EMARGOED UNTIL 6:30 P.M., JANUARY 11, 2012

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Sam Brownback, Governor

Kansas: State of Transition
2012 State of the State
Delivered by Governor Sam Brownback
January 11, 2012

Mr. Speaker, Mr. President, Legislators, Justices of the Kansas Supreme Court; leaders of Kansas sovereign Native American Nations, my wonderful wife and First Lady of Kansas, Mary – and My Fellow Kansans - Good evening and welcome back.

Our family just experienced its first wedding with our oldest daughter Abby marrying Eric Teetsel. After that excitement, emotion – and expense, I need to get back to work.

So it's great to see you!

STATE OF TRANSITION

Let me start by saying - I am bullish on Kansas!

We are a state in transition.

From a high tax state---to a low tax state.

From a state struggling to pay our day to day bills---to a state with a healthy bank account.

From issuing more bonds and borrowing from our kids---to paying down our debt.

Transitioning from losing private sector jobs ---to growing our private sector workforce.

From an unsound pension system---to an honest defined contribution system.

From a school finance system trapped in litigation---to a simpler system focused on getting dollars out of the court room and into the classroom.

We are transitioning from a Medicaid system lurching between cutting providers, patients or both---to one that gets better results for our most vulnerable Kansans.

From a modest wind energy investment to a top 5 state for projects under construction.

From a wasteful use-it-or-lose-it water law doctrine---to preserving our most precious natural resource: fresh water.

This state in transition will look less to what Washington can do for Kansas and more to what we can do for ourselves.

That's a lot to accomplish. Can we get it done? Of course we can.

A year ago we met here facing two enormous challenges---a stagnant economy with fewer Kansans employed - and a big budget deficit. Many states across the country were struggling, but in 2010, Kansas ranked among the worst in private sector job creation.

Working together, we acted. Here are the results.

We overhauled our state's economic development system, enacted modest tax relief, and sent word around the world that Kansas is open for business! Since January 2011, Kansas has added more than 11,000 net private sector jobs

On the budget, we faced a $500 million deficit --- but we did not raise taxes. Instead, we cut spending. Clearly, the era of ever-expanding government had to come to an end.

In fact, ---for the first time in 40 years--- the budget for the state's all funds spending actually went DOWN from one year to the next. By applying these fiscally conservative principles, you, the legislature, turned a $500 million deficit into a more than $100 million ending balance in one year!.

The Kansas Legislature got its job done on time and under budget. Thank you for doing that.

Those are the facts. And it's why now Kansas is considered one of the ten best managed states in America. It is for these reasons, Mr. Speaker, Mr. President; I can report to you that the State of our State is STRONG – and getting STRONGER!

PRO-GROWTH TAX POLICY

Last session the Legislature gave our rural communities a new tool to help them reverse their population loss – and they have embraced the Rural Opportunity Zone program, offering no income tax and buying down of student loan debt to new or returning residents.

Joining us tonight is Benjamin Anderson, CEO of the Ashland Health Center. His hospital -- like many rural hospitals -- has struggled to attract medical professionals. Since the Rural Opportunity Zone has gone into effect, Ashland has recruited - from out of state -doctors, nurses, and social workers. Benjamin tells me they aren't stopping there – they plan to recruit a dentist, a physical therapist and two more nurses.

It's the kind of population and economic growth I envisioned the Rural Opportunity Zone would bring to Kansas.

Still - the economy remains one of our most pressing issues. While there are certainly factors a state cannot control when it comes to its economy, taxes are one area we do control. And when it comes to taxes, we have some of the highest in the region. This hurts our economic growth and job creation.

To address this, I'm proposing a major step in overhauling our state tax code to make it fairer, flatter, and simpler. My tax plan will lower individual income tax rates for all Kansans. It brings the highest tax rate down from 6.45 percent to 4.9 percent, the second lowest in the region - and lowers the bottom tax bracket to 3 percent. My plan also eliminates individual state income tax on most small business income.

As we modernize our tax code and lower everyone's rates, it is also time to level the playing field and simplify state taxes by eliminating income tax credits, deductions, and exemptions — while expanding assistance to low-income Kansans through programs that are more effective and accountable. I firmly believe these reforms will set the stage for strong economic growth in Kansas – and will put more money into the pockets of Kansas families and businesses. Growth that will allow us to further reduce tax rates and increase our competitiveness. Growth that will see people move to Kansas instead of leaving our state.

With that in mind, I ask the legislature to limit further growth in government expenditures to no more than 2 percent a year — and devote all additional revenues to reductions in state tax rates. This will get us ever closer to the pro-growth states with no state income taxes - which are among the country's strongest economic performers.

It also will enable us to keep the lid on state sales tax and property tax rates by providing robust economic growth. Let's put our "lost decade" in the rear view mirror and speed ahead - at 75 miles per hour - to make this decade the decade of growth and job creation.

FY 2013 BUDGET

When I took office, the state had just ended the last fiscal year with only $876 in the State General Fund. Excuse me, 876 dollars and Five cents. I immediately instituted a policy of prioritizing expenditures; increasing efficiencies and studying our structural problems. This process required some difficult choices.

Last year when I addressed this body, I said that any fundamental solution to the state's budget problems must include reforming taxes, Medicaid, the pension system and school finance. We also had to face the steep decline in federal money coming to Kansas.

In the last year, working with a committed group of Cabinet Secretaries and this Legislature, we began implementing the needed reforms. Today I am pleased to present the results of this process.

My proposed Fiscal Year 2013 budget provides for an ending balance of $465 million, exceeding the 7.5% statutory requirement. This budget fully funds or increases funding for essential services while holding State General Fund expenditures below last year's levels.

This budget begins to address the long term structural issues that placed the state in years of fiscal peril.

DEBT

This budget also addresses the state's ever increasing debt that has created a generational burden sent to our sons, daughters and grandchildren. State government is about to experience an influx of money in the expanded gaming fund with the opening of facilities in Wyandotte and Sumner Counties. To reduce the burden we leave to our children and grandchildren - we should use this increased revenue for its most important statutory purpose – to pay down our debt.

KPERS

For decades, state government shifted the burden of providing for state employees' retirement to future Legislatures. As a result, KPERS has a shortfall of more than $8 billion. That's a huge hole, and the first rule of getting out of any hole is to "stop digging."

The KPERS Commission produced solid recommendations which will ensure that state government meets its obligation to retirees. Those who are currently receiving benefits or those who are vested in the current system will be fully protected. The state will increase its contributions to KPERS and require more from workers to pay those benefits. But for all new employees and those not currently vested, we can and should transition to a defined contribution system - like most private sector organizations in America.

The reason is simple---it guarantees that the state stays current in paying its bills and gives people the flexibility to freely move in and out of state employment instead of being trapped by our retirement system. State employees do important work and they deserve a fair and funded pension system. These reforms by the KPERS Commission do just that.

MEDICAID

We are committed to a strong, effective safety net for our most vulnerable Kansans.

Medicaid spending continues to skyrocket, and it continues to place stress on funding for education, public safety, and other essential services. With additional funding cuts expected from the federal government, Kansas must transform Medicaid into a system that improves services while managing costs. Many states have made the choice to either kick people off Medicaid or pay doctors less. Neither of those choices provides better outcomes. Kansas has a better solution.

The Lt. Governor, Dr. Jeff Colyer, and our cabinet team, with input from legislators and more than 1,800 stakeholders, have produced a measured, innovative and compassionate proposal. Unlike the current one-size-fits-all system, we will offer all Kansans a choice of plans that best fit their needs.

Kansans with long-term disabilities will have an integrated care coordinator. Those with developmental disabilities can keep their case manager if they choose. Many disabled Kansans want to work, but are stuck in government programs that provide neither respect nor independence. I propose Kansas be a national leader in helping the disabled find meaningful jobs. All Kansans should have the opportunity to pursue their dreams. With jobs providing an off ramp from Medicaid, we will be able help those in need of services and reduce our waiting list.

For years Medicaid was spread among several cabinet agencies. This year we will continue to make government smaller and better focused by consolidating multiple agencies into a restructured Department of Aging and Disability Services. By running government more efficiently and effectively, we can save money and provide better service.

SCHOOL FINANCE

The people of Kansas know what's best for their kids. Parents know better than elected officials. Parents know better than federal bureaucrats. And parents know better than unelected judges. It is past time to get education dollars out of the courtroom and into the classroom.

My plan is straightforward---no district gets less state money, every district gets more flexibility. Let me repeat that - NO DISTRICT will see its state aid go down. I propose adding 45 million dollars in state funding for our poorest school districts.

I also propose to give local school boards more flexibility to spend that money in the way they want because the government closest to the people works best. Local districts should be allowed to invest in the excellence of their schools to the extent their voters believe is appropriate. As more districts make those investments, my plan establishes a mechanism which will protect poorer districts so that they too benefit.

Some people ask me why reform the school finance formula now? Why not kick the can down the road for another year? The fact is the lawsuit is scheduled for trial this summer. And the People elected us – not the courts – to run our schools.

This new school finance formula should be sunsetted after four years. Thus ending the cycle of litigation and beginning a cycle of legislation.

WATER

The honor of my professional life has been to serve the people of Kansas, first as their Secretary of Agriculture; later as a Congressman, a Senator and in Governor. A regret I have is that more has not been done to preserve the Ogallala Aquifer.

Almost since statehood, we have told Kansans with water rights they must "use-it-or-lose-it." This has encouraged the overuse of water, particularly of the Ogallala.

I propose to repeal the "use-it-or-lose-it" doctrine of our water law. It is way past time we move from a development policy with our water to a conservation ethic. We have no future without water. This is altogether fitting and proper. For our government is not only a compact among those who are living, but a covenant with those who are yet to be.

SESQUICENTENNIAL

Our great state is one hundred and fifty years old. Many have come before us and God willing many more will come after us.

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I would like to recognize the first Kansans, our Native American Leaders who are with us tonight. From the Iowa Tribe - Chairman Tim Rhodd; Kickapoo Tribe - Chairman Steve Cadue; and from the Prairie Band Potawatomi Tribal - Council Treasurer, Noah Wahquahboshkuk.

Also joining us tonight is Guy Monroe, Chairman of the Kaw Nation, also known as the Kansa Indians, after whom our State, Kansas, is named And of course, this building is crowned with the statue of a Kansa Indian…shooting for the stars. Thank you for being with us tonight.

This last year we also celebrated some of our most Notable Kansans.

One of the most inspirational was Clyde Cessna---the man responsible as much as anyone for making Wichita The Air Capital of the World.

When we look at the achievements of great Kansans, it's easy to overlook the fact that even for them not every day was a successful day. They knew tears in their time, setbacks, and reversals. Clyde Cessna survived thirteen crashes before he achieved a successful aircraft design.

Kansas received some rough aviation news last week. We suffered a setback. But even in the face of that, we see hope. Yesterday, I was in Wichita to announce an agreement with Bombardier Learjet which will see that company expand its workforce in Wichita.

And we aren't done. There will be more.

Because, like Clyde Cessna, we're not going to quit. We're going to keep trying, keep innovating, keep growing. We're going to keep our faith in a loving God and a promising future…working together and praying together for a better Kansas.

I began tonight talking about my daughter's wedding. What a wonderful day. Seeing your child get married inspires a few tears and many emotions. For one, it makes you…feel…very…OLD. Or shall we say more mature. But it also reminds us of why we are here. That our season is short, the needs are great and people, particularly our children, are depending on us.

You as legislators sacrifice a great deal to be here. I appreciate that. The people of Kansas appreciate that. You leave your homes, businesses and communities to come here and serve the people. Thank you for what you do to make this a better state!

Together we will succeed…for we must.

Thank you. God bless you and may God continue to bless the People of Kansas.

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