centers
- **\$56.2 million** to support infrastructure needs for commercial and general aviation
- **\$30 million** to create the Starter Home Revolving Loan Fund to support construction of new, affordable starter homes for Tennesseans, prioritizing rural communities
- **\$25 million** further investment in the Rural Development Fund to improve quality of life in rural communities by supporting business development and infrastructure planning

## Education

### *Public Education Investments*

- **\$339 million** to strengthen education in Tennessee's public schools, including further investment in the Tennessee Investment in Student Achievement (TISA) formula funding, summer learning camps and raising starting teacher pay to \$50,000
- **\$20 million** for K-12 facilities and maintenance grants at public schools across Tennessee
- **\$40 million** to support facilities improvements at public charter schools
- **\$3 million** to expand the school-based behavioral health liaison program, giving students across Tennessee schools important resources and mental health support

### *Expanding Choices for Tennessee Parents*

- **\$155 million** to deliver school choice to even more Tennessee families in the 2026-27 school year by doubling Education Freedom Scholarships, bringing the total number of scholarships in the program to 40,000

### *Higher Education*

- **\$350 million** to fund construction of a new College of Medicine Interdisciplinary Building at the University of Tennessee Health Science Center in Memphis
- **\$71.7 million** to support capital maintenance projects at Tennessee's higher education institutions
- **\$10 million** further investment in the GIVE program to support nuclear workforce education, as recommended by the Nuclear Energy Advisory Council
- **\$3 million** for Next-Gen Academies at Tennessee Tech University for nuclear and cyber technologies
- **\$39.4 million** to fully fund the outcomes-based funding formula, which may be used for program improvements that assist higher education institutions in meeting outcomes including student progression, degree production, research and service, efficiency metrics, and other measures related to institutional mission
- **\$3.5 million** for the Corrections Education Investment Initiative, offering programming and educational opportunities for incarcerated individuals and preparing them for reentry success

### Strong and Healthy Families

- **\$205 million** utilizing Shared Savings to strengthen health care initiatives, including funding Rural Health Transformation Resiliency Grants
- **\$230 million** to TennCare to cover increasing costs associated with medical inflation, including higher prescription drug prices and Medicare payments, and increased utilization and services
- **\$34.5 million** to the Department of Children's Services (DCS) to assist with reducing caseload ratios
- **\$10.7 million** to enhance staff safety at DCS facilities that accommodate delinquent youth
- **\$15 million** for capital project and maintenance grants to YMCAs across Tennessee
- **\$24.2 million** to continue a Department of Health Dental Pilot Program to address unmet dental service needs and increase the number of dentists in Tennessee
- **\$1 million** non-recurring grant to non-profit partner Live Like Lou Foundation for ALS research
- **\$500,000** recurring grant to non-profit partner The Next Door to assist women in recovery from substance use
- **\$500,000** recurring grant to non-profit partner The Jason Foundation, which provides educational and awareness programs related to youth suicide

- **\$250,000** recurring grant to non-profit partner Families Free, which provides treatment, education, and intervention services to families

### Safe Neighborhoods

- **\$100 million** to bolster the Governor's Response and Recovery Fund, which provides support to individuals, businesses, and communities after natural disasters
- **\$80 million** for public safety grants to enhance crime prevention and increase public safety in Memphis
- **\$83 million** to Tennessee Department of the Military for construction of a new Army Aviation Support Facility in Rutherford County
- **\$37.5 million** for salary increases and creation of an additional 50 state troopers and related support staff positions to improve public safety across the state
- **\$20 million** for capital improvements at the West Tennessee and East Tennessee Regional Juvenile Justice Centers
- **\$1.7 million** recurring grants to non-profit partners that combat human trafficking and support survivors
- **\$1 million** recurring grant to non-profit partner Men of Valor, which provides faith-based reentry support for incarcerated individuals
- **\$250,000** recurring grant to Lipscomb University's LIFE Program, which provides higher education opportunities for incarcerated individuals
- **\$500,000** recurring grant to non-profit partner Tennessee Prison Outreach Ministry, which provides faith-based reentry support for individuals and their families

### Conservation

- **\$81.6 million** to create three new Tennessee state parks, creating a total of 14 new state parks under Governor Lee's leadership, setting the Tennessee record for the most state parks created by one administration
- **\$1.6 million** for the Subsurface Sewage Disposal Program, reducing waiting times for permitting services and oversight
- **\$1.1 million** to support further enhancement of Tennessee's electric grid

### Nuclear Energy and Innovation

- **\$50 million** to continue Tennessee's efforts to lead the nation in adoption of artificial intelligence technology and make government work more efficiently for Tennesseans
- **\$25 million** further investment in the Nuclear Energy Fund to attract advanced nuclear technology companies, ensuring Tennessee continues leading the nation as the epicenter of America's nuclear renaissance
- **\$20 million** to complete the relocation of the North Data Center
- **\$20 million** to accelerate Tennessee's quantum computing industry by attracting substantial federal and private-sector investment and to translate our scientific strengths into durable, high-wage job creation across advanced manufacturing, life sciences, and logistics industries
- **\$2 million** to aid in the expansion of agricultural technologies in rural communities

Baker Donelson's [State Public Policy Advocacy](#) and [Government Relations and Public Policy](#) Teams look forward to working with clients following Governor Lee's State of the State address and will provide timely updates as developments unfold. If you have any questions about the address or need further information, please contact [Jacob D. Baggett](#).

