



## **STATE OF THE STATE ADDRESS OF GOVERNOR DENNIS DAUGAARD**

THE STATE CAPITOL – PIERRE, SOUTH DAKOTA – JANUARY 12, 2016

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### **INTRODUCTION**

Thank you very much. Welcome back to Pierre everyone. Before I begin today, we have three new legislators who have joined us since last year. I'd ask Senator Bill Shorma of Dakota Dunes, Senator Scott Fiegen of Dell Rapids, and Representative Wayne Steinhauer of Hartford to stand so we can welcome you. Welcome!

### **BLUE RIBBON TASK FORCE ON TEACHERS AND STUDENTS**

I'd like to begin today by talking about education funding. A year ago I created the Blue Ribbon Task Force on Teachers and Students to look into the important issues of education funding and teacher pay. This task force included educators, legislators, members of my administration, and members of the public.

The task force undertook an extensive process of seeking public input. Task force members organized or attended dozens of meetings and sought feedback from thousands of South Dakotans. They heard an overwhelming message: the public believes we need to be bold and to act to address teacher salaries, this year.

Following that public input, the task force held five day-long public meetings to consider data, discuss policy options, and ultimately to make recommendations. I want to thank the task force members for their very thorough work. The final report makes thoughtful recommendations and is an excellent overview of this topic.

The key to student achievement is an effective teacher. We all know that. It is the number one factor that we can control. Despite that, we also know that South Dakota's teacher salaries are lowest in the nation and have been for decades.

The problem has come to the forefront now because, more and more, we are hearing from school administrators that the teaching workforce is getting smaller. Schools are getting fewer applicants for each position. Some teaching disciplines, like math and science, are even more limited. And in remote geographic areas, some schools struggle to attract any applicants at all.

The data supports this anecdotal evidence. The task force report includes projections from the Department of Education which show that over the next five years, South Dakota will have only one new teacher for each position that comes open.

Now one teacher per opening may not sound like a shortage, but for most districts it is. The new teachers coming into the profession will not align with the disciplines where there are openings. There won't be enough new teachers in hard-to-fill disciplines. Rural or remote districts will still struggle to hire. And the quality of education suffers when the schools cannot be selective and have to hire from a limited pool. That's why the task force found that "the incoming pipeline of teachers will not meet the projected needs of districts" over the next five years.

We need to increase the supply of new teachers entering the field, and we need more current teachers to stay in the field. Now I know that other areas of the workforce are seeing similar trends. These shortages are caused by many economic and demographic factors. Salaries are not the only cause of the problem. But we cannot fix this problem unless we increase salaries.

We all know that although South Dakota is last in teacher salaries, we're not last in spending per student. Depending on the source, we usually rank around 40<sup>th</sup>. The task force considered several possible explanations for this. For example, some were surprised to learn that our spending on administrators, both in terms of salaries and number of administrators, is comparable to national averages and lower than some other states in our area.

Ultimately, the task force found that South Dakota's spending per student is due to the rural nature of our state. We actually spend more, per student, on facilities and maintenance than the national average. We also have more teachers per student than the national average.

Significantly though, we spend less per student than all of our surrounding states. The states that are most like us – North Dakota, Montana, and Nebraska – spend more per student than we do, have more teachers per students than we do, and pay higher salaries than we do.

The bad news is: the gap is getting worse. We compete with our surrounding states for teachers, and we are falling farther behind them. Ten years ago South Dakota's average teacher salary was about \$2000 a year behind North Dakota. We were 51<sup>st</sup> in teacher pay and they were 49<sup>th</sup>. Montana was 47<sup>th</sup> and Nebraska was 42<sup>nd</sup>.

Today we are still closest to North Dakota among our surrounding states, but the gap is not \$2000. It is \$8000. We still rank 51<sup>st</sup>. North Dakota has moved to 36<sup>th</sup>. Montana to 28<sup>th</sup>. Nebraska 32<sup>nd</sup>.

And even when you adjust for cost of living, South Dakota falls behind our surrounding states. We are closest to North Dakota, but nearly \$6000 behind. After adjusting for cost of living, South Dakota is nearly \$10,000 behind Minnesota.

If South Dakota wants to maintain high student achievement, we need a new generation of high quality teachers. And we're not going to get them unless we become more competitive with surrounding states. And when you delve into the numbers you reach the conclusion that the only way to become more competitive is to increase our state's average teacher salary. We need to add more money into the system. Much like other problems we have confronted together, South Dakota faces a deteriorating situation if we don't take action.

To address this need I'm proposing a one half cent increase in the state sales tax. This plan will bring about competitive teacher pay, a transparent and fair funding formula, and a more efficient education system. This plan is based upon the Blue Ribbon Task Force report and will achieve its goals.

The one half cent will generate \$40 million in new revenue beyond our needs; however, and I propose that this excess be dedicated to property tax relief.

The centerpiece of the Blue Ribbon report is a revised school funding formula based upon the real input costs of education, rather than on a per-student dollar amount. This new formula will calculate funding based on a target average teacher salary and a target student-to-teacher ratio; those two factors.

South Dakota's average teacher salary is just over \$40,000. I am recommending we set a target average of \$48,500. That would be our goal. At that level South Dakota would be competitive with our surrounding states. And we would no longer be 51<sup>st</sup> in the nation.

As I mentioned, the new formula will also be based on a target student-to-teacher ratio. To be clear, this is not a measurement of class size. It is the ratio of students to all instructional staff, including regular classroom teachers and others such as special education teachers.

To replace the current small school factor a sliding scale will be used to calculate each school district's target teacher-to-student ratio. Districts with 600 or more students will be calculated based on a ratio of 15 students per teacher, or 15-to-1. Those with 200 students or less will be based on a ratio of 12.5-to-1. Those between 200 and 600 are on a sliding scale.

Let's look at examples. Consider a school district with 175 students; the whole district K-12, 175 students. That is less than 200, so this district's state aid is based on a target ratio of 12.5-to-1. If you divide 175 students by 12.5, that results in a target of 14 teachers. We have a target average salary of \$48,500 so you multiply the number of teachers – 14 – by that target salary \$48,500. Then the formula would add additional dollars to cover benefits and overhead to calculate this district's total need.

For a district of 600 students, the calculation works in the same way, it's based on a ratio of 15-to-1. If you divide 600 students by 15, the result is 40, so 40 you multiply times the \$48,500 and then again add extra for benefits and overhead.

This formula will drive a more informed discussion of education funding. Rather than base funding on an arbitrary per student allocation, the debate each year will be based on the appropriate target for the average teacher salary.

This is more transparent for both legislators and citizens and will allow for a better discussion each budget cycle. When you go home, as legislators, you will be able to demonstrate that school districts are receiving adequate state dollars to reach the target salary.

Now it's important for school districts to understand what this new formula means and what it does not mean.

This year we will be setting a state target of \$48,500 for the average teacher salary. That means approximately \$8500 more than the current statewide average. This doesn't mean that every teacher will receive \$48,500 as their salary, or that every teacher will get a raise of \$8500. It also does not mean that every district will achieve that target average or that level of raise.

Here is what the proposal is offering, what it does mean to school districts: We will give you enough money so that if your staff meets the target ratio, you will have enough money to pay that target average.

But each district will decide exactly how to use the new funding because the state doesn't propose to mandate that schools achieve their target student-to-teacher ratio. Now some schools may choose to exceed their ratios and to have more staff than the ratio funds. That will mean that those schools will spread their new money among more people, give smaller raises, and fail to reach the target average.

But although it is not a mandate, this new formula is creating an expectation. From the state level, we should all expect that the new funding we send to districts will be used to increase teacher salaries. It may take time for districts to adjust, and we may not achieve the entire \$8500 increase in our state average in the first year. But we should expect significant movement toward that goal, and I will propose specific reporting and accountability measures to allow us to monitor progress for each district.

At the local level, these state targets will also set expectations. Teachers and parents will expect their schools to achieve significant increases in salaries. This transparent formula will lead to more informed conversations among school leaders, teachers, parents, and taxpayers about local spending and staffing decisions. It will lead to greater accountability at the local level for decisions that impact teacher salaries.

Now if the state is going to expect districts to reach these targets, we need to give school leaders more tools to achieve greater efficiency. One important way we do this is through the Statewide Center for e-Learning at Northern State University. This center offers high quality courses at no cost to the school – the state pays for it. These offerings are particularly important for districts who struggle to recruit teachers in high-need disciplines. I am proposing

that we expand the offerings at the e-Learning Center so that we can make these high-quality teachers available to more districts.

I also propose that we dedicate funds to incentivize the sharing of services across districts. Now the state has already done this in some areas. For example, the state already negotiates the cost of internet bandwidth centrally, and we provide it to the schools at no cost to them. The state also provides a student information system to schools at no cost. Now these services have a cost to the general fund, but they save schools more than the cost to the state. In every case, it is voluntary for schools to participate. But we have found the vast majority of schools will take advantage of these efficient means to save money.

We can expand this approach to even more areas – from purchasing, to payroll, to software licensing. We can even incentivize districts to share staff. And by helping districts save money on these administrative costs or staff costs, we make it that much easier for them to put more dollars into instructional staff.

The introduction of new money into school funding also creates an opportunity to fix longstanding problems with the formula. New money means that fixing these problems is not a “zero sum game.”

For example, we can move to greater equity among districts. Our current system adds state dollars to school district property taxes; you know that. We send more state dollars to districts which have low property values, and fewer state dollars to districts with high property values. In this way the attempt is to provide a uniform level of funding whether a district has low property values or high property values. But some school district revenue sources such as the wind farm tax, the gross receipts tax on utilities, the bank franchise tax, and the revenue from traffic fines, they’re all ignored in this equalization effort. This creates unfair “windfalls” for certain districts, and the task force recommended that we move toward greater equity in this area. My proposal would treat these other revenue sources just as property tax values are treated, over a five-year phase-in period.

I’m also proposing that the state reinstate caps on school reserve funds. A reserve is a prudent management tool, we have reserves so do the school districts, but as the state introduces new funds into the school funding system, we should expect that those dollars are used to increase teacher salaries – not held in reserves for future years. If a district exceeds the cap, which would be established under this proposal, state aid will be offset on a dollar-for-dollar basis, and this would take effect in three years, so school districts have time to adjust.

And I will also be proposing changes to respond to the dramatic growth of capital outlay in recent years. Capital outlay is a property tax levy that schools assess to pay for building construction and improvements. Over the past 12 years, while the per-student allocation has increased by 25%, property taxes for capital outlay have increased by 117%. My plan will restrict annual growth to slow that trend. I am also proposing to make permanent the current law, which had been set to expire in 2018, that allows school districts to shift some of these

funds to general operations. School boards should be able to decide where to spend their dollars, and this will allow a portion of capital outlay funds to be used for teacher salaries or other costs on a permanent basis.

Finally, I support the recommendations of the task force to improve our ability to recruit and retain teachers. We will institute reciprocity with other states so that teachers coming to South Dakota can avoid unnecessary barriers to entering the classrooms here. A mentoring program will help new teachers find their way to success so that fewer new teachers leave the profession in their first years. And we will restore funding to reward the outstanding teachers who achieve National Board Certification. This is an important way to recognize our best teachers and to encourage more teachers to pursue this rigorous process.

We all want what's best for our children. We want to provide them with a quality education. And we know that requires a strong workforce of great teachers. This is the year. This is the year to get out of last place. This is the year to act. Let's join together this year to strengthen our schools and keep our promise to the next generation.

#### **SOUTH DAKOTA RETIREMENT SYSTEM**

Another important area where we must continue to look ahead is in the South Dakota Retirement System. I am very proud – and we should all be very proud – that South Dakota Retirement System is consistently among the best-funded retirement systems in the nation. We hold ourselves to a very high standard. The Retirement System targets 100% funding while using among the most conservative measurements of liabilities of any public pension plan.

Other states have taken an opposite approach which is why nationwide, the average statewide retirement plan is only 75% funded. It's one of the reasons why Chicago is rated as junk – their bonds. Compare that to the South Dakota Retirement System, which, as of June 30, was 104% funded. While other states have failed to consistently make the contributions their actuaries recommend, South Dakota does not fail.

The success of our system has been made possible by the effective and conservative management of the Retirement System Board of Trustees, the outstanding performance of the South Dakota Investment Council, and the cooperation and support of all stakeholders.

But even with these successes, the Board of Trustees is taking a proactive step to improve the sustainability of our plan for the next generation of public employees. At its December board meeting, the Board unanimously approved a new retirement design for new public employees who begin work after June 30, 2017. The new design accommodates longer life expectancies, adds variable hybrid benefits, and eliminates inequitable subsidies. Those who fall under the new design will not be subsidizing members of the current design – both plans will be self-sustaining.

This change will not affect current employees – not now and not when current employees retire.

This change will not affect those who are already retired. And this change will not require additional contributions from employees.

The Board's unanimous recommendation is subject to your approval, so you will be hearing more about this proposal in the coming weeks. I strongly urge your approval. Unlike other states, South Dakota is not waiting for a crisis to tackle this issue. Our state would strengthen this system now – when our pension is over 100% funded – so that our pension plan will be well-funded through any future challenges, whether you or I are here any longer or not.

## **MEDICAID**

Last month in the budget process I spoke to you about the state's continuing conversations with federal officials about Medicaid. Since that time, federal officials have continued to work on the issues surrounding reimbursement to the state for services provided to Indian Health Service enrollees. I just received a detailed letter from the federal Secretary of Health and Human Services in response to our comments on the draft federal policy change, and I believe that by the end of the month we will know if this plan is viable.

Some of you have asked me, "Why would a conservative Republican governor propose a plan to expand Medicaid?" In fact, last month the *New York Times* ran a front page story discussing Medicaid proposals by conservative governors in South Dakota, Utah, and Wyoming and comparing their approach with the U.S. Senators from those states.

If I were in Congress, I would be doing exactly what Senator Thune, Senator Rounds, and Congresswoman Noem are doing. The federal healthcare law is about far more than Medicaid expansion, and we're already seeing how it has distorted the market for health insurance and led to higher costs. In my opinion the law needs to be repealed or significantly changed.

But at the state level, we do not make federal policy. It's our responsibility to understand the federal programs as they exist and to make the best decisions for our state. That's why, although I opposed the federal healthcare reform law, my administration has spent three years discussing possible approaches to expansion with federal officials.

The deal I am proposing makes sense for South Dakota. It is a good deal; it is a very good deal. This plan will fix the longstanding Indian Health Service reimbursement issue, secure better health care for Native Americans, and cover 50,000 more South Dakotans at no cost to our state general fund. This change will benefit counties by relieving their indigent care costs and by reducing the health care costs for jail inmates. It will reduce the charity care expense that hospitals now pass on to patients like you.

We all know that Native Americans in our state were promised health care by the federal government as a treaty obligation. When the federal government fails to meet that obligation, the cost now falls to us. Consider this story illustrating the current level of service from IHS.

Gena is a 39-year-old Rosebud Sioux tribal member and a mother of two. When she was 24 she

received a kidney transplant due to a genetic disease, and her grandmother died of cervical cancer, placing Gena at higher risk for this disease. During Gena's health exam in April 2014 at IHS, some abnormalities were detected. Given her health history, these results should have raised an immediate red flag.

In fact, Gena didn't learn of this abnormal pap smear until eight months later, by letter, not by a phone call. She immediately called IHS to get an appointment with a gynecologist, only to be told there isn't one available. She asked to be referred to an outside specialist, but this was denied because it was not considered a priority one "life or limb" case.

Fortunately, in Gena's case, she was able to afford to pay out-of-pocket to see a specialist, and although there was no cancer, she must remain vigilant.

A few of you may know Gena. I know you all know her husband, Senator Troy Heinert. The Heinerts gave me permission to share this story so you can understand why we need to do something about this situation with IHS.

If this plan is adopted, the new relationship between IHS and healthcare providers will allow Native Americans to get better health care. IHS will be able to use telehealth to provide better primary care. If a Native American is eligible for Medicaid, the state will no longer bear half of this expense for this treaty obligation.

This deal makes sense for South Dakota. Most of South Dakota's tribes have already strongly endorsed this plan, and I believe they all will.

But as I've said before, I will not move forward with this plan unless the State Legislature expresses its support through the passage of a state budget that includes the necessary budget authority. And I won't support the plan if it will cost the state any new general funds.

Now, I know some of you are concerned about the soundness of the cost projections for this plan. Given the experience of some other states, that's a very valid concern, you're right to raise that question. I raised it myself but let me answer some of those concerns.

Four years ago we undertook a survey that indicated that 48,500 South Dakotans would be covered if we expanded Medicaid. That was four years ago. So last fall, we conducted a new survey that updated that number to 49,700. Now a little bit of a change but not much. For comparison, North Dakota has expanded already; they added 19,000 citizens in their expansion. For our projections, I took the 49,700 and added 10% to be safe – 55,000.

In the states where projections have been wrong, in part it was because they didn't expect all those eligible to sign up in the first year. In our projections, we're assuming 100% of those eligible sign up by the end of the first year.

We've also been conservative in estimating the costs per enrollee. We believe that each



enrollee will cost about \$6400 per year. We calculated that based on actual costs of low income adults who are already covered under South Dakota's Medicaid plan, but it's also within about \$20 of actual costs incurred by expansion states. To be safe, we added 20% to that and budgeted \$7700 per enrollee.

In addition to these safeguards, we're also ignoring that some of the expansion population, about 30% of the expansion population, will be Native American and eligible for 100% IHS reimbursement. Those savings could potentially be as much as \$15 million. We ignored all of it, we ignored that entirely. We're going to save some of that \$15 million if this plan is adopted, but our assumptions assume none of it. We're also ignoring the likely positive impact that the new funds will have on our state's economy and the result impact on our tax revenues. We're ignoring that entirely.

Finally, I would support, and I hope you will pass, "trigger" language to require that, if the federal government changes the deal, South Dakota would withdraw from expansion. If a Republican President and Republican Congress are elected in 2016, the federal health care law could be repealed entirely. Regardless, if the federal funding goes away, so should the program. But even in that case, however, I am optimistic that our efforts to fix the IHS reimbursement issue and improvements to Native American health care would remain, even if the affordable care act is repealed entirely. And in that case, Native Americans and the state would continue to benefit from that situation.

Now I went through that quickly, and I'm sure you still have questions. Over the past month I organized four meetings around the state; in Aberdeen, in Sioux Falls, in Pierre, and in Rapid City, for legislators, to explain the projections and answer questions. I am hosting another one this week, and I hope those of you who haven't attended one of the other meetings will be able to come.

My request of you is this, all of you, wait to pass judgment on this proposal until we receive final word from the federal government. Take that time to scrutinize the cost estimates and ask questions. As I said last month, there are things about Medicaid expansion that bother me also. But we all owe it to the people of South Dakota to give this complex issue careful consideration this year. And if the plan comes together to improve health care for Native Americans, and at the same time expand Medicaid with no costs to us, I hope you will agree it makes sense for South Dakota, it just makes sense for our state.

#### **PUBLIC SAFETY IMPROVEMENT ACT**

Three years ago on another front, I first spoke to you about South Dakota's high imprisonment rate for adult offenders – higher than any of our six rounding states. Per capita, we were locking up 75% more men than North Dakota and four times as many women as Minnesota. Continuing on that path would have forced the state to build a new women's prison and a new men's prison within ten years. Worst of all, our high imprisonment rate wasn't making our state any safer.

Today, because of the Public Safety Improvement Act which you adopted, the prison population is now below initial projections better than we even hoped, and we saved millions of dollars last year by avoiding the cost for a new women's prison. By avoiding the costs of constructing and operating new prisons, South Dakota should save over \$100 million in correctional costs this decade.

Also thanks to criminal justice reforms, the parole success rate increased from 37% of parolees succeeding in FY12 to 65% succeeding in FY15. Today parolees can reduce the duration of their parole by a month of compliance for every month of perfect compliance they can reduce their parole term by a month. In just one year over 700,000 days of parole credit were earned. That's nearly 2,000 years of parole credits earned.

In addition, more non-violent offenders are getting the help they need within their own communities. Our reforms added new drug and DUI courts throughout the state – in fact, we increased the number of drug courts by five times. Today, over 500 children have a parent who is enrolled in a drug or DUI court. Instead of going to prison, these parents are getting the help they need, while staying in their own homes and supporting their own families, instead of putting those kids in foster care where we're supporting them.

Today we've also launched a pilot program for parole with the Sisseton Wahpeton Oyate. Under this program, the tribe supervises enrolled parolees on the reservation so these parolees can return to their homes. As of last summer 97% of offenders in the pilot program had not absconded or committed a parole violation.

According to the most recent crime reports from the FBI and our Attorney General, South Dakota's crime rate decreased from 2013 to 2014. And we can't definitively attribute the reduction in crime to the Public Safety Improvement Act, but it's certainly a positive sign.

Experts say that it will take three to five years really to know to see all the results of these reforms and know if they have had the effect we intended. Still, the early data is promising, and I'm hopeful these reforms will save the state money, hold offenders accountable, and make South Dakota an even safer place.

#### **JUVENILE JUSTICE REINVESTMENT INITIATIVE**

Last year in that same vein we also passed a significant reform of our juvenile justice system. The new policies are expected to cut in half the number of youth committed to the Department of Corrections, allowing the state to reinvest in programs and practices that will achieve better outcomes.

The state has been working to prepare for the most significant changes, they just became effective January 1<sup>st</sup>.

The Department of Social Services has identified a core set of effective programs to be available in communities. Twelve contracts have been awarded to deliver what's called Functional Family

Therapy throughout South Dakota and training for these providers is taking place right now. This program is designed to address adolescent behavior problems, substance abuse and delinquency, and help families support their children in positive ways.

The Unified Judicial System has been working to ensure judges are aware of the statutory changes that impact them, and that probation officers have the tools they need. Probation officers will utilize a guide of graduated consequences, much like in the adult system, to hold youth accountable for their conduct by responding consistently and quickly to violations, and also to incentivize positive changes.

The Department of Corrections has created a financial incentive program to encourage counties to divert juveniles from detention to other programs, and yet allow counties to request funds when the number of detention beds in a given calendar year exceeds an established baseline.

And, a Native American Focus Group was established to determine how state and tribal governments can better partner to serve youth. The group recently held its third meeting, and the Department of Tribal Relations reports they have been receiving positive feedback from tribal leaders.

Just as adult system reforms have helped us avoid building new prisons, the juvenile justice reforms are impacting our juvenile corrections facilities. Over the last few years the number of juveniles being sent to STAR Academy has been decreasing already, and the juvenile justice reforms are expected to reduce those numbers still further. We recently closed the STAR Academy's East Campus, at the old Youth Forestry Camp, and consolidated programs at the main campus near Custer. In the coming year STAR Academy's programs will be downsized to reflect the smaller population being served there.

In the midst of this downsizing, I must say the STAR Academy staff members have continued to do their jobs with commitment and dedication. In some cases, they may be working themselves out of a job. Yet staff members continue to work selflessly placing the needs of the youth ahead of their own.

## **WORKFORCE**

I have also spoken to you several times before about workforce. South Dakota continues to face a shortage of skilled workers. I hear from many business owners they're delaying expansions and even turning work away because they simply cannot hire enough people.

We have taken many steps to address this issue over the past few years, and we all understand that this is a marathon, not a sprint. It needs constant attention.

We have a low unemployment rate and a nearly 1-to-1 ratio of job seekers to job openings. Now just like in the teacher shortage situation 1-to-1 seems ideal, but most of those who are seeking jobs don't have the skills in this situation needed to perform the jobs that are available, there is a misalignment, and we must overcome this misalignment through education.

### ***College Affordability***

More than ever before, it's important for young people to continue their education beyond high school. The Board of Regents recently proposed a goal that 65% of young people in South Dakota achieve a post-secondary credential of some sort, and I think that is a worthy goal to pursue.

Students need to be able to attend college or tech school and finish in a reasonable time without an unreasonable debt. Two years ago we froze tuition to keep schooling affordable, and my proposal this year to freeze tuition again, by using one-time funds to repay debt, will again move us toward tuition affordability.

Our successful state-subsidized dual credit program also pursues this goal. These are the cheapest credits a student will ever take, and they help make college more affordable. Last school year South Dakota students saved more than \$2.5 million by using this program – averaging more than \$1,000 per student in savings. Completing college credits while in high school also helps that student succeed in college, by reducing the course load they need to take because they already have credits under their belt, also it can potentially reduce the time they need to graduate.

The Build Dakota Scholarship is also making postsecondary education an option for more young people. Just over a year ago the state announced a partnership with Denny Sanford to create a \$50 million fund for this full-ride scholarship for those who will work in a high-need technical fields in South Dakota. Last fall, nearly 300 students made up the first class of Build Dakota “skilled scholars.” Overall enrollment at the technical institutes went up – and it went up by even more in these high-demand programs. Before we know it, the first Build Dakota scholars will be graduating and entering the workforce in South Dakota.

### ***Department of Labor and Regulation initiatives***

And of course, young people need good information in high school to help them choose a career path. The Department of Labor and Regulation recently rolled out a new system which enables people to view employment and wage outcomes, by program, for graduates of our public universities and technical schools. Students and families can use this tool to make informed decisions on postsecondary programs they're considering. For any degree program, they can find out how many graduates are earning a wage in South Dakota, how much graduates are making on average, and in which industries those graduates are employed.

The Department is also overhauling its SDWORKS jobs database. Employers will post openings by the specific skills and competencies required for the job rather than using job titles and job descriptions. Job seekers will have a tool to translate their resume into those same skills and competencies. This improvement will ensure there are no missed opportunities in making the match between employers and job seekers.

### ***Employing People with Disabilities***

As we face our workforce shortage, there is an untapped labor pool of people who are ready, willing, and completely able to work. The unemployment rate among Americans with disabilities is over twice the unemployment rate of those without a disability. Even though more of those with disabilities are working in South Dakota, there are still too many South Dakotans with disabilities who want a job but can't find one.

My goal is to make South Dakota an "employment first state." This means making employment the first priority and the preferred outcome for our citizens with disabilities. As a part of this employment first effort, we're working to change perceptions through the "Ability for Hire" campaign. The campaign launched in August when the Department of Human Services partnered with the South Dakota Retailers Association to educate employers about the process of finding and hiring people with disabilities.

### **NATIVE AMERICAN EDUCATION**

As we look to our next generation, we must not overlook South Dakota's Native Americans. Last year I established the Native American Student Achievement Advisory Council to examine the issues impacting the education of Native youth across the state. Our Native American students hold great promise as future leaders in their communities, of their tribes, and in our state, but we know that our Native American schools continue to underperform.

The council met five times over the course of the year, and the meetings included conversations with students who shared their very personal and powerful stories of struggle, challenge, and success. Two important themes that emerged from those conversations were the students' desire for high expectations of them and the tremendous impact that caring teachers can have on their educational experience.

In December, the council issued its final report and offered several recommendations, including creating a grant program to fund the establishment of up to three pilot schools aimed at improving academic outcomes for Native American students. Council members visited schools in other states, which solidified their vision for an educational experience that incorporates not only academics but an emphasis on the whole student, including cultural background, and on challenging students while also recognizing their individual interests and skills.

Recognizing the absolutely critical role that teachers play in a student's educational experience, as well as the difficulty of attracting qualified candidates to teach in rural, isolated areas of the state, the council also recommended a program to assist paraprofessionals who already live and work in some of our struggling school districts to become fully certified teachers.

This year, as you know from the Budget Address, I'm recommending we allocate \$2.2 million in one-time funds to start these efforts to improve educational outcomes for Native American students. We need to do better in this area. We really need to do better.

## **BETTER GOVERNMENT INITIATIVE**

Every year I report to you on our “Better Government” initiatives to make state government more efficient, more open, and more accessible. Over the last five years we’ve made strides in these areas. Let me just give you a few examples.

The Bureau of Finance and Management has revamped the Open SD web portal, so if you haven’t visited Open SD in the last several months, I encourage you to take a look at it. The public can more easily access state financial information. The Bureau also now posts financial metrics to its website every week. We launched the administrative rules website to help citizens find and follow rule making. We also established the Boards and Commissions Portal which is the one-stop site for meeting notices, agendas, and information for the more than one hundred state boards and commissions. And that portal is going to be improved in the next couple months as well; we’re continuing to improve that.

We’ve improved on transparency so much that the US Public Interest Research Group has named South Dakota among the top states for transparency. Since 2011 South Dakota has improved its transparency rating from a D+ to now an A-.

My administration has also worked on “red tape repeal” efforts. Over the past five years we’ve proposed and you have supported the elimination of over 4,000 sections of obsolete or unnecessary laws and rules, accounting for 450,000 words. This year state agencies will again be introducing still more bills to continue this effort. I know from my time as a legislator that the trend is always to add words to the statute books – thank you for helping us remove needless words as well!

## **INTERNAL CONTROLS**

I will also be asking you to support my efforts to improve state government’s internal controls. This has been brought to the forefront by the situation that has unfolded with Mid-Central Coop. As you know, our Secretary of Education terminated Mid-Central’s contract to administer the GEAR UP grant after attempts to improve inaccurate and incomplete accounting failed to bring about improvement. At my request, the Attorney General and the Auditor General have begun conducting detailed investigations into that matter.

Like every South Dakotan, I am disappointed and disheartened when I learn about allegations of financial wrongdoing. I am also frustrated at the necessarily slow pace of thorough criminal investigations, and, like you, anxious to know the whole story.

When a situation like this arises, it’s important to handle it in an open and forthright manner, and that is what I’ve tried to do. First, we report to law enforcement and request an investigation. Second, do everything possible to aid in that investigation. Third, share information with the press and the public as soon as the investigation allows. And finally, invite audits and reviews to identify areas to improve and act quickly to implement those recommendations.

Overall, South Dakota in our state processes has very good internal controls aimed at safeguarding state government assets and providing assurances that state and federal tax dollars are spent correctly. However, we've learned plainly that our processes don't go far enough to oversee entities outside of state government. These grantees or sub-recipients are not part of state government but may be used by the state to administer federal grants.

The state needs better internal controls to manage these entities that are "arms length" to the state. We must install safeguards that will ensure that federal and state objectives are met, expenditures are documented and appropriate, and potential conflicts of interest are recognized and avoided.

I have asked Lt. Governor Michels to lead an effort to review state government's internal control processes and recommend changes. In particular, focus on situations involving these "arms length" outside entities, such as Mid-Central Coop, where it is more difficult for state government to maintain direct oversight.

I know Lt. Governor Michels is working closely with the Bureau of Finance and Management and with your Department of Legislative Audit to identify internal control reforms to be instituted in every agency that maintains relationships with third parties like this. Having these controls in place will identify areas where the state can improve and prevent future problems from recurring. I hope to have specific recommendations for your consideration during this legislative session. We can do a better job of providing oversight and transparency in these instances and we will.

## **STATE PARKS**

You know, there are some things about my job that enjoy more than others. I remember feeling that way as a legislator, too. Many exciting things are happening in South Dakota right now, and I'd like to share a few of them with you.

### ***Good Earth State Park***

I'm very excited about Good Earth State Park at Blood Run. Three years ago you approved \$2 million to establish our newest state park. The South Dakota Parks and Wildlife Foundation is in the home stretch of a \$7.5 million fundraising effort to match public funds with private charitable gifts. This will pay for land acquisition, trail development, and a visitor center with exhibits. Trails have been established, native vegetation restoration is underway, and an entrance road has been constructed. Work on the new visitor center is just now beginning where the Native American history of the park will be told in a spectacular building near a wooded area.

Last summer, seizing an unexpected opportunity, the Parks and Wildlife Foundation acquired the Spring Creek Country Club property bordering the park to the south, adding 200 acres to the park, and increasing the park size by 25%. A portion of this property lies within the Blood Run National Historic Landmark and the preservation of those historic resources will become an important element of the park. My son, Chris, and I canoed to Good Earth State Park this past

summer on the Big Sioux River, and it is just as beautiful when viewed from the riverside. In fact we canoed up Blood Run Creek.

### ***Custer State Park***

I'm also enthusiastic about all the progress underway at Custer State Park. Last year the 50<sup>th</sup> Buffalo Roundup attracted a record crowd. Over \$3 million of private donations are supplementing the \$1.5 million appropriation the legislature made in 2013 and the \$500,000 investment from Game, Fish, and Parks. Contractors are making progress on the park's new visitor center which is scheduled to open this spring. The new visitor center will include a theater where visitors can view a film about the park before exploring it themselves.

Following the Buffalo Roundup last fall, work began on the resort improvements you authorized last year. The motel wings on the State Game Lodge are being remodeled, and 15 old clapboard sided cabins are being replaced with more spacious and modern units. The Legion Lake store and restaurant are being replaced and upgraded, and three additional reunion-style cabins are being added in the park. Infrastructure improvements will follow next spring, and renovations in the historic portion of the Game Lodge will begin next year.

It is because of the generosity of many people that we're able to build world class facilities at Good Earth State Park and Custer State Park Visitor Center. Thanks to their generosity, as well as the legislature's continued support, these parks will remain world-class destinations for generations to come.

### ***Proposed Spearfish Canyon State Park***

There is another world-class destination though in the Black Hills that I'd like to talk to you about today. Over the last few months the Spearfish Canyon Foundation has been working with the state Game, Fish, and Parks Department to acquire beautiful property from Homestake Mining Company. Within just a few weeks the Foundation will donate funds to Game, Fish, and Parks for the purchase of 72 acres in Spearfish Canyon, including Spearfish Falls. That land, along with two other adjacent state-owned parcels including Roughlock Falls, is the genesis of this opportunity.

My hope is to establish Spearfish Canyon State Park in the northern Black Hills. The proposed state park would contain iconic natural features in the canyon including Roughlock Falls, Spearfish Falls, Spearfish Creek, Little Spearfish Creek, and fishing ponds. Game, Fish, and Parks would improve existing camping, hiking, fishing, and sightseeing opportunities and upgrade facilities and roads.

Spearfish Canyon is a truly a special place. Our family has visited many times. I remember being there when Spearfish Falls was restored. Water flow that now feeds the falls had been diverted for 86 years for use in hydro-power generation for the Homestake Mining Company. In 2003, Homestake returned water to the stream and the long dry falls were reborn. I remember riding my bike up Spearfish canyon, climbing the never ending hill near Cheyenne crossing into Lead-Deadwood and then experiencing the thrill going down the hill at full speed.



Whether on a snowmobile ride in the winter, or a hiking trip in the summer, or a day enjoying the beautiful colors of the fall foliage, many people from across the state and nation have fond memories of Spearfish Canyon. The famous architect Frank Lloyd Wright said this after his 1935 visit:

*But how is it that I've heard so little of this miracle and we, toward the Atlantic, have heard so much of the Grand Canyon when this is even more miraculous. My hat is off to South Dakota Treasures.*

I am very excited about making Spearfish Canyon more accessible as our newest state park; but we have many steps to go before this idea can become a reality. Senator Thune is leading an effort by our congressional delegation to authorize a federal-state land exchange. This isn't a certainty, but we're working on it, and I'm hopeful. This map shows in green the property which the state owns or will shortly acquire with the Spearfish Canyon Foundation, and the outline shows the surrounding National Forest land, which we hope to add to it, to comprise the larger Park. The state has been instrumental in the past in improving Spearfish Canyon, and I believe this plan will carry on that tradition to preserve and improve this jewel for future generations.

### ***"Dignity" statue at Chamberlain***

Another exciting project is figuratively on the horizon today but will be literally on the horizon this fall. If you're driving east on Interstate 90, and beginning to cross the Missouri River bridge near Chamberlain, you will see something very striking on the eastern horizon. I'm talking about a 50-foot stainless steel statue, called "Dignity," which will be placed on the high bluff near the Lewis and Clark I-90 rest area near Chamberlain.

As a gift to the people of South Dakota, and as a tribute to South Dakota's Native people, Norm and Eunabel McKie of Rapid City commissioned South Dakota Artist Laureate, Dale Lamphere, to design and create this sculpture of a Native American woman receiving a star quilt. This sculpture will be lit at night, and just as Mt. Rushmore and Crazy Horse have become iconic images in the mind of our visitors, I believe "Dignity" will become one as well. The sculpture will be unveiled in September.

### **RAIL**

I'd like now to talk for a few moments about South Dakota's railroads. Rail may not be as visible as our state parks, but I am very excited by the progress our state has made in developing rail infrastructure. Because South Dakotans consume only a modest share of the grain we produce, our state relies almost entirely on railroads to deliver our grain to out-of-state markets.

In October the U.S. Department of Transportation awarded the RCP & E Railroad a \$6 million TIGER grant to upgrade its line near Huron and to install a long siding near Philip. A siding project might seem insignificant until you understand the situation. Today, between Fort Pierre and Rapid City, that 165-mile stretch of rail has no siding long enough for head-to-head trains

to pass each other. A train leaving Fort Pierre forces a train in Rapid City to wait for the Fort Pierre train to reach Rapid City before the other may start eastward. Construction of the new siding will allow up to 100 more trains per year to run over this section if demand wants.

This is good news and this good news follows the state's launch, just over a year ago, of four other rail projects in South Dakota. Two of these projects involved sidings in Huron and Aurora and reconstruction of a portion of the Sioux Valley line in southeastern South Dakota. A larger project will upgrade the Britton Line in northeast South Dakota. This \$11.5 million project will construct the south leg of a "Y" at Jarret Junction and replace 29 miles of light rail with heavy rail, to enable it to handle modern traffic. Dirt work for the "Y" is complete. Final delivery of heavy rail will be in March, and installation will begin in the spring. A \$30 million grain terminal in Britton is under construction, prompted by these rail improvements.

Another \$35 million rail project was supported in part by your appropriation of \$7.3 million. This is reconstructing the state-owned line, which, between Chamberlain and Presho, has been unusable for many years. Here is a picture of how badly that line has deteriorated over the past few decades. That rail is like a rollercoaster. Work on the smaller bridges is on schedule with 93% of work complete east of Reliance and the balance to be finished by the end of March. The Missouri River bridge work is substantially complete with minor punch list items remaining. Culvert repairs are 100% complete. 100% of the ties, rail, joint bars, tie plates, anchors, and bolts are on hand. Rail, but not ties, is in place from near Reliance to east of Kennebec. Installation will resume in the spring. The contractor, as I said, is installing rail first and then will go back to install ties, and we anticipate an operating railroad by this fall. A \$40 million grain and fertilizer terminal, prompted by this rail improvement, will also be complete this fall as well.

#### **SANFORD UNDERGROUND RESEARCH FACILITY**

I'm also pleased about the Sanford Underground Research Facility at the former Homestake mine. The Deep Underground Neutrino Experiment, and the associated Long Baseline Neutrino Facility, made great progress toward fruition during the past year. The proposed experiment will fire a beam of neutrinos from Fermilab outside Chicago, through the earth, to the Sanford lab. There, this very large experiment will house huge detectors to give scientists information never before collected about neutrinos. Congress has appropriated funding to complete the rehabilitation of the Ross Shaft, to install rock handling equipment, and to make other site preparations for this monumental experiment. We're hopeful that funding for the project will be included in the President's FY17 budget proposal next month. Our state's investment in the facility, and your continued support, has put the lab in an unprecedented position to succeed.

#### **VETERANS HOME AND KOREAN WAR MEDALS**

Finally, I'm very excited to report that, tomorrow, residents will move into the new State Veterans Home in Hot Springs. Many of you were here in 2013 to support construction of this new home, and you know it has not been easy. Our first request for federal grant support was denied. Then, even as we overcame that setback, the initial bids for construction were millions of dollars beyond architectural estimates and available funds.

The Lieutenant Governor and South Dakota Department of Veterans Affairs spent many hours considering alternative designs and working with the VA. After months of long meetings, the federal VA agreed to extend the state's grant, giving us time to reduce the cost of the project without additional state funds.

Now the State Veterans Home is finally finished. It has been completed on time, under budget, and it is debt-free. It is a beautiful building and a fitting tribute to our veterans. A grand opening event is planned for the spring.

For the past two years the South Dakota Department of Veterans Affairs has been on a mission to contact all veterans in South Dakota. With over 70,000 veterans, this has been a challenging undertaking. This year the Department is focused on contacting veterans of the Korean War. Over 60 years have passed since the Korean armistice was signed. Wedged between World War II and Vietnam, the Korean War has been referred to as "the Forgotten War."

To thank our heroes and to let them know they are not forgotten, the Republic of Korea is awarding Ambassador of Peace medals to all American veterans who sacrificed for South Korea's freedom. Hundreds of those medals will be conferred today, both here at the Capitol and in other locations across South Dakota.

Joining us today from South Korea is the Honorable Sungchoon Park, the Minister of Patriots and Veterans Affairs, along with his staff. Let's welcome them to South Dakota.

Following today's State of the State Address, I invite all of you to join us in the rotunda, where hundreds of South Dakota veterans will receive the "Korean Ambassador for Peace Medal." The ceremony will start at 2:30.

## **CONCLUSION**

South Dakotans can be very proud of our state. I am proud that, in South Dakota, we have stayed true to our values. We have exercised frugality and good stewardship rather than following the path taken by so many other states. We remain self-reliant while coming to the aid of our neighbors when they need a hand.

And look where those values have brought us. Our budget is structurally balanced. We have no unfunded liabilities. Standard and Poor's has upgraded our credit rating to AAA. We've made new investments in our roads, rails, schools, and Medicaid providers. We are keeping up our Capitol Building and other state facilities through regular maintenance. We have comprehensively reformed our criminal justice and juvenile corrections systems. Our tax burden is low; our regulations are reasonable; and our stellar business climate is bringing in companies like AGP, Advance Health, SpecSys, Lehigh Defense, and Midwest Fresh Logistics.

We must continue to govern by our values, and I remain committed to our values and to making the tough choices to meet the challenges we face. We will join together I know to meet

these challenges and to serve our state. I am proud of what we've accomplished together over the last five years. I'm looking forward to the work ahead, and I continue to believe that South Dakota's best days are yet ahead.