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Tennessee Governor Bill Haslam on Monday canceled proposed pay raises for state employees and teachers for the coming year as part of an administration plan for dealing with a revenue shortfall largely due to shrinking business tax collections.

Overall, the governor's \$32.6 billion budget plan for the coming year would be reduced by \$160 million from what he outlined to the General Assembly on Feb. 3.

He also proposes to reduce state spending by \$150 million in the current fiscal year, which runs through June 30 by raiding various reserve funds and making cuts in several departments. Some of the cuts involve accounting moves to recognize savings that have already been achieved during the year.

The revisions will be presented to the finance committees of the House and Senate on Tuesday in the form of an amendment to the state budget bill (SB296). Haslam and Finance Commissioner Larry Martin gave a broad outline of the changes to reporters on Monday.

Of the cuts to his original budget for the coming year, more than half comes from eliminating proposed pay raises. Haslam originally proposed a 1 percent raise for general state employees and a 2 percent raise for public school teachers at a cost of \$72 million.

Also, the state's higher education system was to receive \$12.9 million in new funding under the February plan — enough for a 1 percent pay raise across the board for University of Tennessee and Board of Regents employees. UT and the Regents system, however, are given discretion on how they actually allocate the money.

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The reality is state revenue that is growing considerably less than projected when the current year's budget was adopted last year. The shortfall has reached about \$260 million — \$33 million below expectations in sales tax collections and \$215 million below estimates for business franchise and excise taxes.

On the business tax front, several companies have been seeking refunds of taxes paid last year, as allowed under state law in cases of overpayment. Business tax collections are down 20 percent for the year and Haslam said it is unclear whether that is “cyclical” or “a fundamental systemic issue.”

He said Revenue Commissioner Richard Roberts and others are researching the matter to “try to figure that out” and if it is determined businesses are exploiting new ways to avoid state taxes, “I think we'd move to correct that.”

Haslam said the \$33 million shortfall in sales tax revenue appears due to a “mediocre at best” Christmas shopping season last year and cold weather in January and February, which reduced retail activity.

But he said the state's loss of revenue to online retail sales where sales taxes are not collected is growing “bigger and bigger.” Last year, he said, the state lost an estimated \$332 million due to online commerce based out of the state.

Other reductions to the governor's February budget plan include \$4.75 million in contract payments to vendors in the Families First welfare program, \$18.5 million in reductions in payments to providers under TennCare and reducing by \$4.8 million a planned payment to the state's “rainy day” reserve.

The K-12 education system will not be cut from the governor's original proposal and will receive a \$63 million increase as proposed. Increased funding for the troubled

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