



STATE OF THE STATE ADDRESS OF GOVERNOR DENNIS DAUGAARD

THE STATE CAPITOL – PIERRE, SOUTH DAKOTA – JANUARY 11, 2011

Lieutenant Governor Michels, Mr. Speaker, members of the legislature, Chief Justice Gilbertson, Justices of the Supreme Court, constitutional officers and fellow South Dakotans. Thank you very, very much for giving me the enormous challenge and the wonderful privilege of being your governor.

It is my privilege today to offer thoughts on the state of our state. To do this, one must first ask the question: against what standards do we measure ourselves. I believe we should look to the citizens of South Dakota to answer that question. Over the last year, most of us were involved in political campaigns. We visited with thousands and thousands of South Dakotans. They told us what they want from their government. They want balanced budgets.

They want the deficit eliminated. They want fewer and simpler regulations. They want more and better jobs. They want to be protected from crime. They want help for those who need education or training to become self-reliant. They want care for those who have no one to care for them, and they want more opportunities and better lives for themselves, their children, and grandchildren. In short, the people want a strong foundation for our state, and that's where we must focus our energy. That's why the people elected us.

I am grateful for the opportunity we will all have to work toward this goal.

I am also very grateful for the hard work that was done over the past eight years by the state legislature and by Governor Mike Rounds. Our state is in a much stronger position than almost any other state in this nation because of decisions Governor Rounds and this legislature made.

Even after the national recession, South Dakota has more jobs now than when Governor Rounds took office. We have made improvements in our gross domestic product, visitor spending, and capital investment. Our unemployment rate is second lowest in the nation. We have made substantial increases in ethanol production and wind energy. Our schools receive \$109 million more annually than they did in 2003. We have record enrollments and dramatically more research at our state universities. And we have secured the future of Ellsworth Air Force Base and continued the development of the Homestake Lab.

All of this happened because of the hard work of the people of South Dakota, our state legislators, and Governor Mike Rounds. Please join me in thanking Governor Rounds and all those who served over the past eight years for their service to South Dakota.

The dominant challenge of this legislative session will be the state budget. I have asked legislative leaders to convene a Joint Session on January 19, eight days from now, to receive my budget proposal.

The budget will present tough choices. This challenge stems from the national recession, which has caused revenues to fall even as the demand for services has risen. That is why my number one priority as governor is to create jobs and grow the economy. It is the best long-term solution to solving our budget problem.

During the campaign, I released an economic development plan entitled “Building a Stronger South Dakota.” This is my goal. It must be the goal for all of us: To create a state with more jobs, more wealth, and more opportunities for our young people.

It is a four-year plan, not a one-year plan, but I am always open to improving this plan or adding to it as circumstances change. But I will act vigorously to implement this plan, starting today.

I propose to elevate the Governor’s Office of Economic Development to cabinet level, reporting directly to me as governor. I plan to be personally involved, every day, in our state’s economic development efforts. I am proud to have Pat Costello as Commissioner of the Governor’s Office of Economic Development. Pat has practiced as a CPA, run a business, and served his community as a civic leader. He will be a great partner with me in leading our economic development efforts.

I intend to be South Dakota’s number one salesman. Often, a governor is called upon to be a “deal-closer,” and that's an important role. I will also be a “door-opener,” and I will use my office to seek opportunities for our state.

Our economic development efforts will utilize a three-pronged approach: invite, increase, and innovate.

First: Invite – We should continue to invite businesses to South Dakota from high-tax, over-regulated states.

Second: Increase – We should encourage those businesses that are already here to increase their production and the number of people

they employ. We need to help them find orders and contracts. We need to help them add new lines of business.

Third: Innovate – We should foster innovation and entrepreneurship, because some of our best businesses, the ones that are most likely to expand here and stay here, are businesses that were started in South Dakota by South Dakotans. That’s why we need to keep expanding our research efforts at our universities, and strengthen our efforts to match those researchers with entrepreneurs so that new knowledge can lead to new business.

Another economic development goal I set during my campaign is to revamp the Revolving Economic Development Initiative Fund, the “REDI” Fund.

An important first step is to increase the total value of that fund. I’m proud to announce today an innovative and forward-thinking partnership with our state’s ethanol industry that will refocus state ethanol incentives and provide an extra \$10 million for the REDI Fund over the next five years.

Currently, our state provides \$7 million a year in incentives to ethanol plants operating in South Dakota. I will be introducing a bill to save the state \$13.5 million over the next five years by spreading out the current ethanol incentives over an additional two years. \$3.5 million of that savings will be used to install even more ethanol blender pumps in South Dakota, allowing our citizens to use higher blends of ethanol in their vehicles. The extra \$10 million in savings will be deposited into the REDI Fund over a five-year period.

This approach is a “win-win-win.” First, our economic development efforts will have more money to invest in South Dakota business. Second, our ethanol industry will get an investment in blender pumps,

the infrastructure needed to expand ethanol markets. And third, we will do this at no additional cost to our budget. I want to recognize the vision that the ethanol industry has shown in working with me to craft this innovative plan. They're redeploying millions of dollars in short-term incentive to expand their markets and strengthen their industry over the long term.

I want to talk about small towns. I appreciate that the ethanol industry has brought jobs and wealth to the rural areas of our state. South Dakota is a state with many small towns, and they must be an important component of our economic development efforts. We will work with local and regional economic development organizations, and non-profits, to identify and train “small town specialists” who can work with local leaders to make contacts, create plans and goals, and promote themselves to businesses.

I will revamp our MicroLOAN program, which provides loans to small businesses for capital assets. This program is underutilized because it is too bureaucratic. Some are reluctant to apply because of the burdensome application process. That is government at its worst. I will ask the Office of Economic Development to streamline the application paperwork and approval process. I will also prioritize loans to aid in the sale of small businesses. In many small towns, the value of a business inventory is so high that banks are hesitant to finance a potential purchaser. This can lead an aging shopkeeper to shut down, for lack of an available buyer. We can use the MicroLOAN program to help younger owners purchase these businesses and keep our small town businesses open.

Of course, our small towns rely heavily on the agriculture economy. Agriculture is our state’s number one industry and the foundation of our economy. Over the past few years, Mother Nature has provided some challenges--heavy rains, hailstorms, blizzards, and the outbreaks

of grasshopper and mountain pine beetle--but our producers have still enjoyed strong financial returns. Our robust ag economy is the principal reason that South Dakota's personal income growth is among the best in the nation. And a strong ag economy not only helps our farmers and ranchers, but also the numerous ag-based businesses on main streets across South Dakota.

I will aggressively pursue opportunities to expand value-added agriculture, like the Dakota Provisions plant in Huron and the beef plant in Aberdeen. And I will host an annual Governor's Forum on Agriculture, in conjunction with the second annual Governor's Ag Development Summit, to discuss the future of ag with every commodity group and stakeholder. I want to open the lines of communication to ensure that state government is always acting in the best interests of farmers and ranchers. My door will always be open.

Just as we focus on our largest industry, so too must we continue to promote our second largest industry, tourism. The visitor industry in South Dakota has enjoyed great success over the past several years, and I expect to announce another strong total for last year at the Tourism Conference next week. While the recession caused visitor spending to fall in much of the nation, we have held strong in South Dakota.

We need to build upon that success. I will be elevating tourism back into the cabinet to give this industry a strong voice. And I will be bringing a bill to retain the extra half-cent tax that the visitor industry placed upon itself in 2009. That tax is set to expire, but these revenues are important to continue to provide for our very successful tourism promotion efforts. South Dakota is a great place to visit, and we must continue to tell our story and to invite people from all over the world to enjoy South Dakota.

I'll also be introducing a bill reforming the Large Project Refund Program. This program, which was the topic of much discussion last year, was created to encourage investment in large projects in South Dakota. It has worked. Ethanol plants, ag processing plants, and wind power projects have all been built in South Dakota in part because of this tax incentive program. However, this program has also been used by some projects that would likely have been built in South Dakota anyway. We should reform this program so that it only attracts new projects without giving tax refunds to projects that would have been undertaken anyway.

As you know, this program is scheduled to sunset at the end of 2012. It would be a mistake to let this program expire and lose this important economic development tool. I will be asking the legislature to reform the program to provide that refunds only be given to those projects that would not otherwise be undertaken, and to give discretion to determine when a project meets this standard. Now, I recognize there is no way to write a law that perfectly anticipates every situation. It makes more sense to allow for discretion in awarding the tax rebates, so that loopholes cannot be used to secure unneeded rebates. I would ask that you would provide this authority so that South Dakota can be protected from unnecessary tax giveaways.

Now, I would like to update you for a moment on developments at the Sanford Underground Laboratory at Homestake and the prospects for the deep underground science and engineering laboratory. Today, biology and geology experiments are already being conducted at the Sanford lab and nearly all of our state universities are participating. More experiments are preparing to commence yet this year.

Under a preliminary agreement, the original plan was for the National Science Foundation to build the deep underground science and engineering laboratory and for the Department of Energy to pay for the

excavation of large cavities. But recently, the National Science Board has taken the position that the Department of Energy should own and build the facility and that the National Science Foundation should pay only for experiments. Therefore, \$29 million in funding is being withheld by the National Science Board and has not been released to Homestake.

Over the past several weeks, I am sure you have read in the news media that Governor Rounds and I have worked closely with the National Science Foundation, the Department of Energy, and our congressional delegation to secure short-term funding to continue this important project. Although this is a challenging situation, I will keep working to secure this funding so the lab can continue to operate while a new agreement is reached. I hope this can be accomplished very soon.

Everyone in South Dakota should be proud of the commitment that Governor Rounds, the state legislature, and every citizen has made toward securing the deep underground lab for our state and our nation. I promise I will work hard to ensure that the setback suffered in the past few weeks does not undermine the work of the past several years.

Just as Homestake has great potential to transform the economy of the Black Hills, Ellsworth Air Force Base is already an important economic driver. I was proud as Lieutenant Governor to help create the Ellsworth Development Authority, which encourages development that complements the base. Aviation is an industry that would fit near Ellsworth well, and I will be proposing legislation that will make South Dakota more attractive to the aviation industry. I will ask you to reform South Dakota's product liability tort law for aviation manufacturers based in our state to protect manufacturers from claims arising years after the aircraft is manufactured. This bill is based on the state law of Kansas, which is home to many large aviation manufacturing

operations, such as Boeing. Just as we acted in the past to attract the financial services industry, we can change this law to give the aviation industry a reason to look at South Dakota.

These are some of the initiatives I will be undertaking in the next year to create jobs and grow our state's economy. But we cannot forget the important advantages we already have. We have the best business climate in the nation, and I intend to keep it that way.

Our first advantage is our low tax burden. I am proud that South Dakota has the lowest per capita tax burden in the nation. I've said many times during my recent campaign that I will not raise taxes, except in the case of an emergency like a blizzard or a flood, and I mean it. A recession is the worst time to raise taxes, and if you send me a bill to raise taxes, I will veto it.

Our second advantage is our reasonable, predictable, and simple regulations. But this second advantage can be improved. It is the nature of government, over time, to become more regulatory, and we must be deliberate about resisting and reversing this.

Over the next year, we must undertake a comprehensive review of regulations in every agency of government. We must first repeal the regulations we don't need. Secondly, simplify those that are too complex. And third, we must also seek the input of our customers, those who are regulated, to find ways to make government more streamlined and sensible.

Now as we discuss economic development, we must remember that the foundation of our economy is an educated workforce. Every year education is one of the dominant issues of the legislative session but, too often, the discussion is only about funding. Now that is an important discussion, after all education is half of the general fund

budget. Certainly, we'll have that important discussion again this year, but we should not measure our schools by how much money they receive or spend. We should measure them by the success of our students.

By many measures, South Dakota students are succeeding. Eighty-nine percent of our high school freshmen complete high school, one of the best rates in the nation. Seventy-two percent of high school graduates go on to college or technical school, also one of the best rates in the nation. And among states that test at least half their students, our average ACT score is near the top.

I believe our students and schools are successful because of good parenting that sends most South Dakota kids to the schoolhouse door ready to learn. They are met there by hard-working, committed educators who cause that learning to occur. My wife, Linda, worked for years as a teacher, a school librarian, and a coach.

These professionals dedicate their careers to our young people, and it is because of committed teachers and administrators, hard-working students, and involved families that our schools achieve at the high level that they do.

Now can we do better? Of course, of course we can. I am firmly committed to ensuring every student who wants to go to college is fully prepared to enter and graduate. I am fully committed to expand technical education opportunities, through partnerships with our tech schools and private businesses, so that high school students can have exposure to skilled, technical fields. I will also be sponsoring a bill to increase the bonding capacity of our post-secondary technical schools, to allow them to continue to expand their campuses and add new programs in technical fields.

We must also do a better job in the fields of science, technology, engineering, and mathematics. South Dakota does relatively well in these fields when compared to other states, but our children are not competing against only Iowa, or Minnesota, or other states. They are competing against India and China. Over the next year, I will begin to work toward new approaches to strengthen education in the important areas of science, technology, engineering and mathematics.

Now I want to use my office to promote new approaches in education and help schools implement them, but I also want to allow local school boards and school administrators to run their own districts. That is why I will be sponsoring bills this year to repeal the 100-student minimum for state aid to school districts, and also to remove the cap on school district reserve fund balances. We must trust local officials to make the best decisions for their districts. And if they fail, we must trust local voters to find new local officials.

Our system of education is the source of tomorrow's workforce, and we have no greater workforce need over the next ten years than in health care. By 2014, South Dakota will require an additional 13,000 health care workers. Partnering with health systems, professional organizations, educational institutions, and local governments, we must increase efforts to encourage our students to consider careers in health care. We should encourage local school districts to give high school credit toward graduation for training in fields like EMT, dietetics, or nursing assistants.

We must also continue to promote the privately-funded DakotaCorps scholarship. Governor Rounds created this program, with no state funding, with generous support from corporate and foundation donors. I have already begun conversations toward continued private support to DakotaCorps because this program rewards young people who

commit to staying in our state and to entering into health care and other high-need fields.

In the area of health care, my administration will also be working to comply with the new requirements that Congress has imposed upon us as part of health care reform legislation at the federal level. At the same time, however, I am going to continue to support the efforts begun by Governor Rounds and Attorney General Marty Jackley to challenge the federal health care reform law in court. I will also support efforts in Congress to repeal or reform this bill. Over ninety percent of South Dakotans have health coverage. Here, our most serious problem is not coverage but cost. Yet, the federal law focuses almost entirely on getting coverage for the few without, and does little to control rising costs for the many already insured. This is a law that does not make sense for our state.

The federal health care law is a frequent topic of debate. Likewise, economic development and education are often discussed in the political arena, and rightly so. But another important issue in our state has not received as much attention, something I would like to talk about— infant mortality.

Over the past decade, 113,517 babies have been born in South Dakota. 794 of them died before their first birthday. That is an average of 79 deaths each year. South Dakota's infant mortality rate is significantly higher than in North Dakota, Minnesota, Iowa, Nebraska, or Montana. And although we saw dramatic improvements from the 1960s to the 1990s, over the past decade our infant mortality rate has exhibited a worsening trend.

In the last several years, the good news is that infant mortality among Native Americans in our state has improved. The bad news is it's still

higher than in most places. Worse yet, in the rest of South Dakota the mortality trend has worsened.

It has been said that the infant mortality rate is the gold standard for measuring the health of a population. I will make it a priority to face this problem, head-on. We already know many of the factors that contribute to infant deaths. Too many mothers in our state, almost 20 percent, use tobacco products while they are pregnant. In one-third of South Dakota counties, over 30 percent of mothers don't seek prenatal care during the first trimester. And more young parents need to learn about safe sleep positions and other important infant care tips.

One tool our state has to combat infant mortality is the Bright Start home visitation program. Nurses visit expectant mothers in Sioux Falls, Rapid City, and Pine Ridge to educate them about healthy behaviors during pregnancy and after their baby is born. I'm pleased to announce that the state has been awarded a \$645,000 grant to expand this Bright Start program to more communities.

But there is more to do. I'm going to ask doctors, hospitals, parents, and state and tribal leaders to come together to face this problem. Each of us has a role to play. We all want more South Dakota infants to reach their first birthdays.

Infant mortality is one of many issues that will encourage close cooperation between state and tribal leaders. Our reservations are integral parts of our state, and I do not view any challenges faced there as tribal challenges. They are South Dakota challenges.

As Governor, I am going to work very hard to build a positive working relationship between the state and each of our nine tribes. I want to base these relationships on two principles. First, I will always remember that the nine tribes are nine separate governments, each

with their own set of circumstances. They should not be subject to a “one-size-fits-all” approach. Second, I want to be respectful of the wishes of tribal leaders. My first question to them will be “What are your challenges and opportunities?” And my second question will be “How can we work together?”

I am creating a cabinet-level Secretary of Tribal Relations to help me build these relationships and hold these conversations. I want every tribal leader to know that I am serious about working with them to build a stronger South Dakota. I’m not looking to attend more meetings as window-dressing. This is not window-dressing. I want to build real relationships that can lead to positive results for all South Dakotans living on or off reservations.

In addition to the bills and other proposed changes I’ve described already, I will be recommending several organizational changes. This week, I will be submitting an Executive Reorganization Order for your consideration.

I have already mentioned that I will be abolishing the Department of Tourism and State Development, and elevating into the cabinet the Governor’s Office of Economic Development, the Department of Tourism, and the Department of Tribal Relations. Each of these interests deserves a seat at the cabinet table.

In addition, I will be moving most of the business regulatory functions from the current Department of Revenue and Regulation to the Department of Labor. I believe that these regulatory functions, such as banking, insurance, and securities, fit more closely with the current Labor Department, which already includes workers compensation, unemployment, and many professional boards and commissions. Making this change will also allow the Department of Revenue to focus on its core mission, collecting tax dollars owed to our state.

I will also be moving three behavioral health divisions from the Department of Human Services to the Department of Social Services. These three divisions are funded heavily by Medicaid, which is administered by the Department of Social Services. I am hopeful this realignment will allow Social Services to work with these agencies to find efficiencies and save Medicaid dollars.

Finally, I will be splitting the current Department of Military and Veterans' Affairs into two cabinet-level departments. The Department of the Military will be led by the Adjutant General and will oversee the South Dakota National Guard. The Department of Veterans Affairs will oversee our veterans' benefits and programs, including the state veterans' home.

Creating separate Departments for the Military and for Veterans Affairs will allow the Adjutant General to focus on leading an increasingly active National Guard, while allowing the Secretary of Veterans Affairs to ensure we always meet our obligations to our veterans.

Over the past few years, it has been my honor to serve on the board of directors for South Dakota's Honor Flight program. This program charters flights to fly to Washington, D.C., with WWII veterans to see their memorial and other sites. It was a privilege to be associated with Honor Flight and to meet many of these heroes, now in the twilight of their lives, who fought so valiantly to protect our world from fascism and communism. Today's foreign struggles are creating a new generation of heroes, who have put their lives on the line to protect our freedoms. We owe them our thanks and our strong support, and I would like us to pause at this time and thank them together for their service. Please join me in thanking our veterans.

Beyond the cabinet changes I have just described, I've also reorganized the governor's office. In most governors' offices, in South Dakota and around the nation, the governor has employed a single Chief of Staff. I have opted instead to have six officials reporting directly to me as an Executive Committee. These six people will divide up the traditional duties of the Chief of Staff, and will also assume many other responsibilities.

One key member of that team is our Lieutenant Governor. Matt Michels is one of the most impressive people I've ever met. He came from a single-parent home and worked his way through school. He served his country in the United States Navy. He graduated from law school and is one of our state's leading attorneys in health care law. He's a brilliant legislator and a two-term Speaker of the House. And most importantly, Matt is a family man with a great wife and son and has great values.

Having Matt Michels as a full-time Lieutenant Governor is a great asset for the people of South Dakota. He will be working with me, every day, to make our state a better place. And if something happens to me, Matt will be ready to lead our state as Governor.

The elevation of the Lieutenant Governor to full-time, and other organizational changes I have made, does not add "another layer of bureaucracy." These changes have not added additional expenses or employees. My governor's office will have the same number of positions as the previous administration. But by reshuffling duties and personnel dollars, we have cut the governor's office payroll by more than ten percent, effective yesterday.

I would like to say a few words now about the state budget. I'll be introducing several bills on behalf of the Bureau of Finance and Management that are necessary to implement my budget proposal.

This will include a special appropriation bill to fund the omnibus water bill and our obligations under the physician tuition reimbursement program. There will also be a number of other, more technical bills that I will discuss with you next week when I present my budget proposal.

Beyond legislation though, I will be working with my cabinet this year to find ways to make government more efficient and to save money. One area that I would like to revisit is state travel – the motor fleet and the airplane fleet. I know that studies have been done in the past, but austerity measures currently in place have limited the amount of travel that is being done and I want to ask the Department of Transportation to undertake a comprehensive study of usage, both of our auto fleet and our airplane fleet, to determine whether we need all that we have.

As my last words about the budget today, I would like to say something about the principles that guided me as I crafted the budget proposal I will present next week.

As a first principle, I am committed to eliminating the structural deficit. A structural deficit exists when ongoing expenses exceed ongoing revenue. Let me emphasize that definition, because clear communication depends upon a common understanding of language. A structural deficit exists when ongoing expenses exceed ongoing revenue. One-time revenue items do not enter into the calculation. One-time expenses do not enter into that calculation. Ongoing versus ongoing.

Over the past few years, we have had an increasing structural deficit, not because of mismanagement, but because of the national recession. Our ongoing revenues, our sales tax, our contractors excise tax, our bank franchise tax, our collective ongoing revenues fell in Fiscal Year 2009 and fell still further in Fiscal Year 2010, and although they are now turning around, ongoing revenues for this fiscal year, ending this June,

are still expected to be below Fiscal Year 2008 ongoing revenues. Even as those ongoing revenues were falling, our ongoing expenses were growing. To fill the gap, the federal government gave us money, but as a condition, we were forbidden to cut spending in most areas. This denied us the freedom to address our structural deficit in a meaningful way. That money will be gone in Fiscal Year 2012, and we must now confront our condition. I am committed to eliminating the structural deficit and that is my first principle.

As a second principle, I believe we must not use one-time dollars to perpetuate overspending – that just “kicks the can down the road.” It defers the problem to another year. One-time money should be used only for one-time costs. Reserves should be used only for unexpected needs.

The budget I propose next week will meet our goals within these principles. My budget proposal will clearly demonstrate, to you and to the people of South Dakota, that if we truly want to balance our budget without raising taxes, as I do, we must be prepared to make some very difficult decisions.

I intend to lead by example. The agencies under the control of the governor will be cut by at least ten percent. The governor’s office will be cut by ten percent overall. Every member of my cabinet has agreed to cut his or her salary by at least ten percent, some almost fifteen percent, and I will be cutting my own salary by fifteen percent.

It is my duty as governor to begin the budget discussion with a proposal. I do not claim that my proposal is **THE** plan. It is **A** plan. I look forward to an open and honest dialogue with you and the people of South Dakota about this proposal. I am willing to reconsider the details of the budget I present, but I am committed to the principle goal of a structurally balanced budget.

During session, the halls of our Capitol are filled with those who represent the many interest groups of our state. These are good people and they have a job to do, advocate for their employers. It is important that someone fills this role, but we who have been elected must remember that there is another interest group who is not so well-organized. They are the taxpayers who elected us to come to Pierre. We are here to represent all of South Dakota – the tax-PAYERS as well as the tax-SPENDERS. The taxpayers ask that we look at the big picture, that we take the long view and that we spend their hard-earned tax dollars responsibly and provide government services efficiently. As Governor, I will put taxpayers first, and I will make sure that their voice is never forgotten.

Let me close, now, with a little history. Every year, our legislature opens its session by inviting the governor to report on the State of the State as I have just done. It was exactly 100 years ago last week, on January 3, 1911, that the legislature convened for the very first time in this building to hear the governor's State of the State Address. The governor that day discussed many of the same issues that we talked about a minute ago and that we will debate and discuss: the budget, education, agriculture, state institutions, law enforcement, and transportation.

The governor had been elected in 1908 and had won his second term by a margin of more than twenty percent. Yet, I would venture to guess that almost no one here would be able to recall the name of that governor if asked.

And, you see, that's the point. A century from now, Governor Dennis Daugaard will be as forgotten as Governor Robert S. Vessey. Let us seek to be remembered not for our names but for our deeds.

We all stand on the shoulders of those who came before us. I invite all of you to join me this year as we seek to Build a Stronger South Dakota. There will be times when we disagree, but if we can agree on the facts and set politics aside, there is much that we can accomplish. It's amazing what you can do if you don't care who gets the credit. Let's stand tall, together, so that the generations who follow us may live in a stronger, freer, better South Dakota.

Thank you all very much.