



State of the Commonwealth
Feb. 6, 2013
Gov. Steve Beshear

Mr. President, Mr. Speaker, distinguished members of the Kentucky General Assembly, Lt. Governor and Mrs. Abramson, other Constitutional officers, honorable members of the Court of Justice, honored guests, including Kentucky's First Lady, and my fellow Kentuckians...

Back in 1974, before some of you were born, I entered these chambers as a wide-eyed freshman legislator.

I was excited, optimistic and eager to begin work.

Today – some 39 years later – as I deliver my sixth State of the Commonwealth Address, I stand here feeling similar emotions.

Excited about the challenges ahead.

Optimistic about the chances of success.

And eager to get started.

More so than I've ever been as governor.

Much has happened since I stood before you in January 2012:

...dozens of tornadoes ripped through the state over a three-day period, killing 25 people and causing untold damage in places like West Liberty, East Bernstadt, Salyersville and Piner ...

...five more Kentuckians died overseas in the War on Terror, as our sons and daughters continue to do the dangerous work of protecting freedom ...

... my chief of staff and our close friend, Mike Haydon, died suddenly in August ...

...we survived a heated presidential election which also brought 20 new faces here to the Kentucky General Assembly ... and we have a new president in the Kentucky Senate.

All these events have left their mark.

The cumulative impact has been a significant change in perspective and approach.

A new atmosphere of civility and dignity underscores our work, one marked by the willingness to engage in respectful dialogue and to seek consensus on difficult issues.

In addition, we share a growing awareness that Kentucky is at a tipping point.

Simply put, we realize that “just getting by” is no longer a true measure of success, not if our real goal is to create a more vibrant economy and a higher quality of life for our people.

Our focus needs to be not just on the present – but on five, 10, even 25 years from now.

My immediate goal during the recession was to help our families and businesses survive.

But merely surviving was not enough.

So we also acted strategically to preserve our ability to make investments in our people and infrastructure that would strengthen Kentucky's long-term capacity.

By embracing tough but thoughtful fiscal decisions, you and I brought Kentucky through the worst recession of our lifetimes better than most other states, and today our economic momentum is gaining national recognition.

We've made a lot of progress.

For example, our one-year net job growth recently ranked second in the nation, and our current unemployment rate is the lowest in over four years. That jobless rate has fallen almost 25 percent in two years.

In fact, we're now adding jobs at the pre-recession pace.

Furthermore, we're setting records with our exports, and we're importing jobs and investments from countries like Japan, China, Korea, India, France and Germany.

Four years ago, the auto industry was in crisis. Last year, Kentucky auto makers produced more than a million cars and light trucks for the first time since 2007.

And the construction of two bridges in Jefferson County – after 40 years of talk – will create 4,000 construction-related jobs over the next six years.

So yes, our momentum is accelerating.

But as we emerge from this recession poised to do great things, fundamental weaknesses stand in

our way, weaknesses that both require substantial investments in our future and at the same time prevent us from making those investments.

What are those weaknesses?

- A tax system that works against us, not for us.
- A workforce that isn't as trained and skilled as it needs to be.
- An education system that isn't as efficient and rigorous as the world demands.
- A population whose health ranks among the worst in the nation.
- And a heavy sword called the public pension unfunded liability that dangles by a thread above us.

Ladies and gentlemen, if we solve those challenges, Kentucky will lead the nation out of this recession.

If we don't, we'll begin slipping backward, and our progress will fade away. And my friends, it can go either way.

The good news is we know what we have to do.

But delay could be deadly.

Over the past year, in national debates about the fiscal cliff and other issues, you've heard warnings about "kicking the can down the road." It's almost become a national slogan, and yes, that phrase is a cliché.

But phrases *become* clichés because they ring with truth ... and here in Kentucky – right here, right now – that cliché rings true.

We have to stop putting off uncomfortable decisions for future generations. We have to stop pretending that these problems aren't holding us back. Because they are.

Tonight I'm going to talk about a way forward on addressing these weaknesses. And let me tell you upfront: I'm realistic.

We're already six days into this 30-day session. It's 20 percent over. There's not a lot of time.

And so the agenda I'm setting forth tonight is not only for this short session but also for the year ahead.

The biggest challenge is finding the resources we need to strengthen our core.

I know this isn't a budget-writing year. But fiscal considerations loom over every decision we make.

After inheriting a global recession, you and I spent five years bringing common sense to state spending – and we've done so in three ways:

- One, cuts. We reduced the state budget 13 times in five years, cutting spending by \$1.6 billion and trimming the state workforce to its smallest size in nearly four decades. Some agencies have been slashed up to 38 percent.
- Two, we found more efficient ways to run daily operations. Through our multi-year Smart Government Initiative, we've realized both one-time windfalls and annual savings by selling surplus land, buildings and vehicles, consolidating offices, renegotiating contracts and bids, and changing how we buy goods and services.
- And three, we made revolutionary changes to huge budget drains – closing a state prison as part of a wider Corrections reform, privatizing Medicaid and reining in benefits for public employees.

In many ways, you and I have remade state government.

Our goal is simple: Make every tax dollar count.

Now many changes and cuts were desperately needed. State government had become bloated and inefficient. We will not restore those cuts, and we will not return to the old way of doing business.

But efficiency alone wasn't enough to balance those budgets, and so we made cuts to certain programs that hurt, cuts that none of us would have made if we had not been forced to make them to survive.

Well, we survived – better than most states – but now we must ask ourselves: What damage did we do?

Let me describe some of it.

- We froze funding in our K-12 classrooms, despite rising costs.
- We eliminated funding for textbooks, going from \$21.7 million in 2008 to zero. Instead of taking books home to study, students often must leave them for the next class.
- We cut school safety funding by 60 percent at a time in which we must be more vigilant,

not less.

- We cut funding to our universities – causing tuition to go up an average of 4 percent a year at our community and technical schools and nearly 7 percent a year at our largest four-year universities.
- At the same time, we reduced aid to needy students. In fact, we were forced to slam the door in the faces of some 73,000 would-be students -- in just one year -- who came to us asking for help to go to college.
- We cut funding for child-care assistance programs that help low-income families return to the workforce and that allow relatives to care for children taken from their parents. As a result, for the next year and a half, we won't be helping any more low-income parents return to work. And because eligibility requirements will become stricter, some parents who are already working will no doubt have to quit.
- We cut funding to local health departments, meaning fewer children received immunizations, fewer pregnant women received prenatal care and fewer diabetics received comprehensive care.
- And we cut agencies that help our senior citizens. In one agency alone, the number of meals delivered was reduced by almost 300,000.

I could go on and on.

But, now that we're emerging from the recession, it's time to repair the worst of this damage, rebuild those programs we never wanted to cut, and reinvest in our future.

But where will the money come from?

Well, some say we don't need to do anything, because a growing economy and the accompanying revenue will be enough to both pay the bills and create a stronger Kentucky.

My friends, with all due respect, that is simply not reality – and the math shows it.

Yes, the economy and our revenues are projected to grow, but not fast enough to even keep up with expenses, much less to address fundamental weaknesses.

Secretary of the Cabinet Mary Lassiter, who has been putting together state budgets for 15 years, testified in great detail yesterday before a joint meeting of the Appropriations and Revenue committees. She showed with overwhelming evidence how anticipated growth will be more than eaten up by decisions you and I made in previous sessions.

Assuming we hit the Consensus Forecasting Group's out-year prediction of about 3 percent growth – and yes, that's an assumption – any new revenue will have to be used to cover things like structural imbalances, obligations to health care and pensions, inflationary

growth in Medicaid, and health insurance for teachers and state employees.

The projected growth in revenues – and more – is already spent.

And that doesn't leave a single penny for addressing critical investments in our future.

For example:

- Depending upon whose estimates you use, it will take up to \$300 million a year to fully fund the ARC for the Kentucky Retirement System.
- Fully funding SEEK – the basic formula for classroom instruction – will also take substantial new revenues.

Now I'm very proud – and I know you are too – that we have protected SEEK from cuts. But preserving funding doesn't mean making progress.

From 2000 to 2008, SEEK grew an average of 3.4 percent each year. From 2008 to 2014, it grew zero percent – zero percent in a time when enrollment was growing, maintenance and other costs were increasing, and local support in some areas was dropping.

Our schools aren't treading water. They are slowly sinking.

If we had maintained that 3.4 percent a year growth for SEEK, we would be spending right now an additional \$550 million – more than half a billion dollars more – on classroom instruction.

Obviously, at this point, that's an unreachable figure.

But even if we adopt a more realistic goal – to increase SEEK by 3.4 percent for just one year, next budget year – it will take \$98.6 million.

- Now, in addition to SEEK, it will take \$75.8 million to restore cuts made since 2008 to textbooks, ongoing teacher training, school safety, technology, and programs like after-school and tutoring that prevent drop-outs by helping struggling students catch up.
- In postsecondary education, we've reduced funding by \$166 million since 2008, leading to higher tuition, increased class sizes, fewer academic programs and course offerings, delayed repairs, more reliance on part-time teachers and lay-offs.
- Last budget, we lifted \$24 million from lottery proceeds to keep the General Fund balanced -- money that would have gone to financial aid.
- We'll also need money for new debt service for critical maintenance projects, to reduce caseloads for social workers and for health insurance.

- And then, we need to start looking at fully funding all-day kindergarten, expanding preschool to reach more 3- and 4-year-olds, as well as increasing substance-abuse treatment.
- Meanwhile, state employees haven't had a pay raise in four years – and most of them had furlough days.

So my friends, anticipated revenue growth will not be rigorous enough to transform this state.

Again, that's not rhetoric – that's math. The numbers are just too big. The need is just too great.

We will not be able to invest in critical areas like job training and education, nor solve monstrous problems like pension liabilities, unless we think strategically and act aggressively and courageously.

In fact, if we don't act, we'll begin slipping behind.

Let me use K-12 as an example.

Last month, the national publication Education Week, in its annual “Quality Counts” assessment of public schools, ranked Kentucky No. 10 in the country for school achievement and progress – up from 34th just two years ago.

We got an “A” on efforts to connect the K-12 system with early learning, higher education and the world of work, and an “A-minus” on our accountability and standards policies.

Moving up 24 spots in just two years is stunning improvement. But you know why we didn't score higher?

One word: Funding.

In the all-telling area of funding “adequacy,” we received an “F.” And a low “F” at that.

More than 88 percent of our students attend schools in districts where per pupil spending is lower than the national average.

Now, we have a lot to celebrate in that report – and our students, teachers, principals, administrators, boards, staff, parents and volunteers should be proud of what they've done.

But just think of how much more they could accomplish if we were adequately funding our schools.

Money doesn't solve every problem, but when we don't spend even a dime on textbooks, progress is difficult.

The question for us in this room is simple but soul-searching: Are we courageous enough to invest in our children's future?

Another looming problem is public pensions.

I made pension reform a priority during my first year in office, and in 2008 I worked with you to pass wide-ranging changes.

We reduced employee benefits for future hires, improved governance, introduced innovative solutions to address retiree health care, and created a payment schedule to get funding back on track.

But the work isn't finished.

As you know, a legislative task force led by Senator Damon Thayer and former Representative Mike Cherry worked hard on this issue over the last year. The task force has recommended further reducing benefits for future hires and paying down our unfunded liability by increasing the state's annual employer contribution.

Now much has been made of the fact that the state hasn't fully funded the ARC – the actuarially required contribution – for quite a while. And that's true. We haven't.

And while I can't speak to the years before me, I can tell you exactly why we haven't fully funded the ARC since I became governor:

Because we had insufficient revenues -- and it would have required us to gut our most fundamental priorities: K-12 education, public safety and job creation.

I refused to do it, and previous legislatures agreed with me. And I refuse to do it in the years ahead.

As we work to make our public pension system whole again, I will not allow our schoolchildren to be collateral damage.

I agree that we need to reduce our unfunded liability – and the longer we put this off, the bigger the problem will be.

The question – again – is: “Where will the money come from?”

Well, the answer is obvious: We must modernize our out-dated tax code.

Kentucky has commissioned 12 studies of its tax system since 1982. I created another one last year to update the work.

And every study has reached the same conclusion: Kentucky's tax code works against us, not for us.

We need a tax structure that's fair to all of our citizens and easy to understand; that helps recruit business, not drive it away; and that – because it's aligned with a 21st century economy – is able to bring in the revenue we need to fund critical services.

We must strengthen Kentucky's ability to compete with other states to attract and retain jobs.

Outsiders say our business tax climate compares pretty favorably, and we ranked 24th best in the national Tax Foundation's most recent survey.

But it could be better. And the world is changing.

So the commission recommended several ways to improve our tax climate for business.

Other goals concern what's called “elasticity” and “adequacy.”

We need a system that grows with the economy – bringing in more money not because it increases tax rates but because it's aligned with today's world of commerce.

And so the commission's recommendations included changes to create a 21st Century tax code for a 21st Century economy.

I want to thank the commission -- and its chairman, Lt. Gov. Abramson -- for their hard work.

I'm been evaluating their recommendations and have started to meet with leadership in both chambers to discuss what progress is feasible.

Again, I'm realistic.

What we will be able to pass in this session in the way of tax reform, or pension reform is not clear -- and yes, the two go together.

But we must use this time to begin finding consensus on these complex topics, because we must find solutions to them this year.

By the end of this session, we must have moved closer toward an agreement of both what needs to be done – and, just as important – how to pay for it.

Now, there are other critical issues that I hope will be addressed this session.

We need to tweak House Bill 1, the landmark prescription painkiller legislation that emerged from a special session last spring.

And notice I said “tweak.” We are not going to backtrack. Our families are suffering too much.

The passage of House Bill 1 declared our intent to bring integrity to prescription pain medication: by protecting patients who need legitimate relief by better educating all involved about the dangers of these drugs, and by targeting those destroying our communities with greed and recklessness.

President Stivers, Speaker Stumbo, Rep. John Tilley and retired Senator and now Judge Tom Jensen in particular should be commended for their tireless efforts on this issue.

Progress has been measurable:

- When it came to non-medical use of prescription painkillers, Kentucky at one time had the 6th highest rate in the nation. But prescription drug abuse in Kentucky has dropped so much that we improved 24 spots.
- Furthermore, nearly half of the state's known pain management clinics have closed rather than submit to new rules that protect patients.
- The use of our nationally recognized prescription monitoring program, KASPER, has increased nearly seven-fold as providers work to ensure that painkillers are being used legally and effectively.
- And prescriptions for some of the most abused drugs have dropped up to 14 percent from a year ago.

Nevertheless, as with most reform efforts, there are some minor instances where we can improve upon the new regulatory system.

And we should move quickly to do so.

But we are not – and I know President Stivers and Speaker Stumbo stand with me on this – we are not going to return Kentucky to the “prescription playground” that it was before House Bill 1.

Another big priority is the Graduation Bill.

My friends, let this be the year.

We must keep our teenagers in school.

Democratic Rep. Jeff Greer and Republican Sen. Jimmy Higdson are again pushing changes that would phase in an increase in the mandatory school age from 16 to 18, unless a student graduates earlier.

This age was set in 1920, in a world that barely resembles the world we live in today.

In Kentucky alone, 6,000 students drop out every year.

They are more likely to be unemployed, to earn significantly less money when they do find work, and to find themselves on welfare or in prison.

Every Kentucky school district now has alternative and support programs available for students at risk of dropping out. We just have to keep them in school to take advantage of those programs.

Every education group supports this legislation, and now a new survey reveals that 85 percent of parents favor it.

It's time to commit to our children's future and pass it.

Another priority is child welfare legislation.

You will be asked to pass bills that protect our children and get them off to a better start.

These include closing a gap in booster seat rules; toughening the penalty for texting while driving; codifying the review panel that is investigating deaths and near-deaths due to neglect and/or abuse; toughening laws and tools to help us prosecute and punish on-line child predators and those who use technology, such as cameras; improving our response to child victims of human trafficking; and improving perinatal care and newborn screening.

A special focus of this screening will be babies born addicted to drugs and suffering withdrawal.

This is a horrendous and worsening problem.

In 2000, reports showed 29 babies in Kentucky born addicted to drugs. But in 2011, there were 730 babies – more than 25 times as many. And that figure is thought to be underreported.

My friends, the image of an innocent baby born into this world suffering drug withdrawal

is almost too horrible to visualize.

Let it inspire us to act now.

We also need to authorize agency bonds for our universities.

A few weeks ago many of us gathered to endorse letting our public universities self-fund building projects on their campuses – and yes, that was a refreshing display of bipartisan consensus.

The universities are seeking authorization for six schools to issue bonds worth \$363 million for 11 projects – including classrooms, residential halls and student activity space.

They have identified revenue streams and will require no money from the General Fund.

In addition, it's estimated that these projects will create over 5,100 jobs.

We should not delay in approving this proposal.

And finally we need to continue improving the health of our people.

Over the years, we've taken numerous steps to reduce Kentucky's historic addiction to tobacco.

And yet we still rank either dead last, or next to last, in the number of adults who smoke, teens who smoke, and pregnant women who smoke.

Our addiction hurts productivity, jacks up health care costs and kills our people.

Our smoking-related mortality rate is the worst in the nation.

Yet we've never instituted a statewide law to protect Kentuckians from second-hand smoke.

More than half the states in the nation have smoke-free laws.

So do three dozen cities and counties in Kentucky, including big urban areas like Louisville and Lexington; small communities like Manchester and Beattyville; and cities like Bardstown and Bowling Green, Paducah and Pikeville, and Hopkinsville and Henderson.

In fact, nearly half of Kentucky's citizens live in communities that have adopted protections for their residents and workers.

It's time for us to begin looking seriously at doing this on a statewide level, and to extend

this protection for all our citizens.

Six in 10 Kentucky adults now favor a statewide smoke-free law, and that support increases with each survey taken.

This isn't a rights issue. People could still smoke. Just not in places where their smoke endangers the health of our workers and others.

Now, I know you share many of the priorities I just mentioned, because you've told me so.

And I believe success is within reach, even in this short session.

President Stivers, I know how much you care about the people of Kentucky. I saw that over the course of our time together in tornado-damaged West Liberty and Salyersville, and in hearing you describe families ravaged by prescription painkillers.

Speaker Stumbo, you have built your career around protecting Kentuckians, as both a member of the General Assembly and as Attorney General. Your willingness to take on thorny issues has earned you the respect of many, including myself.

Sen. Palmer and Rep. Hoover, you've proven that the path to consensus – while often not an easy one – is one that can be traveled when one demonstrates pragmatism, honesty, persistence and a willingness to reach out to the other side.

I look forward to working with you, other members of leadership and all 138 members of the General Assembly in the months ahead.

There is no election in Kentucky this year, and hallelujah for that.

That's one less distraction, one less temptation to fall into the partisan trap of thinking that our differences matter more than our shared goals.

While elections are the tool that democracy uses to hold leaders accountable, too often as a nation we are unable to leave the vitriol and venom behind when the campaigning is over.

Our leaders in Washington use angry and inflated rhetoric to promise more than they can deliver, to fan disagreement into hatred and to club people instead of persuade them.

That division grows larger and uglier with the poisonous and reckless words spewed on talk radio and social media sites.

My fellow Kentuckians, we must continue to lower the volume and turn down the tension.

We must continue to prevent Washington-style politics from dictating our agenda and setting the

tone for our discourse.

Because here in the Bluegrass, we know that we're Kentuckians first and Democrats or Republicans second.

Over the past few years we've proven that divided government need not be divisive, that differences need not define us, and that shared-power can work – if we set aside party labels and geographic distinctions and concentrate on common problems and solutions.

Look, no matter what our political affiliation, we want the same things: Good jobs with respectable pay, rigorous schools, safe neighborhoods, economic opportunity for our children, accessible and affordable health care.

I know that you and I hear the same voices, the critics who call for government to disappear.

But you and I also know that these same critics want and need much of what government provides.

They want their children to come home from school each day a little smarter than when they left.

They want their faucets to run with clean water.

They want to drive on roads cleared of ice and free of potholes.

They want assurance that the gallon of gasoline they buy actually is a gallon.

They want to eat in a restaurant and know they won't get sick.

They want government to help recruit jobs and investment.

They want firefighters to extinguish fires in their homes, state troopers to stop crime and – when a disaster happens – for citizen soldiers of the Kentucky National Guard to bring food and hope.

So what's the lesson here?

What's the takeaway?

The takeaway is that people don't oppose all government.

They oppose bad government. Wasteful government. Out-of-control government. Inefficient government. Unethical government.

So it's our duty to ensure that the trust invested in us as their state government is treated with respect and sanctity.

It's our responsibility to make sure that government solves problems, not contributes to them ...
... that it nurtures economic development, not hinders itthat taxes are used wisely, not
wastedand that our time in Frankfort is spent addressing the complex and difficult issues
confronting this state – not passing those problems to future generations.

In short, the people expect us to lead.

**In the coming year, you and I must come together to attack the weaknesses that are holding
Kentucky back, and find ways to invest in our people.**

I believe we can ... and I believe we will.

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