

2015 State of the State Address

Oklahoma Governor Mary Fallin

Elected officials, justices, tribal leaders and people of Oklahoma –

Thank you for being here today at the start of what I know will be a productive and successful legislative session.

To our friends and family members that have joined us, including my loving husband Wade and our wonderful children, thank you for your support and encouragement.

I'd like to begin by congratulating those lawmakers who were recently elected and are beginning their first legislative session today.

To those who are returning, thank you for your work and your dedication to the state.

Like you, I am humbled by the opportunity to serve the people of Oklahoma. We are all blessed to live in a special place, with wonderful people and the strongest of communities.

We have much to be proud of and thankful for. Oklahomans are global leaders in energy production; home to a high-tech and rapidly expanding aerospace industry; feeding the country and even the world with our agriculture sector; and saving lives with our cutting-edge medical research.

Supporting all of that growth and industry are dedicated, hard-working public employees, such as teachers, law enforcement professionals, social workers, and the men and women right here in this room.

I'm proud to serve as the chief executive of a state with one of the lowest unemployment rates in the country, a median household income growing at twice the national average, and the fourth-fastest growing gross domestic product in the United States.

I'm proud of the ways we've worked together to improve state government and state services.

In the last four years, we've faced some difficult challenges and we have responded.

We restored over \$150 million in education funds that were cut during the Great Recession.

We've dramatically improved our transportation infrastructure. For decades, Oklahoma was burdened with a chronically underfunded transportation system, complete with crumbling roads and bridges. This Legislature worked with me to invest over \$1.6 billion since 2011 to address those shortcomings. Today we have only 390 structurally deficient bridges, down from a high of over 1,100. By 2019, we'll bring that number down to zero.

We made huge strides in making government more efficient and effective. For instance, today we are more than halfway through consolidation of all state information technology operations, saving millions of dollars to taxpayers while increasing cyber security.

We re-imagined and re-worked Oklahoma's outdated, costly workers' compensation system. We replaced it with an administrative system to better address injured workers' needs, and that system has now reduced costs to Oklahoma businesses by 22 percent, allowing them to pump over \$200 million back into our economy.

We've increased resources and funding available for successful drug abuse treatment and prevention programs; opened new centers across the state for people going through mental health crises; and improved services for abused and neglected children in the care of the Department of Human Services.

To improve the health of Oklahomans, we've enlisted over 1,700 organizations in the Certified Healthy schools, communities and businesses programs.

Lastly, we've successfully rebuilt and grown stronger in the wake of natural disasters. Our people are known nationally – and internationally – as “Oklahoma Strong.”

We should celebrate all those successes and what they mean for our citizens: Communities rebuilt; higher standards of living; better government services; safer roads and bridges; and more opportunities to live healthier and happier lives.

Oklahoma has great forward momentum; but there are obstacles we must face head-on if we want to continue that forward progress.

We have significant challenges in both our near and long-term future and they threaten to hold us back from being the kind of state we know we can be. In my Inaugural Address last month, I outlined three areas I believe Oklahoma must improve in if we are to continue building Oklahoma's forward momentum.

One is educational attainment. We must encourage more Oklahomans to continue their education beyond high school.

Currently, Oklahoma's workforce is not meeting the education levels needed to sustain potential job growth. For Oklahoma businesses to meet labor demands and Oklahoma citizens to find good jobs and careers, we need to address the emerging "skills gap."

In five years, studies predict that only 23 percent of Oklahoma jobs will be available to those who have a high school degree or less. But today, 46 percent of our working population fits that description.

Forty-nine percent of jobs five years from now will require a workforce credential or an associate's degree. Today, only 31 percent of working Oklahomans have achieved that level of education.

Similarly, 28 percent of jobs will require a bachelor's degree or higher, but only 24 percent of Oklahomans have one.

If we don't address that skills gap, those jobs will go elsewhere. Just as importantly, there will be a lot of Oklahomans who do not have the educational level they need to begin good careers and command good salaries.

There are many things we can and must do to increase education levels in Oklahoma. Whether it's raising academic standards to ensure our high school graduates are actually graduating with 12th grade level skills, increasing funding – which I support – or finding ways to empower parents and students, we must do more. I look forward to working with educators, parents and our new Superintendent of Public Instruction Joy Hofmeister in support of those goals.

One thing we know we can do now, that doesn't require large sums of new money, is to help strengthen partnerships between local businesses and local schools where students can dual track their education and work skills.

Here's an example: "Mid-America Delivers" is a collaborative effort between the Mid-America Industrial Park in Pryor, Oklahoma and Mayes County schools.

Mid-America is home to over 70 businesses, including several Fortune 500 companies. This is the largest cluster of private employers in the region, and they need hundreds of workers every year trained in advanced manufacturing, electrical work, medical services and more.

Through "Mid-America Delivers," K-12 students take tours of local businesses, which are encouraged to place them in internships. The goal is to expose students to the job and career options available to them after graduation, as well as the skill-sets they'll need to obtain those jobs.

Along with their partnership with the Mid-America Industrial Park, Mayes County schools also work with Northeast Technology Center, OSU-IT, Rogers State

University and other post-secondary degree programs. These partnerships allow high school students the opportunity to be concurrently enrolled in classes to pursue a degree or credential in a career area they choose.

This innovative program seeks to graduate high school seniors with hours towards a college degree or career tech certificate as well as a high school diploma. By the time they leave high school, they will already have a career path option and the necessary skills to pursue it, if they choose to.

To make sure we are duplicating success stories like this across the state, I have established a team to launch a new program called “Oklahoma Works.” Oklahoma Works is a cooperative effort between the public and private sectors designed to strengthen the talent pipeline between K-12 education, career technology centers, higher education institutions and businesses. We will work to aggressively develop local partnerships to help ensure both children and adult students have access to the training and education they need to enter a career.

Many times businesses across the state tell us they can’t find the employees they need to fill jobs. Meanwhile, students enter the workforce every year looking for the right job to match their education and skill-set. This program is designed to realign our education and work-skill training systems to better meet the needs of both students and employers.

You can learn more about this initiative at OklahomaWorks.gov.

Another area that continues to hold back our state is crime and incarceration.

Personal and community safety remain top priorities, and violent criminals will continue to be incarcerated. But the fact is, one in eleven Oklahomans serve time in prison at some point in their lives. Many of our current inmates are first time, non-violent offenders with drug abuse and alcohol problems. Many also have mental health issues they need treatment for. For some of these offenders, long sentences in state penitentiaries increase their likelihood of escalated criminal behavior.

Oklahoma must ramp up its “smart on crime” policies, including the Justice Reinvestment Initiative, designed to intervene for low-risk, non-violent offenders and more readily offer alternatives such as drug courts, veterans courts and mental health courts.

Implementation of coordinated “smart on crime” efforts between state and local governments and tribal nations has demonstrated significant cost savings and improved outcomes for offenders and public safety.

It costs the state around \$19,000 a year to house an inmate, but only \$5,000 a year to send an addict through drug court and on to treatment. In addition to being less

expensive, it's also more effective; the recidivism rate for offenders sent to drug court is just one-fourth of the rate for those sent to prison.

To ensure we are successful in pursuing these “smart on crime” solutions, I have already convened a steering committee to aggressively implement these policies.

The third area we must improve in is our health. Oklahoma ranks at the top of the nation for prescription drug abuse. Fourth in the nation in unintentional drug poisoning deaths. Seventh-worst for obesity. Sixth-worst for smoking rates.

And what does that mean? Thousands of unnecessary deaths each year. Billions of public and private dollars going to treat preventable illnesses.

It's time to stand up and fight for better health. Every Oklahoman can do better in taking personal responsibility for their own health. But there are things we can do here at the Capitol, starting by passing a prescription drug monitoring bill that cracks down on the practice of “doctor shopping” and ensures we aren't prescribing narcotics to addicts.

We can pursue common-sense solutions: like going smoke-free at all K-12 schools, and banning practices like texting while driving that kill Oklahomans – many of them teenagers – every year.

In the meantime, I'll continue to push the federal government to renew approval of Oklahoma's health plan for small businesses and lower-income workers: Insure Oklahoma.

These are the challenges we face today. How can we make sure Oklahomans are acquiring the work-skills and education they need to succeed and achieve the American Dream?

How can we be smarter on crime, reduce our incarceration rate, and get individuals with mental health and substance abuse issues the help they need so their children can grow up with healthy, working parents?

And how can we improve health outcomes for all Oklahomans?

The goals are straightforward, and the stakes are high. We can improve and Oklahoma will continue its remarkable forward progress. Or we won't - and we will saddle our children and our grandchildren with setbacks rather than opportunities.

When we acknowledge the challenges we face as a state, we've taken the first step forward.

But then comes the hard part.

What are the solutions to those problems, and how do we pay for them?

And how do we do so during a tough budget year, amid falling oil prices and rising fixed costs?

Business as usual won't get us there.

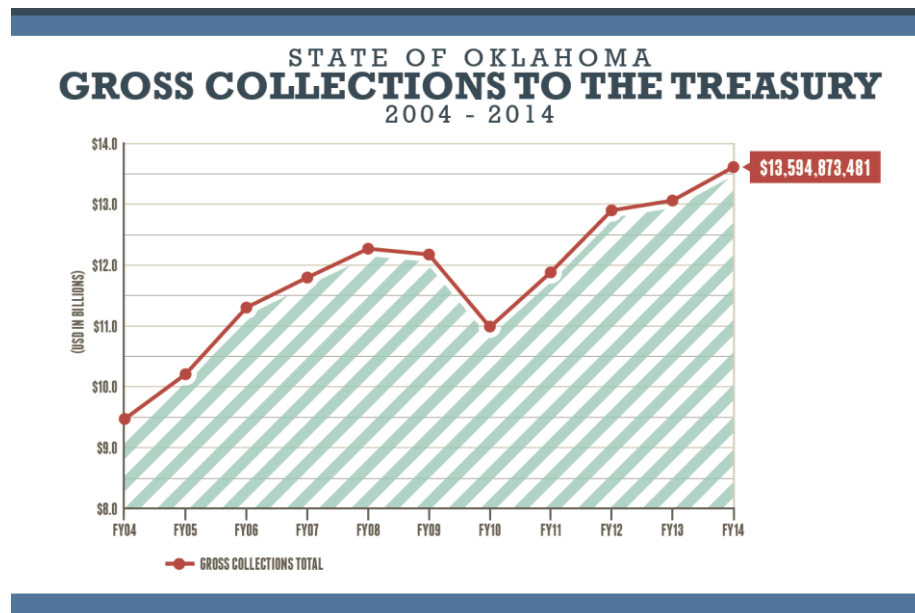
We all know Oklahoma currently faces substantial budget challenges. This is not because of a stagnant economy or declining tax receipts. Rather, it is because the General Revenue Fund – the primary source of discretionary spending set by the Legislature each year – is growing smaller. It is shrinking, both in dollars and as a percentage of overall collections, due to the increasing cost of mandatory off-the-top apportionments.

Let's work together to take a fresh look at the budgeting process, and to rethink how we allocate taxpayer dollars.

Let's start by ensuring the Legislature actually has the ability to appropriate the necessary amount of revenue to areas of government that are identified as priorities.

Our current budget system diverts billions of dollars away from the General Revenue Fund before the budgeting process begins, either to support various government programs, to pay for tax credits and incentives, or to fill unused revolving funds maintained by some state agencies.

To illustrate how the budgeting process is being undercut by taking money "off the top," consider the financial picture painted in the graph on my right.

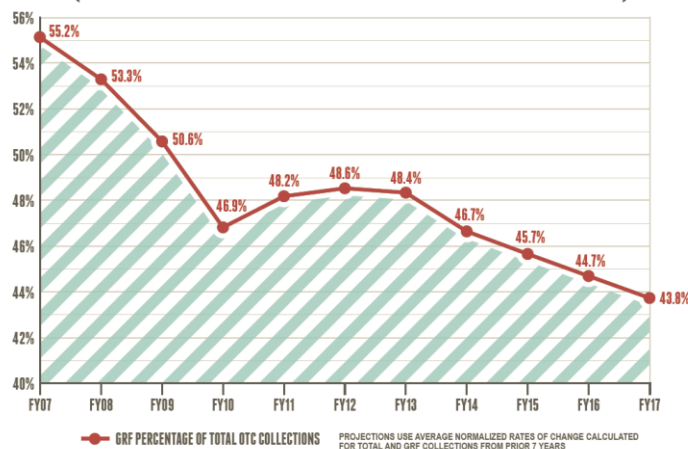


As you can see by the generally upward trend, the state continues to collect more total revenue as our economy grows. With the exception of the recent recession that began in 2009, total tax receipts are trending upward.

In fact, last year, we collected the most total revenue ever, at \$13.6 billion.

Now look at the chart on my left.

STATE OF OKLAHOMA
PROJECTIONS OF GRF DECLINE
 (AS A PERCENTAGE OF TOTAL STATE COLLECTIONS)



That's the percentage of total tax receipts that make their way into the General Revenue Fund. In other words, it's what the Legislature actually appropriates in the budget.

In 2007, the Legislature appropriated 55 cents of every dollar taken in by the government. Last year, that declined to 47 cents.

That means that today, the Legislature has significantly fewer total dollars to appropriate than in the past, despite the state collecting significantly more money.

That is a decline that will continue if we do not fix the problem. Our projections show the percentage of the total revenue that lawmakers can appropriate will shrink to less than 44 cents of every dollar by 2017.

Slowly but surely, elected representatives are losing the ability to guide state priorities and the flexibility they need to respond to changing circumstances.

My challenge to all of us is to reverse that trend and use this session to really unpack the way the state is spending its money. We should begin addressing these structural problems in our budget today, rather than waiting until the last two weeks of session.

To aid in that process the staff at the Office of Management and Enterprise Services has been laying the groundwork for a new approach to state budgeting.

It's called performance informed budgeting, and it begins today.

During my first term, my Cabinet and I worked with every state agency to set goals and develop ways to measure our progress towards meeting them.

Today, as a result of that work, we have posted 160 key, measurable objectives for state government on the website OKStateStat.ok.gov.

Our goal is to change the paradigm when it comes to state agency management. Using OKStateStat, Oklahoma will become the first state in the nation to develop a comprehensive budgeting system that ties spending to measurable goals and outcomes.

I'll give you some examples.

We say we want to increase prosperity for all Oklahomans. On OKStateStat we have set the goal of increasing the state median household income from \$45,690 in 2013 to \$51,420 by 2017. Our new website has a "performance dashboard" that will help the public measure if we are moving toward that goal.

OKStateStat will hold us accountable for performance in all areas of government, including the three priority areas I have outlined today. Here are some examples:

In education, we will be able to see if we are meeting a variety of goals, including:

- Increasing the number of college degrees, credentials and certificates related to Oklahoma's top 5 industry groups.
- Reducing the rate of remediation for incoming college freshmen from 40 percent in 2015 to 30 percent in 2025.
- Increasing the percentage of 4th-grade students scoring proficient or above on the state reading test to 75 percent by 2018.

For incarceration and criminal justice, we'll measure key goals, such as:

- Reducing the percentage of offenders returning to prison.
- Decreasing our prison population by 10 percent by 2025.

For health, some goals include:

- Decreasing the rate of infant deaths by 13 percent by 2018.
- Decreasing the percentage of children and adults who smoke.
- Decreasing heart disease deaths by 25 percent, a goal which would single-handedly save over 2,400 lives every year.

We've set the bar high in every area we can think of. We may not meet some of these goals. But for the first time in state history, we will truly hold ourselves accountable as a state government.

Policymakers and the public can visit OKStateStat.OK.gov to see where we need to go as a state and what measurements will determine our success in getting there.

Speaking of benchmarks for success, we need to ensure the money we are investing in economic incentives and business-related tax credits is paying off and helping to create good jobs.

I've always said that the state should keep incentives that work and phase out those that don't.

The problem is we do not have an effective and objective way of evaluating these incentives. Without good information, we can't make good decisions. To fix that, my office, legislators and several agencies spent the past year working with the Pew Charitable Trusts analyzing better ways to correctly evaluate our incentives.

The Pew Charitable Trusts worked with us to develop legislation requiring all incentives to be evaluated on their own merits at least once every four years. These evaluations will give us all better information so we can make better decisions. I am asking you to send me this bill, and help all of us get the information we need to make well-informed, fiscally responsible decisions.

Moving forward, we also need to take a close look at agency revolving funds.

The Office of Management and Enterprise Services has identified \$1.7 billion that state agencies currently have in revolving funds. Of that \$1.7 billion, \$900 million of those dollars are unencumbered, meaning the agencies have not yet obligated those funds for a specific purpose.

I recognize that cash savings are necessary and prudent for some state agencies to keep. However, we know that a portion of the almost \$1 billion in unencumbered funds can and should be redirected to other priorities.

My executive budget allows for \$300 million to be taken from these funds to support core government services. That is a reasonable expectation. But we also need a more permanent solution that caps those accounts or deposits some of their revenue into the General Revenue Fund, so we are not required to redirect that money on an annual basis.

All of this will require a deliberate, in-depth approach to crafting a budget. To make sure we can provide that level of scrutiny, let's give serious thought to an idea that has been floated here many times:

That the Legislature should spend one of every two years focused only on crafting a budget, with other matters reserved for off years.

Moving to that system will place more emphasis on our first and most important obligation: directing the use of taxpayer resources.

It will also give more lawmakers a chance to affect the process.

Finally, as we work to craft a budget, let's remember it is a means to an end.

We spend money on government so we can provide services, solve problems and help our constituents.

If we spend money on programs that don't work, there is a word for that: "waste."

As a state, we spend a lot of money now on programs we *hope* are working.

We need to identify and support programs we *know* are working.

Now, I appreciate and realize legislators of both parties come to the Capitol with their own list of things to accomplish. I, for instance, would like to find a permanent resolution for the American Indian Cultural Center and Museum.

As our economy picks up in the future, I'd also like to put more money into higher education and to link that funding to performance and outcomes. Specifically, I'd like to see more students graduating from college in as close to four years as possible.

But regardless of what our individual priorities are, achieving success needs to start with this premise: the most important thing we produce at the end of every legislative session is a budget.

We need to produce a sustainable budget where every taxpayer dollar spent is justified and leads to a measurable outcome.

That is my goal for this legislative session. It is an ambitious one. But I know we can do it.

The beneficiaries of an improved budget process will be our legislators, who will have the tools they need to pursue their priorities. It will be our state agencies and employees, who can operate with measurable goals and expectations.

Most importantly, it will be our people, who will benefit from improved government services and a more competent state government.

I believe Oklahoma has a bright future ahead of it. We have accomplished much together. Although we can do more, our government is unquestioningly more efficient and effective than it was four years ago. We are providing state services that complement – not stifle – healthy economic growth in the private sector.

But we have challenges ahead of us. Too few Oklahomans are emerging from our educational system prepared to succeed in the workplace or college. Too few Oklahomans aren't getting the treatment they need for substance abuse and mental health issues, and are instead winding up in our criminal justice system. Our poor health outcomes are costing lives, not to mention money.

We cannot afford business as usual.

Working together, I believe we can invigorate the way our state government works and tackle these challenges.

When we do so, this will be our legacy: that we have made Oklahoma a special place where our children and their children can live the American Dream.

Let's roll up our sleeves and get to work.

God bless you, and I look forward to a productive session working with all of you.