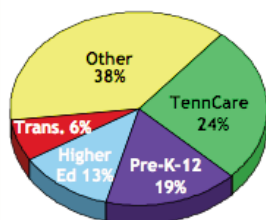


STATE OF THE STATE

Total FY11 Budget (including federal dollars)

SOURCE	RECOMMENDED FY10-11
TennCare	\$ 6.79 B
Pre-K-12	\$ 5.36 B
Higher Ed	\$ 3.71 B
Transportation	\$ 1.76 B
Other	\$ 10.79 B

TOTAL \$28.41 Billion



by Phil Bredesen

February 1, 2010

Lieutenant Governor Ramsey, Speaker Williams, Speaker Pro Tem DeBerry, Members of the 106th General Assembly, Justices, Constitutional Officers, friends, guests, and my fellow Tennesseans.

Once again, I stand before you tonight to report on the state of our state and to present and recommend a budget prepared in accordance with the requirements of our Constitution.

As we begin, I want to once again recognize the men and women of our state who are serving our country abroad this evening. As we gather here, about 1,200 members of the Tennessee National Guard are deployed in Iraq and Afghanistan. This coming Friday, we'll see off more than 3,000 members of our 278th Armored Cavalry Regiment being redeployed to Iraq. Most of these men and women spent 2005 there and now five years later are returning again. Included among these soldiers returning to Iraq is a member of this body, Lieutenant Colonel John Mark Windle. Since 9/11, nearly 20,000 Tennessee National Guard Soldiers and Airmen have deployed to Iraq and Afghanistan. In their response to our nation's war on terror, these men and women have proved again Tennessee's claim on the title "The Volunteer State." I've invited some representatives of these men and women to join us here tonight and would ask you to each stand as I introduce you, and then we would all like to show our appreciation:

Master Sergeant Rosie Biggs has been deployed with the 168th Military Police Battalion out of Dyersburg. This battalion conducted detainee operations in Iraq, and she returned last fall to Tennessee.

Captain David Roberts returned in December from his fourth deployment to Afghanistan, his third as a member of the Tennessee Army National Guard. He was a Security Force Team leader and completed over 250 missions.

Senior Airman Jessica Webb is a member of the 118th Airlift Wing and recently won the 2009 Airman of the Year award for the entire Tennessee Air National Guard. When she is not serving as a Command Post Controller, she is

one of Tennessee's teachers, working at Love Chapel Elementary in Erwin.

And finally, I'd like to ask General Max Haston to stand with these representatives of his soldiers and airmen. General Haston is Tennessee's new Adjutant General and took over from Gus Hargett just last month. He comes from a family with a long and distinguished history of service in our Guard. At the change of command ceremony last month, his father, Jerry Haston, who was a Master Sergeant for 44 years in the Tennessee Guard, watched his son be promoted to Major General and saw him assume command of the Tennessee National Guard. I can tell you there was one proud Master Sergeant at that ceremony.

For each of these men and women here tonight, and for all of the colleagues they represent, would you please join me in showing your appreciation?

These Tennesseans are with us tonight to receive your thanks on behalf of their colleagues. Once again, there are Tennesseans who are missing. Since I stood before you last year, another 11 Tennesseans have lost their lives in the war on terror, for a total now since 2001 of 114 brave men and women. As we have done in the past and as is proper tonight, I ask you to join me in recognizing their sacrifice with a moment of silence.

I want to begin this evening by thanking the members of the General Assembly for the extraordinary job you have just done in our special session on education. I know the weeks were stressful, but the way you conducted your business is exactly the way it is supposed to work.

There was nothing superficial about the results: the changes you made to the law were real and will change the way that both K-12 and higher education work — for the better — in the years ahead. A lot had been worked out ahead of time by representatives from both parties and both chambers as well as the education community, and the result was a genuine melding of ideas from different points of view. It was a better product for that. Both individuals and organizations with specific interests found ways to

In short, we are on track with the budget plan approved last spring and have further adjusted it "on the fly" with additional spending reductions to match the additional revenue shortfalls that have occurred.



keep those interests in check and come together for a common good. There was no splitting along partisan fault lines; the final vote was genuinely bipartisan. There's a governor's race going on, and two of the candidates, from different parties, are major players in the legislative process. In a lot of places, this would be a prescription for trouble, but one of my favorite memories of the session was seeing Jim Kyle and Ron Ramsey sitting next to each other, at the end of my table, calmly and productively working on moving the reforms forward.

In the end, not only was the vote bipartisan, but it was also overwhelming and made clear to everyone that these reforms are not a Bredesen plan, they're not a Democratic plan, they're not a Republican plan. These reforms are Tennessee's plan, and that is going to make a lot of difference in the years ahead.

I want to also say a special word of thanks to the Tennessee Education Association, the TEA, the teachers' union. To Earl Wiman and Al Mance, and to my friend Jerry Winters and all the members you represent, thank you. I know you become a political whipping boy from time to time, and I know you have a job to do for your teachers. Your cousins in some other states have not always been as concerned with putting students first as they might be. But if anyone ever had any doubt about your dedication to the good of the children of our state, the way in which you handled yourselves in the special session have put them to rest. You're good to work with; you've taught me a lot. You are a class act, and I thank you.

I want now to talk for a moment with the teachers in our state. I do understand that some of the changes we have made, especially those regarding the use of student achievement in teacher evaluation, cause some of you concern. I've talked with a lot of teachers these past few weeks. Some hate these changes, some love them, many are concerned but waiting to see. I want you to know that I understand and respect your concerns and understand that teaching is a profession that has many more dimensions than can be measured by a student's performance on a written test. I also understand that there are many factors beyond your control: the influence of home and parents and the personalities of the students themselves. Let's work together to find

an approach that is both fair to your teaching profession and gives our citizens confidence that the money they have invested in our schools is being used well.

The reforms you approved in our higher education system were far-reaching as well. There is now a lot of work to be done to flesh out those reforms, and I plan to spend a good deal of time during my final year as governor working to move this along.

There has already been one very positive development. Dr. Shirley Raines at the University of Memphis has been working for some time now to put together a coalition of life sciences organizations to work with the university to help grow its standing as a research institution. The General Assembly's approval of the UT Energy Campus at Oak Ridge has brought her long-simmering effort to a boil.

In the past week, this has enabled Dr. Raines to finalize a memorandum of understanding with nine of these organizations, including St. Jude Children's Research Hospital and the University of Tennessee Health Sciences Center. This Memphis Research Consortium holds great potential: it can help the university to grow its research mission, and it can help lay the foundations for an even more robust biotech economy in Memphis.

Almost three weeks ago, standing right here, I challenged the University of Tennessee to become one of the top 25 public research universities in the United States in the next decade. Tonight, I challenge the University of Memphis to do the same in its peer group. Dr. Raines, I challenge you to lead your university to become one of the top 25 metropolitan research universities in the next decade. To both Dr. Simek and Dr. Raines: you have a job to do. We consistently reach those upper levels in our sports programs; there is no reason we can't do the same with our academic achievements, either in Knoxville or in Memphis.

This is the eighth and final time that I will report to you on the state of our state; it is the eighth and final time that I'll present a budget to you. We've had a share of easy years and tough years, but by any standard these past two years

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Even as we have made some painful cuts, we have made some amazing progress as well. The special session just ended, and its reforms to both K-12 and higher education are examples of that. The work we've done in setting higher standards in our K-12 system has gained us national recognition.

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have been extraordinary. This coming one will be as well. The recession that has gripped our nation has been felt strongly here in Tennessee. We have seen unemployment and housing issues affect far too many of our families. Our state revenues have plummeted, creating tough challenges for us to maintain the services that our citizens want. There are many things about this recession that we can't affect here in Tennessee. Believe me; I'm very aware of the pain and uncertainty that this recession is causing in homes all over our state, and I'm very gratified by the renewed focus in Washington on our economy. I wish the Congress and the President well in their efforts to address these difficult issues. There are many things we can't address from Tennessee, and what I've tried to do is to concentrate on two things that we can: managing our own house — state government — to live within its means and continuing to look for ways to move forward on those things on which our future depends. Every day, every week, every month, and every year is precious, and the state of our economy should never be an excuse for failing to advance the things that are most important to us.

Even as we have made some painful cuts, we have made some amazing progress as well. The special session just ended, and its reforms to both K-12 and higher education are examples of that. The work we've done in setting higher standards in our K-12 system has gained us national recognition. We have attracted major private investments in the past 18 months that will benefit us for years to come. The Volkswagen plant in East Tennessee and the Nissan investment in electric vehicles in Middle Tennessee help secure our place in automotive manufacturing. Our concentration on green technologies and jobs has produced investments of more than a billion dollars each by Hemlock and Wacker. The Pew Charitable Trusts named Tennessee one of the top three states in the nation for green jobs. To Matt Kisber, and his partner in this work Reagan Farr, great job, fellows. To Jim Neeley and Jim Fyke and all the members of my Jobs Cabinet, for all you have done to advance this work, thank you as well.

We've talked about education and economic development before, but I'd like to take a moment this evening to celebrate an even more recent and quieter victory.

Vi Miller has run our Department of Children's Services for the past six years. I know that Vi and all the people who work in her department

privately take great pride in loving and helping the many unfortunate children that come into their world. I also know that there may not be a more publicly thankless job in state government; their successes are quiet — the final adoption of a precious child to a loving home and family. But when things don't work out, they are front page news and the subject of brutal Monday-morning quarterbacking.

When Vi Miller joined us, she told me that she wanted to try to achieve formal accreditation for the department. I encouraged her; my own background is in healthcare, where, as with children's services, the outcomes are not always what you would want. In child welfare, just as in healthcare, accreditation is how you assure yourself and the outside world that even when the results are imperfect, your approach is right, that you're doing the best that anyone knows how to do.

I have to admit I was skeptical. The Department of Children's Services had a host of internal tensions and philosophical differences. We didn't have nearly the budget that other states devoted to child welfare. The department was the subject of legal action in federal court brought by an outside advocacy group, and it was operating under the terms of a consent decree — the so-called Brian A Decree — that the state entered into in 2001. May I say as an aside, the advocacy group in question — Children's Rights in New York City — has educated me about the very constructive role that advocates can play. They have been very tough, and Ms. Lowry has certainly made both the Commissioner and me angry more than once. It's best when we work these things out ourselves, but if there has to be a forced marriage, this particular one is the way it ought to be.

Despite the problems and my misgivings, Commissioner Miller persevered and started the accreditation process in May of 2005; they developed new policies, they found problems and improved record-keeping, they trained some people, and they fired some. They fixed environmental issues in their offices and redid emergency preparedness plans. They underwent onsite reviews for almost a year.

Commissioner Miller, would you please stand? I'm pleased to announce tonight that on January 22, Tennessee became the seventh state in the Union to operate a fully accredited child welfare system. Vi, to you and all of your team, congratulations.

Let's move on now to our state's financial situation and to the budget that is being presented to

you tonight. My goal throughout this recession has been to remain true to the principle of the "family budget" that I talked about when I first became governor. It's nothing more than the commonsense idea that we're going to adjust our expenses to match our income, and we're going to be very careful about using money from our savings account. It's the way sensible families have to manage through these times, and while the numbers for state government are much larger than for any family, the principle is the same.

In addition, while there was no way to avoid some use of our Rainy Day Fund as revenues continued to fall, it has been important to me to have our finances stabilized so that I could pass on to the next governor a budget that matched recurring revenues and expenses. I've spoken before about the value I place on good stewardship.

I want to talk about our finances in three parts tonight. First, to walk you through just where we are right now, with regard to both expenses and our reserves. Second, I'll describe to you the basic budget that I recommend. Third, I believe we are in a strong enough position and it is raining hard enough that we can use some reserves to soften the worst of the cuts.

Just today, our President announced that he was proposing to extend for an additional six months a portion of the financial help to the states that was in the Recovery Act. This would take the form of funding in the Health and Human Services budget to continue through the first and second quarters of 2011 the higher Medicaid match that has been in effect since last year; this is the so-called enhanced FMAP about which you have heard. I very much appreciated the help to state finances in the Recovery Act; it enabled a much "softer landing" than would otherwise be possible and allowed us to preserve jobs and plan more carefully for the reductions we would need to make. I thought it was a good move.

We were all very aware that these funds would disappear at the end of December this year and have carefully planned how we transition from using those funds to once again standing on our own. That was the four-year budget that we presented to you last year. We have a good plan, and I think that it is important that we stick with it and not get our heads turned by the possibility of more one-time money. Accordingly, the budget you are being presented makes no use whatsoever of any addi-

tional stimulus funds. If the Congress passes what the President is proposing, we or the next Governor and General Assembly will deal with it once it actually happens. For now, let's stick with the plan.

First, our state's financial position: we're in a very strong one. As I stand here tonight, we have over \$900 million in the bank, in uncommitted reserves in our Rainy Day and TennCare reserve funds. We will draw those down modestly in the next few months according to the plan you approved. We'll end this fiscal year with about \$850 million in our two major reserve accounts.

In the budget that you passed last spring, there was a plan to draw down our reserves by \$430 million this year. As you know, this year's revenues have fallen short of last May's projections by about \$178 million. One might therefore expect that our reserves would decline by that additional amount, or a total of slightly over \$600 million this year. I'm pleased to report to you tonight that we have handled this year's entire additional problem with additional expense reductions, so that our reserves will end this year at the levels you budgeted despite the revenue shortfalls. In fact, we'll have an additional \$100 million to carry forward.

In short, we are on track with the plan you approved last spring and have further adjusted it "on the fly" with additional spending reductions to match the additional revenue shortfalls that have occurred.

Second, the budget itself. The budget document that you are receiving tonight reflects the four-year plan we submitted last year, with further reductions to reflect the further revenue declines that we have experienced along with the rest of the country. As you will see, this is a very difficult budget, and it will seem even more difficult as the year unfolds. Many cuts that were in the budget you passed last year were deferred using stimulus money but will hit in the months ahead. There are in essence cuts from two different years becoming effective at the same time.

First of all, I want you to know that once again, our state's Basic Education Program, the BEP, is fully funded.

To achieve that, we had to make one commonsense adjustment and froze the growth in the

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Outside of these areas, what you will see are budget reductions that average about 6%.

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capital outlay component this year. This relates to the growth component only; the underlying capital project allocation remains. Across state government, we are doing very little capital construction this year. It seems fair to ask public education to do the same.

Over the past several years, I have clearly pursued a strategy of constraining the growth of TennCare so that we can fund education at acceptable levels; put simply, doing a better job of balancing our investments in our two major line items: TennCare and Education. We have been very successful at this. Since its inception in the mid 1960s, Medicaid for many years had been a smaller part of our total budget than K-12 education. In 1981, the cost of Medicaid was about half of what we spent on K-12 education. However, Medicaid passed K-12 education in total funding in 1992. After that, it exploded; in the 2004 budget, TennCare was 34% and K-12 was 15%, a ratio of 2¼ to 1 in favor of TennCare. In the budget you have before you, TennCare is 24% and K-12 education 19%, back to a ratio of about 1¼ to 1. It is my hope in the years ahead we can continue to improve this balance.

In addition to the BEP, we have also put an absolute priority on our pension system, and once again we have fully funded the increased contribution that was recommended by our actuaries and adopted by the treasurer. The soundness of Tennessee's pension system is something we can be rightfully proud of.

Outside of these areas, what you will see are budget reductions that average about 6%. This year it was not feasible to make these reductions across the board, and there are a number of departments that have contributed a full 9% and others much less. Higher education, Mental Health, and the Division of Intellectual Disabilities Services are at 6%, and Children's Services is at 5%. In the Department of Correction, the only plausible way to get to anything approaching 9% would be to close one or two prisons; I've declined to do that, and so their reduction is just 1%.

In the Department of Safety, the proposed reductions would have meant the elimination of 85 filled trooper positions and 56 filled positions in the driver's license stations. Rather than do this, we have proposed a revenue measure to prevent this: an increase in the driver's license fee from \$3.90 to \$5.75 annually, the first increase since 1988. We have also extended the license term from five years to eight. This will

have the added benefit of partially funding the much needed digital upgrade to their radio system as well.

With these reductions, we had a budget that was consistent with the four-year plan I presented last year. To achieve these reductions in their entirety required the elimination of a variety of programs that are of real value. It's not a pleasant list. It also would require additional layoffs of 1,363 people in addition to the elimination of 456 unfilled positions.

That brings me to the third aspect of this budget, the use of some reserve funds to soften its effects.

The problem that we were faced with it this: we were looking at some very difficult cuts. At the same time, our reserves are strong, and the prospects for a return to growth in the months ahead look far better today than they did a year ago. In this environment, should we go all the way with these cuts, or should we make some judicious use of our reserves to soften their effect?

We decided to present a plan that uses reserves to fund the continuation of a number of programs for a two-year period. The reason for funding for two years instead of one was to give a new governor some breathing room at the beginning of his or her term and to give additional time for the economy to recover and perhaps make the cuts a moot point. The programs that we have protected in this manner include:

- in the Department of Education, the Coordinated School Health Program, the Career Ladder extended contracts, and family resource centers; In the Department of Health, Safety Net Grants to the Federally Qualified Health Centers and the Diabetes Prevention Program;
- in the Department of Mental Health, Community Mental Health Recovery Services and Alcohol and Drug Services;
- in the Department of Children's Services, the home visitation programs and the Juvenile Justice Prevention Grants;
- in the Division of Intellectual Disabilities Services, the Family Support Services Program; and
- in the Department of Human Services, the grants to Human Resource Agencies and Community Action Agencies.

In addition, we propose to preserve a portion of the filled positions that would be subject to layoffs to meet our budget requirements. Of the 1,363 total layoffs, slightly over a thousand are for good business reasons — bringing staffing ratios in line, for example, or closing an unneeded facility — and we should go ahead under any circumstances. However, there are 314 positions that we would strongly prefer not to lose. We are proposing to carry forward for two years those positions along with 80 others scheduled for layoff this spring. At the end of the two years, the economy may have made the layoffs unnecessary, and further it has been our experience that people in those positions are likely to have found other jobs making any involuntary action unnecessary.

Finally, I know our state employees are glad to be working, but they have been without raises since 2007 and I would like to recognize their dedication by using some of our reserves to continue the enhanced 401k match at its current level and also pay them a 3% bonus.

What you have in front of you is a straightforward budget, although putting it together this year was difficult. In its base form, it corresponds closely to the four-year plan you were presented last year, suitably reduced to reflect further revenue shortfalls. It then proposes to

use \$202 million of reserves to preserve some particularly important programs and several hundred jobs for two more years, in the hope that the economy will render cutting them not needed. If you adopt all of these suggested enhancements, the state's reserves in its Rainy Day Fund and TennCare will still remain above the 5% target. I believe it is a commonsense family budget in a very difficult time, and I hope you will consider and enact it promptly.

This is likely my final time to address you as governor. We still have a lot of work to do, and it's far too early for farewell remarks. I do want to say, however, a most sincere thank you for the way you have treated me and worked with me and my administration these past years. I have never had a job I enjoyed as much or that gave me as much satisfaction as serving as governor. It has been a humbling experience. To those of you who have helped me, my sincere thanks. For those of you who have not, all is forgiven now!

I know how much so many of you care for our state and its people, and it has been an honor to work with you on their behalf. Thank you and Godspeed.

Phil Bredesen is the governor of Tennessee.

