



STATE OF THE STATE ADDRESS OF GOVERNOR DENNIS DAUGAARD

THE STATE CAPITOL – PIERRE, SOUTH DAKOTA – JANUARY 13, 2015

Thank you very much. It's good to have you back. I'd like to welcome those of you who are new to the Legislature. Would those of you who are first time in the Legislature please stand and be recognized. Welcome!

I still remember my first time here 18 years ago when I was first elected to the Legislature. What a great honor that was, and I know I felt that same honor as lieutenant governor and now as governor again. I know we all feel a shared responsibility to do the best that we can.

It is my duty to open the session with some thoughts on the issues we face as a state.

I'd like to begin right away today by talking to you about South Dakota's roads and bridges. Our roads are, by far, our state's most valuable physical asset, worth over \$14 billion.

In a rural state like South Dakota, good quality roads are our lifeline. They are not just how we get to work, or school, or church. They offer more than a means to get corn and soybeans to market, or the means to get tourists to Mount Rushmore or Crazy Horse.

Our entire economy, indeed our very well-being, depends on road infrastructure. And right now, our roads are underfunded. From Highway 46 in Beresford to Highway 19 north of Humboldt, from Highway 73 south of Lemmon to I-90 near the Wyoming border, our roads need attention. These are just a handful of the many highways that require additional maintenance. And many of our local roads are in even worse condition.

In all corners of the state, we have road funding needs. State highways, municipal streets, county oil, township gravel, and hundreds of rural bridges are in need of additional maintenance. It's like a structural deficit. We are taking more out of our roads than we are putting back into them.

In South Dakota, you can see we have 82,000 miles of highways. Counties have the most total miles at around 35,000 miles. Townships have just over 31,000. The state highway system is just 9.5 percent of the total – that blue part of the chart at 7,800 miles. But let's look at where all the traffic is.

As you can see, the state highway system, while making up only 9.5 percent of the state's total miles, handles more than two-thirds of all the traffic, and that includes 80 percent of the heavy truck traffic. The counties and municipalities each carry about 14 percent followed by township roads.

Many of the roads we currently use were built with no anticipation of the size and weight of the vehicles that utilize them today. Many section line roads were designed to carry vehicles weighing less than 10,000 pounds. Today, trucks weighing 10 times more cross those same gravel thoroughfares.

As we consider road and bridge funding, we must first understand the need. Our goal is a system of roads and bridges that meets the transportation needs of this state in the most efficient manner possible.

Fortunately, we have the ability to calculate the cost of achieving that goal. On state highways, we have a detailed system for collecting data, which is used to comprehensively determine the most financially efficient means for maintaining our roads.

The Spider Van pictured here is named for the lasers and cameras mounted to the frame. It is used by the South Dakota Department of Transportation as a road assessment tool. This van drives up to 15,000 miles per year to collect detailed information on pavement roughness, rutting, and faulting as well as the depth, width, and extent of cracks. This tool provides objective measurements at each mile of the state highway system and allows the Department of Transportation to make well-informed decisions on how and where to spend its limited resources.

The Spider Van is currently undergoing maintenance work out of state, but I have asked the Department of Transportation to bring it to the State Capitol later this session so that you can see it for yourself. The important thing to know is that we use Spider Van data to classify all state roadways as being in excellent, good, fair, or poor condition.

As you can see from this chart, those four ratings are important distinctions. They identify the value of proper maintenance at the appropriate time. Stated simply, it's a lot cheaper to keep a road up than to fix it up.

The cost to maintain an excellent road is about \$360 per mile, about 20 percent of the cost of maintaining a good road. Likewise, maintaining a good road is about half the cost of one in fair condition, which costs almost \$2,400 per mile. Poor roads are a little cheaper because some work can be deferred until the road is replaced.

We can use the data we collect from the Spider Van, as well as information about the different costs of maintaining different pavement surfaces to calculate the ideal distribution of pavement conditions.

This chart shows the highest return-on-investment pavement distribution. In other words, it shows the optimal, most cost-efficient pavement condition distribution for our state highway system. Not surprisingly, if you consider the previous chart, it is most efficient for most roads to be either excellent or good most of the time.

This distribution also reflects the expected life span of a newly constructed highway. In other words, when a new highway is constructed, you might expect over its useful life, it will be in excellent condition about 30 percent of that life, then in good condition for 50 percent of the time, fair for 15 percent, and poor for the last 5 percent of its life span.

This pavement distribution provides the best bang for our highway dollars. These targets are integrated into a series of calculations that help determine the most cost-effective way to undertake maintenance efforts on our state-owned highways.

Looking at the chart, one might ask, “Why is it the most financially efficient pavement distribution include poor roads on 5 percent of state highway miles?”

Again, a small amount of pavement should always be in poor condition because it doesn't make sense to spend unnecessarily to maintain a road that is very close to being reconstructed. If we want balanced annual spending on road projects, it makes sense that we would want to keep this ideal distribution constant from year to year.

Take note of this chart, 50 plus 30, about 80 percent of the roadway that we want in good or excellent condition. I'll reference this cost-efficient pavement distribution again in a few minutes.

These two charts demonstrate that South Dakota is pretty efficient in the way it utilizes its highway funds. The top chart shows South Dakota's preliminary and construction engineering costs. They are the second lowest in the nine-state region stretching from Montana to Wisconsin, so you can see we are not wasting money on unusually high engineering costs. We are being good about those. The bottom chart shows our roadway maintenance costs are very low as well. Only North Dakota is better. Overall, South Dakota does an excellent job of keeping highway construction and maintenance costs low.

Here is the point. There is not much room to gain new efficiencies within current spending. If we can't spend our current dollars more efficiently, we need to look at whether our current dollars are enough. Unfortunately, our current funding approach has not kept pace with highway construction costs.

You can see that here. The Legislature implemented the current \$.22 a gallon fuel tax in 1999. That was 16 years ago. I was in the State Legislature, Bill Janklow was governor, and we raised the tax to \$.22 in 1999. Gasoline was around \$1 per gallon, so the motor fuel tax at the time represented 22 percent of the total price. That per-gallon fee of \$.22 was fixed in statute and has been the same for the last 16 years. If the Legislature had indexed the gas tax for construction costs, the fuel tax would be \$.45 today – more than double. But of course, it is still \$.22 per gallon.

The next chart shows that information in another way, and it really brings to the forefront the challenge that local governments face.

In 2003, \$1M would buy 7.8 miles of asphalt overlay. It would buy 1.5 miles of rural roadway reconstruction, and it would buy about 0.4 miles of urban concrete roadway reconstruction. In 2013, just ten years later, that same \$1M could build only 4.5 miles of asphalt overlay, only 0.8 of a mile of rural roadway reconstruction in asphalt, and only 0.2 of a mile in urban roadway reconstruction in concrete.

In short, in 2003, a county could build almost twice as many miles of roadway than they can today with the same money. We have all seen wash-boarded gravel, crumbling county oil, and under-maintained section-line roads. It's easy to see why.

Remember now the pie chart I showed you with the ideal distribution of pavement conditions. We saw that the best distribution was to have 80 percent of your roadway in good or excellent condition.

This slide shows the level of spending needed for just the state highway system, beginning in FY 2017, to maintain the most financially efficient distribution of our road surfaces with 80 percent in good or excellent condition.

The green portion of each bar, by far the largest portion, is pavement maintenance and improvements. The red bars represent bridge repairs and upgrades – the yellow bars expansions – new overpasses, new intersections, and new upgrades. The blue bars required safety upgrades, like shoulder widening. The dark line shows our current funding level is not enough.

Beyond the state highway funding shortfall, we also know we are short for local bridges. This chart shows all our bridges. The first column, of course, shows who owns them. Look at the bottom row. We have 5,799 total bridges in our state. Anything that is over 20 feet in length is a bridge, so it doesn't matter if it is concrete, culverts strung together, or it is what we would consider a bridge. In parlance it is called a bridge if it is 20 feet long and any kind of structure that spans water. As you can see, if you look at the structurally deficient column, almost 1,200 of those nearly 5,800 bridges are structurally deficient. Another

roughly 200 are functionally obsolete. This doesn't mean they are in danger of failure. Each bridge is inspected no less than every other year by the state. It doesn't matter if it is a county bridge, or a state bridge, or even if it is on a township road, the state inspects every bridge. But it means the bridges we have, many of which were built in the 1940s and 1950s, are not able to accommodate the size and volume of traffic we have today. The vast majority of those bridges, about 83 percent, are located on county roads. Of these, 1,045 bridges are eligible for replacement at an average cost of \$230,000 each.

To replace all of these structures would cost, in total, \$240 million just to replace the bridges. That's not talking about highway funding, just the bridges. Of course, we don't need to replace all of them at once, but spreading out the work over several years is a viable option. But we need a mechanism for local units of government to address these deficient structures over time.

So, let's step back now and look at how do we fund our roads and bridges today.

Our funding sources controlled by state and local laws come from a few key areas. The state gets revenues from our \$.22 fuel tax. We also get a 3 percent vehicle excise tax. When you buy a car, it is like a 3 percent sales tax and from a variety of smaller miscellaneous sources.

On the county level, they also have three sources. The license plate fees, which we raised just a few years ago, the wheel tax, and also local property taxes. The percentage each contributes varies from county to county.

Of course, the federal government is also a significant source of transportation dollars.

Here is a history of federal highway funding. Some of this highway funding is allocated to local governments, counties, and municipalities. You can see that federal earmarks, the red bars, ended after 2009. We all see the spike created by the yellow bar in 2009. That was the federal stimulus, which allowed us to address many of our short-term road funding needs and to accelerate highway projects. That is why our highways are in better shape today. But that one-time spike does nothing to address our needs long term, nor does it provide the funding necessary to maintain pavements over time.

Look at the green bars. Formula funding peaked in 2010 and has since been declining. Most experts believe, and I believe, that federal highway funding will remain flat, or may even decline further into the future. One news source recently called the situation “the slow-motion disappearance of the Highway Trust Fund.” This is why more than 30 states have now passed transportation funding measures in the last three years.

We cannot address South Dakota’s highway funding needs by waiting for the federal government to act. Our ongoing funding falls far short of the level needed. Remember, our goal is to have 80 percent of our pavements in excellent or good condition at any given time.

Look at this chart. The blue bars are roads in excellent condition. Stacked above are green bars, which represent roads in good condition. We want the top of the green bars to be above the heavy black line, which is representing the 80 percent of roads in good or excellent condition. If we do nothing, you can see we will fall below that goal in just a few years, and within nine years, our pavement distribution will be only 47 percent good or excellent. In fact, 25 percent of our road surfaces, the red bar, will be in poor condition – 25 percent. It will be even more expensive then to keep up our roads, because roads, as you saw earlier in fair or poor condition, are far more expensive to maintain. It will be like a snowball rolling downhill, gaining size and speed as it goes. We cannot allow that to happen. Failing to maintain our roads now would be penny-wise and pound-foolish.

That is why, this session I am introducing a road and bridge funding bill that I believe meets the need at both state and local levels.

Let me pause and say I’m familiar with the interim Highway Needs and Financing Committee’s efforts this summer, and I appreciate their work. That committee and the LRC did yeoman’s work to collect information, inform the public about transportation funding, engage and enlist input from many stakeholders, and to offer options for funding. I thank the committee for its hard work. I’ve read their draft bill, and I’ve used some elements of it as I crafted my proposal.

Here is our pavement condition over the next ten years and how it will be improved if my proposal is adopted.

You can see that, even under this proposal, pavement condition will still diminish a little over the next few years. Because of the stimulus, pavements today are a little better than we need them to be. Once things level out, excellent and good road surfaces will be between 70 percent and 80 percent – much closer to the ideal 80 percent distribution.

Here is what I am proposing. An increase in the vehicle excise tax from 3 percent to 4 percent will raise \$26 million a year, while still taxing less than surrounding states.

I also propose that we increase the motor fuel tax by \$.02 cents this year and by an additional \$.02 cents each year going forward. A major reason that road funding is insufficient today is because the gas tax does not inflate over time. If we begin to make a small adjustment each year, we can keep up with increasing construction costs and maintain the most efficient pavement condition, without putting future legislatures in a bad position in another ten or fifteen years.

For local entities, a 10 percent increase in vehicle registration fees will provide additional road funds and also help establish a grant program to address local bridge needs. Part of this increase, combined with new and existing state funds, will provide \$15 million a year in local bridge funding. I am also proposing increasing registration fees for noncommercial trucks to 70 percent of commercial rates this year, and then to 80 percent for future years.

The estimated revenue from these changes will generate \$39.8 million for the State Highway Fund, a portion of which is allocated to local roads, and \$10.7 million for counties, townships, and municipalities. All told, this proposal would provide \$50.5 million more for our roads and bridges – \$50.5 million.

Further, counties and townships have long supported roads with revenue generated from property taxes. This proposal would allow greater flexibility for counties and townships to generate their own additional funds if proposals win support at the local level.

Finally, in addition to these statutory fixes, the state Department of Transportation will provide a mechanism for local government entities to swap all of their federal highway funds for state funds, about \$22 million each year. The state Department of Transportation will also swap all existing accumulated federal funding, about \$55 million in total for state funding. Now, why do that?

This state-federal funding swap will place, entirely on the state, the burden of meeting increasingly arduous federal paperwork and regulations. This will give much greater flexibility to counties to best meet their needs. The state has offered versions of this swap in the past, and the expansion of this program will save counties money.

In summary, we have 82,000 miles of roadway in South Dakota, many of which are in disrepair. Between local roads and state highways, we could easily spend another \$150 million per year. As you've also seen, we have nearly 1,400 bridges that are structurally deficient or functionally obsolete – 1,400 bridges. The replacement cost for those structures is about \$240 million.

Federal funding is flat and even declining, and our congressional delegation, as early as this past week, has told me that holding current levels is the best-case scenario. Our state fuel tax has been flat for 16 years. Construction costs in that time have doubled.

Our state highway system is the state's most valuable physical asset, and if we want to maintain it, we must act now. My proposal generates about \$50 million more this year, and it will in the long-run permanently fix the current imbalance between road construction needs and funding.

Last week, Linda and I welcomed the birth of our latest grandchild, Greta. It reminded me of when our first grandchild, Henry, was born. I've told some of you this story. I asked Henry's dad when he was born how he was going to differentiate between his dad and me. Am I going to be "grandpa" and his dad will be "papa," or what? He said, "Well, we are going to call my dad 'Grandpa Fat.'" I said, "Well, oh, what will you call me, 'Grandpa Thin?'" "No, we are going to call you 'Grandpa Cheap.'" I suppose in some ways that is not inaccurate, but I would really prefer "Grandpa Frugal."

You know me. No one wants to raise taxes less than I do. But as I've said before, there is a difference between being cheap and being frugal. A cheap person refuses to spend money even when it would be wise to do so. A frugal person is careful with money, but understands that sometimes spending in the short run is smart and saves money in the long run.

That is today's situation. That is what we confront today. Maintaining our roads and bridges is one of the most fundamental functions of government, and it is vital for this year and for decades to come. I don't want to leave this problem to future governors, future legislators, and future generations.

President Ronald Reagan said when he proposed a gas tax increase in 1982 – he said this: “America can't afford throwaway roads or disposable transit systems. The bridges and highways we fail to repair today will have to be rebuilt tomorrow at many times the cost.” President Reagan was exactly right. Let's fix this problem, for good, this year.

Of course, while South Dakota's highways are a vital component of our transportation infrastructure, our state needs to maintain an efficient rail system as well. Our roads remain in good condition longer when we use rail. We all know that trucks can take a toll on our roads. Let's put that into perspective. One truck with a legal load causes the same wear on our highways as 9,600 cars. That's one legally loaded truck. One unit train replaces 450 trucks, so rail saves our highways.

Our farmers depend on rail to ship grain using privately owned rail and those owned by the state as well. Last year, South Dakota faced a potential grain storage crisis. The causes were many – unusual snow in switchyards increased demand for oil by rail, and temporary inefficiencies caused by the sale of the Canadian Pacific line in South Dakota. These problems all limited capacity when we needed greater capacity to handle record harvests in 2013 and still another new record harvest just last fall.

Over the past year, I have focused on improving rail transportation in South Dakota. We engaged with the Canadian Pacific as they proposed the sale of their South Dakota line. Members of my administration and I also traveled to Washington, DC to meet with the Secretary of Agriculture, the Secretary of

Transportation, and the Surface Transportation Board to draw attention to our rail challenges. Thanks in part to our efforts, but especially with the help of Senator John Thune, our rail carriers have responded and our rail shipping volumes are showing improvements.

We are also acting to improve our rail infrastructure for the long term. We completed a new state rail plan just at the end of the year. It's posted online if you want to read it. Last month, I announced \$56 million in public and private investments in four projects in our state. In response, two grain handling facilities worth \$40 million each have been announced, one in Kennebec and one in Britton. The state is offering still another \$4 million in matching grants to encourage additional private investment in rail. Our modest investments are leveraging millions of dollars in private capital toward building a railroad system that will serve our shippers well for decades to come.

Of course, transportation infrastructure is one wise use of state dollars. Another wise use is to increase spending by relatively small amounts to enable greater savings long term.

Two years ago, we announced sweeping changes to our state's criminal justice system. Leaders from all branches of the government joined key stakeholders to analyze an enormous amount of data and find ways to improve our criminal justice system. That process yielded some big surprises. I knew we had a high imprisonment rate, for example, but I believed that higher imprisonment possibly contributed to greater public safety.

Instead, our study showed that:

Prison admissions in South Dakota were 81 percent nonviolent offenders. You have heard me say it before, "We weren't afraid of them. We were just mad at them – 81 percent of them."

Four in 10 inmates were returning to prison within three years of their release; and despite our continued growth in corrections spending, crime rates were falling in South Dakota more slowly than the national average.

In response, the Legislature passed the Public Safety Improvement Act, a landmark bill aimed at improving public safety, holding offenders accountable, while reducing long-term costs. Now that we are a couple of years down the road it is worth asking, "How is it going?"

Just two months ago, the Oversight Council tracking our progress released its annual report. Here are four highlights from that report:

First, the prison population has remained nearly flat instead of growing and is slightly below projections that we hope to attain with the reformation. Now, it's early, and this should not be overstated. Still, as we'd hoped, this has helped our state avoid constructing a new \$36 million women's facility we had projected might be needed this year.

Second, most offenders leave prison on parole. Last year 60 percent successfully completed their terms of supervision, up from 45 percent in FY 2013. Thus, more former inmates are moving toward becoming taxpayers, rather than tax burdens.

Third, offenders are sometimes put on probation rather than being sent to prison. Last year 550 of those probationers earned early termination of probation by complying with the rules. These success stories help reduce probation caseloads and allow probation officers to focus more attention on higher risk probationers.

The fourth highlight from the report I want to mention is more specialty courts are up and running, and I know the Chief Justice has been a great champion of specialty courts. I'm sure he will talk about that in the State of the Judiciary tomorrow. We've launched HOPE Courts in Walworth and Brown counties, and we now have more offenders than ever participating in drug courts, DUI courts, and evidence-based programs in the community.

These are all indications that South Dakota is on the path toward improved public safety at a lower cost. That's good for the taxpayers, its good public policy, and it's the right direction for this state. I appreciate the leadership of Chief Justice Gilbertson, the work of the court system, the Department of Corrections, of Social Services, local law enforcement, and private providers for their part in this early success.

When we began our review of the criminal justice system in 2013, many people believed the work would be incomplete unless we also looked at the state's juvenile justice system. Over the past year, we have brought together key stakeholders to carefully study relevant data and best practices, to consult with stakeholders, and to recommend policy solutions. This year, I hope you will support my proposals to improve our juvenile justice system.

But first, a bit of context. In South Dakota, juvenile commitments to the Department of Corrections have been declining. However, the drop has been much smaller than what other states, including our neighbors, have experienced. In fact, the most recent national figures show South Dakota with the second highest juvenile incarceration rate in the nation. And let me be clear, the high rate is not connected to a commensurately high rate of violent juvenile crime. In fact, South Dakota's juvenile violent crime arrest rate is one-third the national average. So, we have a violent crime rate with juveniles being one-third of the national average, and yet in the national average, we are the second highest state in the nation for locking up or putting juveniles in the hands of the Department of Corrections. Our juvenile incarceration rate should encourage us to act.

Another encouragement is cost. For most juveniles, commitment to the Department of Corrections means some kind of out-of-home placement, not for all of them but for most of them – some kind of out-of-home placement. That's an expensive thing. Costs range from \$41,000 to \$144,000 per year, depending upon the program. At the same time, research tells us that supervising and treating youth in their communities, instead, is less expensive and more effective for many young people.

So this leads to a couple of obvious questions. Are there youth sent to the Department of Corrections who could be better served in their communities? Can we save money and hold youth accountable while keeping more of them in their own homes?

These and other questions motivated me to join with the Chief Justice and legislative leaders to form the Juvenile Justice Reinvestment Initiative last May. Three principal goals guided their work and they are very similar to the goals that the adult corrections work group had. One, improve public safety by improving outcomes in juvenile cases; two, effectively hold juvenile offenders more

accountable; and three, reduce costs by investing in proven community-based practices while saving residential facilities for more serious offenders.

The three-branch, bipartisan work group met in Pierre seven times between June and November, with many lengthy conference calls in between. Over the summer, members of this group investigated who was being sent to the Department of Corrections and how long they stayed. Here is what they found:

In 2013, seven of every ten youth committed to the Department of Corrections were for misdemeanor offenses, probation violations, and status offenses like underage drinking or truancy.

Besides status offenses, the crimes that most commonly led to commitment were misdemeanor marijuana possession, misdemeanor simple assault, misdemeanor ingestion of an illegal substance, and misdemeanor petty theft. In fact, there was only one felony offense among the top 10 committing offenses – burglary in the 3rd degree.

While fewer youth have been committed over the past few years, remember I said the commitment rate is coming down even though we are still second highest in the nation, those committed are staying longer. In 2007, juveniles averaged 12 months in out-of-home placement. By 2014, that had risen to 15.3 months. That was the average stay.

Similar trends were seen in the probation data. A judge might not commit a juvenile to the DOC. The judge might say, “We are going to put you on probation.” Well, admissions to probation have been falling; with more probationers being low risk, lower level, but average time on probation is longer.

While the work group was churning through mountains of juvenile justice data, staff from my office made progress on a parallel course traveling across the state to meet with more than 200 stakeholders. The message they heard was overwhelmingly clear – we can do a better job for youth who veer off track in South Dakota.

A few major themes stood out:

One - we need to increase our use of diversion programs to prevent troubled youth from going deeper into the juvenile justice system.

Two - we need more evidence-based programming in our communities so that judges have options other than commitment to the Department of Corrections, and so that youth can remain in their homes.

Three - we need better support services for youth and their families so that they can confront the challenges that often lead to a child's entanglement with the juvenile system.

Now with that feedback in mind, and with the data analysis in hand, the work group made 12 recommendations for reform. I am just going to talk about three of them today.

One calls for the development of an array of effective interventions for youth in our juvenile system across our state, including in our rural areas. These interventions would include programs to address substance abuse, alcohol use, drug use, antisocial thinking and behavior, and challenges within the family. We need programs. The availability of such options will help judges as they perform the difficult task of weighing how best to set youth on a better path. It will also provide court services officers on probation situations, juvenile corrections agents in parole situations or after treatment situations, and give them more tools to manage youth in the communities under their supervision. More importantly, these proven community-based solutions can strengthen families and help keep our communities safer.

A second recommendation focuses on which juveniles are placed in the custody of the Department of Corrections. As I mentioned, most juveniles now committed were there because of misdemeanor offenses, probation violations, and minor status offenses. The work group recommended that only those youth who have committed the most serious offenses and pose a risk to the public be committed to the Department of Corrections.

The third item I'll highlight recommends increased use of court diversion for youth committing lower level offenses like Teen Court or other kinds of diversion. A fiscal incentive could encourage counties to provide diversion opportunities.

Many of them have diversion programs, but they are not utilizing them. Let's incent them with money to do that because we pay a little bit of money there and save a lot of money elsewhere. Diversion has been shown to be more effective than formal court interventions for most youth.

Taken together, the work group recommendations are projected to reduce the Department of Corrections population in residential treatment by more than 50 percent within five years. This would save millions of dollars within that system – 50 percent within five years.

I'm not the only South Dakotan who has taken this issue to heart. Many others support taking action. In fact, the proposal I am offering is supported by the Juvenile Justice Reinvestment Initiative work group, of course, and has been endorsed by the Chief Justice David Gilbertson, the Attorney General Marty Jackley, the association of states' attorneys, the association of sheriffs, the association of county commissioners, the South Dakota Association of Youth Care Providers – these are all formal board endorsements of this proposal - the Network Against Family Violence and Sexual Assault, South Dakota Voices for Children, the association of criminal defense lawyers, and the South Dakota Chamber of Commerce and Industry.

As you can see, there are many people who have worked very hard to craft and evaluate these proposals. I want to mention two in particular that are in the gallery today. Pennington County Sheriff Kevin Thom was instrumental in developing the Public Safety Improvement Act two years ago, and has become a nationally recognized expert in justice reinvestment initiatives. He also chairs our stakeholder advisory group. Hughes County Sheriff Mike Leidholt served on the juvenile justice work group this year, and as the immediate past president of the National Sheriffs Association, he has made important contributions. Please help me thank them both for their efforts. It is so helpful when people on the front lines who have a special insight to some of these proposals support them, and I thank you both.

As seen in the past, we can do great things when we work together. I want to make sure government and our taxpayer dollars are producing the best possible outcomes for the young people of our state, and I know you do, too.

We have a choice to make. We can continue to place juveniles in expensive residential settings that are less effective in addressing delinquency, or we can invest short term in more effective treatment, while keeping our youth close to home and driving down that residential population that I talked about earlier. Please join me in making the right choice, one that improves our juvenile justice system and strengthens our families and communities.

Another important area of continued focus is workforce.

For most of the past year, South Dakota has had the second lowest unemployment rate in the nation. We can be proud of that, but it's a double-edged sword. Many business owners struggle to find qualified workers, and this shortage makes it difficult for businesses to expand.

Three years ago, I used my State of the State address to talk to you about workforce. I announced twenty areas in which we were making efforts to address this challenge. But as I've said many times, this is a marathon, not a sprint. Our work in this area requires a persistent focus and a willingness to continue to try new approaches. Last month, I announced one of those approaches – an exciting partnership between the state and Denny Sanford toward addressing this need.

The Build Dakota scholarship program will be funded by a \$25 million donation from Denny Sanford, which will be matched over five years by state Future Funds. This program will offer full scholarships to students entering high-need workforce programs at in-state technical institutes in exchange for a commitment to work in South Dakota for three years. We expect to provide approximately 300 full scholarships annually in the next five years beginning this fall. From 2020 on, an endowment will continue to award approximately 50 scholarships per year.

I first met Denny Sanford years ago because of his generosity to Children's Home Society, and since that time, he has made transformational gifts in healthcare, research, and education. This is yet another transformational gift that will benefit South Dakota and our young people.

The establishment of this scholarship will mean that each year hundreds of our young people, and young people from other states, will have the opportunity to enter high-demand fields without incurring debt, and that more of them will

choose to stay in South Dakota after graduation. The impact of this will be huge, not only for these students, but also for employers and our state.

We are continuing other efforts to address our workforce needs. Last spring, I worked with local leaders to convene six different workforce summits around the state to inform local leaders about state efforts that we are undertaking, learn from them about their needs, and discussed ideas for cooperation. We analyzed the information from these summits and returned to all six cities where we had the summits to report our findings.

Following the summits, I made a financial commitment of \$1 million in matching funds to help communities address workforce shortages in their own way. Last week, I announced 14 grants to match these local commitments with ideas ranging from providing affordable housing to workers to providing access to career and tech Ed in rural areas.

Toward developing workforce, our career and technical education programs are also important. High school classes in welding, machining, healthcare, construction trades, engineering, biosciences, and more give high school students hands-on experiences and opportunities to explore potential careers, while earning high school credit and sometimes college and technical credit as well.

Over the past two years, we've worked to increase interest in those CTE programs. We've organized and promoted career camps in engineering, information technology, healthcare, and skilled trades to expose students to these high-need career fields. But we're looking to do more.

While many of our high schools offer good CTE programs, these expensive programs can be difficult to offer and maintain, especially for our rural schools. Last year, I announced \$8 million in Future Fund grants for CTE at our K-12 schools.

These grants have helped schools like the Meade County School District expand their manufacturing program and collaborate with Western Dakota Tech to offer a dual credit machining course. Because of success in the first semester, Western Dakota Tech will offer an Engine Construction and Operations dual enrollment

course for these high school students. A local business has agreed to offer them internships.

In Burke, grant money was used to purchase four mobile CTE classrooms used by students from four school districts in that area for CTE classes in architecture and construction, engineering, biomedical science, and welding. Without collaboration among those four districts, sections would have been too small to warrant a teacher for each of these courses.

The Mitchell school district is renovating and expanding their regional career center which will provide students from Hanson, Mount Vernon, Ethan, Sanborn Central, and the Mitchell district more opportunities to take CTE classes like welding, blueprint reading, or to get certified OSHA training. Aberdeen is building a similar center.

In Yankton, 8 students completed a Certified Nurse Assistant Camp, 22 students completed a manufacturing academy, and 14 students completed an automotive academy. Thirteen of those students were from Wagner, Bon Homme, Irene-Wakonda, and Menno districts.

Even as we strengthen our offerings in high school, we know that, more than ever, it's important to encourage our young people beyond high school. Last year, I proposed and you approved a new low-cost dual credit program to allow high school juniors and seniors to earn university or tech school credit for courses that also count toward high school graduation for only \$40 a credit hour.

I'm very pleased that this dual credit program has been enthusiastically accepted by our schools and students. We talked about it at the budget address. The enrollment has been well beyond expectations. In the fall semester of the 2014 school year, students from more than 100 public school districts, 1 tribal school, 8 private schools, along with a few homeschoolers enrolled in dual credit courses. Over 1,000 high school students, these are junior and seniors only, enrolled in classes from College Algebra, to Composition, to Diesel Engines. And they are doing well. These high school students enrolled in college and tech school courses have a pass rate greater than 90 percent.

As I've said before, dual credit is a win-win-win-win. High school graduates who start college or tech school with some credits already under their belts are more likely to complete on time, and at less cost. Universities and technical schools get the opportunity to make themselves known to prospective students, and to help prepare those students for success when they graduate. High schools gain flexibility to offer more opportunities to those students at no cost to the district. And, the state gets more young people who are ready to succeed, and live, and work here in South Dakota.

Another key focus in workforce is health care workforce. And we are making real progress there as well. Over the past few years we've expanded rural health worker incentive programs and increased the capacity of our health care educational programs. This fall, the expanded medical school class begins. The expansion will be fully implemented by 2018, training 60 more medical students in our state than before.

We've also funded a program that provides students in medicine, pharmacy, physician assistant, and nurse practitioner programs with four-week experiences in a rural setting to give them a taste of rural practice. This year, I'm proposing to expand that program to allow up to 30 students to participate in up to 15 rural sites. I'm also proposing we expand eligibility to include clinical psychology, masters of social work, and medical laboratory science students.

We won't see the impact of these programs and others like them overnight. These are long-term solutions that require ongoing commitment. The healthcare providers in South Dakota and I are committed to addressing these issues.

As a final workforce focus, I'm particularly proud that we are making strides in our efforts to offer employment opportunities to persons with disabilities. State agencies are partnering with rehabilitation services and school districts to provide worksites for Project Skills program, which provides paid work opportunities for students with disabilities. Students get valuable work experience, and businesses get solid workers. We have also eliminated a financial disincentive in one of our Medicaid programs for those with disabilities who want to work. These earlier efforts are achieving good results as more people with disabilities enter the workforce. For example, 99 percent of South Dakotans with visual impairments who sought state help in finding competitive employment, not workshop

employment, but competitive employment, were successful. That compares to a national rate of just 89 percent.

All of these workforce efforts are important, because, thanks to South Dakota's business-friendly climate, we continue to enjoy a strong economy that is adding jobs:

Consumers Supply announced the construction of a new, state-of-the-art facility in North Sioux City. The plant will produce bagged, pelleted, or texturized feeds, and vitamin premixes.

3M announced a \$57.6 million expansion in Brookings including a 44,000 square-foot addition and 60 new jobs at the medical products facility. Also in Brookings, Bel Brands cut the ribbon on a \$144 million, 170,000 square-foot state-of-the-art facility. The largest industrial capital expenditure in Bel Group's history.

Ag Growth International announced a new 120,000 square-foot Hi Roller production facility in Sioux Falls.

The Norwegian company, Sapa Extrusions, recently announced the expansion of its operations in Yankton, and the company will be adding 50 jobs there.

Landsport of Sturgis, which supplies aluminum loading ramps for the trucking industry, announced they would nearly double their manufacturing footprint.

Award winning technology company Sterling Computers announced their company is relocating its corporate headquarters from Nebraska to Dakota Dunes.

The state has also continued efforts to promote development in the agriculture sector. Using local control as the starting point, our County Site Analysis Program helps counties use data to proactively identify sites suitable for agriculture-related development. The program was first developed and implemented by the South Dakota Department of Agriculture in partnership with the First District Association of Local Governments and Development District III.

The County Site Analysis Program looks at local zoning ordinances, defined by the county, locations of roads, utilities, and other infrastructure, and combines this with local permitting requirements. This information is used to rate property locations on their suitability for manufacturing, or commodity processing, or livestock-related enterprises. County commissions, planning and zoning boards, and landowners then use this data to make well-informed decisions.

Investments in agriculture are vital to the long-term sustainability of rural communities, but development must be done responsibly. Not every new project is a good fit in every location, so the program helps county commissioners and landowners determine where projects fit best.

Since its launch a year ago, 48 counties, more than we expected, have requested a site analysis, and we have completed the analysis in 15 of them. In those counties, local leaders use the data in their comprehensive planning efforts; landowners have concrete information outlining options for their land; and agribusinesses learn where their investments will be welcome.

I am proud of this program, and I am pleased that the National Association of Development Organizations recently awarded this program an “Innovation Award” for its novel approach to rural economic development. I am also very proud that, just last month, a Colorado State University study named South Dakota the #1 agribusiness-friendly state in the nation.

Of course, South Dakota values the outdoors for more than agriculture alone. We emphasize responsible conservation because we love our hunting, our fishing, and our outdoor recreation.

Two years ago, the Legislature approved the creation of Good Earth State Park in southeast South Dakota. The park has already welcomed new visitors from South Dakota, Iowa, and elsewhere, and work is being done to design and build a new visitor center.

On the other side of the state, bids on the construction of a new Custer State Park Visitor Center will go out this month. Located east of the Game Lodge at the intersection of Highway 16A and the Wildlife Loop Road, this new facility will be situated perfectly to draw visitors. This \$5 million facility would not be possible

without the generosity of the Leona Helmsley Foundation and the James and Eloise Elmen Foundation, which, together provided \$3 million toward the cost.

We are also taking steps to protect our pheasant hunting heritage. In 2013, we were confronted with a worrisome drop in pheasant numbers. Of course last year, the numbers bounced back with a 76 percent increase. Even so, the decline in grassland and CRP acres over the last decade poses a significant challenge to maintaining our strong pheasant hunting tradition. That's why I hosted the Pheasant Habitat Summit in December of 2013 and appointed a work group to evaluate the hundreds of comments, suggestions, and letters that resulted from it.

The work group produced a final report that included a series of practical recommendations, and I have already taken steps to implement some of them. One of the primary recommendations was the establishment of the South Dakota Conservation Fund, dedicated to providing financial resources directly to conservation efforts, including pheasant habitat. Tim Kessler, who was a member of the work group, donated \$100,000 personally to launch the fund, and since then others have been stepping forward to contribute. In my budget, I proposed a one-time, \$1.5 million appropriation to stimulate matching contributions from the private sector to help improve habitat in South Dakota.

Every year at this time, I also report to you on our "Better Government" initiatives to make the government more efficient, more open, and more accessible. I'd like to briefly do that today as well.

Two years ago, the rules promulgation process for state agencies was public, but if it was online at all, it was difficult to find. So the state launched a single-portal website to help citizens find, follow, and engage with the rulemaking process. Just last week, we extended that concept to another area – Executive Branch boards and commissions.

This new portal – boardsandcommissions.sd.gov – is a one-stop site listing board members, meeting notices, agendas, and board packets. Much of this was online before, but it was spread among dozens of different websites and difficult to find. The new portal will make it easier for the public to engage with over 100 boards and commissions.

My administration has also worked on “red tape repealer” efforts. Over the past four years, we have proposed and you have passed the elimination of 3,700 sections of obsolete and unnecessary laws and rules, accounting for 411,000 words. I know from my time as a legislator that much time is often spent adding words to the statute books. I thank you for helping remove some words as well.

This year, 11 departments and my office will be introducing 16 more bills to eliminate an additional 305 sections, over 26,000 words, from our laws and rules.

I’d also like to update you on our continued efforts to reduce infant mortality. When I was first elected, I was dismayed to learn how many infants were not reaching their first birthday, and that South Dakota’s infant mortality rate was higher than the surrounding states.

I asked my wife, Linda, who is here, to lead a task force on this important issue. Our first lady worked with doctors, nurses, tribal health officials, nurse midwives, social workers, and the Department of Health officials to understand the causes of the problem.

Private donors have partnered with the Department of Health since then to provide Safe Sleep Kits to low-income families without a safe sleep option. The kit includes a portable crib, crib sheet, sleep sack, informational DVD, children’s book, and pacifier. So far, 4,630 parents and other caregivers have received these cribs. I know what they are like. We went out and bought one for use with our grandkids when they are at our house.

A media campaign, “For Baby’s Sake”, is focused on safe sleep, early signs of pregnancy, the importance of prenatal care, and the importance of immunizations for babies. The Facebook page has reached nearly half a million unique visitors. The website receives, on average, nearly 3,000 page views each month, and 79 percent of those visits are new, meaning it’s not the same handful of folks revisiting the site.

Significant progress has been made. We don’t have 2014 numbers yet, but Linda was just telling me today reporting now is being made monthly, so we will soon have 2014 numbers. South Dakota’s 2013 infant mortality rate was 6.5 deaths

per 1,000, which is a decrease from 2012's rate. That's 6.5 down from 8.6, so a pretty significant drop. I am happy we're seeing improvements. I know there's still more work to do. There's no fixing this problem overnight. I am grateful Linda will continue to lead our state's efforts to reduce infant mortality in the next four years.

Since September 11, 2001, each of South Dakota's 22 National Guard communities has experienced a unit mobilization in support of Operations Enduring Freedom, Iraqi Freedom, New Dawn, and Noble Eagle.

To date, the South Dakota National Guard has deployed more than 7,200 Soldiers and Airmen in support of the Global War on Terror. Today, as I speak to you for the first time in more than a decade, no Soldiers or Airmen are currently deployed overseas from South Dakota – no National Guard Soldiers or Airmen.

Of course, the National Guard also serves an important role here at home, and the Guard stepped up again in 2014. In June, 114 guardsmen provided sandbagging and levee construction support, along the Big Sioux River in Union County. Just days later, 268 soldiers with vehicles and equipment were activated to support tornado recovery operations in Wessington Springs.

It's not surprising that the South Dakota National Guard continues to be recognized for excellence. We have a great Air Guard. The 114th Fighter Wing earned Air Combat Command's first overall "highly effective" grade during a Unit Effectiveness Inspection, and our 114th Fighter Wing was presented the highly-coveted Spaatz Trophy, which is presented annually to the most outstanding flying unit in the nation – our South Dakota Air National Guard.

Twelve Army National Guard units received the National Guard Bureau's Superior Unit Award, which is presented only to units that meet very high standards in drill attendance, physical fitness, weapons qualifications, and maintenance.

The Forward Support Company, the 153rd Engineer Battalion, won the army award for maintenance excellence and for distinction in maintenance operations in the small maintenance category. And, the 153rd Engineer Battalion for achieving the highest standards for training and readiness was awarded the Major General Milton A. Reckord Trophy as the most outstanding Army National Guard

battalion in the nation. It's been a pretty good year for our South Dakota National Guard.

I described these awards, of course, because it is important we honor those who serve in uniform and recognize the sacrifices they make for our nation and for our state. We must also remember the sacrifices of those who have worn the uniform in the past, our veterans.

Last year at this time, the South Dakota Department of Veterans Affairs kicked off "Operation Reaching All Veterans". This is the first kind of operation of this type in the nation. The Department set a goal to reach out to South Dakota's veterans with a multi-pronged approach, not wait for veterans to contact us. We reached out and contacted them using an outreach booth here at the Capitol during the session, open houses in all 66 counties, and an aggressive phone campaign.

This campaign was a first for the South Dakota Department of Veterans Affairs and a first in the nation. The Department started with a list of over 62,000 veterans. Not all veterans are registered with the state. We may not know of their existence at even the county level. Media messages in print and electronic formats were distributed, and 153 open houses were held throughout the state.

Starting last April, our staff and veterans service officers around the state were each given a list of 100 veterans to contact every month. This effort allowed staff to educate veterans and their families about benefits, programs, and services. More importantly it allowed us to listen to concerns and provide key contacts to assist on a local level. Best of all, it gave us a chance to say "thank you."

One county veterans service officer, Tom Sparrow of Turner County, contacted over 11,000 veterans personally. Tom is here today. Please help me thank Tom.

Next year, our veterans will have a new home. Thank you again for joining with me to provide funding for the new state veterans home, and thank you for your ongoing support of this project. Construction is on time and under budget. Our goal is to open the doors to this new home in January of next year.

We are able to be here today because of the service of these brave men and women, and we honor their sacrifices by doing what we can to make South Dakota even stronger.

Many of you know that I have focused on our state's bond ratings. Recently, Standard and Poor's upgraded South Dakota's outlook from "neutral" to "positive." In doing this, they recognized our state for "prudent fiscal management and structural budgetary balance." That's their words. They also noted our state's strong economic growth and pro-business tax climate.

That rating is important because it can save our state money in interest payments. I also value it, though, because through outside scrutiny we can identify ways that we can improve.

I am very proud of the many steps we have taken to be good stewards of this state. Four years ago, we joined together to eliminate our structural deficit. It took tough choices, but we are stronger today because we balanced the budget.

Likewise, we joined together two years ago to reform our criminal justice system. It took courage to rely on evidence and data rather than instinct, anecdotes, and conventional wisdom. But we are already saving money because of those decisions.

We have joined together to use one-time dollars to pay off debts and strengthen our financial position. We have joined together to become one of the few states in the nation with a fully-funded pension. We have joined together to maintain public buildings and to preserve our outdoors. We have joined together to create jobs through the Building South Dakota bill, and to enact programs to train the workers who will fill those jobs.

And, when our neighbors face disaster – when they face one of the worst days of their lives – we have stood with them – we've joined together to stand with them – whether a tornado in Wessington Springs, a blizzard in cattle country, or a massive river flood.

This year, this session, we confront the challenge of transportation funding and the opportunity for reform in our juvenile justice system. Once again, we can join together to strengthen our state and ensure that our best days are yet to come.

Let's go to work. Thank you.