SPEECH

GOVERNOR'S COMMUNICATIONS OFFICE

EMBARGOED UNTIL 6 P.M. CDT
MARCH 23, 2009

CONTACT: LYDIA LENKER
615.741.3763 (OFFICE)
615.289.9375 (CELL)

FY 2009-2010 BUDGET ADDRESS

GOVERNOR PHIL BREDESEN
MARCH 23, 2009

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

Thank you for the opportunity of addressing you for a second time this year.

My message tonight is about Tennessee's budget, but even more, it is about stewardship. Just as each generation in America works to make life a little better for the next, each governor, each General Assembly, when they are at their best, strives to leave our state a little better for our having passed through. We have made some great strides together; we have made education better—did you see the independent report last week that Tennessee leads the nation in high school graduation rate improvement? We have built the rainy day fund, we have fixed the TennCare mess, we are restoring our bond rating. I start this evening by thanking each of you for your contributions to this stewardship.

But the greatest test of our stewardship begins tonight.

I come here to present a budget for your consideration, and I do so in an economic environment more difficult than any we have been through since the Great Depression. We are on one hand faced with an unprecedented downturn in state revenues; on the other, we temporarily have unprecedented amounts of federal cash coming from the President's economic recovery act.

This so called "stimulus" package is not a silver bullet—what it does is buy us time. What I am trying to achieve with this budget is sensible and conservative long-range fiscal stewardship—to recognize these stimulus funds for the one-time help that they are, to use them wisely and compassionately, and most of all, when this recession is over, to leave our state looking to the future strong and independent.

In approaching this budget, we adopted some basic principles:

First, most important, and an article of faith for me: this year, next year, and in the two following years, we will completely protect and fully fund the PreK-12 Basic Education Plan—the BEP.

Second, we will offer a long-term solution. This is a multi-year fiscal problem, and we will prepare a multi-year budget to solve it.

Third, hard times don't last forever, and we will continue to invest in creating jobs so that we are set up to grow and prosper when better times return.

Fourth, these difficult times are a problem, but they are an opportunity, too: an opportunity that we will use to tighten our belts and make changes in state government that strengthen it and make better use of our taxpayer dollars.

The budget discussion we begin tonight is by its nature a little dry, and that is fine, that is a part of our job. But I want to acknowledge that, even as we gather here, there are a lot of Tennesseans who are hurting. While we worry about state and national unemployment numbers approaching ten percent, unemployment in Perry County today is at 27%. The national recession is reflected right here in Tennessee, and this evening there are 123,000 Tennesseans who had a job at this time last year and this evening do not. For many of these neighbors of ours, this is not a recession and a concern, it is a depression and a disaster.

I am someone to whom a job has always been important; what I do for work is a central part of my self image. Working, being productive, supporting those who depend on you is for me one of the things that gives meaning to life.

I have been unemployed: when Andrea and I first came to Tennessee, I didn't have a job for the first nine months. I want my fellow Tennesseans to know that I remember exactly what it feels like—I didn't like it one bit. I want you to know that I'm trying hard to help those who find themselves in that situation today. We are making sure the unemployment fund is secure, and we are extending and expanding the benefits. We have opened up Cover Tennessee to those who have lost their jobs. We are pulling out all the stops to get the economic recovery money into circulation, and we are trying to add a little of our own in bridge repair projects. We have worked hard to find ways to significantly reduce the two thousand plus state government layoffs that we were staring at last fall. We continue to work to recruit new jobs, and have landed three multi-billion dollar projects in the past eight months.

There are obviously limits to just what we can do, but where we can, I want us to lend a hand to those who are suffering tonight.

======

I am going to talk with you tonight about the federal economic recovery package and about the budget that I'm presenting. I am sending you a very complex document and I have found what works for me in these cases is to have the whole outline in front of you from the start, to give some structure to the picture. So let me start this evening with the budget bottom line:

First, this is a four-year budget; the usual one for this and next year, and a plan for the subsequent two years as well.

Second, this budget fully funds the BEP, our employee pension plan, our health insurance programs, and the economic development projects we have underway.

Third, at the end of this four year period, the non-BEP discretionary part of state government will be about 12% smaller on average.

Fourth, because of the stimulus, we will not need massive layoffs or furloughs immediately, and will have more time to plan our reductions and let natural attrition work for us.

Fifth, we currently have about $1.2 billion in cash reserves in the rainy day fund and TennCare; at the end of this period we will have about $900 million in reserves and a recurring to recurring balanced budget.

======

Let me start with how we got to this evening. Last December, we prepared a budget to present to you at the normal time—in late January. This budget reflected the difficult economic situation in which our nation and our state found itself. It contained of necessity some painful cuts, including broad layoffs of state workers.

When it became clear that the new Congress planned to pass economic recovery legislation that would temporarily help states with their budget shortfalls, we discussed the options with the leadership of the General Assembly, and agreed to prepare a budget after the actual legislation was signed into law.

The American Recovery and Reinvestment Act was signed into law by the President on February 17, and since then we have reviewed its contents and its impact on Tennessee. As a result, the budget that I am presenting tonight incorporates the impact of that congressional action.

I present this budget with a caution: I am confident that we understand the large outlines of the economic recovery act, but the details continue to be filled in—even now we are still getting new and expensive "guidance" from federal agencies about what they want. We are all going to have to continuously monitor this, and quite possibly change or adapt something in the weeks and months ahead. I ask your patience and understanding as we work our way through this complexity together.

The amount of federal recovery money coming to Tennessee is enormous—about $5 billion over two years—and making sure that it is spent efficiently, quickly, and in accordance with the law is very much on my mind.

Earlier this month, we created the office of Tennessee Recovery Act Management. This office will be headed by Mike Morrow, Deputy Commissioner of Finance and Administration, and staffed with persons from various areas within state government. We charged it with seeing that the money that Tennessee is receiving is spent in accordance with federal laws and regulations, as they continue to evolve. They are also charged with maintaining complete transparency throughout the process, and have already set up a web site—TNRecovery.gov—that will be the central clearinghouse for information.

I am proud of Tennessee's reputation for good government, and want and expect us to be a model for other states in how to handle this enormous amount of money sensibly—turning square corners, and with every nook and cranny of what we do and what we spend well-lighted and visible to the public.

======

Before I move on to the budget, I want to talk specifically about the Recovery and Reinvestment Act funds. While they have been very much in the news, hard information has been difficult to come by.

The recovery package totals about $5 billion for Tennessee, and contains two different kinds of money. About $2.9 billion of the total, about 58 percent, is money being invested directly in Tennessee and intended primarily to alleviate suffering and stimulate the economy rather than directly address state budget issues. I call these the Congressional funds: their use has been almost completely earmarked by the Congress.

Examples of this would be the $490 million to the food stamp program, the additional $318 million to unemployment insurance, or the $573 million to road and bridge infrastructure. These are programs we technically administer in various ways, but do not directly affect the discretionary state budget except insofar as they improve the general economy. Most of these funds pass through the Tennessee state budget and you will see them there, a few others are paid directly to various non-state agencies.

There is one pool of Congressional funds that I want to call your attention to: the $524 million that will be paid directly to local school districts primarily based on their proportions of low income and special education students. The distribution of these funds in Tennessee is completely a federal matter over which the state has no discretion. However, I want to remind local school boards and superintendants that these funds go away after two years, and if they are used in a manner that creates ongoing obligations—by hiring additional staff, for example—the local governments involved will be fully responsible for continuing that funding.

Unless there is a local commitment to provide long term funding after the federal stimulus ends, I would strongly recommend to local districts that these be spent on one-time items or used as transitional funds, lest you just create a budget crisis for yourselves two years from now. As plainly as I can say it: school boards, county commissions, city councils—you have a windfall for the next two years; if you create obligations with it that go beyond two years, do not look to the state to bail you out.

In the past weeks, we have been approached by a number of local governments about the possibility of using stimulus funds for some excellent local infrastructure projects. I am sorry to report to you that there are no funds in the stimulus designated for the types of projects that have been presented. There is considerable money for local government in areas like education and law enforcement, and there is a direct allocation to local governments of $81 million for public housing capital needs, but none for local infrastructure.

That first part of the stimulus money—the Congressional funds—will mostly pass through the state budget, but for very specific pre-determined purposes and outside of our ability to do more than monitor.

The second kind of money that is included in the economic recovery act totals $2.1 billion, and in various ways directly helps us with portions of our budget over a two year period. I call these the Tennessee funds. So the economic recovery funds are about three-fifths what I have called "Congressional" funds, and two-fifths so-called "Tennessee" funds.

In terms of where this $2.1 billion comes from, a little over half - $1.1 billion—comes from the federal government temporarily shouldering more of the costs of TennCare so that we can use our state dollars to protect important programs elsewhere. Some states have to use this help simply for the survival of their Medicaid programs; Tennessee has already stabilized its program well and has far more flexibility. The rest—about a billion dollars— comes from the direct appropriation to Tennessee of fiscal stabilization funds, primarily in support of education.

That is where these funds come from, now here is where they go: about $500 million goes directly to higher education; the remaining $1.6 billion is available under various rules to help us balance our budget and help state agencies transition to the smaller budgets that they will have in the future.

Higher education presents a challenge. Under the rules we have been given, they are getting a great deal of the Tennessee stimulus money; they not only won't have to make cuts, but cuts they have already taken here in Tennessee have been restored; about $100 million extra in this fiscal year. Yet, when this money ends 21 months from now, our campuses will suddenly need to begin operating with about $180 million less in state funding than they had this year. More than most other areas, higher education has dodged a bullet and bought some time, but there is a great deal of work to be done to reorganize and streamline for a much leaner future - to practice good stewardship. I ask you to work with me over the months ahead to reposition higher education to better meet the challenges we face.

======

The budget you have this year is different—it is a four year budget. As with any other year, you only have to act on the first two years—closing out this year and the regular budget for the next fiscal year. But with the size of the revenue shortfall and the huge amount of one-time money that is available through the recovery act, it would be impossible for us to exercise the long range financial stewardship that is needed without seeing how this year's budget fits into a longer term strategy for addressing the recession and using the federal economic recovery money.

With that in mind, we have added the outline for two additional years in the budget document. The first of those additional years will be my next year's budget—my final one. The second additional year is the budget that will be largely prepared while I am still governor, but then modified and ultimately submitted in early 2011 by the new governor.

I am carrying the financial planning forward into the first budget of the next governor's term because it is important to me to not leave to my successor—or the next General Assembly— a budgetary cliff to fall off. I take the idea of long term stewardship—financial and otherwise—seriously, and leaving the state in good shape as I exit is very much a part of that concept for me.

To begin preparing this four year budget, we first of all estimated the revenues over the period. This year, our revenues will fall about a billion dollars short of the budget that you passed last spring. In the next fiscal year, we are assuming that the revenues will be about the same as this year, that is, they will again fall about a billion dollars short of the base budget for this year. We assume growth in the third year a little short of the long term historical rate, and in the fourth year right at the average historical rate. The estimates for this year and next are the funding board projections, for the following two years we asked the budget office for an estimate, with advice from Dr. Bill Fox, our economic advisor, as the funding board does not project the out years.

With a revenue estimate established, we then took into account some known additional expenses that were unavoidable and had to be funded. These included the increases needed to fully fund the BEP each year, a substantial increase in our contribution to the pension fund to keep it actuarially sound, and the increases we would need to pay for in the state employees' and teachers' health insurance fund. We also budgeted some additional TennCare dollars in the last two years on the assumption that we were likely to see growing enrollment as a result of the recession.

When this is all done, the result is that in the last year of this extended budget, we will still need to get to a spending level about three-quarters of a billion dollars below this year's budget. The limited new revenues over those years are almost cancelled out by the new costs we have to absorb. Achieving this three-quarters of a billion dollar reduction means reducing our non-BEP discretionary costs by an average of 12%. You will see in the budget that some departments are higher and some lower than this average figure.

To put it another way: we were considering some substantial cuts to the budget last December. Most of those cuts still have to be made, but the Tennessee part of the stimulus money has made it possible to make them over the next two years instead of immediately.

One tangible benefit of this is that many of the layoffs we were contemplating—about 2300 positions—will now likely be able to be handled through normal attrition. I do want to caution you however that some layoffs will be required over the coming two years. Unless the revenue picture worsens, we don't plan widespread furloughs in the next year.

We are putting a great deal of anticipated new revenues into employee benefits—keeping the pension fund actuarially sound and funding increases in the cost of health insurance—but we have not provided for across-the-board employee raises in this plan. It seems clear to me that our employees prefer to keep intact as many jobs as possible rather than laying off some to give raises to others.

To close out this year and smooth the budget over the next three years, we plan to use a total of about $300 million from the TennCare reserves and the rainy day fund. These funds total about $1.2 billion today, and will remain at a historically high level of $900 million when this is over; this is in thanks to our careful stewardship when times were better. If we were to see the economy rebounding strongly, I would be comfortable going a little more deeply into these reserves to ease things, but until we see that rebound happening it would be irresponsible to not keep these reserves very strong.

I hope things get a lot better; we need to remember they could also get a lot worse.

There has been a good deal of discussion of unemployment insurance, and in the context of this budget I would like to touch on that.

First of all, independent of economic recovery funds, our unemployment trust fund will run out of money not later than this coming winter. In Tennessee, with our constitutional prohibitions on borrowing for operating expenditures, our fund has to be solvent on June 30th each year. Unlike our pension funds, these funds were not set up with the idea of being actuarially funded, and so when there is a significant call on them, we have to raise employer taxes or simply stop writing unemployment checks. We are presenting the legislation to fix this.

Second, there is a portion, about $141 million, of the additional unemployment funds in the economic recovery package that are available to Tennessee only if we improve the benefits in our unemployment insurance in some specific ways determined by the Congress. I took a few days to look at this, to determine just what the long term costs of these benefit improvements would be. You may recall the criticism I took, some of it national, for taking the time to read the fine print. The cost will be about $30 million annually at current unemployment levels; in other words, the money we receive will fund the additional benefits for about five to six years, longer if unemployment goes down. This seems like a good trade off at a time like this, and I recommend that we accept these funds.

One item I would like to specifically address is the unusually high level of bond funding that we are anticipating this year. There are two components of this:

First, we are asking to pre-fund about $350 million of bridge repair and reconstruction where there is a long-term federal source of funds for repayment. These are what were originally the so-called GARVEE bonds, but are now structured as general obligation debt. The rationale for this is straightforward: there is a secure outside source of revenue to repay them, the costs of borrowing are extremely low and the cost of construction materials—steel and concrete—is lower than in the recent past but will increase dramatically once again as the economy improves. We would like to go ahead with these because it will save the taxpayers a lot of money and it will fix a lot of bridges in poor repair now instead of in ten years. And right now we sure can use the jobs it will create here in Tennessee.

Second, we are planning to use bond funds to construct some of the infrastructure required at Volkswagen, Hemlock and Wacker, and to convert to bond financing some capital projects that we decided to pay for out of cash in last year's budget. Furthermore, we want to begin the process of developing the Haywood County megasite in West Tennessee.

In times as unsettled as these, I believe that good conservative financial management does all it can to preserve cash in the bank. These are natural projects for bonding, the debt service is fully from recurring funds, and our debt use in Tennessee is extremely conservative and will continue to be so after these projects are financed. Tennessee has the lowest debt per capita of any state, $674. In fact, we're the only state whose per capita debt is under $1,000. With the somewhat higher level of bond funding we are proposing in this budget, we will still comfortably be the best state in the nation in per capita debt, and we will still be the only one under $1,000.

======

This budget is far and away the most complex and difficult to understand that I have submitted to you. I know you have a lot of homework to do, and the administration stands ready to work with you on this.

At the beginning of my speech I laid out what I thought was the bottom line, and I would like to come back and revisit that bottom line:

First, this is a four-year budget; the usual one for this and next year, and a plan for the subsequent two years as well. This budget is all about long-term stewardship.

Second, this budget fully funds the BEP, our employee pension plan, our health insurance programs, and economic development projects we have underway.

Third, at the end of this period, the discretionary and non-BEP part of state government will be about 12% smaller on average.

Fourth, because of the Tennessee part of the stimulus, we will not need massive layoffs or furloughs immediately, and will have more time to plan our reductions carefully and let natural attrition work for us.

Fifth, we currently have about $1.2 billion in cash reserves in the rainy day fund and TennCare; at the end of this period we will have about $900 million in reserves and a recurring to recurring balanced budget.

I have spoken frequently this evening about stewardship, but as I close, I want to call on us to go even further than that; to go beyond simple stewardship and to keep progressing even in the toughest times.

I once heard a "professional" defined as someone who works even on days when he doesn't feel like it. Perhaps a professional in our field, a "statesman"—which we all want to be—is someone who progresses a lot on good days, but progresses still a little even on the worst. Even in this toughest environment since the Depression, we can still improve our schools and colleges, we can still produce new jobs, we can still build for the future.

With your help, we can keep moving, we can come out of these difficult times stronger than ever, and we can prove that Tennessee's reputation for stewardship and statesmanship is well-deserved. Our citizens deserve no less.

Thank you. May God continue to bless our state, and may He continue to bless and protect the United States of America.

###