

**State of the Commonwealth**  
**Jan. 4, 2012**  
**Gov. Steve Beshear**

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

Kentucky has just elected new Constitutional officers who are here with us tonight.

First, let me ask Kentucky's new lieutenant governor, Jerry Abramson, his wife, Madeline, and their son, Sidney, to stand and be recognized ...

Also, let me ask our other Constitutional officers, Attorney General Jack Conway ... Secretary of State Alison Lundergan Grimes ... Auditor of Public Accounts Adam Edelen ... State Treasurer Todd Hollenbach ... and Commissioner of Agriculture James Comer ... to also stand and be recognized.

Thank you for your willingness to serve.

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I come here tonight to report for the fifth time on the State of our Commonwealth.

... and I do so focused not on the challenges of the past few years – which we all know have been immense – but on the future, and how we can improve it.

Tonight and in the days ahead, each of us in this chamber must ask ourselves a simple question: What are we willing to do to build a stronger Kentucky?

What steps are we willing to take – right now in this legislative session – to improve the lives of our people, not only those already here but also the generations to come?

Finding bold answers to those questions must be the goal of this session.

And we cannot be distracted.

The budget decisions we face are horrible ... but we cannot use lack of money as an excuse.

The November election was contentious and redistricting is on the agenda ...but we must resist the temptation to refight past political battles or to start gathering ammunition for future ones.

Kentucky continues to suffer from the lingering effects of the global recession ...but short-term survival cannot be our only goal.

This is no time to rest, to be complacent, to hide or to be timid.

Rather, it is time to be decisive and aggressive.

We must look beyond the next headline, beyond the next crisis and beyond the next election.

Tonight I will lay out for you some bold steps we can take – in a collective and strategic way – to continue to address the fundamental weaknesses that have hampered our state for generations.

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For now, we won't have a lot of money to put toward these efforts.

Balancing our budget and keeping it balanced has been and will continue to be a struggle.

Together, you and I have met that challenge nine times. We're in the process of doing it a 10<sup>th</sup> time, having just imposed additional spending cuts for the fiscal year ending June 30.

We collectively have cut \$1.3 billion in spending so far.

And the 11<sup>th</sup> challenge – preparing a balanced budget for the biennium starting July 1 – will be the toughest yet.

It's true that state revenues are improving. In fact, Kentucky was among the first 11 states to see revenues return to pre-recession levels.

But revenues are not improving fast enough to replace federal stimulus funds which helped us and every other state through the worst of this historic recession.

In two weeks I will present my two-year budget proposal.

And although we're still putting the pieces together, I can tell you this:

We will not be relying on new revenue to balance this budget.

Let me repeat that: The key to balancing this budget lies not on the revenue side, but on the spending side.

We will be cutting.

A lot.

We will, of course, continue to find efficiencies, but the numbers are so wretched that we will likely be forced to carve into some of our most critical, basic services.

And it will hurt.

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But Kentucky will not succeed if our only response is to slash.

We must look beyond our current budget crisis and take steps to improve our revenues long term if we are to strengthen our state.

I mentioned two of those steps in my inaugural address.

No. 1, we should allow the people of this state to vote on the issue of expanded gaming.

Hundreds of millions of dollars in tax revenue are leaving our state as thousands of Kentuckians drive to Illinois, Indiana, Ohio, West Virginia and elsewhere to spend their entertainment dollars on some form of expanded gaming.

Kentucky money is funding early childhood education, schools, libraries, police officers, roads and bridges in our neighboring states.

It makes no sense to continue watching that happen.

We might as well be backing trucks filled with cash up to the Ohio River and dumping that money into the water.

How much money are we giving away?

Think of this:

A foundation connected with an Indiana casino across from Louisville recently offered a \$1 million bonus to the company working on the closed Sherman Minton Bridge if the bridge re-opens ahead of schedule.

How much Kentucky money do you think that casino must be attracting if it's willing to put up \$1 million just to get that bridge reopened?

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Furthermore, Kentucky's equine industry – one of our signature industries – is losing stature by the day.

Other states are using gaming earnings to boost purses and breeders' incentives to lure race horses, brood mares and stallions away from the Bluegrass State.

We can – and must – reverse that trend.

We're the Horse Capital of the World -- but for how much longer?

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Look, we've been talking about expanded gaming for 15 years.

The people of this state want us to act.

Two recent surveys, including one by the state Republican Party, both show that more than 80 percent of Kentuckians want to vote on this issue.

My friends, it is time to listen to our people.

I've met with many elected leaders in both the Senate and the House over the past few weeks, including leaders in both parties, to discuss this issue.

In the coming days, there will be a bill proposing such a Constitutional amendment introduced in the state Senate.

I understand there are a number of different ways to do this, so this bill may well serve as a starting point for discussion.

But I believe that if we all sit down and negotiate in good faith ...if we avoid making public comments that box people in or draw lines in the sand ... and if we keep uppermost in our minds that the people of Kentucky have repeatedly made clear that they want to vote on this issue – then we can come up with language that can pass both chambers without amendments.

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Expanded gaming is not an end unto itself.

It's a mechanism that will keep significant money in our state that we're now sending elsewhere, money we can use to protect and invest in our priorities, like education, job creation ... and yes, our horse industry.

So tonight I reiterate: It's time to let Kentuckians decide the future of gaming in our state.

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The second thing we need to do is to reform our state tax code.

Kentucky's system of taxation served us well during the recession.

In fact, the national Tax Foundation says Kentucky has the 19<sup>th</sup> best business tax climate in the country – better than neighboring states like Illinois, Ohio, West Virginia and Tennessee.

But to prepare ourselves to compete in the future, we must, in a strategic and non-partisan way, re-align our system with the principles of fairness and with a 21<sup>st</sup> century economy.

In the coming days, I will lay out a process to ensure this issue gets both the thoughtful attention it deserves and the public input needed to develop consensus.

I guarantee three things:

One, all voices will be heard.

Two, we will consider all options.

And three, our focus will be on creating a system that meets Kentucky's future needs.

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Both of these steps – expanded gaming and tax reform – are within our power to do.

Both will take political courage and will.

And I think you and I – Kentucky's leaders – have that courage and will.

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Jobs will continue to be my top priority.

Nothing will help our economy and our families more.

While too many Kentuckians remain out of work, unemployment rates are edging downward, and they're now the lowest in almost three years.

We will continue to use programs that you and I created in 2009 to recruit new companies and to help existing Kentucky companies expand work forces, facilities and operations.

Why?

Because these programs are working.

Some 387 projects representing potential investment of almost \$4 billion have received approval for incentives under these programs.

As these companies continue to follow through on their plans, these projects will create or retain more than 30,000 Kentucky jobs.

We will also continue work on initiatives that help small businesses and that help Kentucky businesses export products overseas.

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But our toolbox is still missing a few tools.

We need a way to encourage a type of private investment called “angel investing,” in which individuals help fund new companies.

Mid-level entrepreneurs are in particular need of funding, because many are too small to attract big venture capital and too large for other forms of start-up assistance.

Rep. Arnold Simpson has come forward again with a bill to create tax credits for individual angel investors similar to those already offered for investment funds.

What this means is that Kentuckians who invest in Kentucky start-ups to create Kentucky jobs would receive a credit on their Kentucky income taxes.

At least 22 states offer a similar credit, and it is time for Kentucky to add this job-creation program to its toolbox.

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But as helpful as special programs and tax incentives are, what companies want most is a highly skilled, trained, educated, healthy and ambitious work force.

And this, my friends, is where Kentucky must improve.

Kentucky jumped 18 spots in two years to rank No. 25 on Forbes' list of best states in which to do business.

That's an impressive leap.

But it could have been greater. It should have been greater.

The list is based on six categories which clearly display our strengths and weaknesses.

In the area of business costs, Kentucky ranks 12<sup>th</sup> best in the nation.

In growth prospects, we rank 16<sup>th</sup>.

But in the critical category of labor supply, we rank 45<sup>th</sup> in the nation.

45<sup>th</sup>.

Companies want to come to Kentucky.

But there is concern about our workforce.

The message is obvious: To succeed long term, Kentucky must strengthen its core.

And what is that core?

Our people infrastructure, our human capital.

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One way we can immediately do this is by aggressively tackling one of the largest threats to productivity and health in our communities – the abuse of prescription drugs.

A recent report from the Kentucky Department for Public Health showed that more Kentuckians die from prescription drug overdoses than from car accidents.

Think about that: Our medicine cabinets are deadlier than our highways.

And that doesn't measure the financial and emotional toll this abuse is having on our families.

According to another recent poll, 32 percent of Kentuckians have a family member or friend who has suffered because of prescription drug abuse.

My friends, this is a scourge.

And we have to stop it.

By partnering with Attorney General Jack Conway ...with legislators, including House Speaker Greg Stumbo, Sen. Jimmy Higdon, Sen. Robert Stivers and others ...with law enforcement agencies ...with our medical professionals ... and with officials from neighboring states, we are zeroing in on both users and illegal prescribers.

In the last year, we persuaded Florida to begin shutting down its pill pipeline into Kentucky.

We created an interstate task force with officials from Ohio, Tennessee and West Virginia to better identify those who exploit our borders in order to abuse, misuse or divert prescription drugs.

And we've also strengthened our ability to identify irregular and improper prescribing habits through Kentucky's electronic monitoring system, called KASPER.

But KASPER, while a model program emulated around the nation, isn't as effective as it could be.

During this session, you will be asked to consider a wide-ranging package of legislation designed to strengthen KASPER, including making participation mandatory, and cracking

down on pill pushers in white coats and on pill mills in Kentucky.

This legislation is vital for the health, safety, productivity and future of our people.

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Now, we're also directly improving our workforce itself.

Next month, Kentucky will become only the third state to begin identifying and certifying "Work Ready Communities."

This national program represents a commitment made to existing and potential employers by an entire community – its elected officials, schools and business groups.

It says to them: If you invest in Kentucky, you will have the skilled workers you need. Already, eight counties have applied for this certification.

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One way to ensure a work-ready community is by improving local workforce training.

We're increasing the quality of our Career and Technical Education courses to integrate them more fully into the secondary education system.

Courses are being given a more rigorous academic foundation.

In October we signed a dual credit agreement to allow students in high school to earn college credit for approved courses, including those in career and technical education.

This will speed a student's path to a certificate or degree, reduce his or her costs and keep them in school by tying class work directly to their future careers.

Right now, Kentucky has two systems of Career and Technical Education – one operated by local school districts and one operated by the state Department of Workforce Investment.

I am proposing legislation that moves the state program to the Department of Education.

This will enable us to elevate the importance of this segment of our educational system, to consolidate administrative staffs and to improve the consistency of the programs by uniting them under one vision and leadership.

We need to give our students skills that translate to their careers.

It would be easy for a bill like this to get lost during this session.

It shouldn't get lost, because it's critical to our future.

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Furthermore, for the third session in a row, I am urging you to pass the Graduation Bill, because we must keep our teenagers in school.

This legislation phases in an increase in the mandatory school age from 16 to 18, amending a law created in 1934.

Surely we can all agree that the world has changed in the last 78 years.

In Kentucky alone, 6,000 students drop out before their 18<sup>th</sup> birthday every year.

As a direct result, 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.

By letting them jeopardize their future, we are failing our youth ... and we are costing Kentucky taxpayers millions of dollars.

Two similar bills will address this issue, one sponsored by Democratic Rep. Jeff Greer, and one by Republican Sen. Jimmy Higdon.

Every education group and most legislators from both parties support this legislation.

Let's make a commitment to our children and pass it.

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At the same time, if we truly want to build a vibrant workforce, one that makes Kentucky more competitive in this increasingly sophisticated world, then we have to start earlier.

We have to begin with our youngest children.

Most brain development – the planting of the seeds for what we accomplish the rest of our lives – begins in the years before we enter school.

Right now too many Kentucky children get a poor start in life.

Too many children enter school with preventable health problems, with undeveloped minds, with no sense of curiosity or engagement in life around them.

In short, they start out behind, and they never catch up.

We were once America's frontier, known for invention, innovation and ingenuity.

But fundamental weaknesses in how we educate and care for our youngest children have eroded our strengths.

We must do better.

My vision for Kentucky guarantees every child the opportunity to succeed – every child, regardless of whether he or she is born in the suburbs, on a farm, in the inner city or in a mountain hollow.

All of our children deserve a chance at a life of promise and meaning.

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With help from a lot of people, including many here in this chamber, I've been working for four years to get our children off to a better start.

We will continue restructuring our preschool and day-care programs to ensure every child is mentally and physically prepared for kindergarten the day he or she enters the classroom.

Kindergarten readiness is at the heart of our efforts to make sure our children succeed throughout their time in school.

We've created a standard definition of school readiness, one that gives all of our programs -- public and private -- a consistent, singular mission.

By executive order, I created the Early Childhood Advisory Council to put this into action – and I'm seeking to formalize that move with legislation before you.

Again, a bill like this could get lost.

We must not allow that to happen.

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We're also searching for funding to increase access to high-quality early education and care programs.

We need to reach more children.

As our revenues recover, early childhood development is one of the first areas where significant new investment must be made.

Nothing will have more impact on the future of this state.

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We've also focused resources on improving the health of our children from an early age.

Simply put, sick children do not learn.

So we've found health care through existing programs for nearly 60,000 Kentucky children whose families had no insurance coverage.

We're also improving dental care for tens of thousands of children by training more dentists in pediatric techniques and taking treatment straight to our schools.

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We're also reducing smoking.

Nearly 40 percent of Kentucky youth live with someone who smokes. That's the highest percentage in the country, and it causes untold health problems for our children.

Two years ago you worked with me to fund smoking cessation in our Medicaid program.

We've also expanded counseling services to younger Kentuckians, and a new ad campaign seeks to protect our people from toxic secondhand smoke.

And our efforts are paying off.

In 2002, 33 percent of Kentuckians smoked. Now less than 25 percent do.

And in the last 10 years, the number of our middle-schoolers – yes, I said middle-schoolers – who smoked has dropped from 22 percent to less than 9 percent.

Our people, our state, our children are breathing easier.

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And while we're on the subject of children, let me mention another legislative priority.

The tragic deaths of several children this year raised issues in Kentucky's system of child protective services that we need to address together.

With help from several legislators, I will be proposing a package of legislation called the Child Protection Act of 2012.

A primary component will be creating an independent review panel to examine child fatalities and near-fatalities where abuse and/or neglect are alleged.

This panel would be appointed by the state Attorney General and include a range of professionals.

I have proposed similar legislation twice before, and it needs to pass this session.

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Another provision involves the availability of information about such cases.

I have called for more transparency in our programs and am proposing that Kentucky change its law to require, not just permit, certain information and records to be made public.

Given the horrifying details reported recently about the deaths of several children, it's time to statutorily move toward increased openness.

But there is genuine disagreement among child-care professionals about the types of information that should be public in these cases.

We need an airing of those disagreements before the General Assembly so that policy decisions can be made.

Our social workers and others who protect our children generally do a good job under very difficult circumstances. But they need a clear understanding of their responsibilities and duties in this area.

And I truly appreciate the willingness of Rep. Tom Burch, Rep. Susan Westrom and others to join with me in tackling these tough issues.

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And finally, let me call attention to one of Kentucky's greatest assets – our servicemen and women.

As you know, many of our soldiers are returning home from Iraq.

But many Kentuckians – including several Kentucky National Guard units – remain in the danger zones of the Middle East, fighting against terrorism and helping local residents.

At the invitation of the Pentagon, last summer I visited those war zones to talk to our soldiers face to face.

The opportunity to witness their courage, sacrifice and dedication firsthand – and getting to know some of them personally – was a phenomenal experience.

In addition, shortly before Christmas, Jane and I visited some of the families of these soldiers – the spouses and children of the 1204<sup>th</sup> Aviation Support Battalion and the Agribusiness

Development Team 3.

Their commitment is equally inspiring.

This session we want to reach out to our military families by expanding adoption tax credits to families in the National Guard.

So tonight – on behalf of 4.3 million Kentuckians – I want to tell our soldiers and their families that we are immensely proud of you, and we continue to pray for your safe return.

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One of the things that impressed me during my visits with our troops was the collaboration across the different branches of service.

Despite differing opinions and strategies, the focus is always on the common mission.

Here in Frankfort, over the last four years we have made progress in creating a similar culture.

We've worked across political and geographical boundaries on a range of issues:

... balancing the budget.

... overhauling our economic development tools to create and retain jobs.

... establishing a One-Stop business portal to improve interaction with our businesses.

... holding taxes down.

... bringing stability to the public pension system.

... reforming the penal code.

... attracting a NASCAR Sprint Cup race.

... preserving our unemployment insurance fund.

... protecting our elderly from predators.

... exempting our active-duty military personnel from paying Kentucky income tax.

... and moving Medicaid to a more efficient delivery model.

As I've told many of you privately over the last few weeks, the onus is on us once again to work together.

In fact, we must do so.

The issues – from attacking prescription drug abuse to keeping our kids in school, from improving our workforce and protecting our children to keeping Kentucky tax money here at home by passing expanded gaming – require us to collaborate.

The lure of partisanship is strong.

Having just finished a long political campaign, I personally know that to be the case.

But election season is over.

Now it's time to govern.

After all, Kentuckians don't much care which party pushes an idea.

They just want to know whether it'll work.

They just want assurance that their lives will get better.

We have an opportunity this session to improve the lives of our people, both in the short term and long into the future.

And if we put the focus where it belongs – on creating a better Kentucky for the people we serve – we will succeed.

Join with me in truly building a stronger Kentucky.

Thank you, and God bless the Commonwealth.

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