

Lieutenant Governor Ramsey, Speaker Harwell, Speaker Pro Tem Watson, Speaker Pro Tem Johnson, Members of the 109<sup>th</sup> General Assembly, Justices, Constitutional Officers, General Slatery, Commissioners, Friends, Guests, Fellow Tennesseans, and Crissy, the best first lady in the land, I come before you tonight to give my sixth State of the State Address. Now for some of you, that means good news – you only have to listen to me two more times after tonight. But for me, these speeches serve as milestones, status updates on the State of Tennessee and as a reminder of why we are here.

The importance of why we're here was brought back to me this past Christmas Eve. I was standing on a hillside in Perry County, surveying destruction left from a tornado that had touched down the day before. A couple was tragically killed on that hillside, and all around you can see the incredible damage that is done by a tornado. Five homes are completely wiped out. Everything these folks have worked for their entire life is spread out across this hillside. A washing machine here. Some children's books over there. And intermixed with downed trees are clothes and destroyed furniture. A grandmother is wandering the hill looking for the special doll that she was going to give to her granddaughter for Christmas.

But amidst the tragedy, you would also see the different pieces of state government clicking in to help. The Tennessee Emergency Management Agency had been tracking the storm from before it hit, and their teams had already deployed to the site. The Department of Safety and Homeland Security and the Military Department are coming in with assistance. The Tennessee Department of Transportation (TDOT) is clearing roads. The Department of Health is tracking down vital health records, and the Department of Correction is sending a crew with chainsaws to help clear out the debris. Later, the Tennessee Housing Development Agency will kick into gear to see if they can assist.

Once again, I'm reminded that for some people, usually our most vulnerable citizens, an effective state government is their best hope for help amidst life's struggles.

It's less dramatic than a tornado, but every day, citizens count on us to help educate their children and provide safe roads and bridges. They look to us for critical mental health services. They rely on our outstanding Department of Human Services to give them a better hope for tomorrow. Every day, Tennesseans count on us to keep them safe and to provide economic opportunity for their family and so many other things.

All of us together have worked really hard to transform state government, to improve critical services to taxpayers while keeping costs down. We've fundamentally changed the structure of state government. But we're not done.

You know, it is no secret to anyone in this room that the state is in far better financial condition than we have been in for several years. Tonight we're here to talk about the state of the State. The reality is that the state of our State is one of unique opportunity, an opportunity that must not go to waste.

This opportunity is a result of a strengthening economy combined with the hard work and discipline of our departments and the conservative fiscal strategy employed by the General Assembly, our constitutional officers and this administration. The surplus didn't just suddenly materialize. Yes, the economy is better, but many of our surrounding states are struggling with how to make ends meet.

Together, we've worked hard to grow the economy in Tennessee, and today more Tennesseans have a job than at any point in state history. We have cut almost \$500 million in recurring expenses out of our operating budgets, and we have had the discipline not to spend money just because we had it.

Because the General Assembly and the administration have worked so hard to build the surplus, we should all be very thoughtful about how we use it. I believe this budget does just that. We're using one-time dollars to make improvements to reduce our ongoing costs. It continues to build up our reserves, and it makes another significant investment in K-12 education. It puts us on the path to catch up on long-deferred maintenance of our buildings and reinvests in our workforce. By managing wisely and investing strategically, we're making tax dollars work harder for Tennesseans. This is what we do.

If you look back over the state's history, the first sales tax went into place in 1947, and the pattern has been to increase the sales tax every seven or eight years on average. The time we are in right now is the second longest Tennessee has ever gone without raising the sales tax. But, not only have we not raised taxes, we've cut them. The sales tax on food has gone down. We have eliminated the estate tax and the gift tax, and we've cut the Hall tax on senior citizens.

In fact, using estimates from the Fiscal Review Committee, there's been more than \$225 million in recurring tax reductions since 2011. We have cut twice as much – twice as much – in taxes in the last five years as any other Administration and General Assembly has done in eight years.

Now, the economy will ebb and flow and so will our revenue as a result of that, but in the past, when we've had the good times, we spent what we had. So when the economy inevitably took a downturn, there was little choice but to raise taxes.

Our approach is to realize that good times are not going to last forever. So during this administration, we've taken \$470 million on a recurring basis out of the state budget. It's hard; it's not fun. I know there have been things that people have said, "Well, why are you doing that?" But without making those difficult decisions during the good times, we won't be prepared when the economy does turn back down. Times will get tough, and none of us wants our only alternative to be raising the sales tax again.

Because of the hard decisions we've made, we now have the lowest debt per capita of any state. Our savings account, the Rainy Day Fund, is 2.5 times more than when we began. Last year, when the Comptroller's Office went to the market to sell bonds, we received the lowest interest rate in our state's recorded history.

When people talk about conservative government, that's it in a nutshell. We're using tax payers' money like we would use our own. We're holding in the reins during good times so we're prepared during the bad times.

But I want to be really clear about something. That's not easy. Our commissioners deserve a lot of credit for making \$470 million in recurring cuts. How have we done it? It's been through efforts like the merger of the Construction and Maintenance divisions in TDOT that will save us about \$20 million. The Department of Mental Health and Substance Abuse Services has closed antiquated facilities and redirected the dollars in a way to better serve more individuals in a smaller, community setting. We're using our real estate more effectively and avoiding costs. In 2011 there were 1,100 state employees in the Tennessee Tower. Today there are more than 2,000, and the space is better. The Department of General Services has led a process resulting in 690,000 fewer square feet in the state's real estate foot print. What's that mean? Think about the size of the room we're in now and multiply that by 200. That's how much less space we're using. The Department of Correction has worked with TennCare to reduce prison pharmacy costs by \$5 million annually. We've also expanded drug courts to avoid higher incarceration costs. The Department of Revenue is using electronically transmitted tax filings to reduce overhead. TennCare's payment reform initiative is bringing innovation to the health care system and containing costs on our largest budget item. I could give examples like that for every department. And statewide, we have more than three thousand fewer positions, saving taxpayers more than \$100 million per year.

Not only that, but in this year's budget our commissioners gave back to the General Fund \$80 million that was budgeted to be spent. That's not typical government behavior.

But it's important to note that we don't make these reductions at a sacrifice to service levels. For years major lawsuits such as John B., Arlington, Clover Bottom and Brian A. have incurred litigation and oversight costs reaching into the hundreds of millions. In the last three

years, courts dismissed the longstanding Arlington and John B. lawsuits, partially dismissed the Clover Bottom suit, and thanks to the good work at the Department of Children's Services (DCS), we're very close to settlement on Brian A.

What this means is that after years of time and effort and hundreds of millions of taxpayer dollars, those suits are being resolved, Tennesseans are receiving better service and the state is avoiding millions in legal fees.

Great service in state government is like great service anywhere: the key ingredient is great employees. Four years ago, you helped pass the TEAM Act which helped us to recruit and promote employees according to who is the most qualified instead of who has been there the longest. If you talk to any of our commissioners, they will agree that it's hard to overstate the positive impact that has had on our departments.

Prior to us coming into office, the state had gone several years without a pay increase due to economic conditions. Four of our five budgets have included pay raises. This year, 28,000 state employees in departments under the TEAM Act received a 2.5 percent, three percent, or four percent pay increase based on their performance in the last year.

Now, the significant news in that is that it means that 28,000 employees had a performance review and multiple meaningful conversations about their job performance in state government, something that rarely happened before.

In this year's budget, we're proposing \$60 million for salary increases to state employees. In addition to that, this budget proposal includes another \$36 million for a new market rate adjustment to bring many of our frontline employees closer to market.

So in addition to anything they might receive for their job performance, the market rate adjustments will affect only employees making less than \$50,000 annually. Eight hundred and forty eight job classifications are impacted. The largest single job classification? Correctional officers with 2,424 employees. Others affected include DCS workers, nurses, medical aids, park rangers, clerical employees and driver's license workers. Recruiting for these positions, especially as the economy comes back, is a challenge. But I believe this is a smart investment in our employees in some of our most difficult jobs.

Smart investments. Conservative budgeting. Holding in the reins during good economic conditions. This is what we do.

When we came into office, the State's Rainy Day Fund held \$257 million. At the end of this fiscal year, the fund will have an estimated \$568 million. We're asking for another \$100

million to go into the Rainy Day Fund to bring it to an estimated level of \$668 million on June 30, 2017. The last time the Rainy Day Fund was this high was back in 2008, right before the Recession reminded us that it's always best to repair the roof when the sun is shining.

Speaking of repairing the roof, for too long facilities management and the real estate and energy costs associated with actually conducting state business have gone unattended. I know that we've gotten a little media attention around a new approach to the state's real estate portfolio and how we manage our facilities, but remember the most costly driver of state expenditures besides Medicaid and BEP growth is our real estate costs.

Being smart on maintenance is a case of 'pay me now' or 'pay me a lot more later.' Historically, the state hasn't taken the appropriate steps for upkeep of our own buildings or lowering our utility bills. This administration has made reviewing these costs a priority, and I think it's worth noting that your Department of General Services won the 2015 Innovations in Government award for its facilities management efforts and other states are reaching out to us to learn more about what we're doing.

We're making significant investments in Fall Creek Falls and Montgomery Bell state parks as a first step to improving the lodging in our parks.

This budget also proposes using \$232 million to fix existing facilities across the University of Tennessee, Tennessee Board of Regents and General State Government, and \$350 million in one-time funds for new buildings.

These include the top recommended projects for both the University of Tennessee (UT) and the Tennessee Board of Regents (TBR). University of Tennessee-Chattanooga academic buildings will get much needed renovations. The UT Health Science Center in Memphis will finally address some pressing needs with a new dentistry building. Tennessee State's new health science building will be a great addition to the campus here in Nashville, and Tennessee Tech University's new lab building will help further Tech's mission of preparing students for the work force.

We are also proposing \$10 million to fund the second round of Labor Education Alignment Program (LEAP) grants. Continued support for LEAP will mean more opportunities for communities to align the degree and course offerings with the needs of their local workforce. We are also asking for \$20 million for the Drive to 55 Capacity Fund, which will help schools meet the growing demand for degrees and certificates. The first year of Tennessee Promise and Tennessee Reconnect resulted in a 25 percent increase in first time freshmen enrollment in community colleges and a 20 percent increase in first time freshmen at Tennessee colleges of

applied technology (TCAT). If we're going to meet the Drive to 55 and respond to workforce demands, I believe those investments will help us do just that.

Part of transforming state government means being responsive to ever changing landscapes whether that's higher education and economic development or safety. Our world can change in a single instant, as we found out last year in Chattanooga.

None of us will soon forget the tragedy of last July and the loss of military lives on Tennessee soil. We also won't forget how that community responded, surrounding the families of Marine Gunnery Sergeant Thomas J. Sullivan, Marine Staff Sergeant David A. Wyatt, Marine Sergeant Carson A. Holmquist, Navy Logistics Specialist 2<sup>nd</sup> Class Randall Smith, and Lance Corporal Squire K. Wells, and reminding everyone just what it means to be Chattanooga Strong. For me, it was summed up the next morning in a hospital visit with a police officer shot while responding. When I thanked him, he simply said, "I was just doing my job for a place that I love." This proposal requests funding for homeland security upgrades for our Military Department.

In the days and weeks following any difficult time, as you search for things to renew your faith and optimism, Tennesseans don't disappoint.

During last February's winter ice storms we suffered the highest human toll of any natural disasters since I have been governor. Thirty four Tennesseans lost their lives. Like with the Christmas Eve tornado, state agencies of all types rallied to serve those in need. Two of our state troopers in White County found the back roads blocked by downed trees. So what did they do? They walked miles to check on a citizen who lived off the roadway.

Speaking of troopers, through efforts at the Department of Safety and TDOT, our highway fatalities are down 18.5 percent from their 50 year average. As a matter of fact, of the six lowest fatality years in the last 50 years, five of them have happened over the five years that we've been in office. That doesn't happen by coincidence. That's the departments focusing on DUIs and seat belt enforcement because the data shows it helps keep people alive, and we're funding additional road troopers with this proposal.

But upgrades and more troopers are not the only ways we can make Tennessee safer. We want to make sure that our prison beds are filled by the people who need to be there while providing alternatives to the revolving door of incarceration. We are proposing to invest in more drug recovery courts to offer services across all 95 counties, and we're funding additional veterans' courts. Records show that more than 80 percent of participants in our drug recovery courts in the last two years have landed a job or secured a better job. We are making strategic investments in opportunities to improve Tennessee's future. This is what we do.

As you know, there has been a lot of talk about how to address maintaining our roads and bridges in Tennessee. The reality is that Tennesseans are paying less to use our roads now than we did 30 years ago. More fuel efficient vehicles – you’re more than likely getting a lot more miles to the gallon – mean we’re paying less for our infrastructure as things get more expensive. It costs three to four times more to build a road now than the last time a road plan was passed. Many have said, “Well you just need to be more efficient with how you spend your road money.” The reality is that we have the third best rated infrastructure system in the country and we pay the third least per mile driven. That’s pretty good efficiency.

Tonight I’m asking that we keep this critical conversation going. A first step is toward repaying old debts. Two hundred and sixty two million dollars were borrowed from the Highway Fund for the General Fund a decade ago and never repaid. Tonight I’m proposing that we repay half of that, \$130 million, as another step toward a solution. No one here, however, should fool themselves into thinking that this comes close to solving our transportation funding issue. Or that even repaying the entire \$262 million comes close.

Lamar Avenue in Memphis is a \$230 million project. Alcoa Highway in Blount County is \$271 million. Widening I-65 from Goodlettsville to the Kentucky line and relieving congestion on I-24 from Rutherford to Davidson County would take \$800 million combined. And I could keep going all across the state.

Our current payment structure will not allow us to ensure the future safety of our roads and bridges or, importantly, our ability to recruit the jobs we want in Tennessee. It’s about the farmer getting his product to market or a business accessing the world-class logistics capability in Memphis. It’s about finally addressing decades old back-logged projects in East Tennessee. Or maybe it’s the sobering reality of day care centers in Murfreesboro who serve not just lunch but dinner because their parents who work in Nashville have to fight traffic that delays them in picking up their children. We have to be about finding long-term solutions to our biggest challenges. This is what we do.

Another constant challenge we face is the inflationary growth of Medicaid, which immediately takes up roughly half of any new recurring dollars that we might have. Thankfully, we have arguably the best run program in the country with cost increases consistently below the national average, and it’s not just me saying that.

The head of the National Association of Medicaid Directors praised TennCare saying, “TennCare just has a really well run system right now.” TennCare has a customer satisfaction rating in the 90’s – a little higher than my customer satisfaction rating the last time I checked. Managing these costs allows us to invest elsewhere and provide others with great service. This

budget includes \$24 million for an innovative program through TennCare and the Department of Intellectual and Developmental Disabilities (DIDD). This program, known as ECF CHOICES, will allow the state to serve more people currently on the DIDD waiting list and others eligible for services.

As part of our efforts to provide critical services to Tennesseans more effectively, I'm asking we fund a mobile seating and positioning unit for DIDD. I try to visit every department during the year, and last year when I had the chance to visit DIDD, I went to one of their seating and positioning clinics. These clinics customize wheelchairs and other equipment to improve comfort and health. It's hard to put into words the physical challenges faced by the people they support. I met one man whose posture was so severe he couldn't get through a traditional doorway. Through the work at this clinic, that is now possible. The joy, support and relief that this state service provides – if it doesn't inspire you, then check your pulse.

This is what we do.

For all the services an effective state government can provide we know that nothing takes the place of having a job. There have been 288,000 net new private sector jobs created in the last five years, putting Tennessee in the top 10 in net new growth among all 50 states. In 2015, the Department of Economic Development (ECD) broke its record for job commitments in a single year. Those commitments came from 161 companies that committed \$5.5 billion in capital investment. Tennessee is ranked the No. 1 state for automotive manufacturing strength for an unprecedented five of the last six years. Our exports have increased by 27 percent in the last four years. Four years ago, Tennessee only had two captive insurance companies. Today, thanks to the Department of Commerce and Insurance, that number is 126, and the Department of Financial Institutions is working with the private sector to help make Tennessee a world-class trust jurisdiction.

But as we consider our challenges, we need to be honest and admit that while some parts of our state are booming, others struggle. It's why we created a Rural Development Task Force to bring together all departments from Labor and Workforce Development to Education to Tourist Development and ECD to find solutions. Already, important initiatives have been launched. In 2015, we announced a \$6 million fund to develop new industrial sites across our state. But rural economic development is often about tourist development. So, we created a new \$1 million fund to develop tourist assets. We're also focused on supporting entrepreneurs in rural areas, and I am proposing \$10 million specifically for economic development efforts in those areas. This is what we do. We see a challenge, and we work for a solution.

Much of that job growth is due to our state's new reputation for achievement in K-12 education and higher education. As you know, Tennessee is the first state in the nation to offer



high school graduates two years of community or technical college free of tuition and fees. And we're doing that without raising any taxes. Of all of the new Free Application for Federal Student Aid (FAFSA) applications in the United States, 40 percent of them came from one state – Tennessee. And more than 16,000 students enrolled this fall under the Tennessee Promise. Nearly 5,000 more Tennesseans are attending TCAT's through Tennessee Reconnect. Last month, we launched a massive outreach effort to connect with the 110,000 Tennesseans who are over half-way complete to a college degree but haven't finished.

Tennessee is at the forefront of innovation in public higher education. All of you have heard me talk about the Drive to 55, our effort to make certain that 55 percent of our population has a degree or certificate by 2025. Currently, we're at 37 percent. If you compare the incomes of someone with a degree or certificate to someone who doesn't have one, moving our population to 55 percent would mean \$9 billion in additional income for Tennesseans. I can't think of anything else that comes close to this effort for impacting the future of Tennessee.

Most of that growth will come in our community colleges and TCAT's. That's why we introduced the FOCUS Act to make sure our colleges and universities are organized and empowered in the best way to increase student success.

I believe that freeing up the Tennessee Board of Regents to focus on community colleges and our technical schools will give more attention to those important institutions and our students who attend those schools. When TBR was formed in 1972, it had 60,000 students. Today we are approaching 200,000 students in the system. Times have changed, and it's critical we address the needs of each student and every school.

The six individual boards proposed for the University of Memphis, Tennessee State University, Austin Peay State University, Middle Tennessee State University, Tennessee Technological University, and East Tennessee State University will now have the ability to focus on the unique potential of each of those schools. But make no mistake: this will take an all hands on deck approach to meet our goal of 55 percent. Our four-year schools, private institutions and proprietary schools will all play a role in meeting the Drive to 55.

The budget proposes \$50 million for the outcomes based funding formula for public higher education in Tennessee. Between operations and capital investments, higher education will receive \$390 million in new dollars. It's our chance to show the rest of the country that this is what we do, that tuition is kept low, and the price of education is affordable for Tennessee families.

Right now, the spotlight is on Tennessee. Who would have thought a decade ago that Tennessee would have significant positive attention around education? Strategic investments, increased accountability, and higher standards have changed the game.

We've always known that post-secondary education was not just about access. It's really about success. And we knew that our students couldn't succeed if they weren't prepared when they left our high schools. It's why we've worked so hard to improve student outcomes in our K-12 schools. And why it's important that Tennessee students are still the fastest improving students in the country since 2011.

In Tennessee our public schools have roughly 1 million students. Since 2011, 131,000 more students are on grade-level in math and nearly 60,000 more are on grade-level in science. For the third straight year, Tennessee public high school students improved on their ACT. Our graduation rate has increased for the third year in a row and now stands at 88 percent.

We need to stop and take a moment – not to pat ourselves on the back – but to let all of that sink in.

A lot of you in this chamber remember when this state continually ranked near the bottom in national rankings, and you understand the progress Tennessee has made in just a few short years. Think about the teachers who continually rise to the challenges their students might bring through the door every day. Teachers and students are doing more than ever before, and their achievements must be recognized. We've raised our expectations and our standards. Through the process approved by the General Assembly last year we are well on the way to having in place our new Tennessee Standards that we spent so much time discussing over the last two years. Teams of educators have been working to review each standard, and their work is being reviewed by other professional educators with input from thousands of Tennesseans. The new standards should be voted on by the Board of Education this April.

While much of the rest of the country is still arguing about what to do on Common Core standards, Tennessee went to work developing our standards that continue to raise the bar of expectations. This is what we do. We respond to a changing world and make sure our students are prepared for tomorrow.

I personally believe that investing in education is the smartest thing we can do for economic development. But I also believe it's a smart long-term investment. One of the things I want to make certain that we do with this budget is invest money that will save us money down the road. The facts are clear: a more educated population will spend less money on health care. Less money on incarceration. If we're going to be about anything, it has to be about opportunity for all Tennessee students.

One of the things I think we should be the most proud of is that Tennessee – working together – has been a national leader in investing in K-12 during this administration. Tennessee is in the top 10 for elementary and secondary state education expenditures in the nation. We are also outpacing the national average increase in teacher salaries, and that's before this year's investment.

Hear me now, our commitment to education continues in a big way tonight. This budget proposal includes the largest investment in K-12 education in Tennessee's history without a tax increase. We're funding the Basic Education Program (BEP) portion of teacher salaries with \$105 million. Between the current fiscal year's \$153 million and this year's proposed \$261 million investment in K-12 education, Tennessee state government will invest more than \$414 million new dollars in our schools, more than \$200 million of those additional dollars for teacher salaries.

We're also including nearly \$30 million for the 12<sup>th</sup> month of health insurance so teachers are offered year-round insurance through the state. And we're doubling the state investment for a total of \$30 million in recurring state dollars going to technology needs at our schools.

Our TCAP tests this year showed that we are making great progress in math and English in our high schools and that proficiency in math and science is increasing in all grades. However, those same tests showed that we are not making the kind of progress that we would like to see in third through eighth grade reading. Because of that, we're investing \$9 million to create a network of literacy coaches and regional coordinators supporting literacy efforts all across the state. Our students have shown incredible growth, but reading remains a challenging area that we have to get right.

What's important in all of this is that we're not investing in the same old public education system in Tennessee. We've raised our standards. We've linked teacher evaluations to student performance. And we've expanded education options for children. We are showing historic progress, and we can't back up. We are a system that is committed to the basic premise that all children should have access to a quality public education regardless of zip code, and we are shrinking the achievement gap for historically underserved and low-income students. None of us should want to go back to ranking in the 40's. This state will continue to do what has brought our students success: investing more in education while raising our standards and making certain that how well students are learning is reflected in teacher evaluations. I'm grateful to no longer be in the 40's, but I'm not satisfied to be in the 30's.

Like each of you, I consider the honor of serving in state government one of the greatest privileges of my life. Being a history lover, I appreciate having the opportunity to work in this historic building and thinking about the men and women who came before us. I frequently think about what Tennessee will be like when my grandchildren are my age. It's hard to say what Tennessee will be like in 50 years, but I know this for certain about this legislature and the governor's office 50 years from now – all new people. By then, my portrait will have made the circuit downstairs and will have rotated off to wherever they store governors who aren't of a recent vintage. But don't laugh; your pictures will be gathering dust somewhere too. So, if that's true, shouldn't we focus on the things that will outlast anyone's memory of us?

This is our opportunity.

Let's bear down on what we can do together: keeping Tennessee a state with a strong financial condition, helping Tennessee to be the No. 1 location in the Southeast for high quality jobs. And making certain that all Tennesseans, regardless of their circumstances, have an opportunity for a high quality education. For those whose lives might get scattered across a hillside during a tornado. For those who might get physical relief from a wheelchair that lets them experience the world in a whole new way. For the single parent looking to finish their college degree. For the third grader who is trying to go from learning to read to reading to learn. For that third grader's teacher who dedicates her life to giving students the tools to build their own lives. I have 1,070 more days with the honor of working in this building. I plan on using every single one of them to serve this state that we love and call home. Thank you, and may God continue to bless the greatest State in the Land of the Free.