

State of the State Address
“Tennessee - America at Its Best”
February 3, 2014
#TNPromise

Lieutenant Governor Ramsey, Speaker Harwell, Speaker Pro Tem Watson, Speaker Pro Tem Johnson, Members of the 108th General Assembly, Justices, Constitutional Officers, Commissioners, friends, guests, fellow Tennesseans, and my favorite Tennessean, Crissy:

I count it one of the greatest privileges of my life to serve this great state. I love being your Governor, and I appreciate the invitation to stand before you this evening to update you on the state of our State.

But let me start with a story. I want to take you back 50 years to 1963. Merritt Potter, a Kingsport realtor, entered a contest to come up with a slogan to promote Tennessee.

He won, and the prize was a 21,000 dollar savings bond. A bill was introduced in the General Assembly to adopt it as the state’s official slogan. It passed and was signed into law.

Fifty years later, Merritt Potter’s words are still our state’s official slogan, and they still are true: “Tennessee – America at Its Best.”

Today in Tennessee we are more than a slogan. We think we are a model to the nation in so many ways.

Working with the General Assembly, we have kept taxes low. We have the lowest debt in the country. We’ve done that while at the same time nearly doubling the state’s savings account.

What we haven’t done, we haven’t cut K-12 education. In fact, since we took office, we are one of only six states in the country that has consistently increased state spending on K-12 education as a percentage of our total budget. Since 2011, we’ve had the fourth largest increase in education spending compared to the rest of the country.

Tonight, I want to give you some good news, ask for your help in facing some tough challenges, and lay out a vision for realizing our state’s full potential.

Let’s start with some accomplishments.

Tennessee is ranked the third best managed state in the nation. That’s nice, but we want to be number one. To accomplish that, we are focused on providing the very best service to our citizens at the very lowest cost.

Our departments have taken this charge seriously. Through the hard work and determination of the Cabinet and our state employees, we came in \$80 million under budget last year. Trust me, that’s not happening in Washington.

I've visited and spent time with state employees in all of our departments. Employees are always quick to tell me how much they appreciate my visit, but I'm pretty sure that I gain the most from being there. It is good to see our employees in action and to understand their issues as we work to be more customer-focused, efficient and effective. Our people play the major role in that process.

That's why we're investing in them. Employee salaries are up nearly 10 percent since 2011. Two years ago, we conducted a market salary survey, and your approval of the resulting salary adjustments means we can compete to recruit and retain the best employees.

Here is some more good news that is a direct result of our team members.

For the last 15 years, Tennessee was under a court order known as the *John B.* case, which was filed against the state and its managed care contractors. The lawsuit said that TennCare had failed to meet federal standards for children. Last March, the U.S. Court of Appeals for the 6th Circuit dismissed the lawsuit saying that TennCare had, "vastly improved its delivery of services to enrollees and indeed has become a national leader in its compliance with the Medicaid statute."

We also had been under a court order for the past 21 years in a case involving conditions at the Arlington Developmental Center in Memphis. This past December, the U.S. District Court of the Western Division dismissed the case, and the state actually completed the exit plan ahead of schedule.

Those two lawsuits alone had cost the state millions and millions of dollars over the last two decades. Every dollar we don't waste on lawsuits can be put to better use serving the people of Tennessee.

Due to the work of our Department of Children's Services, we're the first state in the nation to make support services available to 100 percent of our former foster youth as they transition to adulthood.

Through our 41 drug courts across the state, we are working to treat substance abusers that want help in a way that is more productive than simply putting them behind bars and looking the other way. Our proposed budget includes funding for a new statewide residential drug court in Middle Tennessee. It is modeled after our program in Morgan County. It will give us the ability to serve women, which we currently aren't able to do.

We currently have men and women in 14 countries across the world serving the Tennessee National Guard. Tonight, I'd like to introduce you to Staff Sergeant Tremain Spencer. He is a Bronze Star Medal recipient that has served in the Tennessee National Guard for more than 16 years. He was deployed to Iraq in 2007 as a squad leader with the 251st. He recently returned home to Memphis after serving in Afghanistan with the 130th. Sergeant Spencer, you represent the many Tennesseans that are serving our country. We are grateful for your distinguished service. You make us very proud.

Another result of hard work: Business Facilities Magazine, which is a leading source for corporate site selectors, just named Tennessee “State of the Year.” It was based on our top projects last year, the number of jobs created, and the capital investment.

Jack Rogers, the editor in chief, said: “Tennessee continues to impress us with its execution of a diversified growth strategy. The state has put in place a solid foundation for robust job creation for years to come.”

By the end of this year, we will have reduced state office space by about one million square feet, and for the first time in recent history, there is a statewide inventory of all state properties. We have a comprehensive plan to maintain and manage state assets, which hasn’t been the case for decades. Besides saving money, these changes have created better working conditions for state employees with efficient, well-lit and functional office space. Other states are reaching out to learn more about our innovative approach to real estate management.

Being America at its best means not doing government business the way we’ve always done it before.

Now let’s talk about the budget. Our state has a strong record of fiscal integrity. We’ve been intentional about not spending money just because we have it, and we’re better positioned to balance the budget this year because we’ve been fiscally conservative in years past. I’d like to recognize a member in this chamber tonight that has played an important role in ensuring that discipline for the past four decades.

Senator Douglas Henry is the longest serving member in the history of the Tennessee General Assembly, and as chairman emeritus of the Senate Finance Committee, he has seen his share of budgets over the years. Senator Henry, thank you for your dedicated service to our state. We wish you the best in your retirement, and we will miss you.

This year’s budget is a conservative one. Revenue collections over the past several months have not met projections, and our budget reflects that reality.

We have \$260 million in new revenue this year. Increased TennCare costs will take up \$180 million, employee health insurance costs are up \$40 million, and \$120 million are proposed for education. So, if you’re doing the math at home, before putting anything toward employee salaries, higher education, social services for our most vulnerable citizens, or anything else, we are already \$80 million in the red.

Well that would be ok if we were in Washington, DC, but in Tennessee, we balance our budget. That’s why this budget also includes some cuts.

When we are talking about the budget, it is important to understand that the major drivers are education and health care.

In Tennessee, education is a top priority, and this budget reflects that. It includes \$47 million to fund the BEP formula, and as we continue to expect more from our students and teachers in

academic performance, we've also set a goal to be the fastest growing state in the country when it comes to paying our teachers, so more than \$63 million is included for teacher salaries.

The largest driver of the budget by far is TennCare, our state's Medicaid program. In essence, when you talk about managing the state budget, you're talking about managing TennCare costs. And make no mistake; TennCare is one of the best-managed Medicaid programs in the country. Our annual cost increases are 3.5 percent. The national average is 6.6 percent. Beating the national average saves us \$60 million every year.

Despite strong management, TennCare costs are always going to be a challenge. When you look back 10 years, TennCare had grown to be about 35 percent of our overall budget. Then, after the state went through the painful process of cutting 170,000 people from the rolls in 2007, it hit a low of almost 25 percent in 2009. Today, it has already grown back to be more than 30 percent of our budget, squeezing out other critical needs.

These are current costs before we even consider expanding our Medicaid program to more people.

There has been criticism of our approach to pursue a Tennessee plan to cover more Tennesseans while taking into account cost and health outcomes.

I believe that more Tennesseans having health care is good for our state. My concern has been that the federal government isn't giving us the tools to do that in a cost-effective way or in a way that will ultimately impact the health of Tennesseans for the better.

The issue of accepting federal dollars to cover more Tennesseans has been politicized on both sides. Doing so ignores what's at stake. This is about insuring more Tennesseans in a sound way that the state can afford. It's also about changing health outcomes to fundamentally reduce health care costs. For Tennessee to be America at its best, we must get health care right – for those who need health care coverage and for the long-term fiscal health of our state.

As revenues have come in below expectations, some have questioned whether cutting taxes was the right thing to do.

The short answer - yes. Part of being customer-focused is to return taxpayer money when we can. Working together, we have cut taxes in a methodical, thoughtful way.

When you look at the taxes we've cut, several of them will actually create more revenue in Tennessee over time. For example, we're in the process of phasing out the death tax, which not only supports small business owners and family farmers, but will attract investment to our state. That's also true for the gift tax, which we eliminated last year. We've also reduced the burden of the Hall Income Tax on seniors.

I don't think it's any accident that Tennessee was named the best state in the country to retire in 2013.

And, while lowering the sales tax on food doesn't generate new revenue or investment, I think we can all agree that reducing the amount of taxes that all Tennesseans pay on their groceries was the right thing to do.

Tennessee is America at its best because we employ one of the best tax strategies of all time – common sense.

When it comes to economic development, we're on a roll. Not only are we State of the Year, but 2013 was record breaking with over 23,000 new jobs committed from 187 projects. Since January 2011, nearly 155,000 private sector jobs have been created in Tennessee.

We've had some exciting announcements: Hankook, 1,800 new jobs in Clarksville; ARAMARK, 1,500 new jobs in Nashville; Calsonic Kansei, 1,200 new jobs across facilities in Lewisburg, Shelbyville and Smyrna; Unilever, 400 new jobs in Covington; UBS, 1,000 new jobs in Nashville; Eastman, a 1.6 Billion dollar investment in Kingsport; 9to5 Seating bringing more than 500 jobs from China back to Union City, a town hit hard after Goodyear closed its tire plant there; and just in the past several weeks, Conduit Global, 1,000 new jobs in Memphis, and Beretta is putting its U.S. operation for manufacturing and development in Gallatin.

And that is the short list.

In Tennessee we still actually make things, and we make things that are known around the world. We make things that people use every day like cars, tires, ovens, chemicals, and medical devices, and we make other things that occasionally get consumed as well like M&Ms, ice cream, and Jack Daniels.

In fact, we lead the Southeast in manufacturing. These are high-tech, advanced manufacturing jobs created by businesses, large and small, that make the decision to invest in Tennessee.

Tennessee is known around the globe for a lot of things but music and our state's natural beauty have to be at the top of the list. We have put together a statewide, comprehensive plan to attract more people to Tennessee. That generates more revenue and creates more jobs. I have been impressed by how the tourism industry from across the state has really come together. As a result, this budget, like last year's, includes additional dollars to bring more visitors here.

But even with all of this momentum on the jobs front, one thing we have to work on is our unemployment rate. We want more Tennesseans to have more opportunities for high-quality, good-paying jobs.

So, what's the best jobs plan? Easy answer: education. If we want to have jobs ready for Tennesseans, we have to make sure that Tennesseans are ready for jobs.

Back in November, I visited West Wilson Middle School in Mount Juliet. While I was there, Megan Baker, a sixth grade math teacher, gave me this red LEGO. LEGO has become an acronym for their motto: Let's Expect Great Outcomes.

Because it sits on top of the alarm clock by my bed, it's the first thing I see every morning. It is a reminder of the responsibility that we all have to expect great outcomes.

Expecting great outcomes will insure that Tennessee is America at its best. Let's expect great outcomes – in education, in economic development, in quality service to Tennessee taxpayers, and in everything that we do.

After years of lagging behind, we can say today that we're making dramatic gains. When it comes to education in Tennessee, we are demonstrating that we are America at its best.

The National Assessment of Education Progress, also known as the nation's report card, announced last fall that Tennessee is the fastest improving state in the country in academic attainment.

This independent evaluation showed that Tennessee students had the largest growth of any state from 2011 to 2013 across the four reading and math tests. In fact, Tennessee's growth was the largest ever of any state in a single testing cycle since NAEP began nationwide assessments 10 years ago.

It is not an exaggeration to say that we are seeing historic gains due to the hard work of our teachers and leaders.

We are showing that it is possible for all students to grow academically. Tennessee had the most growth in the country for African American students, continuing significant progress that we have seen on TCAP and other assessments.

Our superintendents, our principals, our teachers, and our students are working hard and it shows. We can do this. We are doing this. But the biggest point isn't about ranking or test scores. It's about our children, our grandchildren, and our great grandchildren being ready to live their best lives.

We've raised standards for our students and expectations for adults. There has been a lot of discussion and debate – and that's a good thing. But the historic progress that we're making isn't by accident.

Together we changed tenure so that a principal doesn't have to decide after three years to either fire a teacher or grant tenure.

We've implemented performance evaluations for teachers and principals. You'll remember that there was some angst about those, and there were some appropriate adjustments that needed to be made along the way, and they were. The important thing is that we didn't back away from them. Performance evaluations are working, and our teachers are excelling, just like we knew they would.

More recently, some have raised questions about the Common Core state standards. It is important to remember that Common Core came out of states working together to raise standards

in a consistent and meaningful way, showing that states can and will lead meaningful education reform. In fact, many Tennessee educators were involved in the creation of the standards from the start. It is also important to know that Common Core has nothing to do with curriculum. Our local school districts are responsible and will be responsible for setting curriculum. Common Core is about clearly defining common standards that students should know at certain grade levels. With all of the progress we're making, how can we argue against higher standards? They are making a difference.

Tonight, I'd like to you meet Cicely Woodard. She's an eighth-grade math teacher at Rose Park Magnet Middle School in Nashville. She is also a Common Core coach. I've heard Cicely say that she walks into her classroom everyday believing that all of her students can be victorious. She's gained their trust and built a relationship with them, and they know that she won't let them fail. They know that she will reteach, redo and reassess until they get it right. Cicely, thank you. You represent teachers and Common Core coaches across this state who are changing the lives of Tennessee children.

We really are moving the needle in Tennessee. We've come too far to back up or to settle for less.

Last year, I introduced a proposal to offer another option for school choice through a program to allow low-income students in our lowest performing schools a chance to receive a better education. I've included funding in this year's budget proposal to pay for this approach.

I believe offering choice to families is important and that a focused approach makes sense at this point. For those who have concerns about vouchers, I encourage you to support this targeted effort to support students in our lowest performing schools.

Since the days of George Washington, Americans have expected things in this country to be better for the next generation, but that isn't the case these days. There are different ideas and opinions about why the American Dream seems out of reach for some of our citizens. One thing that is certain is that there are basic skills that we all need to be able to compete in the world.

In the year 2025, 55 percent of Tennesseans will need a certificate or degree beyond high school to get a job. Today, only 32 percent of Tennesseans qualify. To truly be America at its best, that's not good enough.

This time last year, I announced the Drive to 55 – our effort to reach at least 55 percent by 2025. I want to take this opportunity to thank Randy Boyd for taking a leave of absence from his company and dedicating a year of his life - at no cost to the state - to work on this. He did it because he loves our state, and he wants Tennessee to be America at its best. Thank you, Randy.

This isn't just about higher education – it's about better jobs for more Tennesseans. It's about building a stronger economy. We don't have a choice if we want to be the number one state in the Southeast for high quality jobs.

I have spent a lot of time over the past two years on workforce readiness. I am more convinced than ever that our urgent needs are in the areas of access, quality and relevance. To tackle these, our Drive to 55 initiative focuses on five key goals:

1. Getting students ready;
2. Getting them into school;
3. Getting them out of school;
4. Finishing what we started with adult students; and
5. Tying education directly to workforce needs.

So first, let's talk about getting students ready. We know that nearly 70 percent of our students who graduate from high school need remedial math or English before they can take college level courses. But, if they have to take one of those courses, their chances of actually graduating are less than 10 percent.

To fix that, we've been working with community colleges and high schools to expand the SAILS program – Seamless Alignment and Integrated Learning Support. SAILS gives students who need extra support in math that attention during their senior year in high school so they can avoid remediation when they enter college. We are only half way through this year's program, and nearly 40 percent of high school seniors have already eliminated their need for remedial math in college. The savings? \$3.5 million in tuition.

Based on tangible results and success, this year's budget includes funding to expand the SAILS program to allow 4,000 more students - for a total of 12,000 - to participate.

Kim McCormick will you please stand so that we can thank you and Chattanooga State Community College for pioneering this program and for leading the charge for a statewide expansion.

Another way to help get students ready is dual enrollment. The program allows high school students to take college credit courses. Studies show, students that take dual enrollment courses have a 94 percent probability of going to college, much higher than our state average of just over 60 percent.

We're proposing to change the way we allocate funding for dual enrollment courses, so that any student can take his or her first course free followed by discounted courses in following years.

So, after getting students into school, we have to look at getting them out. Companies like Netflix, Amazon and Pandora tailor their recommendations to what their customers are looking for. Shouldn't we be doing that for our students? Shouldn't we be helping our students find the subjects and skills that will give them a real shot at success? Well, we are.

The Degree Compass program, pioneered at Austin Peay University, predicts the subjects and majors in which students will be most successful. The model combines hundreds of thousands of past students' grades with current students' transcripts to make an informed, individual recommendation.

That's exactly what we should do - help our students find the subjects and skills that allow them to graduate and pursue their dreams. This year's budget includes funding to expand the Degree Compass program.

We have almost a million Tennesseans that have some college credit but didn't graduate with an associate's or a four-year degree. That is an amazing pool of untapped, unrealized potential.

We're including money in this year's budget to help our state colleges and universities do a better job of identifying and recruiting adults that are most likely to return to college and complete their degree. This is going to take all of our schools – state and independent colleges – working together to get us where we need to be.

Tonight, I'd like you to meet Erika Adams. In 2002, she made the decision to go back to school. Despite the pressures of being a single mother with three boys at home, she enrolled at Northeast State Community College. From there she moved onto ETSU where she earned her bachelor's in 2007 and her master's in 2010. She is currently working on her doctorate, and she is the Director of College Access programs at Northeast State. Erika has first-hand experience of fighting through the barriers that come with going back to school, and she is putting that experience to work in helping others attend college. Erika, congratulations on your accomplishments, and thanks for what you do to help more Tennesseans further their education.

There are men and women across this state who don't see a path to earn a degree. Erika is a great example that while it isn't always going to be easy, it is worth it, and we have to do all we can to make going back to school an option for more Tennesseans.

To be successful, we have to measure our results.

I'm asking the Tennessee Higher Education Commission to create a scorecard that measures the performance of our institutions. It will let all of us know about the percentage of students that graduate into a job in their field of study along with the average compensation.

We need to do a better job of listening to what our employers are telling us they need when they hire new employees. Last year Majority Leaders Mark Norris and Gerald McCormick sponsored legislation to create the Labor Education Alignment Program – or LEAP – to help connect key stakeholders on the state and local level when it comes to workforce readiness.

To take the next step in this effort, I will appoint a Director of Workforce Alignment that will work with our departments and local officials. We will also be providing grants to local communities that have strategic plans to close the skills gaps in their areas.

This year's budget also includes strategic investments aimed at enhancing our Drive to 55 including:

- \$13 million to fund the Complete College Act which incentivizes colleges and universities based on the number of graduates instead of the old funding formula that was based on enrollment.

- \$63 million for capital maintenance for higher education institutions across the state.
- \$65 million in capital improvements to fund a new Williamson County campus for Columbia State and a new classroom building at Volunteer State – two of our fastest growing community colleges.

To succeed in our Drive to 55, and to truly be America at its best, we have to change our culture. More Tennesseans have to believe that earning a certificate or degree beyond high school is not only possible but necessary.

As we urge more Tennesseans to continue their education, we know we have to remove as many barriers as possible. For many Tennessee families, cost is the biggest hurdle to further education.

That's why tonight I am really excited to announce the "Tennessee Promise."

The Tennessee Promise is an ongoing commitment to every student – from every kindergartner to every high school senior. We will promise that he or she can attend two years of community college or a college of applied technology absolutely free.

If students then choose to go on to a four-year school, our transfer pathways program makes it possible for those students to start as a junior. By getting their first two years free, the cost of a four-year degree is cut in half.

Through the Tennessee Promise, we are fighting the rising cost of higher education, and we are raising our expectations as a state. We are committed to making a clear statement to families that education beyond high school is a priority in the state of Tennessee.

Tennessee will be the only state in the country to offer our high school graduates two years of community college with no tuition or fees along with the support of dedicated mentors.

We are also proposing last dollar scholarships for all adults - regardless of age or previous qualification for a HOPE scholarship - to attend our TCATs free of charge.

We are putting our resources toward proven results. With 27 locations across the state, our TCATs graduate 81 percent of their students and match more than 86 percent of those graduates with jobs. TCATs work with local businesses to understand job demand and to keep up with the skills and training needed to fill those jobs.

Non-profit, private organizations will be part of the Tennessee Promise to help ensure that 100 percent of the money goes directly to the student by eliminating administrative costs. They will provide mentors to help navigate the enrollment process as well as provide support during the school year. Access is only successful when it leads to completion.

So, I know you are wondering, how do we pay for this? The Tennessee Promise can only be a true promise if it is sustainable over time. It can't be based on year-to-year budgets, or changing legislatures, or new administrations. That's why I recommend funding it through an endowment.

I propose that we transfer lottery reserve funds into the endowment, which is strategically redirecting existing resources. There will still be \$110 million in the lottery reserve, which I believe is a healthy amount.

Net cost to the state, zero. Net impact on our future, priceless.

This is a bold promise. It is a promise that will speak volumes to current and prospective employers. It is a promise that will make a real difference for generations of Tennesseans. And it is a promise that we have the ability to make. I look forward to working with you, members of the General Assembly, to make the Tennessee Promise a reality for Tennessee families.

As I begin my fourth year in office, I am convinced that “Tennessee - America at its best” is not just a 50-year-old slogan.

We are often recognized as a national leader in areas that matter like education, job creation, low taxes and low debt.

As I travel through the state and have the opportunity to meet with so many people, there is a lot of optimism out there and a lot of pride in Tennessee.

Whether they are dedicated teachers like Megan Baker and Cicely Woodard, or adult students willing to take risks like Erika Adams, or the Tennesseans like Sergeant Tremaine Spencer who sacrifice so much to serve our country, I see it every day.

We know our strengths.

We are not afraid to address our challenges head on.

In Tennessee, we truly are America at its best.

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