

Governor Mary Fallin State of the State

2/6/17

Lieutenant Governor Lamb, statewide elected officials, Speaker McCall, President Pro Tem Schulz, members of the court, honorable senators and representatives, Cabinet members, tribal leaders, distinguished guests, and citizens of Oklahoma:

It's my pleasure to be with you today to discuss the state of our state.

I'm joined today by my family – my husband, Wade, and my wonderful children and family members. Thank you for your love and support.

I look forward to working with our new legislative leaders, Pro Tem Schulz and Speaker McCall, and to continue to work with Senate Minority Leader Sparks and House Minority Leader Inman.

I want to thank our lawmakers for your service, dedication and commitment to better government. I appreciate the second bond issue enacted last year to renovate this wonderful, irreplaceable building in which we now gather. We will celebrate its 100th birthday on June 30. We have many great activities planned for the celebration.

This is my seventh year that I've had the privilege of delivering this message. We have accomplished a lot, and I plan to be just as productive in my remaining two years.

In a book on leadership by Stan Toler, it's written: "Great leaders are never satisfied with current levels of performance. They are relentlessly driven by possibilities and potential achievement. Those who try to do something and fail are infinitely better than those who try to do nothing and succeed."

Today, I want to talk about what we can accomplish, give hope to our state and chart a course for a brighter future.

There is no question the dramatic downturn in our energy sector and an increased loss of sales tax revenue from online shopping the last couple of years have affected our state – both in our private and public sectors.

But we are a resilient state, made of strong people with a long, proud history of facing our challenges head-on and coming out in a better place. We love our families and strive to improve our economy. We are patriotic, and respect our law enforcement officers and veterans. We value our freedoms and liberties.

In preparing for this speech, I thought of our strengths, which I just mentioned, along with our weaknesses, opportunities and threats.

Oklahoma will continue to struggle if we don't fix the structural deficits of our budget.

The well-respected CEO of American Express, Ken Chenault, is fond of paraphrasing a quote attributed to Napoleon:

“Leaders define reality and provide hope.”

So, as our state's top leaders, let's focus on the REALITY of our state budget deficit. To start, for decades we have attempted to balance our budget for too long with the use of one-time resources. We cannot afford to pass another budget using a large amount of non-recurring revenue.

It is important to provide sufficient revenues to meet the basic responsibilities that our government owes to its citizens, namely:

Educating our children

Ensuring the health and public safety of our people.

And preserving and improving our infrastructure.

No one can argue that these are not fundamental state services...and our ability to provide them to Oklahomans, reliably, and efficiently, is not cutting it.

Government in and of itself does not create jobs, but it should provide the right environment to grow the economy through a free-market system, unfettered by burdensome regulations.

It is our responsibility to prepare a plan and workable budget for long-term solutions to the challenges that our state faces. We must deliver services that work for the people, and put people over politics.

But let's face it – the continued uncertainty of our budget affects not only the services we provide our citizens, but also the effectiveness of government.

Let's work together to get the job done, to ensure the best possible outcomes for our people.

To do so, we need to invest in Oklahoma's future.

So what do we do about it?

Eliminate state sales tax on groceries; corporate income tax

Today, I am proposing a series of bold reforms to stabilize our state regarding both recurring revenue and repairing the structural deficit of the budget. We must put Oklahoma on a solid foundation for the future.

This proposal represents a modernization of Oklahoma tax laws that will ensure new growth in years to come so that we may have the flexibility to prioritize spending as new needs emerge.

This plan eliminates the most regressive tax on the books today, the state sales tax on groceries. This will benefit all Oklahomans. Eliminating the state sales tax on groceries is expected to result in annual savings of between \$350 to \$676 for a family of four.

It also gets rid of one of the most volatile sources of revenue - the corporate income tax. It will reduce the paperwork and red tape burden of many small businesses in our state and boost economic development. Eliminating this tax provides more transparency as it also eliminates the need for the Legislature to pick winners and losers with specific tax credits.

Expand the sales tax base

Third, sales tax modernization. Many decades ago, when the Legislature first contemplated the sales tax laws to boost revenues, the economy depended on the manufacture and sale of goods. As the economy in the United States has shifted from a manufacturing-based economy to a services-based economy, the way we impose taxes and collect revenue no longer reflects the current economy, but instead an outdated system that has not changed much since its inception.

By expanding the sales tax base, this allows us to eliminate the state sales tax on groceries and the corporate income tax. And it may be possible in the future to further lower the sales tax rate.

To improve the health of our state, I'm also once again asking you to raise our cigarette tax. Smoking remains the Number One preventable cause of death in Oklahoma. It costs our state \$1.62 billion in health care costs. The revenue raised can be spent on current health care needs.

Gasoline and diesel taxes should go to roads and bridges

Next, for decades we've talked about how gasoline and diesel taxes should go to roads and bridges. My tax reform plan does that.

My plan will ensure taxes associated with roads and bridges are the funding source for maintenance of roads and bridges, - period - returning individual income taxes to the General Revenue Fund. This plan does not impact the projects in the Department of Transportation's 8-year plan.

Oklahoma currently ranks 48th in diesel tax in the nation and 49th in gasoline tax. I am proposing a new revenue stream by increasing our gas and diesel taxes to the regional state average, but still below the national average.

By trading out the use of individual income tax to a gas and diesel tax dedicated to fund our roads and bridges, this budget change dramatically improves the percentage of revenue collections the Legislature could control.

As we've discussed for decades, let's put the fuel taxes into roads and bridges.

By working together – and avoiding distractions – we can solve today's problems and make Oklahoma grow and prosper.

Improve the workforce and education

First: Improve the workforce and education. As of August 31, 2016, there were more than 71,000 open jobs in the state of Oklahoma. Of these open jobs, about 18,000 were critical occupations, such as engineers, teachers, nurses, chemists, accountants and truck drivers. Therefore, I am providing \$20 million for higher education programs.

A thriving, prosperous economy must have a skilled, educated workforce. That starts with good teachers in the classrooms providing our children a quality education FIVE days a week. And my budget provides both.

In a recent meeting I hosted with major national site selection companies, an executive asked me how he could persuade businesses to come to Oklahoma when some of our schools have four-day education weeks. We must have five-day school weeks.

Let's act on a permanent pay raise for our public school teachers. It is what the public and families want. The pay raise may need to be phased in and it may be targeted, but it must be done.

However, we also know that a pay raise alone will not improve student outcomes. We have to ensure more existing dollars are reaching every classroom by tackling administrative inefficiencies head-on.

We have a very top-heavy system that needs to be reformed to provide teachers and students more resources. The state already provides a number of services that schools could voluntarily take advantage of to save money, such as IT services, purchasing and bonding assistance.

In addition, I am creating a task force to review the state education funding formula, evaluate funding sources, and analyze the K-12 system footprint. Just as we must fix our own state budget structural issues, we must do the same with the K-12 education system.

Our education system must be focused on creating the best outcomes. To do so, we must ensure more money goes to our classrooms and teachers. We must empower students and parents by giving them more choices so they can best address their own needs.

We must be accountable to the taxpayers on how we spend education dollars.

Public safety: Trooper needs; modernize corrections

Second, public safety. We need to keep our families and our communities safe.

Last fall, a dangerous man named Michael Vance Jr. traveled across Oklahoma on a deadly crime spree for a week. Law enforcement was desperate to find and stop him. He finally was spotted in rural area in Custer County in western Oklahoma.

Trooper Brian Costanza drove 230 miles - all the way up from Okmulgee County in eastern Oklahoma - to help. Driving at a high rate of speed, Trooper Costanza chased Vance down a dark rural road, blowing out his own windshield while exchanging gunshots at Vance who had an AK-47 rifle. I'm sure you've seen the video – it is incredible.

Trooper Costanza – along with the other troopers who helped to pursue and apprehend Vance - troopers Chris Hanover, Trenton Keasler, Brandon Seward, Micah Whittington along with helicopter pilots Captain Brian Sturgill and Cole Patterson are here today. Thank you, gentlemen: Please stand.

Thank you to all of our law enforcement officers and their families who make sacrifices to keep us safe.

Approximately 26 percent of our current Highway Patrol troopers are eligible for retirement. We must prepare for the future and fund a trooper academy. While we're at it, no trooper should be furloughed or restricted to driving 100 miles a day because of lack of funding.

My budget accommodates these issues.

Investing in public safety is not just about investing in the Highway Patrol. Public safety is also about investing in ways to be smarter on crime and tough on true criminals.

It's no secret our prison population is in a crisis with over 61,000 people under the jurisdiction of corrections. Our prisons are way over capacity, and our prison population is expected to grow by 25 percent in the next 10 years.

Oklahoma's overall incarceration rate is the second-highest in the country. We lead the nation in female incarceration – incarcerating women at two and a half times the national average.

Contrary to what some may think, Oklahoma women aren't meaner.

Without reform, Oklahoma must build or lease three new prisons – an expensive proposition even in the best of times. We would need two new prisons immediately without further reform. That is why I created the Oklahoma Justice Reform Task Force to find data-driven, smart-on-crime policies to focus on improving public safety.

Seventy-five percent of new admissions in prison are nonviolent offenders. The number of drug-possession offenders sentenced to prison with no prior convictions has more than doubled the last five years. My budget includes new money for corrections and treatment, which includes a \$50 million bond issue to build wings on a men's and a women's prison for substance abuse offenders and rehabilitation.

There is unprecedented conservative support on this issue from groups such as the American Conservative Union and Law Enforcement Leaders to Reduce Crime and Incarceration. Meanwhile, smart, conservative states such as Texas, Utah, Georgia, Kentucky and South Dakota are already headed this direction and these states have seen better public safety outcomes by pursuing similar reforms.

As Roy Williams, president and CEO of the Greater Oklahoma City Chamber of Commerce, has said, "Oklahoma spends too much money without positive outcomes locking up low-level, nonviolent people. The business community supports the governor's efforts and encourages the Legislature to seriously consider these recommendations. Doing nothing means taxpayers must spend billions more to incarcerate more people, or risk problematic federal intervention."

And while I'm talking about public safety, send me a bill to fix REAL ID licenses. We have four months to solve this issue. Let's get it done.

Health: Reduce insurance regulations

Third: Health. As I said in my second inaugural, our health outcomes are holding us back and the status quo is unacceptable. As a result, we have convened health leaders from throughout the health care industry and state government to ensure we are improving health outcomes, the quality of health care and controlling costs.

There are many issues to contend with in health care, and Obamacare has created additional problems we must address.

Health care premiums are increasing at a dramatic rate, deductibles are so high people can scarcely afford the insurance coverage they have purchased, and the regulations that have been handed down from the federal government are creating added cost with limited benefit.

With help from local health care leaders, we are developing a plan we will submit to the new administration to fix some of the problems we have seen in Oklahoma.

We hope to reduce regulations to create cheaper insurance plans, encourage investment in private health accounts so people can direct their own health care purchases and utilize successful local programs, like Insure Oklahoma, to provide health insurance that works for Oklahomans.

And while we are fixing our broken health care system, we can never take our attention away from preventing illness in the first place.

Investing in state properties

Fourth: We can't continue to ignore our state's crumbling infrastructure. In my budget, I have identified our state's most urgent, pressing infrastructure needs along with a bond proposal to address them. They include a new Department of Health lab so we don't lose accreditation, and improving facilities for corrections, mental health and juvenile affairs, to name a few.

I have outlined a realistic, responsible way to put our state on a successful path. By investing in our state, we create a stronger business climate. A place where people want to live, work and raise a family.

But this can't happen unless we roll up our sleeves, and make tough decisions.

So, on your desks, you will see a packet that contains three budgets – red, yellow and green.

The red budget cuts \$868 million, which reflects our current shortfall. That's approximately an 11 percent cut to all agencies, some of which had already taken 20, 30, 40, 50 and – yes - even a 66 percent cut already.

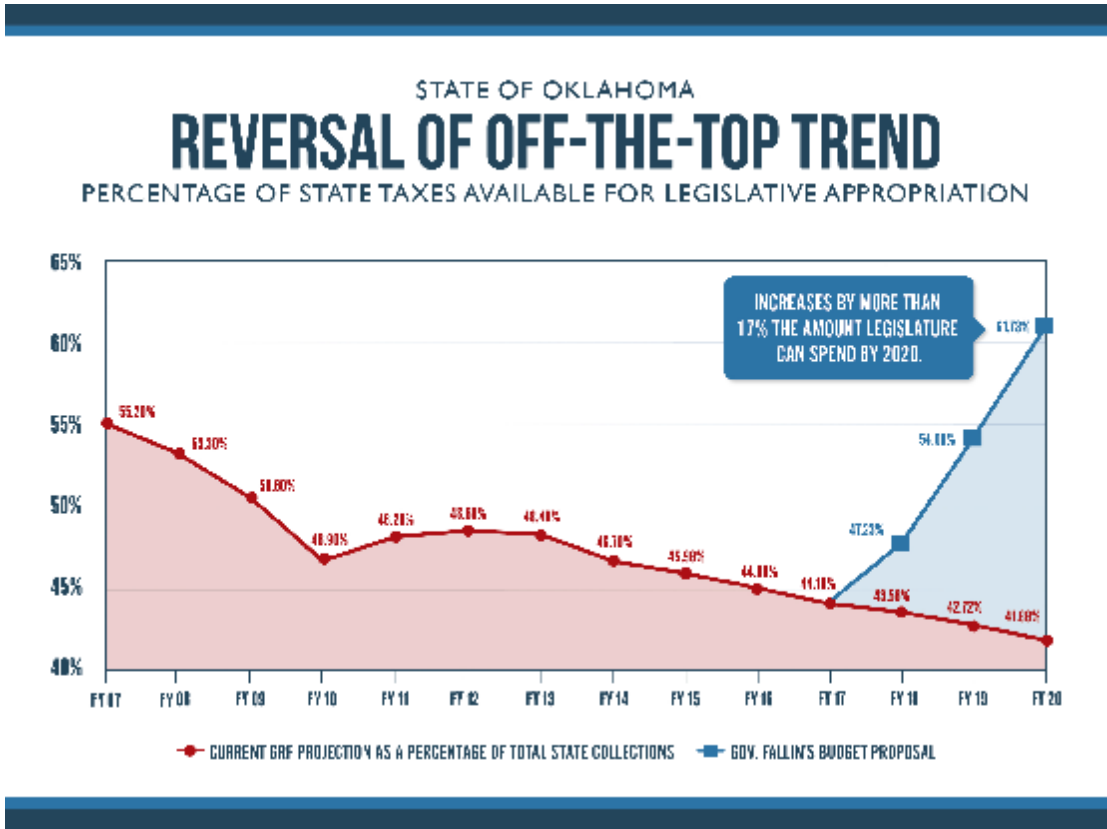
The yellow budget drains almost half of the remaining balance of our Rainy Day Fund, and still makes substantial cuts.

These budgets would be detrimental to our state. Neither should be considered.

The green budget – my budget - represents a path forward, stabilizing the budget’s structural challenges while investing in core, essential services. It basically mirrors our 2003 state budget adjusted for inflation, but is still less than the 2009 fiscal year budget, the highest watermark when adjusted for inflation. We must note, our student population since 2009 has grown by approximately 48,000 new students, and our state’s population has grown from about three and a half million to just under four million.

Giving legislators more control over appropriating state dollars

As you can see on this chart, this will also give legislators more control in directing how this money can be spent to meet pressing needs. In the 2017 fiscal year, legislators have control of a little more than 44 cents for every dollar. By making these changes, we can bump that up to almost 62 cents for every dollar in the 2020 fiscal year.



Think of what we can accomplish. We can chart a new, brighter course for Oklahoma. As the Bible says, “Without a vision, people will perish.”

And as Henry Ford said, “Coming together is a beginning. Keeping together is progress. And working together is success.”

So let’s work together for success.

To all of you, I look forward to a productive session. Let’s get to work in investing in our state’s quality of life. God bless you, and the state of Oklahoma.