



## **Governor Mary Fallin**

### **State of the State 2012**

Lieutenant Governor Lamb, statewide elected officials, Speaker Steele, President Pro Tem Bingman, members of the court, Honorable Senators and Representatives, cabinet members, distinguished guests, and citizens of Oklahoma:

It is my duty as well as my great honor to be here today to discuss the state of our state as we begin the 2012 legislative session.

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

And to the people of Oklahoma, thank you for giving me the incredible opportunity to serve as your governor. It has been an honor, a privilege and an incredible experience for my staff, my family and for me personally to work every day for the people of this state, and to help build a stronger and more prosperous Oklahoma.

It has also been an honor to serve as the Commander in Chief of our National Guard during a time when so many of our Guardsmen have been deployed overseas, fighting for freedom and for the safety of the American people.

I'd like to take a moment right now to recognize the many Oklahomans in our armed services, both past and present.

Will the active duty military and veterans with us today please stand.

We honor their service and sacrifice, especially the 77 Oklahomans who gave their lives during Operation Iraqi Freedom and the 83 Oklahomans who have lost their lives in the war in Afghanistan.

To the families of those men and women who have paid the ultimate price, we offer our greatest gratitude, deepest sympathies and most heartfelt prayers.

Soon, 3,000 guardsmen and women will be returning to Oklahoma from Afghanistan and Kuwait. Nothing could make us more thrilled than to welcome them home.

Adjutant General Myles Deering, Secretary of Veterans Affairs Rita Aragon and I are ready to help our returning soldiers with a smooth transition back to Oklahoma. We have committed resources to help them find jobs, receive counseling, and address other needs.

I'm asking everyone here today to please join me in a brief, silent prayer for the safety and wellbeing of our troops.

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Thank you.

Our goal as lawmakers should be to build a better and more prosperous state for our returning troops and for all Oklahomans.

I'm happy to say that in the last year, we have done well on that front.

The progress we have made in Oklahoma comes despite facing a number of difficult circumstances.

A year ago today we were just starting to climb out of a recession that cost Oklahoma nearly 80,000 jobs.

Like people all around the country, many Oklahomans were struggling. Jobs had disappeared in the wake of a financial crisis that was largely out of our control.

Tax revenues were down. And the state was facing a budget shortfall of over \$500 million with only \$2 left in our "Rainy Day" account.

It was with that difficult backdrop that I asked you – our legislators – to work with me to do three things. The first was to pass measures that would create jobs and jump-start our economy by building the best, most competitive economic climate possible. The second was to reduce government waste, and to make state government smaller, smarter and more efficient. Finally, I asked the legislature to work with me to strengthen education and pass measures to boost student performance.

I am proud to say that we worked together and rose to the challenge, making 2011 one of the most productive legislative sessions in memory.

To reduce job-killing legal fees, we passed sweeping lawsuit reform that included a \$350,000 hard cap for non-economic damages.

We delivered the largest rewrite in state history of our workers' compensation system, improving it while being fair to both injured workers and employers. That action has already helped to bolster the state's business climate by lowering costs for Oklahoma businesses by \$30 million, a number that will rise as these reforms continue to be implemented this year.

While many other states were raising taxes in order to close their budget gaps – and driving out jobs in the process – we cut our income tax.

Because of that, Oklahomans will be able to keep an extra \$116 million of their hard-earned money this year, providing relief to working families and spurring economic growth in the private sector.

These and other reforms have helped to create a business climate in Oklahoma that has led to greater prosperity and job growth. And the numbers back that up.

In 2011, the state of Oklahoma had a net increase of 41,600 jobs.

Our job growth rate ranks 3rd among all states.

We've gained back over two-thirds of the jobs lost in Oklahoma to the most devastating economic collapse since the Great Depression.

Our unemployment rate continues to be one of the lowest in the country at 6.1 percent.

Despite the worst drought on record, Oklahoma agricultural exports are up almost 70 percent in the last three quarters thanks to the tenacity of our farmers and ranchers.

Oklahoma ranked first in the nation for the growth of manufacturing jobs, which grew two and a half times faster than they did in Texas and five times faster than the national average.

These gains are also reflected in our population. Whereas once our citizens left Oklahoma to escape the Dust Bowl, we're now ranked eighth in the number of new residents we have attracted. In fact, the largest number now comes from California, a complete reversal of the migratory patterns depicted in Depression-era works like *The Grapes of Wrath*.

All of these indicators demonstrate that Oklahoma's economy continues to outperform the national economy. People all across the country are noticing: Oklahoma stands as a testament to the fact that low taxes, limited government, and fiscal discipline are a recipe for job creation.

Our success stands in stark contrast to the record of dysfunction, failed policies, and outrageous spending that occurs in Washington, D.C.

In Oklahoma, we could teach Washington a lesson or two about fiscal policy and the size and proper role of government.

That's why I'm asking that we send our president and his allies a message this year, in the form of a resolution declaring that Oklahoma will support a Federal Balanced Budget Amendment to the United States Constitution.

Washington is leading this country off a fiscal cliff. It is reckless; it is wrong; and it is destroying jobs and holding back economic growth in all 50 states. Most importantly, it threatens the success of our children's future. Oklahoma needs to be on the record saying so.

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Despite the missteps in Washington, 2011 proved to be a better year here in Oklahoma. After a long and painful recession, our citizens are finding good jobs and getting back to work.

I realize, however, there are many Oklahomans who are still looking for jobs, as well as businesses looking for skilled labor. That's why the Department of Commerce and I are pleased to announce the launch of a major online initiative called OKJobMatch.com to match students and job seekers with employers.

Some of the most unique skill sets are possessed by our military veterans and those returning with the Armed Services from overseas.

These men and women deserve our help to find jobs and reenter the workforce.

OKJobMatch.com will serve as a comprehensive reemployment resource for returning military men and women who have bravely served us.

I would like to encourage both employers and those of any background who are looking for employment to help us populate the site with resumes and job opportunities and aid us in making this a valuable tool for job growth.

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As we look to continue Oklahoma's impressive rate of job creation in the private sector, we must continue our efforts to eliminate waste in the public sector and create a smaller, more efficient and more customer friendly state government.

As you know, last year we signed into law a series of government modernization measures designed to eliminate waste and save taxpayer dollars, including one that consolidated several government agencies under the Office of State Finance and instructed OSF to reduce expenditures by 15 percent.

I'm happy to report that target has been exceeded. I want to commend Secretary of Finance Preston Doerflinger and his team for realizing over \$4.2 million in savings in 2012 while delivering a more streamlined, customer friendly approach to government.

Additionally, the Information Technology modernization and consolidation measures passed by the legislature are projected to save \$170 million over seven years.

My thanks go out to our state CIO Alex Pettit and state agencies for the work they have done to update and centralize IT services.

For example, in the Department of Education, under Superintendent Janet Baressi, IT reforms saved \$600,000 in 2011 and are expected to deliver another \$3 million in the following three years.

Phone lines, email systems and the department Web site have all been upgraded, leading to a more responsive, transparent and again – customer friendly – Department of Education.

Now, because of the successes of our IT initiatives, I have asked Higher Education – and they have agreed – to explore IT consolidation opportunities of their own, starting with the creation of their own chief information officer.

As these examples show, we will always be able to eliminate waste, find more savings, more efficiency and more opportunities to modernize government.

It is important to continuously improve and rethink how government works to solve problems. Our criminal justice and corrections systems, for example, illustrate that point well.

In 2011, I appreciated that the Legislature and, in particular, Speaker Steele, joined me in supporting “smart on crime” initiatives. Together, we acted to increase resources for substance-abuse treatment centers that are less expensive and more effective alternatives to prison for non-violent offenders with addiction problems.

This year, we can do even more. My budget reflects a financial commitment to alternative sentencing for non-violent offenders with substance abuse issues, as well to the “crisis centers” provided by the Department of Mental Health, which offer help and hope to Oklahomans struggling from addiction or other mental health issues.

These initiatives are smart, effective at reducing repeat offenses, and will save the state money by treating addicts and helping them to once again become productive citizens, parents and taxpayers.

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Our goal as lawmakers and public servants – regardless of what agency we are dealing with – is to achieve better results and better services. One of the areas we identified as in need of improvement last year was education.

That’s why we pursued important measures last session designed to improve our schools, boost test scores and ultimately deliver a stronger and better educated work force.

I want to thank the Legislature for sending me a series of outstanding education reform bills, including A-through-F grading for public schools and the end of social promotion.

The Department of Education is implementing these reforms and performance measurements through initiatives designed to promote, as Superintendent Barresi says, “College, Career, and Citizen Readiness.”

Those three “Cs” are exactly what we should be promoting in Oklahoma, which is why I partnered with Higher Education officials to launch Oklahoma’s Complete College America Initiative.

Oklahoma must do a better job of encouraging Oklahomans to pursue higher levels of education and to complete more degree or certificate programs.

We know that a majority of the jobs created in the next decade will require either a college education or a career certificate from one of our Career Technology centers. Additionally, college graduates earn \$1 million more over their lifetime than high school graduates.

That’s why we have set a goal to increase the number of college graduates from 30,500 degrees and certificates awarded annually to 50,900.

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As you can tell, I’m proud of the work we have accomplished in such a short period of time. But that work is not done ... far from it.

The people of Oklahoma expect us to continue to focus on moving this state forward and creating a more prosperous, better state to live and work in.

They expect their lawmakers to continue to find and eliminate waste in government and to make our state agencies run as efficiently and effectively as possible.

That’s why in 2012 I am asking the Legislature to join me in focusing on initiatives that will create more jobs, encourage more efficiency in government, improve our infrastructure and continue to bolster the quality of our workforce.

Our first task is to craft a budget that reflects these priorities.

I am happy and proud to say that our budget numbers for the next fiscal year look considerably better than we thought they would a year ago.

Revenues are up nearly 10 percent over initial estimates. That's good news.

But the state is also experiencing a significant loss of one-time sources of funding. In fact, the state has been left to find over \$500 million in revenue to replace those lost funding sources.

That means that most of our agencies will be facing a flat budget moving into Fiscal Year 2013. But it does not mean that we will accept the status quo, or that "funding as usual" means "business as usual."

As a manager in the private sector, I used to tell my employees "to inspect what they expect." As governor, I expect efficiency and good stewardship of taxpayer dollars.

So this year, we are initiating a statewide performance evaluation initiative among every state agency.

Under current law, state agencies are required to submit a strategic plan that includes goals and proposals for increased efficiency and improved services. Unfortunately, these plans have not, historically, been carefully scrutinized.

Well, it's a new day in Oklahoma.

My office and the Office of State Finance will begin evaluating each and every one of these plans and will use new software and technologies that measure performance and efficiency and align expenditures with outcomes. That analysis will help us to right-size government and ensure that each agency is operating as effectively as possible.

Improving state services isn't a bullet point in a stump speech. It's a necessity. At the Department of Human Services, for instance, lives depend on it.

Protecting the lives of our children and our most vulnerable citizens has to be a priority. While there are many hardworking and dedicated employees at the Department of Human Services, we know that ineffective systems have led to tragedy. That's unacceptable.

That's why I will work with our agency staff and the legislature to reevaluate those systems and ensure we are allocating resources correctly and in a way that maximizes the effectiveness of that agency.

I want to thank outgoing Director Howard Hendrick for his service at DHS. I am confident that Interim Director Terri White will not only competently manage the transition as the commission searches for a permanent director, but will also actively seek to improve services during her time there.

Moving forward, our goal should be that DHS becomes a model for quality services and child protection.

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In order to improve services in other areas of state government, you will notice that I have proposed several supplemental funding items.

The first of these items focuses on public safety, which will always be a priority of mine. We *must* increase the number of troopers we have on the road. The current numbers are dangerously low due to attrition, retirements and the lack of a patrol school since 2009. That cannot continue.

Secondly, the state must keep its commitment to fund teachers' health benefits. For that reason I've included a supplemental funding measure for the Department of Education. Our recent reform measures ask a lot of our teachers; it is important to ensure that we are adequately funding the benefits they have been promised.

Additionally, the medical examiner's office – which has long been underfunded and understaffed – requires additional personnel and equipment. Because of the positive trajectory of that agency and the capable management provided by our new Chief Medical Examiner Doctor Eric Pfeifer, I am asking for supplemental assistance on their behalf.

Cities and local municipalities also need our help to recover from extraordinary expenses incurred by natural disasters. As you know, the State Emergency Fund is nearly empty and has a large backlog of several years of expenses. That's not right, so I'm asking you to work with me to refill that fund.

In addition to these supplemental measures, my budget allocates additional funds to the attorney general's office.

As you know, the Choctaw and Chickasaw nations have sued the state of Oklahoma concerning who owns the water in 22 counties.

We continue to hope this issue can be settled through mediation, without huge legal fees, and with all parties negotiating in good faith.

In the event, however, that the tribes do not share that goal, we intend to defend the water rights of *all* Oklahomans against a claim that favors one group over the interests of the entire state and *all* of its citizens.

To ensure we are adequately prepared to do that, the attorney general needs additional resources to retain the very best counsel.



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These are not the only priorities, however, that require an additional financial commitment.

The state Capitol building is currently in a state of disrepair.

It's embarrassing for our citizens to see barricades roping off portions of the Capitol.

It's bad for the image of this state and our efforts to recruit business.

It is our responsibility to maintain this building – which is a symbol of Oklahoma and its people – and that requires funding.

We must pass a bond issue for Capitol repairs. The people of Oklahoma elected us to make responsible decisions. Let's do our job.

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The items I have listed above represent the commitments we need to make to adequately fund our state government and provide essential services.

That's a start. But Oklahomans also expect us to make tough decisions and to take bold steps to move this state forward.

Today I'm asking our lawmakers to join me in an ambitious and exciting undertaking: the passage of a bold tax reform plan that will represent the most significant tax cut in state history.

The Oklahoma Tax Reduction and Simplification Act will immediately cut income taxes for Oklahomans in all tax brackets, simplify the tax code, and chart a course towards the gradual elimination of the income tax.

It will give Oklahoma the lowest income tax rate in the region besides Texas, making us a more competitive state for those looking to move jobs here.

Over time, our income tax would be phased out for every Oklahoman.

Our plan is a game-changer for Oklahoma. It's a job-creator. And it provides broad based tax relief to the middle class without starving government or hurting the working poor. It also protects core government services.

It would, beginning on January 1, 2013, replace our current system, which taxes the first penny that every Oklahoman makes. It reduces the seven brackets we currently have to 3 lower and flatter rates:

Those couples making \$0 to \$30,000 a year will now pay nothing in state taxes.

For those making \$30,000 to \$70,000 a year, the tax rate will be 2.25 percent.

And for families making over \$70,000 a year, the rate will be 3.5 percent, as opposed to the 5.25 percent rate they are currently paying.

Under these new rates, a middle class couple making \$40,000 a year, for example, will pay 37 percent less in taxes in 2013, with additional cuts in future years.

These tax cuts would take place immediately, in year one. Moving forward, tax rates would be cut by an additional quarter point in any year which the state of Oklahoma hits a revenue growth trigger of 5%. That growth trigger gives the state a safety net should we experience another economic downturn.

I want to commend Representative Dank, Senator Mazzei, many of our legislators and others who have worked to reexamine our tax code and tax incentives.

We have a common goal: to lessen the tax burden on Oklahomans, and to do it in a responsible manner.

The question remains, how will we pay for a tax cut? Under the Oklahoma Tax Reduction and Simplification Act, we do it in three ways:

First, by eliminating tax loopholes, carve-outs and other exceptions.

Second, by continuing to eliminate government waste and making government more efficient and effective. We've already proven that we can find substantial savings through government modernization initiatives.

Third, by capitalizing on economic growth we expect to see as a result of our pro-jobs, pro-business policies.

According to Americans for Prosperity, non-income tax states have seen 59% economic growth over the past decade, versus just 38% for high income tax states. Additionally, job growth has increased significantly in non-income tax states, while high tax states have actually lost jobs.

New jobs and increased investments in Oklahoma will lead to more revenue and increased collections in sales tax, corporate tax, excise tax and more.

With all of that in mind, I am asking for your support of the Oklahoma Tax Reduction and Simplification Act, the conservative centerpiece of our pro-jobs agenda. Send this plan to my desk and let working families keep more of their hard-earned money and provide a higher quality of life for all Oklahomans.

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Another way we can boost Oklahoma's economy is by supporting one of our most important industries, one that has helped to lead us towards greater prosperity during tough times: the energy industry.

Last November I unveiled Oklahoma's first comprehensive energy agenda: the Oklahoma First Energy Plan.

As my taskforce on economic development – or what I like to call my “Game Changer Committee” – noted, a comprehensive energy plan is vital to sustaining economic growth in Oklahoma.

Oil and natural gas companies support nearly 300,000 jobs in the state. Renewable energies like wind power are also growing at a fast pace.

Energy is, in many ways, the backbone of our economy. And we need policies that reflect that important truth.

While many in Washington refuse to support the production of American-made energy, Oklahoma is leading the way towards energy independence and domestic energy production.

One area where we have great potential is in natural gas.

Natural gas is an abundant source of energy. It is efficient, affordable, clean and produced right here in Oklahoma.

There are, however, obstacles to increased usage: infrastructure and demand. It's a chicken and egg scenario: consumers do not buy natural gas vehicles that can only be refueled at a limited number of gas stations; the private sector doesn't want to add CNG pumps with only a limited number of consumers.

That's why I have launched an unprecedented, bipartisan, multistate initiative to break that cycle and jump-start both the development of CNG infrastructure and the use of natural gas cars.

Together with Colorado Governor John Hickenlooper, I have asked other states to join us in committing to purchase natural gas vehicles for our state fleets. I'm happy to report we now have ten states total who have committed to this project.

Each state has signed a Memorandum of Understanding outlining a goal to purchase, as a group, a minimum of 5,000 NGVs per year. We believe that commitment will provide the incentive for American car manufacturers to begin producing an affordable natural gas sedan.

By the middle of this year we will submit a Request for Proposal to automobile companies asking them to develop that product.

By supporting natural gas consumption, we are supporting an Oklahoma energy source that will continue to produce Oklahoma jobs.

And this is only the first step in our far-reaching energy agenda.

Oklahoma can and should lead the way in implementing energy efficiency measures that will save hundreds of millions of taxpayer dollars.

I'm asking our lawmakers to send me a bill requiring every state agency and higher education institution to reduce energy consumption by 20 percent by the year 2020.

Oklahoma State University has already been a leader in this field, resulting in \$19 million in savings since 2007. If those same practices are extended across state government, we can expect to see statewide savings of at least \$300 million over 10 years.

Oklahoma has always been a leader in energy production. Unfortunately, we have lagged far behind in energy conservation, with taxpayers footing the bill. That's unacceptable, and with the help of the Legislature we can address this problem and become a leader in energy efficiency.

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Next, I'm asking you to make a strong commitment to improve Oklahoma's transportation infrastructure.

Having safe, modern and functional roads and bridges is vital to commerce and job creation.

Unfortunately, Oklahoma has been at the top of the national list for bad bridges for years. That's something we're not proud of.

To address that problem, I have proposed the "Bridge Improvement and Turnpike Modernization Plan" to fix all 706 of Oklahoma's structurally deficient state highway bridges by 2019, moving Oklahoma from the list of worst-bridges in the country to the best.

Today I'm asking the legislature to help me meet three goals outlined in this plan.

First, I am proposing we restore \$15 million in motor vehicle revenue back to the transportation budget that had previously been diverted to the general revenue fund.

Second, I'm asking for your support in raising the cap on the ROADS fund in order to provide the necessary resources to improve our road and bridge system.

Third, in the transportation plan, we are planning to repurpose 1,500 steel beams in good condition, taken from the old I-40 Crosstown expressway, to help construct 300 new county bridges.

To further aid in this project, my plan includes an additional \$20 million a year for the construction of county bridges.

Lastly, our plan relieves congestion on the Creek and Kilpatrick Turnpikes, two of Oklahoma's most widely travelled roads, without raising taxes or tolls. The Turnpike Authority has already begun work on that project.

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Improving the health of our transportation infrastructure is important ... but equally important is working to improve the health of our citizens.

Healthy living is important, not just because we want Oklahomans to live full and happy lives, but because the effects of unhealthy life choices hurt our economy, drain taxpayer dollars and drive up the cost of health care for everyone.

Oklahoma is currently ranked 48th in the nation in overall health indicators. That's unacceptable.

There are several major factors that hurt our health ranking: obesity, tobacco, poor nutrition, infant mortality, substance abuse and lack of physical activity, just to name a few.

It's time to address these problems, move the numbers in the right direction and take control of our own destiny.

To do that, I have first signed an executive order to prohibit tobacco use on all state property.

We are also going to close the smoking room at the State Capitol and transforming it into a small fitness center. To fund this transformation, the state has already applied for a grant from the Tobacco Settlement Endowment Trust, which the Oklahoma Hospital Association has generously agreed to match it.

Second, my budget uses financial rewards to encourage schools to serve nutritious foods and promote physical activity.

Third, we are proposing additional funds to enhance our current statewide infant mortality prevention program. Infant mortality rates in Oklahoma can and must be improved.

Fourth, 64 of Oklahoma's 77 counties have shortages of health professionals, especially rural physicians. That must change. To remedy that, I have included over \$3 million to establish 40 new doctor residency slots to help increase the number of primary care physicians in rural and underserved areas in Oklahoma.

Lastly, I'm asking the legislature to pass a bill reducing liability to schools, so that moms and dads and others from our local communities can join our children in accessing tracks, courts and exercise equipment.

That's part of an effort lead by the Fit Kids Coalition and the American Heart Association to open school exercise facilities to the public.

All of these initiatives will help Oklahomans to make good choices about their health and get the right care.

And just like we are asking our citizens to make good decisions about their lifestyles, they have asked us to make good decisions for Oklahoma here in the state capitol.

Today I've outlined a path forward to a more prosperous, better and brighter future for our state and its citizens.

We can get there by allowing Oklahomans to keep more of their hard earned money ...

... by improving our schools and strengthening our workforce ...

... by investing in our infrastructure ...

... by being more energy efficient ...

... by improving our health ...

... and by cutting government waste and building a more efficient and effective state government.

That's my vision for Oklahoma, and it's a vision I know that many of you share.

I'm excited to work with you to pursue that vision, and to watch as the hard work of this Legislature paves the way for another year of growth and forward momentum for our state and, most importantly, our citizens.

Thank you for all that you do. God bless you, and God bless the great state of Oklahoma.