



STATE OF THE STATE ADDRESS OF GOVERNOR DENNIS DAUGAARD

THE STATE CAPITOL – PIERRE, SOUTH DAKOTA – JANUARY 10, 2012

Thank you very much for allowing me to serve you this past year. It was one year ago today that I walked into my office for the first work day as Governor, and it's been an honor every day since then to serve this great state.

I am also honored to work and serve with the public servants gathered here today, and there is one I would like to particularly mention today. Moments ago, we heard a familiar voice announce my arrival in this Chamber. We've heard this same voice now for over 20 years. The House Sergeant-at-Arms, Mel Chandler. This will be Mel's last year working for the legislature, and I want to thank him for his years of service to our state. Will you help me - Mel!

Now Mel you still have to work this session!

It is my duty and pleasure today to report to you on the "State of the State", and I am pleased to say South Dakota and her condition has improved since we last met at this time last year. South Dakota is moving forward. It's not the best of times, but neither is it the worst of times. We have reason to be hopeful.

Today, because of tough budget decisions you made, our state is on stronger financial footings, and because of the hard work of the people

of South Dakota our economy is also stronger in spite of what may happen on Wall Street or Washington, DC.

Our unemployment rate is lower, and non-farm employment numbers are increasing, but we have not yet returned those numbers to pre-recession levels, and there is still great uncertainty. We are recovering, but we have not yet fully recovered. That is why, last month, I proposed a conservative budget that departs from freezes and cuts, and returns to formula increases, but still guards against a downturn. My budget spends 99 percent of the revenues we project to receive, but still leaves money on the bottom line against uncertainties in case we need it.

Beyond economic progress, we have made efforts in other areas as well. Last year, in my first State of the State address, I spoke to you about the problem of infant mortality in South Dakota. Every year, on average, 80 infants die in South Dakota before their first birthday. The infant mortality rate is one of the most important measures of a population's health, and we can do better. Consequently, I convened a 27-member task force, led by our First Lady, to recommend ways to address this problem.

The task force identified four key improvement opportunities. First, we need to ensure access to early and regular prenatal care, which is vital to a healthy pregnancy. Second, too many South Dakota mothers smoke during pregnancy which puts the health of an infant at risk. Third, safe sleep practices, like having a baby sleep on its back in a crib without loose blankets, that makes a difference. And fourth, we need to address these disparities within Native American populations.

You will be hearing more in the coming months about these efforts, but today, I can announce we will use available funds to expand the Bright Start Home Visiting program. Bright Start is a voluntary program under

which specially trained nurses visit high-risk pregnant women in their homes. My budget proposes to expand Bright Start to four new communities beginning with Pine Ridge and Sisseton.

In addition, the state will be redoubling efforts to educate new parents on safe sleep practices, and we will use existing funds for tobacco control to educate the public about the dangers of tobacco use during pregnancy.

I would encourage you all to review the task force's report, and I know that Linda will be presenting to both health committees about this work. I want to thank Linda and the entire task force for their commitment and time. I sincerely hope their efforts will help more South Dakota children live to see their first birthday.

Another task force that worked hard this year was the Medicaid Solutions Workgroup. We all recognize the challenge that Medicaid poses to our state budget. Medicaid is second only to education as a portion of our general fund budget. We face increasing enrollments, increasing costs of those enrolled, and falling federal support of Medicaid as our personal income growth is stronger than the nations.

I formed the Medicaid Solutions Workgroup during the last legislative session to see what we could do to control the growth of this expenditure category. Legislators, health care providers from around the state, my staff, and others interested in Medicaid all participated - over 80 people in all, and the task force continued to meet through the session and into the rest of this year. The task force issued its report last month.

What they found was that South Dakota's Medicaid program, first of all, is an efficient and conservative program. We have never had many of the expensive options that now burden other states, and there are not

many things consequently that we could cut. The group focused instead on key cost-drivers in Medicaid - care for people with chronic conditions, high cost services like neo-natal care for premature babies, prescription drugs, institutional services, and emergency room use. After much research and discussion, the workgroup developed a dozen key recommendations.

Two of these recommendations have a direct impact on the budget I proposed for FY13. The Department of Social Services budget includes a reduction of about \$340,000 in general funds as a result of increasing co-payments for prescription drugs and implementing an annual cap on dental services for adults. Other recommendations will take longer to accomplish - proposals to manage care differently for those with chronic conditions and to help people stay in their homes longer or in their communities longer to avoid higher cost services.

The Workgroup recommendations provide solutions that make sense for South Dakota, and I appreciate the efforts of everyone who has participated. I especially want to thank Senators Corey Brown, Jason Frerichs, Jean Hunhoff, Deb Peters, and Bruce Rampleberg, as well as Representatives Suzy Blake, Justin Cronin, and Scott Munsterman for their efforts on the task force.

This year we've also seen and addressed the severe mountain pine beetle epidemic in the Black Hills, which has left large swaths of dead trees in its wake. Over 400,000 acres in the Black Hills forestland are infested with this pest, which has spread from federal land onto state land and private property. As a result, the potential for massive forest fires is very high. Through the Black Hills Forest Initiative, state crews working with private landowners, are taking on this threat by identifying and marking tens of thousands of beetle-infested trees and providing 50 percent cost-share for their removal. The response to the program has been huge, in fact, over double what we anticipated, and

it has encouraged local governments, as well, to participate in other cost-sharing arrangements.

In addition, state staff, private contractors, and inmate crews are working to address this infestation in Custer State Park and other state lands. Of 142,000 identified trees that are in infested, more than 30,000 have already been cut down. All 142,000 trees are scheduled to be cut down by March 30th. Further activities will re-commence next fall. The pine beetle epidemic remains a grave threat to the Black Hills, but our continuing efforts will slow the spread of that epidemic.

This summer I also announced a “Better Government” initiative - an ongoing focus on making state government more open, more efficient, and more accessible.

I asked my cabinet to conduct a Red Tape Review, to eliminate regulations or statutes that are out-of-date or unnecessary and to simplify those that are too complex. I am proud to say that they exceeded my expectations in this first year. We will be bringing 22 bills, totaling 168 pages in length, to repeal unnecessary regulations and statutes. Through these bills, as well as through the rules process, we will propose eliminating nearly 1,100 rules and 200,000 words from the Administrative Rules of South Dakota. Additionally, we will recommend the repeal of over 400 sections of codified law. This is the first year of our effort, but it won't be the last. I hope, as legislators, you will exert your own effort toward reducing the numbers of laws and regulations which burden our citizens, equal to the effort you exert toward initiating new ones.

My administration has also sought to make government more open and transparent. We have released the list for the Governor's Hunt and other economic development events. We've also made public the names of those who sponsor those events. We've opened the

Governor's Mansion and Valhalla to regular public tours for the first time in our state's history. We've released more information from the Department of Corrections. We've made the Governor's Office of Economic Development more open than ever before. In fact, every recipient of a state economic development loan or award administered by GOED is now available for viewing online. Finally, we've added more functionality and more information to open.sd.gov and created better search function to the state home page. If you haven't visited the state home page in recent months, I encourage you to do that. I think you'll be pleased with what you find.

Finally, we've made great strides toward allowing our citizens to go online, rather than wait in line to interact with their state government. I am proud to announce today that more than 20 permits and licenses can be obtained fully online for the first time, and that many more have been identified for this upgrade. This saves time and effort for our state workers and again we are just beginning this effort, which will be ongoing.

Of course, my top priority of the past year has been creating jobs and growing the economy, and I am proud of the progress we've made this past year. We've added more than 5,000 jobs in the last two years, and the number of jobs in South Dakota has nearly reached its pre-recession peak. Our unemployment rate, which has been among the three lowest in the nation, has fallen again to 4.3 percent.

When I started my term as Governor, I asked the Governor's Office of Economic Development to redouble their effort and their emphasis on economic development efforts for businesses already here in South Dakota. The statistics show and I truly believe that South Dakota's most important job creators are the entrepreneurs and businesses that are already in South Dakota. In 2011, the Office of Economic Development assisted 61 companies with expansions through financing

or technical assistance. Of those, 73 percent are existing South Dakota companies. So they are doing as I had asked.

I also want to listen to South Dakota business. Since I took office, the Lt. Governor and I and the GOED staff have visited more than 250 existing South Dakota businesses to encourage them to grow and expand in South Dakota and to listen. We asked them to tell us how can the state help you be better, be bigger, have more jobs.

We've seen that businesses are expanding and adding workers all over South Dakota. In Watertown, OEM Worldwide is undergoing an \$11 million expansion that will add 150 jobs. In Spearfish, TMone has opened an office that's already created 60 jobs and expects to add more. Adams Thermal Systems in Canton is adding 50 jobs as part of its fifth expansion in Canton since 2005. We've seen job announcements in Madison, Yankton, Sturgis, Mitchell, Vermillion, Rapid City, and other places.

There's also been good news in the financial services industry. When the federal credit card regulation scheme changed, and that caused job losses in this industry, many of us feared that we would never get those jobs back, but we are seeing promising signs. This fall, Capital One acquired the HSBC credit card business and announced they would not only retain the 400 jobs there in Sioux Falls, but add 400 more. They've already begun hiring at a pace of 50 a month, 50 a month, and then 100 a month, 100 a month and plan to fill all jobs before summer.

Even as the national economy continues to struggle, South Dakota is bouncing back because of our strong business climate in South Dakota. The Small Business and Entrepreneurship Council ranked South Dakota #1 in its Small Business Survival Index. The Tax Foundation ranked South Dakota #1 for our State Business Tax Climate, and we continue to have the lowest per-capita tax burden in the nation.

I have to tell you – I attended the Western Governors Association meeting in California last month, and Pat Costello went with me. We stayed an extra day and half and met with business leaders in Southern California about opportunities in South Dakota. We put together a slide presentation that compared South Dakota's business and tax climate to California's, and it almost felt unfair. It was like shooting fish in a barrel. California has taxes we've never even heard of, and like many states, they are looking to raise them again.

We are lucky to live in South Dakota, where we still understand the role of government and the importance of a balanced budget. Over the past year, we have moved South Dakota forward in these and many other areas - many, many, too many to recite today. I want to thank my cabinet, my staff, and all others who helped achieve these successes and for your support to make them possible.

I would like to spend the rest of my time now to talk about two important issues that we must address in order to keep South Dakota moving forward. The first of these issues is Workforce and the second issue is Teaching. First, let's talk about Workforce.

I mentioned a moment ago that I've been visiting existing South Dakota businesses to encourage them to expand here in South Dakota. I've heard good news on these visits. Many South Dakota companies have expansion plans. They appreciate our business climate because they don't face the barriers to growth they see in other states. Many of these businesses are in multiple states, so they have a basis for comparison, but I did hear about one major barrier we need to address.

One of my visits was to Raven Industries, a technology firm that employs more than 1,000 people in our state. Business is good at Raven, and in 2011 they added 200 jobs in Huron, Madison, and Sioux Falls. They told me they are planning to add another 100 jobs in

engineering and other skilled fields. I was excited about what that meant for South Dakota until they told me they were planning to add those 100 jobs in Texas. They didn't believe they could find another 100 engineers in South Dakota.

I've heard similar concerns from other South Dakota employers about the difficulty of finding skilled workers, and the numbers bear them out. Our Department of Labor and Regulation has nearly 10,000 job openings in our employment system. Many of these job openings are for skilled or professional positions, welders, engineers, and accountants – jobs like that. Meanwhile, fewer than 100 welders, engineers, IT specialists, and accountants are receiving unemployment benefits in South Dakota today.

This is a significant barrier to employers who want to expand in South Dakota. We have incredible professionals and technicians, but we need more of them. We need more of them. South Dakota is better positioned in terms of our climate than almost any other state in the nation, but we must do more to address our workforce challenges.

So today, I am proposing an effort we're calling "South Dakota WINS", short for "South Dakota Workforce Initiatives." South Dakota WINS is a twenty-point plan, in four categories to get more South Dakotans trained and ready to work in a rapidly growing and changing South Dakota economy.

The first category involves preparing our children. South Dakota WINS when our students are prepared to compete in a modern, high-tech economy.

It's hard to overstate the importance of science, technology, engineering, and math in this modern economy. Nearly every high-need career field relies on a strong foundation in these areas. The first

component of South Dakota WINS emphasizes science and math education by rewarding math and science teachers for teaching in this high-demand field. This is very important, because nothing lights a spark better than an effective and outstanding teacher. I'll speak more about that in a minute.

We also want to provide opportunities to inspire future scientists and engineers outside the classroom. Hundreds of South Dakota students have experienced "scrubs camps" organized by our state Department of Health. Scrubs camps are free, one-day, hands-on health career camps for high school students. Scrubs camps successfully introduce challenges to students in incredibly important medical fields. Our experience has shown that students participating in these camps are highly likely to pursue careers in medicine and other health fields.

We need to expand the scrubs camps concept into engineering camps, technical camps, and math camps. The scientists, engineers, nurses, and doctors of tomorrow are already in our K-12 system. Tonight as they go to bed, they may not understand the value and importance of math and science, but over the next few years we'll use the tools at our disposal, in and out of the classroom, to show them the possibilities. There are more elements in that first category but I ask you to look at the plan later. I am going to move onto the second category.

The second category involves training for skilled jobs. South Dakota WINS when our workforce is qualified and prepared for all types of careers.

An economy needs more than engineers and doctors to flourish. We need skilled and trained technicians who know how to make things. We need more training for those skilled jobs.

Our technical institutes provide graduates that our state needs, and I want to see technical education in South Dakota expand. Our state doesn't have enough welders for example. We need a new welding program at Mitchell Tech and we're going to work to provide that. We also need to develop hybrid courses so that people that are located outside the communities served by a tech school can still get that kind of training, to deliver that kind of training online and in the lab. Likewise, we need to expand the welding program in our corrections facility at Springfield, and the plan includes an effort to do that.

I'm also proposing next year that more than 2,000 of our high school students take the National Career Readiness Certificate test. The NCRC is a national certification program used to determine if workers have the skills to succeed in this modern economy. Promoting this certification will help our students demonstrate that they have the job skills to make them good employees – whether they continue their education or go right into the workforce.

I am also reallocating almost a million dollars a year in Community Development Block Grant funds toward workforce training. Over the years CDBG dollars have had a tremendous impact on South Dakota, helping to build fire halls, waste and drinking water systems, and community centers, and we'll continue to do that. CDBG funds will continue to help us do that at the same time it is also allowing for training dollar match programs in communities where they want to undertake training of that sort.

The third category of our Workforce Initiative is to promote health care occupations, especially in rural areas. South Dakota WINS when every citizen of our state – no matter where they live – has access to quality healthcare.

Across our state, we have rural communities working hard to succeed. Quality healthcare is vital to those communities, but in rural areas 59 of South Dakota's 66 counties are medically underserved - 59 of our 66 counties are medically underserved. This is a workforce issue because to have quality healthcare, you have to have quality healthcare professionals. The third component of South Dakota WINS improves access to rural healthcare.

Primary care is the care a patient receives at the first contact with the health care system. Nationally, and in South Dakota, more young doctors, nurse practitioners, physician assistants – they're choosing to practice as specialists in dermatology, radiology, and other specialties, instead of in primary care. Instead of in fields like pediatrics, or obstetrics, or family medicine, or internal medicine. We need more primary care providers. And, we especially need more primary care providers in rural South Dakota.

We need to train more doctors at our medical school, and we need to put programs in place to keep those doctors in South Dakota, and to encourage them to choose primary care practice in rural areas of our state.

As one point in this category, I support expanding the Medical School by four additional students per year, beginning this year. I also support exposing more medical students to rural practice, as part of their third year in Medical School.

Now, a majority of physicians who attend medical school in South Dakota, and who enter a residency program in the South Dakota, stay in South Dakota to practice medicine, and I want to work with the major health systems, communities, and others to determine the feasibility of creating additional residencies in South Dakota so we

don't train our medical students in South Dakota, have them go to residencies in another state, and never come back.

In addition to doctors, mid-level professionals like physician assistants and nurse practitioners also play a critical role in rural healthcare. As a second point in this category, I am proposing that we expand the physician assistants program at USD to double the number of available spots for in-state students.

Over the last few years, we've also seen some success in the recruitment and retention of rural healthcare providers. Our tuition reimbursement program for physicians, dentists, and midlevel providers is working. Thirty-one contracts have been created under those programs, and today, 22 of those professionals are still practicing in their rural communities. Philip, Belle Fourche, Hot Springs, Howard, Scotland, Flandreau, Mobridge, Gettysburg, Wagner, and 21 other communities have participated in this program, and it is improving healthcare in rural South Dakota. I am calling for an expansion of the tuition reimbursement program.

We also have had a program to help health care facilities recruit nurses, lab techs, and other professionals through a signing bonus-like arrangement. Nursing homes and hospitals in rural South Dakota have told us they need to be able to offer greater incentives to these folks to get them to come. We will be introducing legislation to expand this program by providing a higher payment incentive for nurses and other high need providers at rural facilities.

The fourth category of South Dakota WINS, our Workforce Initiative, involves recruiting workers to South Dakota. South Dakota WINS when our working population grows by welcoming new skilled workers and encouraging the return of those who have left.

Despite aggressive efforts in the classroom, and at the tech schools, in the medical arena, the efforts I've described won't be enough to meet our workforce needs. There are 1,466 unfilled jobs in this state in the engineering, information technology, accounting, and skilled worker fields today. All our training programs are for tomorrow. There are fewer than 100 South Dakota workers today in those careers receiving unemployment benefits, so the fourth category of South Dakota WINS brings professional and skilled workers into our state to fill this gap.

The Dakota Roots program, you've heard of I know, brings former South Dakotans back home by matching them with job opportunities in this state. Dakota Roots has helped more than 2,000 families relocate to South Dakota. By expanding the outreach and aggressiveness of that program and by targeting areas of highest need, we are going to bring even more South Dakotans back home.

But we won't stop there. As skilled workers in other states face continued high unemployment and an uncertain future, South Dakota can offer them better. We can be their land of opportunity.

Last year at the state fair, my family received the Century Farm award. It was in 1911 that my grandparents Martin and Margaret Daugaard bought our family farm. They came from Denmark hoping to find a better life for themselves in South Dakota. They knew South Dakota offered them a chance, and they sought nothing more than that. My grandparents worked as hard as people can work, and together, they built a life in this state. Many of you have similar stories about your families. Today, as in the past, South Dakota offers something special for those that value community, and hard work, and family.

Have we done enough in recent years to share that story? Do those that share our values, but live elsewhere, know what we have to offer? Do they realize that South Dakota can be their land of opportunity?

The time has come for us to be aggressive in selling South Dakota – not just to companies that want to move here, but also to skilled workers and families that can make our companies and our communities more successful.

Today I am announcing an innovative and first-of-its-kind relationship to attract a new generation of skilled pioneers to our state. The “New South Dakotans” initiative will partner state government with South Dakota businesses and with Manpower, the world’s largest workforce recruiter. Together we will work to identify and place 1,000 professional and skilled workers from outside of our state into jobs here in South Dakota. As we move forward with this proposal we will protect qualified South Dakota workers. The program will focus on high-demand jobs in industries without enough in-state professionals to fill them. In fact, no job will be listed with the program until it’s been in our state system for at least 30 days, giving our state’s citizens first shot at those jobs.

In the gallery we have some of the employers who are interested in expanding their businesses and they’re excited about participating in the New South Dakotans program. One of the companies here is Raven Industries, whose difficulty in hiring engineers brought this challenge into focus for me. Now, Raven is among the first companies to enroll in the New South Dakotans program.

We also have representatives here from Molded Fiberglass in Aberdeen, Applied Engineering in Yankton, and RPM in Rapid City, and those companies have also expressed an interest in participating. They are here in the gallery to my right. Let’s welcome them to the Capitol.

There are also representatives here from Manpower. Although they have thousands of offices around the world, we will be working with

their South Dakota-based team – people who know and love our state and who have chosen to make South Dakota their home.

Now let's think about the impact of 1,000 new South Dakotans. The impact of 1,000 new welders, and engineers, and machinists, and accountants on our state's economy will be enormous. Those 1,000 families will add more than \$120 million to our gross state product, put hundreds of children into our schools, and pay millions of dollars in state taxes. Between 1930 and 1990 – I'll say that again, between 1930 and 1990, the population in our state changed up and down and ended up 3,000 more than 1930 – 3,000 in 1990 more than in 1930. The Dakota Roots program and the New South Dakotans program will give us the opportunity to replicate that population growth, not over 60 years, but only in a few. Recent decades have seen South Dakota grow, and I'm dedicated to continue that growth through smart investment and innovative approaches.

Now, there are 20 different ideas in South Dakota WINS and all of them can be found online at www.southdakotawins.com To be successful we must join together with workers, communities, schools, and businesses. And, I am committing to do just that. Although the plan is ambitious, the investment required is relatively modest compared to what the impact will be.

With our efforts, we can begin to transform our workforce and with it our state. We can light the spark that creates future scientists, and engineers, and we can train workers to fill jobs they want and need. We can reinvest in our rural healthcare system. We can welcome back home the young people who have left, and we can recruit professionals and skilled technicians who seek a better land of opportunity. We can do those things, and we must do them if we want to move our state forward.

Now that you've heard some of my suggestions for improving our workforce, I'd like to talk to you about Investing in Teaching.

Of course, the best way to build a skilled workforce in South Dakota is to provide a quality education to our young people. As I said in my state of the state address last year, "The foundation of our economy is an educated workforce."

I am proud of South Dakota's schools - I'm proud of them. Our students' test scores – our ACT scores and our NAEP scores, our National Assessment of Educational Progress – those scores – they're routinely - routinely exceeding national averages – they always do. Our high school graduation rate is strong. Much better than most places. And our high school graduates go on to post-secondary education at one of the highest rates in the nation. We have much to be proud about in South Dakota in our education system.

Our schools do well because we have involved parents. We have talented and hard-working students, and very dedicated teachers and administrators. My wife, Linda, spent much of her adult life working as a teacher and a school librarian, and in the past year she has visited over 90 elementary schools to promote reading. She has been impressed by the teachers and principals she has met.

But we need to do more to reward our best teachers for the work they do, and to attract more of our talented young people into the teaching profession. That is why, today, I am pleased to announce the "South Dakota Investing in Teachers" initiative.

Let's begin though with some historical perspective. I graduated from high school 40 years ago, 1971. I asked my staff to take a look back and see what's happened in education since then.

In 1971, South Dakota had 173,006 students, 8,452 certified teachers, and another 5,436 “non-teachers” – other staff - everything from administrators and aides to cooks and janitors in other staff.

Forty years later, there were 123,629 students in K-12. That is a decline of just under 50,000 students in forty years – a drop of about 28 percent. During that same period, while student numbers were falling, we have added 869 new teachers. Today we have more than 9,300 teachers, an increase of about 10 percent. So we are employing over 800 more teachers to educate 50,000 fewer students.

We have also seen a more dramatic shift in “other staff” over the past forty years. From the 5,436 in 1971, we have increased to 9,005. That is an increase of 3,569, or 66 percent. Today, we have over 9,300 teachers and just over 9,000 other staff. We employ nearly as many non-teachers as teachers.

Here’s a look at that same data, over time, in a graphical form. The blue line is the number of students from 1971 to 2011, with the scale on the left. The red line shows teachers, and the green line shows other staff. The scale for the teachers and other staff is on the right. There is a three-year gap in the data for other staff, that’s why there is a missing spot in the line, but the trends are very clear. During the 1970s, there was a dramatic decline in students, but very little corresponding consistent change in staffing. Beginning in the 1990’s, there has been a significant increase in other staff. When you combine teaching and other staff, we employ nearly twice as many employees per student today than when I graduated from high school in 1971.

Why did that happen? I know some of this increase in staff is due to the integration of special education students into public school classrooms. But the federal law that created that movement happened

in 1975. Look at the teaching and other staff from 1975 forward, not much happened until 1990. Other government mandates maybe have contributed. I don't know. Looking at this data, I would guess that some of this increase is just due to the tendency of institutions, including government sponsored school to grow larger over time.

Let's look at some other history. We need to understand these trends as we discuss education in our state. Another way to measure our efforts in education is through looking at spending. The National Center for Education Statistics, a part of the U.S. Department of Education, compiles data on education spending per pupil, doesn't matter whether it comes from the federal government, comes from local government, comes from state government, but let's look and see what's being spent in inflation-adjusted dollars – inflation-adjusted dollars. Now, I don't have this data for every year, but it is available on the Internet and here is what it shows.

In 1969, in inflation-adjusted dollars, we're using 2009 dollars; South Dakota spent \$3,920 per student. Now really we spent less than \$1,000, but I am inflating it to 2009 dollars. That is \$3,920 in 2009 inflation-adjusted dollars. In the most recent year available, 2008, South Dakota spent \$9,173 per student, again in 2009 inflation-adjusted dollars. I will grant that 2008 is before our budget required a freeze and a cut. But, take 10 percent off that and you are still spending more than twice as much as you spent per student in 1969. In the 39-year-period from 1969 to 2008, in constant inflation-adjusted dollars, our per student spending on education more than doubled. We spent 2.3 times more per student.

So that is the trend over the last four decades. We have 50,000 fewer students. We have added more than 800 teachers, 3,500 other staff. We are employing nearly twice as many staff per student, and we are

spending well over twice per student in inflation-adjusted dollars than we spent when we looked at the beginning.

Is that wrong? No. One can often do a job better, or faster, or more effectively when you apply more resources. Any job can be done better or more effectively or faster if you apply more resources to it whether it's human resources or money. And as I've said often in the past, we should measure our success in education not by what we're putting into it. We should measure it by what we are getting out of it - results. We all know that our schools perform well. But given the statistics I just shared, we should expect to see significant improvement in performance over time.

Is that the case?

Unfortunately, it is not. It is not. Our schools do well, and our test scores are good, but they have flat lined. They have flat lined. Our ACT scores, our NAEP scores, and our graduation rates are above the national average, but they have been relatively unchanged for decades.

I asked the Department of Education to compile our average ACT scores over the past four decades. Here is what we found. The red line on this chart shows the average score from 1971 to 1985. After 1985, the test was revised so you can't compare the beginning of the chart on the far left to the far right; you look at the trend in the red and the trend in the blue. But as you can see, there is only variation from year to year, with no significant upward or downward trends. In the 26 years since the test changed in 1986 - that would be those years represented by the blue line - the average has stayed within one point, from a low of 21.0 to a high of 22.0.

We see a similar trend in the NAEP – the National Assessment of Educational Progress. We don't have nearly as long a period to look at,

but this is a test that our 4th graders and 8th graders have taken in math and reading since 2003 to comply with No Child Left Behind. It is the same test they take nationwide – the same test. The data doesn't go back forty years, but since 2003 we've seen very little movement in these scores either. The chart shows the scores in 8th grade math in blue, 8th grade reading in red, 4th grade math in green, and 4th grade reading in purple. On a 500-point scale, each of these scores has varied by 5 points or less over five testing cycles. That is a variation of less than 1 percent - so less than 1 percent change.

Now what is more troubling than that, is even though our NAEP scores are steady and we are doing well, we are better than the national average. We're being passed up by other states. In 2003, only 4 states exceeded our scores for 4th grade reading. Now, 20 states are better than us. Only 8 states exceeded our 4th grade score in math in 2003 – now 18 states are better than South Dakota. We have seen a similar pattern in the 8th grade scores too. Other states are passing us by.

I am showing you all of this not because I want to be critical of our schools or the jobs they're doing. We have good schools. We are routinely above the national average in each of these indicators. But remember – our staffing levels and our spending levels have gone up significantly. A sizeable increase in our investment in education, over time, is not getting us better achievement. We are simply putting more money into the same system, and we are not getting better results.

We need to change our focus. The key to obtaining high achievement in the classroom is not more spending. It is effective teachers. Let me say that again: The key to obtaining high achievement for our students is great teachers.

I recently met with officials from the Bush Foundation, and they shared a study with me from Tennessee. This study looked at a group of children entering the 3rd grade, and followed them through the end of 5th grade - so all of 3rd, 4th, and 5th grades – three years. Both groups – they took two groups – both groups began the 3rd grade at the 50th percentile. They were average – both of them were right on the average. One group of students had high-performing teachers each year – teachers in the top 20 per cent of their peer group. The other class had low-performing teachers, from the bottom 20 percent, for three straight years. After these three years, the students with the high-performing teachers were in the 90th percentile – up from the 50th percentile. The students with the low-performing teachers had dropped to the 37th percentile. There was a 53 point difference.

That is a dramatic result, but it just confirms common sense.

South Dakota needs to focus on Investing in Teachers. Our goal in South Dakota is to increase student achievement, and our focus must be on attracting and retaining great teachers. We need clear standards, rigorous measurement, and rewards for excellence.

Some of the pieces of Investing in Teachers are already being put into place – you’ve heard about them. South Dakota is adopting the Common Core standards. These standards are not just a list of what concepts to teach – they are a new approach to teaching based on problem-solving and higher-order thinking skills - they’re evidence based. In the budget address, I announced an aggressive training program for our teachers to learn the Common Core standards and these new techniques.

A second important component is our new school accountability system. Earlier this year, our state announced that we would no longer comply with No Child Left Behind, which is a broken and flawed system. Instead we are seeking a waiver from No Child Left Behind which will allow us to create a measurement and accountability system that makes sense for South Dakota. When fully implemented, this system will not just test students at the end of the year and measure them against an arbitrary bar. Instead, we will test students at the beginning of the year, in the middle of the year, and again at the end of the year. In the middle of the year, our tests will allow for mid-course corrections, so instructors can see where the children are lacking and where they are already strong. At the end of the year, we will be able to measure the difference between the beginning and the end and see what growth has occurred. Not whether the children have moved up to some arbitrary bar. In one class, they might start down here and move a long way but still below that arbitrary bar. In another class, they might start very close and move up a little bit and this teacher is presumed to be excellent. Growth is what we should measure – growth from beginning to the end and what the teacher has driven should be measured.

Another important component that is already being finalized is a better teacher evaluation system. The system we are creating will consider growth in test scores as an important component, but it will also include classroom evaluation, based upon observation of evidence-based factors. In addition, it will give local schools flexibility to consider additional factors. This is the groundwork for a strong system based on standards that define great teaching. Another portion of the training program announced last month will train administrators in these evaluation strategies. You need to have teachers doing their best work against these standards and administrators capable of evaluating them accurately and fairly.

So – we are training teachers in new teaching methods, we are creating a new school accountability system with better testing, and we are implementing a stronger teacher evaluation system. These steps will be implemented over the next three years.

When they are completely in place, these pieces will allow us to reward our best teachers. Beginning in the 2014-15 school year, we will ask schools to identify their very best teachers – the top 20 percent in each district – based upon the new evaluation system. Under the Investing in Teachers Initiative, the state will give every teacher in the top 20 percent a bonus of \$5000. Every teacher is eligible. The bonuses will not go into base salaries, but they can be earned every year by a teacher who remains in the top 20 percent.

In addition, I mentioned earlier the importance of Math and Science education to our future workforce needs. We have to recognize the importance of having excellent Math and Science teachers – because they light the spark that ignites a generation of engineers, doctors, and scientists.

We need to attract our best teaching students into the fields of math and science, and we need more teachers in these fields especially. Listen to some numbers - in the 2009-2010 school year, our state universities graduated 176 new elementary school teachers – 176 new elementary school teachers. They graduated 24 math teachers, 13 biology teachers, and 2 – that's right, 2 – chemistry teachers.

Not only do we not train enough new teachers, we also face greater outside competition from the private sector for the math and science teachers we already have. For the same reason that math and science are important skills for our students, teachers with training in those areas have more opportunities to leave teaching for other careers.

I've heard stories – and most superintendents will confirm this – about school districts that get dozens of applicants for an elementary school opening - dozens, but they are lucky to get even one qualified applicant for a position as a math or science teacher in high school. This is a real problem, and the free market can help us.

The way to retain our math and science teachers, and to attract more young people into these fields, is to apply free market principles. We simply cannot expect students to enter these challenging fields, and to remain in them, if they are not rewarded any differently than any other teacher. Beginning in the 2013-14 year, I propose the state pay every middle school and high school math or science teacher a bonus of \$3500. Not into their base salary, but a teacher who stays in these fields will qualify for the \$3500 bonus every year.

So I am proposing two bonus programs: a \$5000 bonus for the top 20 percent of teachers, and a \$3500 bonus for math and science teachers. And a teacher can qualify for both bonuses. That means if a math or science teacher is in the top 20 percent of the teachers in his or her district, they would receive a bonus of \$8,500 on top of their base salary. For a teacher earning a salary of about \$35,000, that is a bonus of about 25 percent.

Funding these bonuses is a sizable obligation, and I want to emphasize my strong commitment to fully funding these incentive payments every year – not just one-time - but every year. These bonuses will be paid entirely with state dollars, and they will be in addition to the annual formula funding increases.

This is a three-year plan. This year, I have already proposed \$8 million in one-time funds for aggressive training on the Common Core standards and on teacher and administrator training. Next year, I will propose adding \$5 million in ongoing funds, on top of the formula, to

fund the bonuses for math and science teachers. And the year after that, I will propose another \$10 million in ongoing funds, on top of the formula, and on top of the \$5 million, to fund the incentive bonuses for our best teachers.

This is by far the largest investment in the teaching profession in the history of our state.

I am proposing one more change as part of this package. It has to do with teacher tenure. Investing in Teachers makes a significant investment to reward our best teachers and to attract more talented young people into teaching. But even as we reward our best teachers, we need to give administrators fair and objective tools to measure performance, to deal with the few teachers who just aren't able to perform in their jobs.

Teachers who currently have tenure will not lose it under my proposal. Let me repeat that: No teacher who has currently tenure will lose it under my proposal. But I am proposing that South Dakota end the availability of tenure, effective July 1 of this year, for anyone who doesn't have it by that date. We are moving away from a system that relies on tenure, and into a system that is based on rigorous, evidence-based evaluation. New teachers can be confident that administrators are conducting professional evaluations and basing decisions on facts and proven methods. Administrators will have a strong foundation to make informed decisions about their teaching force, and they'll have the flexibility to carry out those informed decisions.

In every field – in every field, people want to strive for something better. They want to achieve more through hard work. Many of our teachers go the extra mile, but most of them are still paid based on how long they have worked there or whether they have a master's degree or not. A \$5000 bonus is a way to demonstrate to our top

teachers that we want to compensate for results, not seniority – results - and we appreciate the work they do, and we reward them for their service to our young people. By investing in great teachers, we are investing in our young people and in South Dakota.

That is my vision for education in South Dakota. We are not afraid to invest in our young people, but we cannot fall into the trap of believing that more money automatically creates better results. We've seen it does not. We cannot simply pour more money into the same old system. Rather, we must focus on improving results, and spend creatively and strategically to achieve results. The key to high achievement is great teaching and we will invest the dollars that it will take to make a difference.

This is the state of our state. We have great opportunities this year to move our state forward. Now that we are on a sound financial footing, we can build a stronger South Dakota. We can budget carefully and protect against uncertainty. We can strengthen our state's workforce through a package of proposals to train South Dakotans and attract more people to South Dakota. And we can strengthen our education system by rewarding great teaching, with a special emphasis on Math and Science.

These are not small proposals, and they will require hard work from all of us. But it is only because of your courage and hard work last year that we are in a position to consider proposals like this for this year and two years more. I am confident we will be successful, because of what we all saw in South Dakota this spring. I'd like to close today by talking about what we saw in South Dakota last spring.

We are used to natural disasters in South Dakota. We have tornadoes, blizzards, wildfires, drought - we have had our share of flooding in past years. And in some parts of our state, flooding happens too often.

But the flooding we experienced along the Missouri River this spring was different. It was very different. We've never been given two weeks' notice that a disaster was coming. It was a Wednesday night in late May when the Corps of Engineers called to alert us that their releases would be much higher than planned. And South Dakota sprang into action.

In Dakota Dunes, in Yankton, in Pierre and Fort Pierre, and up and down the river, South Dakotans stepped up. Homeowners packed up and moved their possessions and built massive sandbag walls. Contractors worked with feverish activity to build emergency levees – compressing months of work into days. Truck drivers and heavy construction crews came from hundreds of miles and worked around the clock to hasten the construction. Law enforcement controlled traffic at every intersection, to speed the work. Prison inmates, homeowners, and neighbors filled sandbags – thousands – no, millions of sandbags. National Guard troops aided with preparations and patrolled the levees all summer, all day and all night. State employees manned the emergency operations center for nearly a month.

And thousands and thousands of volunteers poured into the affected communities to help. They came from every corner. I met a group of Boy Scouts who dropped their plans for a Black Hills camping trip to help. I saw college basketball teams, football teams, and volleyball teams, by the busload coming to help - groups of Hutterites. I saw boxes and supplies from all across South Dakota sent to help those affected. I saw friends and neighbors do backbreaking work hauling sandbags, for hours and hours, to secure private homes.

I have never been prouder of South Dakota than I was during those weeks. It was a time that exemplified our values of persistence, hard work, determination, and perseverance. No one thought about politics

or the next election. No one got distracted by petty squabbling. No one took a poll or kept a scorecard. South Dakotans were faced with a challenge, and we all rolled up our sleeves and we overcame it – together – we overcame it.

As high as the floodwaters rose, South Dakota rose even higher. I call on all of us now to continue in that same spirit as we move forward this legislative session. If we do, there is no limit to how high South Dakota can climb.