

State of the State

Governor Asa Hutchinson

February 12, 2018

Mr. Lieutenant Governor, President Dismang, Speaker Gillam, members of the General Assembly, Mr. Chief Justice and members of the Court.

It is a good tradition for the elected leaders of Arkansas to gather once a year to reflect on the state of Arkansas. But first, let us join together and express our condolences to the Speaker on the loss of his father, Dennis. Mr. Speaker you and your family are in our prayers.

Let us also take a moment this morning to remember the lives of Senator Greg Standridge, who lost his battle with cancer late last year, and long-time House Parliamentarian Tim Massanelli, who passed away over the weekend. We're praying for their families, and they will be greatly missed.

Today, as we begin the 2018 Fiscal Session, it is important to think anew on our goals.

The first time I spoke to you as governor, I laid out my vision for a New Day in Arkansas—to improve the quality of life in our state by growing our economy and creating jobs.

My top priority that day, as I spoke from the steps of the capitol, remains my top priority today—to lead Arkansas into a season of sustained economic growth in which everyone shares and benefits.

I knew then that we could reform state government—not by cutting necessary services but by eliminating unnecessary costs; removing duplicative processes; and reforming state programs.

I knew then that we could compete and win in the global marketplace by lowering taxes; by improving job-skill training in our high schools and two-year colleges; by offering computer science in every high school; and by reducing the burden of unreasonable regulations on our businesses.

Today, thanks to your partnership and spirit of cooperation, we have made historic strides toward many of our goals. And I'm delighted to stand before

this body with a simple but substantive message: The State of our State is stronger than ever before. And our future has never been brighter.

In 2017, we topped 3 million residents for the first time. While some states are losing population, more Americans are choosing to make Arkansas their home.

Our economy is booming. When I took office in January 2015, the Arkansas unemployment rate was 5.6 percent. Today, our unemployment rate stands at 3.7%. And last year, Arkansas was one of only three states to achieve record-low unemployment while increasing wages more than 3%. -Not only did our economy grow faster than three-fourths of the states, but more people are working in Arkansas today than ever before.

And we're certainly competing in the global marketplace.

Since 2015, I have traveled over much of the world to pitch Arkansas as the place for businesses and industry to come.

In partnership with the Arkansas Economic Development Commission, we have signed agreements with more than 300 Arkansas-based, national and international companies to expand or locate in our state.

From Sig Sauer in Jacksonville to Ruyi Technology in Forrest City to Metova in Conway and Fayetteville—our recruiting efforts have brought in \$7 billion in new investments and led to the creation of more than 11,000 jobs throughout the state.

And Arkansas agriculture has never been stronger. It remains our number one industry, and we're letting the world know every chance we get—with significant results. From Cuba to China to the White House — I've been an advocate for our farmers because global trade means a larger universe of consumers for our commodities and our livestock.

We also worked to cut taxes, and we did—in historic fashion. We have reduced the state income tax by more than \$150 million each year.

We also passed Act 141, legislation that exempts the retirement pay of veterans from the state income tax. And we are already seeing results.

One such example is retired Col. and Iowa native Mike Kirby, who, after 26 years in the Air Force, chose to move to Arkansas and start a business because of our commitment to the military community.

Another example is Adam and Brittany Boccher, who've decided to remain in Arkansas after Adam retires from the Air Force because we passed this law. Brittany's parents moved here from Texas to take advantage of the tax break, as well.

I want to thank the bill's sponsors, Rep. Charlene Fite and Senator Jane English, for their leadership on this important legislation and for all of you who supported it. Veterans are a critical part of our state's economy, and we should do all we can to support them when they come home.

To our men and women who are currently serving in the Arkansas National Guard, I want to say thank you. Whether you are responding to natural disasters or deploying overseas, you are always ready and prepared to serve your state and nation. 2017 was evidence of that.

I want to recognize General Mark Berry, the Adjutant General of the Arkansas National Guard, who is here today. In 2017, we had nearly 2,000 Arkansas National Guard soldiers and airmen in Iraq, Afghanistan, Kuwait, Djibouti, Kosovo, and in Central America.

Here on the home front, more than 1,100 of our guard members deployed to Houston, Texas; the Virgin Islands; and Puerto Rico to help in the aftermath of a series of catastrophic hurricanes. Your service to our neighbors has made all of us proud.

Thank you all for your service.

Whether it's a veteran or a civilian who moves to Arkansas to start a business, it's important for our state's business climate to be helpful to all entrepreneurs—not a hindrance.

That's why we promised to reduce the burden of unreasonable regulations on our businesses, and we've made great strides, but there's more to be done. In fact, later this week, I will announce the names of the Arkansans who have agreed to serve on a working group focused on reducing

regulatory burdens. By fall, they will present a blueprint for legislation to present during the 92nd General Assembly that will eliminate unnecessary obstacles that prevent Arkansans from pursuing their dreams for a particular trade.

Of course, education is key to a strong economy. And we're taking a universal approach in preparing our students and future workforce.

For one—we promised computer science in every Arkansas high school, and we kept that promise—with the rest of the nation watching and many trying to follow our lead. Arkansas was the first state to require all public high schools to teach computer science with funding to train our teachers. Today, more than 6,000 high school students—from the Delta to Northwest Arkansas and at schools everywhere in between—are enrolled in computer science courses. National publications continue to proclaim Arkansas as the leader among states in computer science education.

And as important as learning to code is to our future workforce, so is the ability for our students to read and write at grade level. Last year, the Arkansas Department of Education launched the Reading Initiative for Student Excellence, better known as the RISE. The goal of this initiative is to promote a culture of reading by emphasizing phonics, while establishing the importance of reading in homes, schools, and communities. Currently, there are more than 350 schools participating in this reading initiative.

As for higher education: Earlier this year, the Department of Education launched its No Limits campaign to encourage students to take the ACT as many times as they can—with the first test free of charge. The higher a student's ACT score, the more opportunities are afforded to them in terms of scholarships and financial aid.

And when they get to college, we want them to succeed, which is why we worked to change the way we fund our universities and colleges. In 2017, with your support, we did just that by passing the Higher Education Productivity Funding Formula. Now we base the funding of our 10 public universities and our 22 community colleges on how well students perform and progress rather than how many students show up on the first day of class. We want students who enroll in our universities to graduate or earn a certificate and move on to good careers with a good wage.

We've come a long way in reforming our welfare programs, too. Today I'm proud to say that fewer Arkansans are on Medicaid than when I took office, and SNAP benefits are the lowest in 9 years.

In 2017 alone, 117,000 individuals left the Medicaid rolls—many of whom found work and climbed up the economic ladder.

I recently learned the story of a 28-year-old expectant mother from Independence County who developed a number of health issues during her pregnancy that prevented her from working. As a result, she relied on traditional Medicaid to pay for her treatments. After the birth of her child, she transitioned to the Arkansas Works program in August of last year, but complications from her pregnancy left her still unable to work and in need of multiple surgeries. Today, I'm happy to report that she is healthy, she has a full-time job, and she's moved off government assistance altogether.

While more reforms are still necessary, it's important to understand that all of this was accomplished without reducing benefits. Instead, we focused on the enforcement of current eligibility requirements through a more efficient determination process and by breaking down the silos of government.

As for the future, I expect approval from Washington before the legislative session ends on our request to implement a work requirement for the Arkansas Works program.

If you are able-bodied and of working age—with no dependents—you should be working or in training. The only long-lasting solution to lowering the cost of Medicaid is to help more people earn their way off.

Arkansans understand the importance of work, and they want to work. Some just need more training and opportunity. We find dignity in work, in bringing home a paycheck and in paying our own bills. For any of us to assume that people prefer government assistance over self-sufficiency would be an enormous disservice to our people and to our future.

And while our work requirement will be one of the most stringent in the country, it's important to remember that these work requirements are not punitive. I promise you we won't abandon the truly needy, but neither will we assign the able-bodied to a life of dependence.

There's no better example of our commitment to those in need than the progress we've made on the Developmentally Disabled Waitlist. Last year, with your help, we utilized \$8 million from the Tobacco Settlement Fund to reduce the waitlist by 500, which had been stagnant for nearly a decade.

Nineteen-year-old Regan Reaves is one of those who is receiving help for the first time. She was on the list for eight years. With in-home assistance, Regan is achieving a measure of independence her parents weren't equipped to teach. Regan and her mother, Wendie, attended the fall meeting of the Tobacco Settlement Commission to thank members for allowing the state to utilize that money, and I appreciate your partnership as we continue to look for ways to reduce that waitlist even further.

There's so much more to talk about—from our Restore Hope initiatives to the legislation that gave Dr. Martin Luther King Jr. his own day.

But I say all of this for a reason.

What we do here matters. The policies that come out of this building affect the everyday lives of people who depend upon us to make the right decisions. It is a heavy responsibility that we should never take lightly. In three short years, I believe we have made a positive difference for the people of Arkansas, but there's always more work to do outside the scope of the fiscal session.

Those issues include addressing the insufficient reimbursement for our pharmacists that serve our rural communities; expanding rural broadband in all parts of Arkansas; and continuing to address the opioid crisis that kills tens of thousands of Americans every year.

These are real issues facing our state today, and we are working diligently to address them.

For today, we focus on the business of this fiscal session:

Earlier this year, I appeared before many of you with my proposed budget for the 2019 Fiscal Year—a budget that reflects real spending cuts in a number of agencies through efficiencies—all without a reduction in services.

That budget shows a slower growth in Medicaid spending; fully funds education; increases funding for public safety; and reduces our historic reliance on surpluses and one-time money to fund ongoing budget needs.

The result of which is a net reduction of \$100 million in overall spending in FY19 compared to the budget I originally presented last year. The reduction amounts to a projected net surplus of \$64 million.

Here are a few of the highlights:

Because of our growing economy, the Education Adequacy Fund is sufficient to meet the legislative mandate on education spending without relying on general revenue transfers. This means we will not need the \$50 million that we planned to transfer from General Revenue.

The proposed budget also provides for additional spending reductions that total approximately \$3 million.

When it comes to Medicaid spending we've witnessed a reduction in the number of Arkansans on Medicaid without reducing eligibility or services. This is because of transformation efforts within DHS and because more people in Arkansas are working and increasing their income.

As a result, DHS has turned back nearly half-a-billion dollars in new Medicaid spending to the federal government. And our budget reflects a reduction in general revenue spending of more than \$55 million compared to the FY 19 budget outline presented a year ago.

The remaining growth in Medicaid spending is the result of the change in the federal match rate; elimination of \$50 million in one-time funding for Medicaid; and normal cost increases.

In 2016, as you may recall, I asked for specific Medicaid Transformation initiatives that will produce at least \$835 million in savings over the next five years to help pay for projected increases. Because of the excellent work of the Legislative Health Care Task Force, I'm delighted to tell you that we are on track to meet that goal.

Now allow me to emphasize a few other areas to note in the budget:

In the area of public safety, I've asked for \$4 million towards County Jail reimbursement.

Funding is also in place for improvements needed to reduce violence in prison.

Funding for Community Correction will increase by \$1.4 million to assure continued progress with our reentry program, as well as parole supervision. For example, Community Correction currently has 1,332 employees; however, this budget provides for 1,455, meaning there is room to increase personnel by more than 120 positions.

Funding for the four Crisis Stabilization Units is in place, as well—which I believe will have a substantive impact on those suffering with mental-health issues in our state, while easing the burden on our county jails and hospitals. And I'm pleased to report that the first is scheduled to open at the end of this month.

Other highlights of this budget include funding for 65 new child welfare caseworkers at DHS; \$3 million as a line item for Arkansas State Police vehicles, which, historically, has been accomplished through one-time funds; And \$10 million to implement the Higher Education Productivity Funding Model.

The net result is that we have cut general revenue spending from the anticipated budget while creating a projected surplus of \$64 million.

The budget allocates 75% of this surplus, or \$48 million, to a new Restricted Reserve Fund that can only be tapped with concurrence of the legislative branch.

The other 25%, or roughly \$16 million, will be allocated for the Highway Transfer Fund in accordance with the Highway Improvement Plan of 2016. \$28 million is already scheduled for transfer in FY19.

This is the right budget for Arkansas, and I'm asking for your support once again to pass this budget. It's conservative in spending; it increases our savings; and, most importantly, it invests in the future of our state.

And speaking of the future, the Restrictive Reserve Fund is meant to serve as a cushion for future economic changes—but it will also lay a foundation for future tax cuts.

As I mentioned earlier, we've cut the income tax in our state by more than \$150 million. In 2015, we cut \$100 million from the income tax for middle class Arkansans. In 2017 we again cut taxes, focusing on Arkansans with lower incomes, by cutting an additional \$50 million. The 2019 General Session will be no different.

As you know, the Legislative Tax Reform and Relief Task Force has been looking for ways to reform our tax code and provide further tax relief for our citizens. I appreciate their continued leadership, and I have confidence their work will lead to true reform of our tax system.

Last week, I was in New York City promoting Arkansas and meeting with business CEOs about investing or expanding in this state.

While in New York, I took advantage of the opportunity to showcase Arkansas before the Editorial Board of the Wall Street Journal. During our visit, one of the editors asked me what our top marginal tax rate was in Arkansas. When I said it was 6.9%, the response was: "*That is worse than Connecticut.*"

That story illustrates the competitive nature of taxes in a mobile society. But the true motivation for tax reform is to do the best for the people of our state.

Today, I'm announcing my specific goal for the state. My objective has always been to lower the overall income tax rate in Arkansas, and that priority has never changed. Today, I'm proposing that we cut Arkansas's top tax rate from 6.9% to 6% when we all meet again next year.

This is the necessary next step in lowering our income tax, and it will make our state more competitive with our surrounding states. It will lead to more job creation and investment in this state.

To the members of the task force: Reaching this goal will take work, and it won't be easy—but I challenge you to make recommendations that establish a fairer and more competitive income tax code. That could mean closing

certain exemptions that have outlived their usefulness. Another part of the solution is to save money by transforming government. All of this combined with our growing economy and savings efforts will allow us to cut taxes without jeopardizing essential services.

Together, as we have done so many times before, we can provide for the needs of education and public safety, while maintaining necessary safety nets for our struggling citizens. We can do all of this and still create a climate of economic growth and opportunity.

After all, Arkansans deserve bold and responsible leadership. Over the past three years, we have honored the trust they have placed in us to lead this state into a new era of prosperity. But we cannot rest until there is equal opportunity for success for every Arkansan—whether you live in Gurdon or Gravette; whether you were born in Tyronza or Texarkana. Yes, there's much to celebrate, but we're not finished yet.

I grew up loving the Spavinaw Creek that flowed through our farm and the hills that surrounded us. To me, that was Arkansas, and I loved it. But as life moved on, I fell in love with the rich Delta, the timberland in the south, and the duck hunting in parts of our state. I discovered more of our broad history and the diversity of culture that we have and the breadth of our economy that keeps us strong.

Yes, today we have much to be thankful for. Today I recognize the amazing opportunity that is before us. That opportunity is Arkansas. Let's not let her down.

Thank you. God bless your efforts. God bless Arkansas.