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More Lean Revenue Numbers

As budget hearings continue, revenue figures for the month of December were released showing sales tax collections failed to meet projections for the 20th straight month. Revenue was some \$16 million below expectations. On the bright side, franchise and excise taxes exceeded projections by \$11.3 million. In spite of the good news with F&E taxes the continued shortfall in revenue only complicates a tough budget year.

Governor Phil Bredesen's \$28.4 billion budget for 2010-11 is down dramatically from this year's \$29.9 billion budget even with \$337 million in improvements. The improvements include a 3% pay raise for employees totaling \$165 million. There is an investment of \$82 million in the pension fund and an additional \$47 million funding of the Basic Education Plan.

The reduction between the two budgets reflects to some degree the absence of federal stimulus money. The Governor also submitted three revenue enhancements totaling \$50 million. The enhancements included the elimination of an exemption on the first \$15.00 of citizen's cable bill. The removal of the exemption would equalize the tax on cable services with satellite television services. The tax has been submitted in past years but has failed to receive the support of the legislature. Additionally, the administration is attempting to include a provision to force hotels that serve a free continental breakfast to pay sales tax on the food they buy for the meals as well as an effort to end the dividends tax reduction for real estate investment trusts. All three of the initiatives face an uphill battle with the General Assembly.

Hospitals Work with Governor to Save Funding

One of the clear victims of this tough budget year appears to be hospitals in the state. There are TennCare cuts that limit reimbursements and change criteria. The cuts total nearly \$200 million. Additionally, there is a 7% average cut in provider fees beginning in July of this year. Hospital representatives state the cuts will lead to closings, particularly in rural areas where care is scarce. Public hospitals like the Regional Medical Hospital in Memphis, (MED) and Erlanger in Chattanooga fear further cuts could permanently damage their ability to provide care.

The key problem is that a \$400 million cut in TennCare funds equates to a \$1.2 billion loss in federal funds. Tennessee Hospital Association members are discussing with the Governor the possibility of a hospital tax, along the lines of a nursing home bed tax which would actually result in a 1% to 2% tax on gross receipts and would be structured

in a way to properly continue to draw down federal funds. The funding mechanism would be sunset after one year. Public hospitals like the MED and Erlanger would not be subject to the tax and would only benefit. The Governor is responding favorably to the proposal and a bill has been filed to move the initiative through the legislature. Speaker Kent Williams is supportive while Lt. Gov. Ron Ramsey is withholding support until he learns more. This seems to be the only way to capture the federal dollars and ease the pain of necessary cuts in TennCare.