



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

**THE STATE CAPITOL – PIERRE, SOUTH DAKOTA – JANUARY 10, 2017**

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Thank you all. It is good to have you back in Pierre. Before I begin today, I'd like to note a historical milestone. Today is the beginning of Lt. Governor Matt Michels' seventh regular session as President of the Senate, and prior to that, he presided for four sessions as Speaker of the House. Those 11 sessions make Matt Michels the longest-serving presiding officer in the history of the South Dakota State Legislature. Let's recognize and thank him for that service.

Over the past six years, we have undertaken many significant initiatives together and have made progress in many areas. Today I am going to provide updates on many of our efforts, in the areas of education, transportation, criminal justice, workforce, and tribal affairs, among others. I want to update you on our accomplishments and, also in some cases, talk about adjustments that we can make to continue to improve.

### **STATE REVENUES**

First, a brief update on our state revenue situation. I have some good news, and I have some bad news.

I'll start with the bad news. Since we met in December, revenue has not strengthened. Sales tax continues to run below even revised projections. Overall revenue is down another \$5.8 million. We will need to continue to watch revenues over the next two months to ensure we adopt a structurally balanced budget in March.

We all know that the farm economy is one reason for weakness in the sales tax, and another reason is the continued growth in online sales. Many online retailers do not collect and remit sales tax. As you know, the state has taken several steps over the years to try to collect more of that tax. After last session, the Department of Revenue reached out to many online retailers to encourage them to remit tax.

And that's the good news. Today, I am pleased to announce that the state has reached an agreement with Amazon to collect and remit state and local sales taxes in South Dakota. Amazon will begin voluntarily to collect sales taxes on February 1 and will remit beginning in late March.

Amazon, as you know, is a leading online merchant, growing every year by double digits. Their decision to collect sales tax doesn't solve the sales tax issue for online purchases, but it's a big step in the right direction. Eileen Sullivan is here today representing Amazon. For their decision as a good corporate citizen to join the many South Dakota retailers who collect and remit the sales tax, I'd ask her to stand so that we can thank her.

### **BETTER GOVERNMENT INITIATIVE**

In past years, I've talked about a "Better Government Initiative" – a constant effort to make state government more efficient, more open, and accessible. We've made good strides over the past six years, and I'll be asking you to help us further improve this year.

First, we continue to work on "red tape repeal" efforts. Over the past six years, we have proposed and you have passed a repeal of over 4,000 sections of obsolete or unnecessary laws and rules, accounting for nearly 470,000 words. We will be proposing more of these bills this year.

Another important component of Better Government is to be more open, accountable, and accessible. I have made this a priority, and we have made considerable progress. We recently launched an online pardon application site – making South Dakota the first state in the nation with a completely online pardon application process. This year, I will also be supporting the attorney general's proposal to make booking photographs, also known as mugshots, open to the public, as in most states.

Last year, I asked Lt. Governor Michels to lead an effort to improve our state's internal controls. You passed legislation creating the Board of Internal Controls, and that body has been meeting monthly since May. Internal controls within state government itself are already strong. In fact, we just completed our Comprehensive Annual Financial Report for FY16 – the earliest completion in 20 years – with an "unqualified" clean audit from the Department of Legislative Audit. But we must do a better job of monitoring federal funds that pass through the state to non-state entities. This is a complex area, but the board is working hard to establish these standards.

One important aspect of internal controls is avoiding conflicts of interest. Most conflicts of interest are innocent and can be avoided through education. Two years ago, you passed, and I signed legislation creating new conflict of interest standards for state employees, and that system is working well. We now have a system that makes state employees more aware of potential conflicts, so they can be prevented or publicly disclosed and identified as not against public interest.

Last year, I signed similar legislation for state board and commission members and for local school board members. After one year's experience, I will support legislation this year to clarify and streamline that law so that boards can achieve our objective of bringing transparency to these situations.

Over the past six years, we have taken many steps to make state government information more accessible. We have put economic development grants online. We have put restaurant inspections online. Information on oil, gas, and water drilling is now online. Open.SD.gov has been completely redesigned and is a central hub for information including grants and contracts, payroll information, and checkbook-level detail on vender payments.

The State Legislature itself has been a leader in this area. It was twenty years ago that the legislature launched its excellent website that allows for online tracking of legislation and live and archived internet streaming of all legislative meetings.

In the Executive Branch, Rules.SD.gov allows citizens to track and comment upon proposed rules. Two years ago, we also launched a portal to centralize information on state boards and commissions in one place – membership information, agendas, meeting materials, minutes, financial reports, and audits.

This year, I will ask you to support legislation to institutionalize the Boards and Commissions portal. Today, I can require state agencies to utilize this site, but I want the law to require it after I'm gone. This site only works if boards are required to post their information online, just as we require them in law to post their public notices at the location where a meeting is held.

We are also making state board and commission meetings accessible with internet streaming. South Dakota Public Broadcasting recently launched SD.net which is a one-stop website to stream legislative proceedings and board and commission meetings, as well as other Public Broadcasting coverage such as high school state tournaments.

All of these efforts have paid off. In 2011, shortly after I took office, South Dakota received a D+ for online access to government financial data from the Public Interest Research Group. As of the 2016 report, South Dakota has improved that score to an A-.

One reliable advocate for openness over the years has been news reporter Bob Mercer. Of course, as a reporter, Bob has written about the need for openness. But when he has seen opportunities to improve, he's also shared them with my office, and I always appreciated that. Several of these improvements were Bob's suggestions, including the Rules website, the expansion of the Boards and Commissions portal, and even the case outside the Capitol Building for posting notices. Bob is confronting some health challenges, as you may know, and he will not be here this year to cover the legislative session. But I hope we all will keep Bob and his family in our thoughts, as we continue these efforts toward openness.

## **FISCAL MANAGEMENT**

Since I spoke to you last year at this time, I'm very proud that South Dakota has now obtained AAA ratings – the highest possible – from all three major credit rating agencies. One reason for our AAA rating is the breadth of financial information that we compile and make available online. Transparency is important in its own right, but it also has a positive financial impact.

The AAA rating saves money when our tech schools, universities, and hospitals issue bonds – we get a lower interest rate because of our bond rating. Two years ago, at the behest of the lieutenant governor, you passed legislation that also allows school districts to benefit. Districts borrowing through the Health and Ed Authority can now leverage our credit rating. Since this began, at least eight school districts have realized savings. Redfield saved \$185,000. Meade County saved \$150,000. The Oglala Lakota School District was able to refinance a 2013 debt and saved \$3 million.

Our AAA rating is the consequence of the many sound financial decisions that governors and legislators have made over the years. We have balanced our budget for 128 years and recently placed an explicit requirement for a balanced budget in the constitution. We've made it the norm to have a structurally balanced budget, which supports ongoing expenses with ongoing revenues only.

We have built and maintained a rainy-day fund that is ten percent of our general fund budget. We have been conservative in estimating revenues and expenses, and when we have one-time money to spend, we have prudently used it to repay debt early, secure an existing asset, endow an ongoing asset, or create a new asset.

And we can all be very proud of the management of the South Dakota Retirement System. The plan is well funded and routinely rates as one of the strongest in the nation. That is no accident. Over the past few years, the retirement system trustees have proposed, and you have passed, several important adjustments to the plan that have strengthened it for the long-term. This year, the trustees are bringing another bill that will protect the plan from swings in inflation or investment returns, and I hope you will support that also.

### **STEWARDSHIP OF STATE ASSETS**

Sound management also involves the stewardship of tangible state assets. Regular maintenance of state-owned facilities prevents larger problems in the future. But we also need to constantly reevaluate our need for the facilities that we have. When I first ran for governor, I talked about the need to scrutinize state-owned land and buildings and to sell assets that were underutilized. This has been an ongoing process now for six years.

We first addressed the Human Services Center in Yankton, and with your support, we sold unneeded land and demolished many vacant and dilapidated buildings. We also negotiated a lease-purchase with the Yankton County Historical Society for the historic Mead Building. If you haven't seen it, this building is being beautifully restored.

Next, we looked at the campus of the South Dakota Developmental Center in Redfield. Like the Yankton facility, this large campus was built to house over a thousand South Dakotans with developmental or mental health issues, often for their entire lives. Today, the campus serves only about 125 persons. This year, I will be asking you to authorize the transfer of several vacant buildings and the adjoining lands from that campus to the city of Redfield, which has expressed an interest in refurbishing the buildings and returning them to a public use.

We are also discussing a potential sale of the former State Training School campus in Plankinton. This property has been leased for over a decade to a private company that operates the Aurora Plains Academy there. We are considering the potential to sell the campus, and I will be asking you to authorize that potential sale as well.

I am also asking you to approve the potential sale of the STAR Academy property, outside of Custer, which closed last March. There are too few juveniles in the corrections system to justify this large campus. Even a future increase of juveniles in corrections would not justify reopening STAR Academy – we would use smaller, more efficient facilities closer to population centers. My hope is that the STAR Academy property, which is at a scenic Black Hills location, can be sold and developed to create jobs and economic activity in the area.

The construction of the new State Veterans Home in Hot Springs has also led us to reevaluate the land and buildings, and I will be asking you to approve legislation that allows us to explore repurposing portions of that campus.

Likewise, a building formerly used by Western Dakota Tech in Rapid City will be reverting to state ownership. The state has no use for this building, and I will be asking you to authorize its sale as well. I also hope to continue to discuss with the Board of Regents the former School for the Deaf buildings and property, located on East 10<sup>th</sup> Street in Sioux Falls.

We owe it to taxpayers to keep the state's footprint to a minimum, to avoid spending tax dollars on maintenance of unneeded facilities and to return these properties to the tax rolls when possible.

## **INFRASTRUCTURE**

Of course state infrastructure is not confined to buildings. We also have transportation infrastructure, and over the past six years, we have made great progress in this area as well.

We have refurbished two significant stretches of state-owned rail line. In 2014, you appropriated \$7.2 million in general funds to upgrade the state-owned line from Chamberlain to Presho. We also provided grants from the Future Fund and the state rail fund and received a federal TIGER grant. Because of this upgrade, Wheat Growers constructed a \$50 million grain handling facility in Kennebec, which was completed this fall.

In addition, we upgraded the Britton line, aided by a Future Fund grant and a loan from the state rail fund. This line runs from Aberdeen into North Dakota and connects shippers to both the Canadian Pacific Rail line and the Burlington Northern line. As a result of this upgrade, the Wheaton-Dumont Elevator and United Grain Corporation built a \$40 million dollar state-of-the-art facility on the Britton spur. That facility opened this fall and is shipping grain today. Both of these upgrades have created more shipping and selling options for farmers, created jobs in rural areas, and added significant grain handling facilities to the property tax rolls.

We are also making major investments in our highways. One example is Highway 100 in Sioux Falls. A major phase of this multi-year project will let bids this summer to connect this new urban corridor to I-90 west of Brandon. That phase of the project should be completed by 2019.

We have also provided aid to local government infrastructure. Two years ago, we created the Bridge Improvement Grant Fund, which is now granting millions each year to reduce the backlog of necessary repairs to local bridges.

As still another piece of state infrastructure, I spoke last month about the need to replace the state Animal Disease Research and Diagnostic Laboratory at SDSU. Even in a lean budget year, I am hopeful we can secure for the long-term our animal health laboratory, which protects our citizens and our livestock industry.

### **BLUE RIBBON TASK FORCE**

Beyond our tangible infrastructure, a critical duty of our state is to provide a system of K-12 education. To be effective, we need to recruit and retain good teachers, and we compete with neighboring states to do that. Last year, we passed major legislation to increase teacher pay and rewrite the school funding formula. We are already seeing success from those changes.

First, on teacher pay. As you know, when the Blue Ribbon Task Force met, our average teacher salary was just over \$40,000. Our new formula was designed and funded to afford an average of \$48,500. We knew we wouldn't reach that average in one year, because schools need time to become more efficient and repurpose their own funds into salaries. Still, according to the preliminary school reports, our average salary this fall is \$46,937 – just short of \$47,000. The state's average salary increased by 11.9 percent.

Our smaller, rural districts are especially challenged to attract teachers, so I was particularly pleased that preliminary data shows very sizable salary increases in many small districts. In Jones County, the average teacher salary increased by 22 percent. In Ethan, it increased by 20 percent. In Mobridge-Pollock, salaries are up 25 percent; in Faith, up 18 percent; Iroquois, up 23 percent; Florence, up 20 percent; Burke, up 19 percent; Oelrichs and Gayville-Volin both up 21 percent, and the highest increase in South Dakota, as a percentage, was Waubay, whose average is up 26.3 percent.

Larger schools also enjoyed sizable raises, although they had higher salaries to begin with, and therefore, their percentage increases are generally lower.

I have already heard from many superintendents that these changes are having an impact. Fewer teachers are departing, fewer vacancies are left unfilled, positions are getting more applicants, and more teachers are staying in South Dakota rather than leaving the state.

I know some have expressed concern about the new formula's impact on small schools, because the new formula calculates state aid based on actual number of enrolled students. In

other words, it no longer allows a school with declining enrollments to receive funding based on the higher enrollments of past years.

Even with that change, however, the new formula was actually more favorable to small schools than it was to larger ones. Statewide, schools received an average increase of \$526 per student. Large schools of over 600 students received only \$507 more per student. Schools between 200 and 600 students received \$579 more per student, and schools of under 200 students did best of all – they received \$653 more per student. Again, those numbers are after the change to actual fall enrollments for calculating state aid.

## **K-12 EDUCATION**

The state aid formula is not the only way that the state directly supports K-12 education. Our successful Dual Credit program for high school students is now in its third year. As I've said before, this dual credit program is a win-win-win. Students win because these are the cheapest college credits they will ever buy, and they get a head start on college or tech school. High schools win because they can expand their course offerings at no cost to the school district. Universities and technical institutes win, because they attract students who are better-prepared when they come to campus.

In the past school year, 2,139 high school students took at least one dual credit course from a university, and another 899 took a technical institute course. The passage rate is excellent – 94 percent for university courses and 88 percent for technical institute courses. And the cost savings are substantial. Last year, high school students and their families saved a total of \$4.4 million, compared to the tuition rate they would otherwise paid.

As you can tell, I'm very enthusiastic about the success of the dual credit program. Unfortunately, the state offers another program to high schools that has not been so successful, and I'd like to touch on that.

One persistent problem in South Dakota is the number of high school graduates who go on to college but need remedial courses. Last year, 30 percent of first-year, full-time freshman at state universities needed to take at least one remedial course in math or English. Unlike dual credit, remedial courses are a lose-lose. Students lose because remedial courses are expensive, and they don't count for credit, so they set a student back in their college career. Universities also lose, because students who need remediation are less likely to stay in school and graduate on time.

To address this problem, four years ago, I proposed and the legislature funded the Accuplacer assessment for high schools. This is a free service provided by the state to high schools. Here is how it works: A high school junior with a poor ACT score takes the Accuplacer test in math and English. The test identifies any area in which the student needs remediation. It might not be all math – it might be just a specific concept. The student is then offered remedial coursework on just that concept while the student is still in high school. If the student is able to pass the test after taking the coursework, the state universities will not require the student to take a

remedial course. It's a great deal for these students – it saves them the cost of a college remedial course, and avoids that delay when they get to college. And the state pays it, we pay for the entire cost of every completed Accuplacer course.

Given that, I'm very frustrated that our high schools have been extremely slow to adopt this free program. Last school year, only 154 Accuplacer assessments were taken, and only 100 final tests were taken statewide. Most students who needed this Accuplacer assessment didn't take it. And how do we know that? Because this past fall, at our state universities, 599 remedial courses were required for new freshmen from South Dakota high schools. That's 599 remedial courses at about \$1000 each, totaling over half a million dollars in expense. Money our students paid, when the state has a free program not being used. We have 150 school districts in South Dakota, but 108 of them didn't offer this to a single student.

Now in August, I spoke at the school administrator convention, and I asked them to take advantage of this program, and I am hoping we'll see much greater use this school year. I have heard it suggested in the past that, if a high school graduate needs remediation in college, it should be the high school, not the student, who pays the remediation bill. I'm not proposing that today, but I certainly hope high schools will take advantage of the free courses we offer to help their students avoid remediation.

On another front, the state is strengthening career and technical education programs. In 2016, the Building South Dakota Fund awarded the first workforce education grants to help transform high school CTE programs. Examples of initial grants include a new auto mechanic program at Gayville-Volin, a precision ag program at Hitchcock-Tulare, and a nursing program in Mitchell.

## **HIGHER EDUCATION**

At the technical institutes, the Build Dakota Scholarship is in its second year, and I am excited about the results we're seeing. As you know, this scholarship was launched with \$25 million from Denny Sanford and another \$25 million in state Future Funds. Approximately 300 students each year receive full-ride scholarships to attend a technical institute in a high-need program, promising to work in that field in South Dakota after they graduate.

Nationally, over the past two years, enrollment in two-year institutions is down nearly 17 percent. In South Dakota, we've bucked that trend; our statewide enrollment is down only 1 percent. In Build Dakota programs, though, enrollment is up nearly 10 percent. I'm excited about the impact these Build Dakota scholarships will have on our workforce when the first recipients receive their two-year degrees in May.

Voters showed their support for our technical institutes in the general election by passing Amendment R. This amendment solved a longstanding constitutional problem by giving the legislature authority to provide for the oversight of the technical institutes, and I will support legislation this year that implements Amendment R.



Of course, we are also very proud of our six state universities who do so much to prepare our young people to enter the workforce. I am particularly pleased that the Regents has taken a leadership role in adopting a goal that 65 percent of South Dakota high school graduates go on to graduate from a university or technical school. Most jobs of the future will require a post-high school credential, and we need to encourage students to obtain one.

We especially need health care workers, particularly in rural areas, and we continue to pursue programs to address that need. The Recruitment Assistance Program helps communities recruit primary care doctors, dentists, physician assistants, and nurse practitioners. Fifty-eight percent of physicians and dentists, and 88 percent of physician assistants and nurse practitioners remain at their small-town site even after completing their contract commitment. Likewise, each year we place in rural communities 60 other health professionals, including dietitians, nurses, pharmacists, and physical therapists.

We also launched the Frontier and Rural Medicine program to give third-year medical students nine months of clinical training in rural communities. The first such students graduated from med school last May, and five of them moved into a family practice residency program.

## **CRIMINAL JUSTICE**

I'd like to take a little time now to talk about criminal justice. In 2012, we began to confront South Dakota's incarceration rate, which was much higher than our neighboring states'. I joined with the Chief Justice, legislative leaders, and key stakeholders to propose the Public Safety Improvement Act, which you passed overwhelmingly in 2013. The goals of this legislation are to improve public safety, hold offenders more accountable, and direct state dollars to the most dangerous offenders.

This act differentiated our drug laws so that major offenses would be treated more harshly than minor offenses. It created and expanded alternative sentencing options, such as drug and DUI courts, and HOPE probation. And it made the largest investment in the history of our state in behavioral health services.

We knew these were major changes, and that's why the Act also created an oversight council to monitor progress, identify problems, and recommend changes. Reforms need time to work, but we shouldn't be afraid to adjust as we learn more and as circumstances change.

Four years later, we are seeing many positive developments from the Public Safety Improvement Act.

Among the successes is probation. Under the old system, we were supervising for multiple years many probationers who never reoffended. We did this in spite of data which shows that if a probationer is going to reoffend, it is very likely to be in the first year of probation. For that reason, we now allow felony probationers to reduce their probation term by 30 days, each time they complete 30 days of perfect behavior. This reform allows our probation officers to focus their attention on supervising those probationers who need it – those who are not compliant.

The Act also created a presumption of probation for many low-level, non-violent crimes. This doesn't tie the hands of a judge who wants to sentence an offender to prison. A judge can override the presumption, nor does this compromise public safety. Last year less than one percent of those on presumptive probation were sent to prison for committing a violent crime.

I am also very pleased with the success of the substance abuse treatment programs created under the Act. Five-hundred-forty individuals have completed substance abuse treatment, and our rate of successful completion is 11 percent higher than the national average. Because of these reforms, more offenders are receiving the help they need through community-based treatment.

The Act also initiated a very successful partnership with the Sisseton Wahpeton Oyate. We placed a state-funded parole agent at Sisseton, which allows tribal members to return home for parole and engages local service providers and tribal law enforcement in providing support for the offenders to change, and the results are compelling. In the first two years of this program, the percentage of tribal parolees being returned to prison for a violation has fallen from 57 percent to 28 percent – cut in half.

Again, these efforts help focus our attention on violent offenders who pose a threat to public. Nonviolent offenders receive treatment and remain in their communities where they can work to support themselves and their families.

### **METH EPIDEMIC**

These are important accomplishments, but there is still work to be done. The total prison population today is lower than it would have been without any reforms, but it is higher than we predicted it would be when we passed the Public Safety Improvement Act.

Why is that? Well we believe it's due to the increase in methamphetamine trafficking, which in South Dakota and our neighboring states have experienced over the past eight years. Like our neighbors, South Dakota is seeing a big increase in meth-related arrests and convictions. For the most part, meth is no longer being manufactured in home-grown laboratories. It is being produced on an industrial scale and trafficked into South Dakota from outside our state.

This meth epidemic needs to be addressed, and we need to make adjustments to the Public Safety Improvement Act because of it. Last year, I invited a group of judges and court officials, law enforcement officers, prosecutors, defense attorneys, corrections officials, and legislators to look into the meth problem and make recommendations.

That group issued recommendations toward three important goals: First, we need to stop meth from coming into South Dakota. Second, we need to educate people, especially young people, to prevent use of meth. Third, we need to help those addicted to stop using meth. It is in everyone's interest to help them beat this addiction.

Based on that report, I am joining with the attorney general to propose a joint drug interdiction task force, comprised of four new Highway Patrol officers, joined by designated agents of the Division of Criminal Investigation. We will also be asking you to update the state's outdated wiretapping statute to include cellular phones. There is a very close correlation between the increase in drug trafficking and the increase in meth arrests and convictions in South Dakota. We need to stop meth from coming into South Dakota.

The Attorney General and the Department of Social Services are also both focused on educating young people about meth, and a legislative interim committee also considered this issue last year. Starting this year, the managers of state anti-meth programs will meet regularly to coordinate these efforts and maximize their impact. We need to convince our citizens, again especially our youth, to stay away from meth.

Finally, I'm proposing changes to the Public Safety Improvement Act to encourage treatment and more directly confront the meth problem. For those who are on probation or parole, I am proposing measures to reinforce good behavior and punish bad behavior. We will establish a short mandatory sanction of required confinement for anyone on probation or parole who fails a drug test. This will guarantee swift and certain sanctions for offenders who choose to use drugs. Conversely, we will allow supervision to be terminated early for parolees and probationers who stay clean, complete treatment, and don't violate the terms of their supervision for at least one year.

To help those who are already addicted to meth, I am proposing we incentivize effective completion of treatment. Offenders who complete all court-ordered treatment within one year will be given one opportunity to reduce a drug possession or ingestion charge from a felony to a Class 1 misdemeanor. This option would only be available once for each offender.

I am also recommending grants to expand HOPE 24/7 Probation to all counties. HOPE 24/7 is similar to the successful 24/7 program for alcohol offenders. HOPE 24/7 has been implemented in ten counties and provides intensive probation and treatment for serious drug offenders, who are required to take random drug tests to ensure that they stay clean.

These steps I believe will strengthen the state's response to the meth epidemic, while helping meth users beat their addiction. Meth is an extremely addictive drug that ruins homes and destroys lives. Trying meth just once can lead to death, and it changes brain functions. Meth users experience paranoia, delusions, severe tooth decay, and skin sores. The reforms I described have the potential to help those users and end the vicious cycle of drug abuse within families.

## **JUVENILE JUSTICE**

Two years ago, we recognized that South Dakota was locking up juveniles at the 2<sup>nd</sup> highest rate in the nation. Most were nonviolent. You joined me in passing reforms to the juvenile justice system. The statutory purpose of our juvenile justice system is rehabilitation, and locking up

youth has been shown to make them more likely to commit crimes as adults. We need to avoid locking up young people unless they are a danger to others.

The reforms invested \$6.1 million in expanded community-based treatment. Functional family therapy focuses on the family, as well as the young person, to address underlying family issues that often cause delinquency. More than 50 trained treatment clinicians travel to the home and provide treatment in rural areas, not just in larger towns. Last year, nearly 700 young people were served through this treatment, including 250 who were referred from outside of the criminal justice system.

Fewer young offenders who needed to be housed in an institution led to the closure last year of STAR Academy, as I mentioned earlier. Instead, we are making greater use of our community-based facilities and providers and focusing more on rehabilitation.

One aspect of the reforms that has been troublesome is the issue of truancy. We all know that keeping young people in school is vital to their long-term success. The reform legislation changed the truancy statute to allow schools to intervene with a citation earlier in the process. But some schools and counties felt that the new law made it difficult for them to deal with these issues.

The Juvenile Justice Oversight Council sought input from schools and will be proposing legislation this year to give state's attorneys greater flexibility in handling truancy cases. I support that change, and as I said a moment ago, we need to adjust as we learn more.

#### **MENTAL HEALTH TASK FORCE**

This past year, Chief Justice Gilbertson convened a task force to address issues in the criminal justice system relating to mental health. Court orders for competency evaluations had tripled in recent years, contributing to the backlog of evaluations and causing higher costs. In some cases, mentally ill individuals had to wait in jail several months for their competency evaluations to be completed. That's not fair to the individual, and it creates an unnecessary jail expense for the county.

Funded by a grant from the Helmsley Charitable Trust, the task force released its report in November. Among its findings, it recognized that our system lacks procedures to identify mental illness quickly after an arrest, and in many cases, jails are not equipped to deal with mental health needs. In some cases, diversion options that are already authorized by statute are not available in all areas of the state.

I will be supporting the task force's recommendations, which takes a multi-faceted approach to these problems.

The legislation will provide law enforcement with tools to better identify and respond to mental health crises and prevent unnecessary jail admissions and to assist communities in building capacity to offer crisis intervention services. The bill will also expand the pool of providers who

can provide competency evaluations and will shift funding from the Human Services Center directly to counties to perform these evaluations. Much like our adult and juvenile reform patterns, an oversight council will monitor implementation and recommend changes to future legislatures.

I thank the Chief Justice and task force members for studying this difficult issue and for offering common sense proposals to improve our system. I also thank the Helmsley Charitable Trust for its financial support.

## **TRIBAL RELATIONS**

Last year, Chairman Harold Frazier of the Cheyenne River Sioux Tribe gave the first-ever State of the Tribes Address in this chamber. It gave this body and South Dakotans a chance to hear about the challenges facing Indian Country from the perspective of an elected tribal leader. I look forward to Thursday's 2017 State of the Tribes Address from Chairman Robert Flying Hawk of the Yankton Sioux Tribe, and I hope this continues as an annual tradition.

Relations between the tribes and the state made continued progress in 2016, thanks in large part to the efforts of Tribal Relations Secretary Steve Emery and his staff. I mentioned a few moments ago the successful parole agreement we have undertaken with the Sisseton Wahpeton Oyate. Let me give you a few more examples.

Last year, the state reached new tax collection agreements with the Crow Creek Sioux, Oglala Sioux, and Sisseton-Wahpeton tribes, and we are in discussions with the Lower Brule Sioux. These agreements generate tax revenue for the tribes and promote uniformity and fairness in taxation. If discussions with the Lower Brule are successful, we will have agreements with all nine tribes, for the first time in South Dakota history.

We also extended or signed tribal gaming compacts last year with the Crow Creek Sioux, Flandreau Santee Sioux, Rosebud Sioux, and Yankton Sioux tribes. In some renegotiated compacts, tribes have committed financial assistance to local governments. This, too, is something new, a welcome addition for several counties.

Game, Fish, and Parks has partnered with tribal governments to improve management and conservation of shared natural resources. Game, Fish, and Parks has hosted training sessions for tribal conservation staff, aided with establishing deer and elk food plots, and provided equipment and staff for outdoor events. This year, GFP signed memorandums of understanding to formalize cooperation with the Rosebud Sioux and the Lower Brule Sioux tribes.

In the education realm, the Department of Education is working with the Commission for Oceti Sakowin Accreditation to allow the Commission to accredit non-public tribal schools. The Commission is nine tribe collaboration focused on ensuring cultural relevance in tribal schools.

On September 17, we celebrated the dedication of a new South Dakota landmark – “Dignity.”

Located near Chamberlain at the rest area on Interstate 90, Dignity is a 45-foot tall stainless steel sculpture of a Native American woman receiving a star quilt. It was created by South Dakota Artist Laureate Dale Lamphere. Norm and Eunabel McKie of Rapid City donated the sculpture as a gift to honor the heritage of our Native people.

National headlines often emphasize our divisions. But seeing Dignity and recounting the progress made in tribal-state relations this year reminds us that, in South Dakota, we have more in common than we sometimes realize. The important thing, even where we may differ, is to treat each other with dignity.

### **LONG TERM CARE**

This week, I will sign an executive order for your consideration to reorganize long term care services within state government, by creating a Division of Long Term Services and Supports within the Department of Human Services.

The purpose of the reorganization is to create a more integrated approach to the delivery of long term care in South Dakota and to ensure that people get the services they need in their communities. Our state will experience demographic changes in the coming years, which will require more long term services and supports. In 2035, it's estimated the number of elders will increase in South Dakota by 84 percent, compared to 2010. Hopefully, I will still be around, and among them! The number of elders with disabilities is expected to be 71 percent higher.

Today, the Department of Human Services assists those with developmental disabilities who require long term care, and the Department of Social Services provides that same assistance to those who are aging. We have two different departments providing a very similar service. Combining these services in one department will ensure that people can access long term care, regardless of why they need it. The reorganized agency will also redouble efforts to develop community based services in our state to provide care, in homes, or other environments less restrictive, and less expensive than nursing home placements.

### **BALLOT MEASURES**

Last month in the budget address, I spoke about Initiated Measure 22. Since then, that law has been enjoined due to numerous constitutional problems. Given that, I will support efforts this session to repeal Initiated Measure 22 and replace it with provisions that are well-crafted, constitutional, and responsive to the voters. The voters expect our campaign finance system to be transparent and honest, and they expect lobbyists to use only their arguments to win our votes.

The proliferation of complex measures crowding our ballots through the efforts of people who don't live in South Dakota is a concern to many. We need to find a way to stop out-of-state organizations from experimenting with South Dakota's constitution and laws. These groups have no ties to our state and often don't even disclose the source of their funds. They are using our state's low signature requirement and cheap media markets to attempt to pass

constitutional amendments and initiated measures that advance their national agendas but don't address problems seen in South Dakota.

It's ironic. South Dakota was the first state in the nation to create the initiative and referendum. In 1898, voters adopted these features of our constitution because of a fear that big money, out-of-state special interests would take over the state legislature. Now, 120 years later, we find big out-of-state money is taking over our ballot. They use the initiative process – the very process we created to protect ourselves from them.

This session, we need to work together to find a way to protect our state from interference by out-of-state groups, while preserving our citizens' access to direct democracy, so issues that do concern our grassroots can be raised, but not by people who don't even live here.

### **RIPARIAN BUFFER STRIPS**

Speaking of another kind of grassroots, I am introducing a bill this year to provide property tax incentives for riparian buffer strips on agricultural property. These buffer strips are areas near streams or lakes that have perennial plantings to protect the water from adjoining land uses. They improve water quality by filtering sediment and surface contaminants from runoff.

Last year, you overwhelmingly passed a similar bill that I vetoed because of constitutional concerns, and I believe the new bill overcomes these concerns, and the legislation I am proposing has received positive support from ag groups, local governments, conservationists, sportsmen, and the Ag Land Assessment Task Force. I hope you will support it as well.

### **STATE PARKS**

Another important way that our state preserves our outdoors is through our excellent state park system. In 2016, more people camped in South Dakota's state parks than ever before. Our parks hosted over 329,000 nights of camping – up 4 percent from 2015, when the 75<sup>th</sup> Sturgis Rally and the 50<sup>th</sup> Buffalo Roundup were held. Camping numbers have been increasing for our state parks every year for more than a decade.

Progress continues at Good Earth State Park, which you approved in 2013 as South Dakota's thirteenth state park. Construction of the new visitor center is progressing, and the surrounding sidewalks are nearing completion. The new roadway into the park and parking area are complete. The visitor center film and interpretive displays, which will tell the story of the site's native inhabitants, are also underway. Outside native grasses have been sown, trees planted, and hiking trails developed. A grand opening of the visitor center is scheduled for May.

We also continue to pursue efforts to create a state park in Spearfish Canyon. I spoke to you about this last year. Our congressional delegation has introduced legislation that authorizes the exchange of 1,992 acres of Black Hills National Forest Land for 1,954 acres of state land, currently held by School and Public Lands, and 34 acres within Spearfish Canyon.

The exchange is a good deal for South Dakota. It gives the state control of a beautiful area while allowing the federal government to round out some of its grasslands holdings. It also will increase annual earnings from the School and Public Lands fund to benefit our K-12 schools.

I know there is some concern in the Spearfish area about the long-term plans for this site. Game, Fish, and Parks has been meeting with local groups to discuss next steps and will be holding public information meetings to gather feedback and continue the discussion. We want public input before any final decisions are made about management of the lands, including potential fee areas or infrastructure improvements.

### **SANFORD UNDERGROUND RESEARCH FACILITY**

Just down the road from Spearfish Canyon is another significant state investment, the Sanford Underground Research Facility at the former Homestake Gold Mine. Progress continues at the lab on the Deep Underground Neutrino Experiment, or DUNE. This experiment will fire a beam of neutrinos – tiny subatomic particles – from Fermilab, just outside Chicago, through the Earth to huge underground detectors at the Sanford Lab.

Thirty countries and 161 institutions are now involved with DUNE. Rehabilitation of the Ross Shaft, which is necessary to move equipment down into the lab, is 85 percent complete and on track to be finished in September. Last year, the project received federal approval for early construction. In 2017, the lab will begin building a conveyor system to remove rock as massive detector chambers are created underground, beginning in 2019. Although funding for this project is always contingent on the federal budget, our state's investment in the facility, as well as the continued support of our congressional delegation, have put us in an unprecedented position to succeed.

### **SOUTH DAKOTA NATIONAL GUARD**

Before I close today, I want to give tribute to something of which we can all be proud – the role the National Guard plays in defending our nation and responding to emergencies here at home. Sometimes they are recognized at the national level, and we don't fully appreciate it here back at home.

Since 9/11, the South Dakotan National Guard has deployed more than 7,800 soldiers and airmen. In 2016, more than 370 soldiers from five South Dakota units supported overseas contingency operations. The 155<sup>th</sup> Engineer Company, 196<sup>th</sup> Maneuver Enhancement Brigade, 153<sup>rd</sup> Engineer Battalion, 114<sup>th</sup> Fighter Wing, and Detachment 48 all served abroad last year in Afghanistan, Kuwait, and Poland.

The soldiers and airmen of the South Dakota National Guard have been recognized time and time again for their excellence. Our National Guard ranks number one in the nation for attrition loss rate, number two in security compliance, number three for timeliness in soldier evaluations, and number five for personnel readiness and soldier management. The South Dakota Army National Guard was presented with a first-place gold finish in the 2016 Army Communities of Excellence Awards, and for the third consecutive year, the 153<sup>rd</sup> Engineer



Battalion was awarded the top overall battalion-sized unit in the nation and winner of the Reckord Trophy. In 2016, the 114<sup>th</sup> Fighter Wing, likewise, for the third year in a row, was designated a Distinguished Flying Unit as one of the five best flying units in the nation.

We have good reason to be proud of our soldiers and airmen. Please join me in a round of applause to thank them for their efforts.

### **MEDICAID AND INDIAN HEALTH SERVICE**

Next week, Donald Trump will be sworn in as the 45<sup>th</sup> President of the United States. Many of us were bracing ourselves for four more years of the status quo in Washington DC, and I look forward to an administration that respects limited government, is committed to reining in the federal bureaucracy, and understands the role of the states in a federal system.

Both the Trump Administration and leaders in Congress have been reaching out to the states asking for ways to roll back regulation and return flexibility to the states. In my responses, my priority is Medicaid reform. Last year, I explained how funding for Medicaid works for Native Americans who are also eligible for services from the Indian Health Service. When a person who is on Medicaid and eligible for Indian Health Services gets their health care from Indian Health Services, the federal government covers 100 percent of the cost. But when that same person who is Medicaid eligible and Indian Health Services eligible can't get care from Indian Health Services – maybe they don't live close to an Indian Health Services facility or perhaps Indian Health Services can't provide the type of specialty care the person needs – in that case the federal government covers only about half of the bill – not 100 percent. State taxpayers cover the other half. This cost the state budget almost \$93 million last year.

The federal government needs to live up to its obligation to provide health care for Native Americans and pay for it no matter where services are provided. We saw a federal policy change last year that moved in that direction, but it didn't go far enough. It requires non-IHS and other healthcare providers to jump through several hoops, and without Medicaid expansion there is no way to get them to do that.

The good news is that the Trump Administration and the Republican Congress are both interested in reforming Medicaid to correct longstanding issues with the program. I have met with our congressional delegation to discuss this, and I will be in Washington to discuss Medicaid reform with the Senate Committee next week again.

There is also a strong possibility that Medicaid reform efforts could change Medicaid to a per capita or block grant allocation, and I will advocate for an equitable federal allocation to the state and for the IHS funding issue to be resolved. I will also ask for more flexibility in the Medicaid program. If states are going to be asked to assume more of the risk, we should also be given more flexibility to innovate and find ways to control costs and improve care.

## **AGRICULTURE**

In closing today, I want to say a few words to the ag community. It's been a tough couple of years with depressed crop prices and low livestock prices, the immediate outlook for agriculture doesn't look very rosy. The state is seeing that reality through slow sales tax growth, but our farmers and ranchers feel the impact every day.

I remember in high school when our family farm went upside-down financially. We had to auction all our livestock and equipment. It was a hard day for my parents who took jobs as janitors at Augustana College to make ends meet. Farmers and ranchers are repeatedly faced with difficulty, but our ag sector has survived and prospered for more than a hundred years despite the risks and despite bad circumstances.

And we have reason for continued hope. South Dakota's farm and ranch families are resilient. They work hard and they are dedicated. When times are tough, they get tougher. They persist and get up every day to put food on their tables and ours.

We saw that last summer, that same persistence following the Cottonwood Fire. After the loss of 285 head of cattle and 250 miles of fence line, we saw neighbor helping neighbor. When disaster hit, the community truly rallied around the families affected. Neighbors pitched in to ensure those who lost pasture and hay had feed for their livestock. Groups organized "fencing parties" to start the daunting task of repairing and replacing the miles of damaged or destroyed fence. People from around the state donated fencing materials and hay. \$125,000 was raised to help families impacted by the fire.

Whether it's a flood, blizzard, fire, or windstorm, South Dakotans always pull together when disaster strikes. Over Labor Day weekend, Springfield was hit by a severe storm with straight line winds of over 100 mph. The storm destroyed six homes and damaged a number of others. According to early news reports, 70 people were displaced by the storm. The county emergency manager called the state Department of Public Safety to say the town might need state crews to assist with the response.

What followed wasn't surprising. Of the seventy people without a place to stay, only two used the Red Cross shelter. The rest found refuge with relatives and friends. And then the emergency manager called us back. They didn't need the state crews after all, because more than 500 volunteers appeared to assist the community in cleanup efforts.

On Christmas Day, when our state was hit with a severe winter storm and many lost power, South Dakotans came together yet again. One man from the northeast part of the state volunteered his own generator to power the homes of several others. He kept the generator fueled and checked on his neighbors the entire week. Another man, one of Whetstone's electricians, learned of an elderly woman using a wood burning stove and found a neighbor to help carry wood and check in on her. Residents made hot meals for line crews. A line crew foreman in Enning was snowed in at his house by a 15-foot drift in front of his door. He climbed out of his bedroom window so he could get to work restoring power.

These stories demonstrate why South Dakota is such a great place to live. When disaster strikes, we don't wait for the government to arrive; we get to work, help ourselves, and help our neighbors too.

We have much to be proud of in South Dakota. Our outstanding business climate, low tax burden, clean air, beautiful scenery, safe communities; they all set us apart, and more people are discovering our high quality of life. Just last week, in fact, a report by United Van Lines found South Dakota with the highest rate of inbound moves in the country. We have much to be proud of in South Dakota.

But, you know, as much as I'm proud of South Dakota, I'm most proud of South Dakotans. Your character and determination give me great confidence in our future. I'm very lucky to be Governor of this place, and I do believe our best days are yet ahead. Thank you so much.