



## TENNESSEE COUNTY SERVICES ASSOCIATION

# Capitol Update - Week of March 28th

## Governor's Budget Amendment Revealed

This week, Finance and Administration Commissioner Jim Bryson appeared before the House and Senate Finance Committees to present the Lee Administration's amendment (AA) to the initial budget proposed back in February. Generally, once the AA is introduced, the legislature is two to three weeks from adjournment. While leadership of both chambers has already been meeting to discuss legislative budget priorities, those meetings will now begin in earnest. The administration's amendment wasn't particularly noteworthy this year. It mostly included a lot of additional non-recurring grants and projects to make use of any additional revenue that had been recognized.

The biggest source of new revenue was **around \$200 million in additional earnings on state reserves** that had been generated by Treasurer Lillard's investments. After the additional proposed spending, the Governor only left around \$4 million unappropriated for legislators to decide how to spend. Ultimately, approval of the budget rests with the legislative branch. Nothing prohibits them from cutting or redirecting items from the proposed budget of the executive branch. However, this year the General Assembly seems to be prioritizing wrapping up business early. Huge budget battles are not anticipated.

## Real Estate Transfer Tax

One item not included in the Governor's budget, which county associations hope will be considered by the legislature, is the proposal to return a portion of the real estate transfer tax to counties. [SB1080/HB649](#) proposes to shift 50% of the revenue generated by the tax from the state budget to counties. While collections fluctuate from year to year, this would be a reduction of around \$125 to \$150 million in recurring state revenue that is not currently accounted for in the Governor's budget. To make it easier for the state to absorb this impact, there have been discussions around phasing in the change, adding provisions to the legislation to ensure that the change is not implemented if the state fails to hit revenue projections, funding a portion of the shift on a non-recurring basis or even postponing implementation for a year.

SB1080 is scheduled for consideration by the Senate State and Local Government Committee next week. It is expected to be well received there, where multiple committee members have signed on as co-sponsors. The real challenge will arise when the Finance Committee reviews the legislation to consider whether the bill can be funded. In the House, the bill was referred directly to the Finance Committee. It is not yet scheduled for a hearing there. Until there is an agreement on how and when the proposal can be funded, the Finance Subcommittee would automatically place the bill "behind the budget" to wait until after passage of the full state budget before it could be discussed further. The fate of this proposal will be



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decided over the next two weeks as the General Assembly determines its budget priorities. If you have not already, now is a crucial time to discuss this proposal with your legislators and [ask them to signal their support](#) by co-signing the bill.

### **Committees Working Through Final Calendars**

The House State and Local Committee has nearly 100 bills to consider on its calendar this week as it works through all the proposals sent to it from its four subcommittees. The Senate State and Local Committee is on its “Final Calendar,” meaning the deadline has passed for any bills to be put on notice to be considered by the committee this year. That list now includes 72 bills for that committee to dispose of.

The Senate committee is scheduled to meet both Tuesday and Wednesday to make progress on this workload. While rules can always be suspended to add items to agendas and committees that close generally do so “subject to the call of the chair,” we have now likely seen all the proposals coming through those committees that could impact county governments. What we may not have seen are amendments that could be filed shortly before a committee meeting to radically alter legislation.

### **Education Issues**

After an amendment was added to a caption bill and passed out of Senate Education last week to expand the original Education Savings Account proposal to additional counties, the bill was considered in the House K-12 education subcommittee this week. The current program only applies in Davidson, Shelby, and Hamilton counties. This bill, [SB11/HB409](#), would have added **Montgomery, Knox and Rutherford** counties to the program. While the governor’s Education Freedom Scholarship Act, which passed in the special session earlier this year, applies statewide and grants scholarships to students attending private schools, the ESA program entitles an eligible student leaving a public school to attend a private school to both the **state and local funding** for that pupil.

After a brief discussion in the K-12 subcommittee, the bill was put up for a vote and failed. Of the eight members of the committee, the bill received one “yes” vote, two “no” votes, and one present not voting. The other four members of the subcommittee declined to indicate a vote at all. Once the bill failed in the House subcommittee, the Senate sponsor, who had the bill scheduled for a floor vote, sent the legislation back to the calendar committee.

Last week, [HB348/SB614](#) was recommended by the K-12 subcommittee with an amendment and sent to the full House Education Committee. As amended, the bill provides that if revenue collections for a county fail to meet the maintenance of effort for the school system, the county cannot increase funding for other offices with a maintenance of effort requirement (mayor, highway, sheriff and election commission) until it restores the shortfall in the education budget. The bill was approved by the Senate Education Committee in its last meeting this week and sent to Finance. In the House, the bill was on the full



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Education Committee calendar, but was deferred for a week. The bill is not yet scheduled for a hearing in Senate Finance.

The School District Capital Improvements Capital Trust Act ([HB224/SB593](#)) was scheduled for hearings in both the House and Senate Education Committees next week. The bill would allow a school system to create a trust for capital improvements and transfer reserve funds to the trust, locking down the use of the funds to capital improvements outlined in the school system's capital improvement plan. Counties have raised objections to allowing the school board to transfer these reserve funds without them being appropriated by the county commission. The legislation was approved by the K-12 subcommittee back in February, but has been sitting in committee since. With a long list of bills to consider, the full House Education Committee once again didn't get to this bill and deferred it for a week. In the Senate, the sponsor sent the bill to the General Subcommittee, a move that indicates he does not intend to present the bill this year. Wednesday evening, the Senate Education Committee completed its calendar and adjourned subject to the call of the chair.

A bill regarding the education of undocumented students has generated a great deal of opposition and protests this session. [HB793/SB836](#) has taken different forms this year as it has been presented in committees. In the Senate, the bill passed out of the Education Committee at the beginning of March. In the House, it was approved by the K-12 Subcommittee, and then was heard this week in a special meeting of the House Education Committee late Wednesday evening. There were again protests and testimony in opposition to the bill. Some versions of the bill have required LEAs to confirm the citizenship status of all children enrolled in the system and created an option for charging tuition to undocumented students. The version presented in the House this week gave the LEA the option of whether or not to require students to produce documentation. It creates an appeal process through the state Department of Education for parents, students, or guardians to challenge decisions at the local level. Currently, under a U.S. Supreme Court decision from 1982, it is considered unconstitutional to deny public education to a student based on their immigration status. This legislation is apparently intended to either create an exception to that prohibition or challenge that decision by bringing the issue back before federal courts.

### **Transportation Issues**

[HB127/SB1307](#) was a proposal from the Lee administration to expand the authority to raise certain taxes for transportation projects. When the IMPROVE Act was passed in 2017 during the Haslam administration, it included provisions that let urban and suburban counties hold a referendum to raise revenues for mass transit. To date, only Nashville/Davidson County has passed such a referendum, with voters approving it in 2024. In this legislation coming from TDOT, the restrictions on which jurisdictions are authorized would be removed so that any city or county could use the provisions. The bill also changes the use of the revenue from mass transit projects to transportation projects generally. The current law authorizes raising local option sales tax, hotel/motel taxes, business taxes, wheel taxes, and rental car taxes; however, existing caps on tax rates still remain in place. While it may not be usable everywhere, county associations supported the bill as it "puts another tool in the toolbox" that could be helpful to some



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counties. Although the bill has been moving in the House, the Senate sponsor took the bill off the final calendar of the Transportation Committee and sent it to the General Subcommittee, which is the Senate procedure for taking a bill off notice for the year.

### Revenue Proposals

[HB 695/SB889](#) by Rep. Baum and Senator Reeves is a proposal to raise the cap on mineral severance tax by \$0.15 over a ten-year period. The bill passed on the House floor earlier this month. In the Senate, the bill was approved unanimously by the Senate State and Local Committee and referred to Finance where it awaits a hearing. The current cap is \$0.15, so the bill effectively **doubles the maximum tax rate**. It would take a vote of the county commission to increase their current mineral severance tax to the new cap limits. This bill is a negotiated proposal supported by TCHOA, road builders, and members of the aggregate industry.

[HB1329/SB1315](#) is a bill brought by Governor Lee's administration to reduce the fee charged by the Department of Revenue for collecting and remitting various taxes to local governments. This concept has been supported for several years by TCSA, specifically regarding the administrative fee on the local option sales tax. Since the cost of this reduction is included in the Governor's proposed budget, the bill was able to proceed to a floor vote. It passed the House this week. The bill has been approved by the Senate State and Local Government Committee and is scheduled for a hearing in the Senate Finance Committee next week.

[SJR48](#), which ratifies a recommended rate increase in 911 fees from \$1.50 to \$1.86, after being approved by the Senate State and Local Government Committee, is also sitting in the Senate Finance Committee awaiting a hearing. This increase would bring Tennessee's rate in line with some other surrounding states, and it helps provide sustainable funding for emergency communications operations. Local governments generally supplement the cost of operations for these call centers with local tax revenue, so it is essential for 911 fees to keep pace with costs to keep pressure off local budgets.

### Miscellaneous Items

[SB532/HB437](#) allows counties that have adopted the Sheriff's Civil Service Act to repeal it by a  $\frac{2}{3}$  vote of the county legislative body. The bill has passed the Senate and was recommended by the House Finance Subcommittee. It is awaiting a hearing in the full House Finance Committee.

[HB125/SB1276](#) reduces the required local match on grants for local parks acquisition for distressed and at-risk counties. Currently, the law requires a 50% match. This bill reduces that to 25% of the cost. The bill has passed the full House and is awaiting a hearing in the Senate Finance Committee.



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[SB160/HB83](#) has been amended to call for TACIR to study the issue of ambulance reimbursement and costs. As originally introduced, the bill required municipalities that did not provide EMS to share in the cost of services with the county. As amended, the bill passed out of the Senate State and Local Government Committee this week and is headed for a floor vote. In the House, the bill awaits consideration of the State and Local Committee.

### **The End is in Sight**

With the administration budget amendment now filed, legislators appear on target to adjourn before Easter this year. That gives them three weeks of work to finalize the budget, close committees, and conclude discussions on any remaining bills they intend to pass. The pace of the session this year has been frantic at times, but should hit a bit of a lull as more and more committees close and proposals work their way through the Finance Committees to be incorporated into the budget. We will continue to update you on developments as the 2025 session of the 114th General Assembly moves toward a close.