

Governor Mitchell E. Daniels, Jr.
State of The State Address
January 13, 2009

Fellow public servants and fellow citizens. Together again! Thank you as always for the privilege of this assignment, and of this podium.

We gather annually to review the state of our state, but rarely at a time of such national and even international alarm. For Indiana, tonight is of course a night for facing difficulties, but doing so with confidence, and even pride.

I awake every day glad for many reasons that I am a Hoosier. And though we meet tonight in an hour of great stress, we have cause if not for gladness then at least for relief, that it is in Indiana we are meeting. For, thanks in large part to the people here assembled, we can speak tonight of challenge, but not crisis; issues, but not emergencies. We will examine the state of our state soberly, but with satisfaction in the knowledge that here the people's business has been handled better than in so many other places. We will speak realistically, but positively, recognizing that in predicament there is opportunity, and in tough times the possibility to separate from the pack and emerge stronger than before.

No assignment will test us all more than our most basic one, the proper stewardship of the people's money. Global trends set in motion far from here have severely reduced the revenue available for public purposes in the indefinite future. So be it. Thanks to the prudence, and the courage, of people present, Indiana faces this recession in far different shape than it did on past occasions, and far different condition than our sister states. People on this floor crafted with us consecutively two of the tightest budgets in state history. People in those balconies have managed government with businesslike care for every tax dollar. Together, you not only brought our state out of bankruptcy, you placed it in strong condition to weather the difficulties ahead. You merit the thanks of those who sent you here for a job well done.

We must apply the principles that have served us so well to the tasks now before us. I have submitted to you a budget proposal that meets the test of honest balance, by spending no more than it takes in. It does so despite the daunting projection that revenues will still be lower two years from now than we were told to expect in this fiscal year.

This budget is full of hard decisions and unwelcome choices. But many of its provisions would make sense in the best of times: to stop spending taxpayers' dollars on programs that have fulfilled their purpose, or are failing to accomplish their purpose, or were never essential public purposes in the first place.

As always, we will approach these decisions in a spirit of compromise and shared responsibility. But for clarity's sake, let me establish some boundary conditions, a framework within which all sorts of alternatives would be acceptable.

First, no tax increases. A state striving for economic greatness should constantly be looking for ways to reduce its burden on workers and enterprise. A time of recession is the very last time at which government should add to the struggles of the citizens for whom it works.

Preserving government intact at the expense of families and businesses would be wrong in human terms and backwards in economic terms. The dollars claimed by higher taxes would come from families who need them more than ever to get by. They would come from businesses which would otherwise use them to keep someone on the payroll, or add a new job. Let's agree right now that, whatever course we take this budget year, higher taxes will play no part in it.

With equal resolution we must reject the use of gimmickry. Delaying payments to schools, siphoning dollars from pension funds, and other such practices must be left in the museum of bad government where we sent them four years ago. And we must preserve and safeguard the reserve funds which together we have rebuilt. The forecasters missed in the current year by a billion dollars; who is to say it cannot happen again? None of us knows how long this downturn will last, or how much tougher it may become to protect essential services in the next few years. If we ran through our balances now, where would we be if better times did not return soon?

One area for special care is public education. The commitment of Indiana taxpayers to our schools is virtually unsurpassed. We now spend \$11,000 per student, and as a share of Hoosier incomes, we dig deeper than the taxpayers of every state but four. As we meet tonight, states all over America are slashing education spending: by \$2 billion in New York, \$2.3 billion in Florida, \$2.5 billion in California so far. Virginia last week cut per pupil spending by seven percent. In this environment, protecting education funding at this year's levels would be a significant victory and we should aim for it.

Besides, there is a massive new funding source available to us that won't cost taxpayers an additional cent, and that is to begin spending the education dollar more efficiently than we do today. Especially when basic academic programs are lacking, it is totally unacceptable that 39 cents of every education dollar is spent outside the classroom. It is inexcusable that fewer than half of school employees are teachers, the third worst ratio in America. The longer the payrolls of non-teaching adults, the more we shortchange the life preparation of our young people.

One dollar per year health insurance for school board members? That's not right – put the children first. A superintendent and staff for 800, 600, 500 students but only one choice of foreign language? That's not right – put the children first. Three, four, five school bureaucracies in counties that do not provide modern science labs, Advanced Placement courses, or licensed physics teachers? No, put the children first. The goal is smaller schools, smaller classrooms, more and better paid teachers, better academic opportunities for our kids, through lower overhead.

Superintendent Bennett and I have submitted legislation to you to move tax dollars out of the back office and into the classroom; no one who obstructs that goal can claim to be an advocate of children and learning. But, let's state the case more positively. We have here a huge opportunity; with each single percentage point of improvement we could hire two thousand more teachers. I invite every legislator to help us shape an effective new approach that sends many more education dollars into the classrooms where our kids' futures are being determined.

There is something else we must do that will not cost a single new dollar. Education cannot begin until disorder and chaos ends, so I ask this Assembly to approve the bill I have sent you to reestablish complete, unquestioned discipline in the schools of our state.

We ask so much of our teachers already. It is just not tolerable to make them put up with misbehavior and insubordination, to say nothing of profanity, physical threats, and the risk of legal harassment if they attempt to control the students under their authority. It is time Indiana said to its children, sit down and hush up; to their parents, if your child is causing trouble and harming some other student's education, take it up with your kid, not the teacher or principal. And to the lawyers, butt out; you expect order in the courts where you practice your profession, we are going to have order in the classrooms where our teachers practice theirs.

A time of fiscal austerity regrettably will require each of us to forgo for now priorities about which we feel strongly. With disappointment, I am postponing asking this Assembly to provide complete state funding of Full-Day Kindergarten. We have made huge, sixfold advances in state spending for this purpose, and now more than two-thirds of our five-year-olds attend. Completion of this goal remains essential in my judgment, and if room for the last step can be found within a responsible budget, I will be thrilled to sign it. But we saw no way to accommodate the final expansion this year without reducing other education funding, so my budget recommendation omits it.

Likewise with the idea of guaranteed college tuition. This plan as I proposed it would not have involved additional state spending, but here external events intervened. First, a startling and frankly senseless federal legal opinion cast a cloud over our preferred financing option. Then, the collapse of world credit markets, and the decline of Hoosier Lottery revenues, makes our backup approach impractical for now. I intend to revive it as soon as favorable conditions return.

But as we await better days, we should be positive, even exhilarated, by two undeniable truths. First, times of stringency are optimal times for new thinking and breakthroughs in spending the same dollars more wisely. We are rightly encouraged to think of a budget bind as an opportunity to innovate.

Second, there are so many important actions we can take that cost nothing at all. 2009 is a great year to move on major reforms that place no strain on the budgets of today, and promise to make the budgets of tomorrow more manageable and friendly to taxpayers.

The single most obvious opening is simply to continue the historic progress this Assembly made last year in controlling property taxes in our state. By overwhelming bipartisan majorities, you reduced property taxes by more than a third. You reduced monthly mortgage payments significantly, sometimes dramatically. You undoubtedly saved many homeowners from hardship or even foreclosure.

But you did something even more important. You provided taxpayers the long-term protection of caps, guarding against a return of the exploitative, unaffordable local tax rates we had known. But those caps, until written not only in statute but also into our state's constitution, will always be vulnerable to a judge's whim or to retraction by some future legislature.

Our wisely deliberative process for amending the state's constitution requires three separate steps, and your part is half done. Now you must vote a second time to submit this new system of taxpayer protection to the judgment of our fellow citizens, and I ask you to do so promptly. What was such a good idea last March cannot suddenly be a bad one nine months later.

It is argued, correctly, that a couple years' experience will be valuable in making a final decision, but that is not in question. Even if passed tomorrow morning, your second resolution will afford us three full years of information before a final vote occurs in public referendum late next year. Your procrastination will add nothing to what we know. So the only real question is, do you trust the people of Indiana to weigh the evidence and make this decision, or don't you? Show your faith in our fellow citizens by affirming now what you voted for so proudly just months ago.

The property tax cuts of 2008 have already set Indiana apart as a place that puts taxpayers first. Another cost-free reform to further our reputation for taxpayer protection is an automatic refund of tax dollars when state government has all that it reasonably needs. I offered this idea to our fellow citizens in the election just passed, and consider its endorsement part of the verdict they rendered.

With revenues under pressure, there is no prospect of a refund being triggered any year soon. But that just makes now an appropriate time to enact it, when we can examine it purely on its merits, as a tool for keeping government within reasonable limits. With its passage, Indiana would establish the principle that, past some point, government should stop taking money it does not need from working families who do need it. And it would guard against the mistakes, now on sad display, of so many other states which let spending balloon when revenues were plentiful and now are painfully unwinding those excesses. In the days since we first proposed it, this idea has sparked interest around the country. Let's take yet another step that shows America where the best new ideas come from, and happen first.

The largest and most momentous of our opportunities lies in the area of governmental reform. The cost in dollars, confusion, and just plain bad government of our 150-year-old system is by now completely beyond dispute. The report so ably researched and written

by former Governor Joe Kernan, Chief Justice Shepard, and five other outstanding citizens lays out the folly of too many politicians, too many layers, too many taxing units, all producing too little accountability and too few results. If there is anyone present who, given a blank slate, would draw up our system just as it is, please stand up now. I thought not.

As intended at the outset, we have all had a full year to study the report and meditate on its recommendations. The public has spoken loudly, in referenda, in opinion surveys, and in the most recent general election, each time in clear favor of change. The hour for action has arrived.

After a year of listening to you, to local officials, and to our fellow citizens, I have sent you a package comprising some two-thirds of the Commission's 27 recommendations, either as proposed or in some close variation. Treat it as a starting point, but please treat it seriously, in a spirit of reform. This area is ideally suited to bipartisan cooperation and craftsmanship. Let's move forward together, and boldly. The only motion out of order is no motion at all.

In an all-too-typical criticism, one author wrote "Hoosiers have been resisting change since the first settlers arrived." Bringing local and school government out of the pioneer days will provide conclusive proof that we truly have left such a self-defeating outlook in the history books where it belongs.

It's not just the historians who will need to update their views of our state. As recently as 2007, an essayist wrote, "More than any state I know of, Indiana suffers from a crippling inferiority complex...Hoosiers struggle desperately to prove to themselves and the world that they have a higher function than simply filling up the space between Cincinnati and Chicago." That's Cincinnati, as in Ohio, with its \$7 billion deficit and downgraded credit rating, begging Washington for a massive handout. That's Chicago, as in Illinois, a perennial ethical embarrassment where the government is floating billions in suspect paper just to pay its back bills.

Across America tonight, there are dozens of states that would gladly change places with Indiana. We are fiscally steady, they are crawling to Congress for bailouts. We are building the infrastructure of a prosperous future, they are pleading for money just to maintain the roads and bridges they have now. They are raising state taxes of all kinds, while we are holding the line. Their property taxes are exploding, while ours are coming down for good. Who here feels inferior to that?

Two years ago on this occasion, I quoted Governor Schwarzenegger as saying that, unlike his so-called Golden State, if anyone spoke of an Indiana dream no one would know what that meant. Tonight, when the California state deficit is three times as large as the entire state budget we will be working on, their dreams out there must be of a situation like ours.

No one ever wishes for a recession. No one here is blind to the severity of the problems we now confront. Tonight we say to those who are struggling, those who are fearful, our hearts and our every thought are with you. In the ways in which public action can bring relief, no one will work harder. And to those in a position to add private assistance, we say rise to this moment: give an extra dollar, spend an extra hour, grasp another hand. The only true compassion is in those who give voluntarily of themselves, and these are the times when we need it most.

But tough times are also times for differentiation, for separating winners from whiners, the brave from the weak of will. In down markets, good businesses capture share from weaker ones. In high seas, the best crews bring their ships to port safely, and first.

Besides, we Hoosiers have had practice; as we showed in the floods of June and the storms of September, we know how to handle trouble. Just as we guarded against these economic times better than other states, so we will wade through them now with greater success.

The Indiana of 2009 is a state in motion, against its problems and with an alacrity beyond our counterparts. Not despite but because of the difficulties of the day, this legislature must make this another year of reform, in which still more cornerstones of a better future are put in place.

We must never miss a chance to move, to make improvements, to modernize. Doing so while others are paralyzed will demonstrate yet again that ours is a state where change is much more than a slogan. A state that faces forward, fearlessly. A state to whom the future belongs.

These two Houses have done so much to distinguish themselves, and Indiana, these last few years. This is a year not for intermission but for encores. Anyone can see the dangers before us. We must be among those who see through trouble to opportunity, beyond hurdles to the winner's circle that awaits us.

God bless this Assembly and this great state.