

INTRODUCTION

Lieutenant Governor Michels, Mr. Speaker, members of the State Senate and State House of Representatives, Chief Justice Gilbertson, Justices of the Supreme Court, other constitutional officers and, most of all, to the people of South Dakota:

Thank you very, very much for allowing me to serve you this past year. It was one year ago – today – that I walked into my office for my first workday as Governor, and it has been an honor, every day, to work for this great state.

I am also honored to work with the public servants assembled here today. There is one I would particularly like to mention today. Moments ago, we all heard a familiar voice announce my arrival in this Chamber. We have heard this same voice for over 20 years – the House Sergeant-at-Arms, Mel Chandler. This will be Mel's last year working for the legislature, and I want to thank him for his years of service to our state. Please join me in recognizing Mel Chandler.

(pause for applause) Now, Mel, you still have to work this session...

It is my role to report to you today on the "State of the State," and I'm pleased to say South Dakota's condition is improved since this time last year. South Dakota is moving forward. It is not the best of times, but neither is it the worst of times, and we have reason to be hopeful.

Today, because of tough budget decisions you made, our state is on stronger financial footings. And because of the hard work of the people of South Dakota, our economy is also stronger – in spite of what has happened on Wall Street or in Washington, DC.

Our unemployment rate is lower, and nonfarm employment numbers are increasing, but we have not yet returned those numbers to pre-recession levels, and there is still great uncertainty. We are recovering, but we haven't fully recovered. That is why, last month, I proposed a conservative budget that departs from freezes and cuts, and returns to formula increases, but still guards against a downturn. My budget spends 99 percent of projected revenue, but leaves money on the bottom line in case we need it.

Beyond economic progress, we have made efforts in other areas as well.

Infant mortality task force

Last year, in my first State of the State address, I spoke to you about the problem of infant mortality in South Dakota. Every year, on average, eighty infants die in South Dakota before their first birthday. The infant mortality rate is one of the most important measures of a population's health, and we can do better. Consequently, I convened a 27-member task force, led by our first lady, to recommend ways to address this problem.

The task force identified four key improvement opportunities. First, we need to ensure access to early and regular prenatal care, which is vital to a healthy pregnancy. Second, too many South Dakota mothers smoke during pregnancy, which puts the health of an infant at risk. Third, safe sleep practices, like having a baby sleep on its back in a crib without loose blankets, make a difference. And fourth, we need to address these disparities within Native American populations.

You will be hearing more in the coming months about these efforts, but today, I can announce that we will use available funds to expand the existing Bright Start Home Visiting program. Bright Start is a voluntary program under which specially trained nurses visit high-risk pregnant women in their homes. My budget proposes to expand Bright Start to four new communities, beginning with Pine Ridge and Sisseton.

In addition, the state will be redoubling efforts to educate new parents on safe sleep practices, and we will use existing funds for tobacco control to educate the public about the dangers of tobacco use during pregnancy.

I would encourage all of you to review this task force's final report, and I know Linda will be presenting to both Health Committees about this work. I want to thank Linda and the entire task force for their commitment and time. I sincerely hope their efforts will help more South Dakota children live to see their first birthday.

Medicaid Solutions Work Group

Another task force that worked very hard this year was the Medicaid Solutions Workgroup. We all recognize the challenge that escalating Medicaid costs pose to our state budget. Medicaid is second only to education as a portion of our general fund budget. We face increasing enrollments, increasing costs, and falling federal support for the Medicaid.

I formed the Medicaid Solutions Workgroup during the last legislative session to see what we could do to control the growth of Medicaid spending. Legislators, healthcare providers from around the state, my staff, and others interested in Medicaid participated – over 80 people in all. The task force issued report last month.

What they found was that South Dakota's Medicaid program is an efficient and conservative program. We have never had many of the expensive options that now burden other states, and there are not many things to cut. The group focused instead on key cost-drivers in Medicaid – care for people with chronic conditions, high cost services like neonatal care for premature babies, prescription drugs, institutional services, and emergency room use. After much research and discussion, the Workgroup developed a dozen key recommendations.

Two of these recommendations have a direct impact on the budget I proposed for FY13. The Department of Social Services budget includes a reduction of about \$340,000 in general funds as a result of increasing co-payments for prescription drugs and implementing an annual cap on dental services for adults. Other recommendations will take longer to accomplish – proposals to manage care differently for those with chronic conditions and to help people stay in their homes and communities to avoid higher cost services.

This Workgroup's recommendations provide solutions that make sense for South Dakota, and I appreciate the efforts of everyone who participated. I want to thank Senators Corey Brown, Jason Frerichs, Jean Hunhoff, Deb Peters, and Bruce Rampleberg, as well as Representatives Suzy Blake, Justin Cronin, and Scott Munsterman for their efforts on the task force.

Mountain pine beetle continuing threat

This year we've also addressed the severe mountain pine beetle epidemic in the Black Hills, which has left large swaths of dead trees in its wake. Over 400,000 acres of Black Hills forestland are infested with this pest, which has spread from federal land onto state and private property. As a result, the potential for massive forest fires is high. Through the Black Hills Forest Initiative, state crews working with private landowners, are taking on this threat by identifying and marking tens of thousands of beetle-infested trees and providing 50% cost-share for their removal. The response to this program has been huge – in fact, over double what we anticipated – and it has encouraged local governments to offer similar programs.

In addition, state staff, private contractors, and inmate crews are working to address the infestation in Custer State Park and other state lands. Of 142,000 infested trees identified for removal, more than 30,000 have already been cut down. All 142,000 trees are scheduled to be cut by March 30. Further activities will re-commence next fall. The pine beetle epidemic remains a grave threat to the Black Hills, but our continuing efforts will slow the spread of this epidemic.

Better Government Initiative

This summer, I also announced a “Better Government” initiative - an ongoing focus on making state government more open, more efficient, and more accessible.

I asked my cabinet to conduct a Red Tape Review, to eliminate regulations or statutes that are out-of-date or unnecessary and to simplify those that are too complex. I am proud that they exceeded my expectations, and we will be bringing 22 bills, totaling 168 pages in length, to repeal unnecessary regulations and statutes. Through these bills, as well as through the rules process, we will propose eliminating nearly 1,100 rules and 200,000 words from the Administrative Rules of South Dakota. And we are recommending the repeal of over 400 sections of codified law. This is the first year of our effort, but it won't be the last. I hope, as legislators, you will exert your own effort toward reducing the numbers of laws and regulations which burden our citizens – equal to the effort you exert toward initiating new laws.

My administration has also sought to make government more open and transparent. We have released the guest lists for the Governor's Hunt and other economic development events. We have also made public the names of those who sponsor these events. We have opened the Governor's Mansion and Valhalla to regular public tours for the first time in our state's history. We have released more information from the Department of Corrections. We have also made the Governor's Office of Economic Development more open than ever before. In fact, every recipient of a state economic development loan or award administered by GOED is now available for viewing online. Finally, we have added more functionality and more information to open.sd.gov and created a better search function on the new state home page.

Finally, we have made great strides toward allowing citizens to go **online**, rather than wait **IN** line, for more government services. I am proud to announce today that more than 20 permits and licenses can be obtained fully online for the first time, and that many more have been identified for this upgrade. This saves time and effort for our citizens and for state workers. Again, we are just beginning this effort, which will be ongoing.

Economic Development

Of course, my top priority over the past year has been creating jobs and growing the economy, and I am proud of the progress we have made this year. We have added more than 5000 jobs in the last two years, and the number of jobs in South Dakota has nearly reached its pre-recession peak. Our unemployment rate, which has been among the three lowest in the nation throughout the recession, has fallen to 4.3 percent.

When I started my term as Governor, I asked the Governor's Office of Economic Development to redouble their emphasis on economic development efforts for businesses already in South Dakota. The statistics show and I truly believe that South Dakota's most important job-creators are the entrepreneurs and the businesses that are already in South Dakota. In 2011, GOED assisted 61 companies with expansions through financing or technical assistance. Of those 61, 73 percent are South Dakota companies.

I also want to listen to South Dakota businesses. Since I took office, Lt. Governor Michels, GOED staff, and I have visited more than 250 existing South Dakota businesses to encourage them to remain and expand in South Dakota. We asked them to tell us how the state can help them grow and thrive.

We have seen that businesses are expanding and adding workers all over South Dakota. In Watertown, OEM Worldwide is undergoing a \$11 million expansion that will add 150 jobs. In Spearfish, TMone has opened an office that has already created 60 jobs and expects to add more. Adams Thermal Systems in Canton is adding 50 jobs as a part of its fifth expansion in Canton since 2005. We have seen job announcements in Madison, Yankton, Sturgis, Mitchell, Vermillion, and Rapid City.

There has also been good news in the financial services industry. When the federal credit card regulation changes caused job losses in this industry, many of us feared that we would never get those jobs back, but we are seeing promising signs. This fall, Capitol One acquired the HSBC credit card business in Sioux Falls and announced that it would not only retain the 400 jobs already in Sioux Falls, but add 400 more. They've already begun hiring, and plan to fill all 400 jobs before summer.

Even as the national economy continues to struggle, South Dakota is bouncing back because of our strong business climate in South Dakota. The Small Business and Entrepreneurship Council ranked South Dakota #1 in its Small Business Survival Index. The Tax Foundation ranked South Dakota #1 for our State Business Tax Climate. And we continue to have the lowest per-capita tax burden in the nation.

I have to tell you – I attended the Western Governors Association meeting in California last month, and Pat Costello went with me. We stayed an extra day and a half visiting with business leaders in Southern California about opportunities in South Dakota. We put together a slide presentation to compare South Dakota's business and tax climate to California's, and it almost felt unfair. It was like shooting fish in a barrel. California has taxes that we have never heard of, and like many states, they are looking to raise taxes – again.

We are lucky to live in South Dakota, where we still understand the role of government and the importance of a balanced budget. Over the past year, we have moved South Dakota forward in these and in many other areas, and I thank my cabinet, my staff, and all the others who have helped achieve these successes.

I would like to spend the rest of my time, now, to speak in some detail about **TWO** important issues that we must address in order to keep moving forward as a state. The first of these issues is Workforce and the second issue is Teaching. First, let's talk about Workforce.

"South Dakota WINS" – South Dakota Workforce Initiatives

I mentioned a moment ago that I have been visiting existing South Dakota businesses to encourage them to expand here in South Dakota. I have heard good news on these visits. Many SD companies have expansion plans. They appreciate our business climate because they don't face the barriers to growth seen in other states. But I did hear about one major barrier that we need to address.

One of my visits was to Raven Industries, a technology firm that employs more 1000 people in our state. Business is good at Raven, and in 2011 they added 200 jobs in Huron, Madison, and Sioux Falls. They told me that they are planning to add another 100 jobs – in engineering and other skilled fields. I was excited about what that meant for South Dakota – until they told me they were planning to add those 100 positions in Texas. They didn't believe they could find another 100 engineers in South Dakota.

I've heard similar concerns from other SD employers about difficulty finding skilled workers, and the numbers bear them out. Our Department of Labor and Regulation has nearly 10,000 job openings in our employment system. Many of those job openings are for skilled or professional positions, like welders, engineers, and accountants. Meanwhile, fewer than 100 welders, engineers, IT specialists, and accountants are receiving unemployment benefits in South Dakota today.

This is a significant barrier to employers who want to expand in South Dakota. We have incredible professionals and technicians, but we need more of them. South Dakota is better positioned than almost any state in the union to come out of these soft economic times, but we must do more to address our workforce challenges.

Solution

Today I am proposing an effort we're calling "South Dakota WINS," short for "South Dakota Workforce Initiatives." South Dakota WINS is a twenty-point plan, in four categories, to get more South Dakotans trained and ready to work in a rapidly growing and changing South Dakota economy.

1 – Preparing our children

The first category involves preparing our children. South Dakota WINS when our students are prepared to compete in a modern, high-tech economy.

It's hard to overstate the importance of science, technology, engineering, and math in this modern economy. Nearly every high-need career field relies on a strong foundation in these areas. The first component of South Dakota WINS emphasizes math and science education by rewarding math and science teachers for teaching in this high-demand field. This is very important, because nothing lights a spark better than an outstanding teacher. I will speak more about this point in a moment.

We also want to provide opportunities to inspire future scientists and engineers outside the classroom. Hundreds of SD students have experienced the "scrubs camps" organized by our state Department of Health. Scrubs camps are free, one-day, hands-on health career camps for high school students. Scrubs camps successfully introduce students to challenging and incredibly important medical fields. Our experience has shown that students participating in these camps are highly likely to pursue careers in medicine and other health fields.

We need to expand the scrubs camp concept into engineering camps and technical camps and math camps. The scientists, engineers, nurses, and doctors of tomorrow are already in our K-12 system. Tonight as they go to bed, they may not understand the value of math and science, but over the next few years we'll use the tools at our disposal, in and out of the classroom, to show them the possibilities.

2 – Training for skilled jobs

The second category involves training for skilled jobs. South Dakota WINS when our workforce is qualified and prepared for all types of careers.

An economy needs more than engineers and doctors to flourish. We need skilled and trained technicians who know how to make things. We need more training for skilled jobs.

Our technical institutes produce graduates that our state needs, and I want to see technical training in South Dakota expanded. Our state does not have enough welders. We need a new welding program at Mitchell Tech. We also need to develop hybrid courses to deliver instruction both online and in the lab for welders and machinists. Likewise, we need to expand the welding program in our corrections facility at Springfield.

I'm also proposing next year that more than 2,000 of our high school students take the National Career Readiness Certificate test. The NCRC is a national certification program used to determine if workers have the skills to succeed in this modern economy. Promoting this certification will help our students demonstrate that they have job skills that make them good employees – whether they continue their education or go right into the workforce.

I am also reallocating almost a million dollars a year in Community Development Block Grants toward workforce training in these areas. Over the years CDBG dollars have had a tremendous impact on South Dakota, helping to build fire halls, waste and drinking water systems, and community centers. CDBG funds will continue to help us develop our state's hard infrastructure, but it is time that we make improving our human infrastructure a top priority of the CDBG program, as well.

3 – Promoting Rural Health Occupations

The third category of our Workforce Initiative is to promote health care occupations, especially in rural areas. South Dakota WINS when every citizen of our state – no matter where they live – has access to quality healthcare.

Across our state we have rural communities working hard to succeed. Quality healthcare is vital to our communities, but rural areas in 59 of South Dakota's 66 counties are medically underserved. This is a workforce issue because to have quality healthcare, you have to have quality healthcare professionals. The third component of South Dakota WINS improves access to rural healthcare.

Primary care is the care a patient receives at first contact with the health care system. Nationally, and in South Dakota, more young doctors and mid-level providers are choosing to practice as specialists in dermatology, radiology, or other specialties, instead of in primary care fields such as pediatrics, obstetrics, or internal medicine. We need more primary care providers. And we especially need more primary care providers in rural South Dakota.

We need to train more doctors at our medical school, and we need to put programs in place to keep those doctors in South Dakota, and to encourage them to choose primary care practice in rural areas of our state.

As one point in this category, I support expanding the Medical School by four additional students per year, beginning this year. I also support exposing more medical students to rural practice, as part of their third year in Medical School.

A majority of physicians who attend medical school in South Dakota, and who enter a residency program in the state, stay in South Dakota to practice medicine. I will work with the major health systems, communities, and others to determine the feasibility of creating additional residencies in our state.

In addition to doctors, midlevel providers also play a critical role in rural healthcare. As a second point in this category, I am proposing that we expand the physicians assistant program at USD to double the number of available spots for in-state students.

Over the last few years, we have seen some success in the recruitment and retention of rural healthcare providers. Our tuition reimbursement program for physicians, dentists, and midlevel providers has been working. Thirty-one contracts have been completed, and today, 22 of those medical professionals are still practicing in their rural communities. Philip, Belle Fourche, Hot Springs, Howard, Scotland, Flandreau, Mobridge, Gettysburg, Wagner, and 21 other communities have participated in this program, and it is improving healthcare in rural South Dakota. Toward building on this improvement, I am calling for an expansion of the tuition reimbursement program.

We also have had a program to help health care facilities recruit nurses, lab techs, and other professionals. Nursing homes and hospitals in rural South Dakota have told us they need to be able to offer greater incentives to these folks to get them to work in their facility and live in their community. We will be introducing legislation to expand this program by providing a higher payment incentive for nurses and other high need providers at rural facilities.

4 – New South Dakotans

The fourth category of our Workforce Initiative involves recruiting workers to South Dakota. South Dakota WINS when our working population grows by welcoming new skilled workers and encouraging the return of those who have left.

Despite aggressive efforts in the classroom, at the tech schools, and in the medical arena, the efforts I've described won't be enough to meet our workforce needs. There are 1,466 unfilled jobs in this state in the engineering, information technology, accounting, and skilled worker fields alone. There are fewer than 100 South Dakota workers in those careers receiving unemployment benefits, so the fourth category of South Dakota WINS brings professional and skilled workers into our state to fill this gap.

The Dakota Roots program brings former South Dakotans back home by matching them with job opportunities in this state. Dakota Roots has helped more than 2,000 families relocate to South Dakota. By expanding the outreach and aggressiveness of that program and by targeting areas of highest need, we are going to bring even more South Dakotans back home.

But we won't stop there. As skilled workers in other states face high unemployment and an uncertain future, South Dakota offers them better. We can be their land of opportunity.

Last year at the state fair, my family received the Century Farm award. It was in 1911 that my grandparents Martin and Margaret Daugaard came to South Dakota from Denmark, hoping to make a living. They knew South Dakota offered them a chance, and sought nothing more than that. My grandparents worked as hard as people can work, and together, they built a life in this state. Many of you have similar stories about your families. Today, as in the past, South Dakota offers something special for those that value community and hard work and family.

Have we done enough in recent years to share that story? Do those that share our values, but live elsewhere, know what we have to offer? Do they realize that South Dakota can be their land of opportunity? The time has come for us to be aggressive in selling South Dakota – not just to companies wanting to move here, but also to skilled workers and families that can make our companies and our communities more successful.

Today I am announcing an innovative and first-of-its-kind relationship to attract a new generation of skilled pioneers to our state. The “New South Dakotans” initiative will partner state government with South Dakota businesses and with Manpower, the world's largest workforce recruiter. Together we will work to identify and place 1,000 professional and skilled workers from outside of our state into jobs here in South Dakota. As we move forward with this proposal we will protect qualified South Dakota workers. The program will focus on high-demand jobs in industries without enough in-state professionals to meet demand. In fact, no job will be listed with the program until it has been in our state employment system for at least 30 days, giving our state's citizens the first shot at those jobs.

In the gallery we have some of the employers who are eager to expand their businesses and are interested in participating in the New South Dakotans program. One of the companies represented today is Raven Industries, whose difficulty in hiring engineers brought this challenge into focus for me. Now, Raven among the first companies to enroll in the New South Dakotans program.

We also have representatives here today from Molded Fiberglass in Aberdeen, Applied Engineering in Yankton, and RPM in Rapid City. These companies have also applied to participate.

There are also representatives from Manpower here. Although they have thousands of offices around the world, we will be working with their South Dakota-based team – people who know and love our state and who have chosen to make South Dakota their home.

The impact of 1,000 new welders and engineers and machinists and accountants on our state's economy will be enormous. Those 1,000 families will add more than \$120 million to our gross state product, put hundreds of children into our schools, and pay millions of dollars in state taxes. Between 1930 and 1990, our state only grew by 3,000 people. The Dakota Roots program and the New South Dakotans program will give us the opportunity to replicate that population growth, not over 60 years, but in three or four. Recent decades have seen South Dakota grow, and I'm dedicated to continue that growth through smart investment and innovative approaches.

Summation

There are 20 different proposals making up the four categories of South Dakota WINS, and all of them can be found online at www.southdakotawins.com. To be successful, we must join together with workers, communities, schools, and businesses, and I am committed to doing just that. Although the plan is ambitious, the investment required is modest, in comparison to the returns we can produce.

With our efforts, we can begin to transform our workforce, and with it, our state. We can light the spark that creates future scientists and engineers, and we can train workers to fill jobs they want and we need. We can reinvest in our rural healthcare system. We can welcome back home the young people who have left. We can recruit professionals and skilled technicians who seek to build a better life. We **CAN** do those things, and we **MUST** do them if we want to move our state forward.

(LONG PAUSE)

SD Investing in Teaching

Now that you've heard some of my suggestions for improving our workforce, I'd like to talk about Investing in Teaching.

Of course, the best way to build a skilled workforce in South Dakota is to provide a quality education to our young people. As I said in my state of the state address last year, "The foundation of our economy is an educated workforce."

I am proud of South Dakota's schools. Our students' test scores – our ACT scores and NAEP scores – routinely exceed national averages. Our high school graduation rate is strong. And our high school graduates go on to post-secondary education at one of the highest rates in the nation.

Our schools do well because we have involved parents, talented and hard-working students, and really dedicated teachers and administrators. My wife Linda spent much of her adult life working as a teacher and a school librarian, and in the past year she has visited over 90 elementary schools to promote reading. She has been impressed by the teachers and principals she has met.

But we need to do more to reward our best teachers for the work that they do, and to attract more of our talented young people into the teaching profession. That is why, today, I am pleased to announce the "South Dakota Investing in Teachers" initiative.

Let's begin with some historical perspective. I graduated from high school 40 years ago, in 1971. I asked my staff to take a look back and compile some data about South Dakota's schools over the past four decades.

In 1971, South Dakota had 173,006 students, 8,452 certified teachers, and another 5,436 "non-teachers" – everything from administrators and aides to cooks and janitors.

Forty years later, there were 123,629 students in K-12 schools. That is a decline of just under 50,000 students in forty years – a drop of about 28 percent. During that same period, while student numbers were falling, we have added 869 new teachers. Today we have more than 9,300 teachers, an increase of about 10 percent. So we are employing over 800 more teachers to educate 50,000 fewer students.

We have also seen a dramatic increase in "other staff" over the past forty years. From the 5,436 in 1971, we have increased to 9,005. That is an increase of 3,569, or 66%. Today, we have over 9,300 teachers and just over 9,000 other staff. Our schools employ nearly as many non-teachers as teachers.

Here's a look at that same data, over time, in a graphical form. The blue line is the number of students from 1971 to 2011, with the scale on the left. The red line shows teachers, and the green line shows other staff. The scale for the teachers and other staff is on the right. There is a three-year gap in the data for other staff, but the trends are still clear. During the 1970s, there was a dramatic decline in students, but very little corresponding change in staffing. Beginning in the 1990's, there has been a significant increase in other staff. When you combine teaching and other staff, we employ nearly twice as many employees per student today than when I graduated from high school in 1971.

Why did that happen? I know that some of this increase in staff is due to the integration of special education students into public school classrooms. Other government mandates may have contributed. Looking at this data, I would guess that some of this increase is also due to the tendency of institutions, especially government institutions, to grow larger over time.

Let's look at some other history. We need to understand these trends as we discuss education in our state. Another way to measure our efforts in education is through looking at spending. The National Center for Education Statistics, a part of the U.S. Department of Education, compiles data on education spending per pupil, in inflation-adjusted dollars – in inflation-adjusted dollars. I don't have this data for every year, but it is available at least once a decade. Here is what it shows.

In 1969, South Dakota spent \$3,920 per student on K-12 education. That is \$3,920 in 2009 inflation-adjusted dollars. In the most recent year available, 2008, South Dakota spent \$9,173 per student, again in 2009 inflation-adjusted dollars. I will grant that 2008 is before our budget required a freeze and a cut. But in the 39-year-period from 1969 to 2008, in constant inflation-adjusted dollars, our per-student spending on education more than doubled. We spent 2.3 times more in 2008 per pupil than we did in 1969.

So that is the trend over the past four decades. We have 50,000 fewer students. We have added more than 800 teachers, and 3,500 more other staff. We are employing nearly twice as many staff per student, and we are spending well over twice as much per student in inflation-adjusted dollars.

Is that wrong? No. One can often do a given job better or faster by dedicating more human resources to it, or by spending more money on it. And as I've said often in the past, we should measure our success in education not by what we're putting into education, but by results. We all know that our schools perform well. But given the statistics I just shared, we should expect to see significant increases in performance over time.

Is that the case?

Unfortunately, it is not. Our schools do well, and our test scores are good, but they have flatlined. Our ACT scores, our NAEP scores, and our graduation rates are above the national average, but they have been relatively unchanged for years.

I asked the Department of Education to compile our average ACT scores over the past four decades. Here is what we found. The red line on this chart shows the average score from 1971 to 1985. After 1985, ACT revised their test and the results before and after that change are not comparable. That is why results after 1985 are shown with a blue line.

As you can see, there is only variation from year to year, and no significant upward or downward trends. In the 26 years since the test changed in 1986 – that would be those years represented by the blue line – the average has stayed in a one-point range, from a low of 21.0 to a high of 22.0.

We see a similar trend in the NAEP – the National Assessment of Educational Progress – which is a test that our 4th and 8th graders have taken in Math and Reading since 2003 to comply with No Child Left Behind. The data doesn't go back forty years, but since 2003 we see very little movement in these scores as well. This chart shows the scores in 8th grade math in blue, 8th grade reading in red, 4th grade math in green, and 4th grade reading in purple. On a 500-point scale, each of these four scores has varied by 5 points or less over five testing cycles. That is a variation of less than 1 percent.

What is more troubling is that, even though our NAEP scores are steady, we are being passed up by other states. In 2003, only 4 states exceeded our scores for 4th grade reading. Now, 20 states do. Only 8 states exceeded our 4th grade math score in 2003 – and now 18 states do. We have seen a similar pattern in the 8th grade scores – other states are passing us up.

I am showing you all of this not because I want to be critical of the job our schools are doing. We have good schools. We are routinely above the national averages each of these indicators. But remember – our staffing levels and spending levels have gone up significantly over time. A sizeable increase in our investment in education, over time, is not getting us better achievement. We are simply putting more money into the same system, and we are not getting significantly better results.

We need to change our focus. The key to obtaining high achievement in the classroom is not more spending. It is effective teachers. Let me say that again: The key to obtaining high achievement for our students is to have great teachers.

I recently met with officials from the Bush Foundation, and they shared a study with me from Tennessee. This study looked at a group of children entering the 3rd grade, and followed them through the end of the 5th grade. Both groups began the 3rd grade at the 50th percentile. One group of students had high-performing teachers each year – teachers in the top 20% of their peers. The other group had low-performing teachers, from the bottom 20%, for three straight years. After these three years, the students with the high-performing teachers were in the 90th percentile – up from the 50th percentile. The students with the low-performing teachers had dropped to the 37th percentile. There was a 53 percentile point difference.

That is a dramatic result, but it really just confirms common sense.

South Dakota needs to focus on Investing in Teachers. Our goal in South Dakota is to increase student achievement, and our focus must be on attracting and retaining great teachers. We need clear standards, rigorous measurement, and rewards for excellence.

Some of the pieces of the Investing in Teachers initiative are already being put into place. South Dakota is adopting the Common Core standards. These standards are not just a list of what concepts to teach – they are a new approach to teaching based on problem-solving and higher-order thinking skills. In the budget address, I announced an aggressive training program for our teachers to learn these new techniques.

A second important component is our state's new school accountability system. Earlier this year, our state announced that we would no longer comply with No Child Left Behind, which is a broken and flawed system. Instead we are seeking a waiver from No Child Left Behind that will allow us to create a measurement and accountability system that makes sense for South Dakota. When fully implemented, this system will not just test students at the end of the year and measure them against an arbitrary bar. Instead, we will test students at the beginning of the year, to set a baseline, in the middle of the year, to allow for a mid-course correction, and at the end. We will measure schools and teachers by their students' growth – that is, how far they move students from the beginning of the year to the end of the year.

Another important component that is already being finalized is a better teacher evaluation system. The system we are creating will consider growth in test scores as an important component, but it will also include classroom evaluation, based upon observation of evidence-based factors. In addition, it will give local schools flexibility to consider additional factors. This is the groundwork for a strong system based on standards that define great teaching. Another portion of the training program I announced last month will train administrators in these new evaluation techniques.

So – we are training teachers in new teaching methods, we are creating a new school accountability system with better testing, and we are implementing a stronger teacher evaluation system. These steps will be implemented over the next three years.

When they are completely in place, these pieces will allow us to reward our best teachers. Beginning in the 2014-15 school year, we will ask schools to identify their very best teachers – the top 20 percent in each district – based upon the new evaluation system. Under the Investing in Teachers Initiative, the state will give every teacher in the top 20 percent a bonus of \$5000. Every teacher is eligible. The bonuses will not go into base salaries, but they can be earned every year by a teacher who remains in the top 20 percent.

In addition, I mentioned earlier the importance of Math and Science education to our future workforce needs. We have to recognize the importance of having excellent Math and Science teachers – because they light the spark that ignites a generation of engineers, doctors, and scientists.

We need to attract our best teaching students into the fields of math and science, and we need more teachers in these fields. In the 2009-10 school year, our state universities graduated 176 new elementary school teachers. They graduated 24 math teachers. They graduated 13 biology teachers. They graduated 2 – that’s right, 2 – chemistry teachers.

But not only do we not train enough new teachers, we also face greater outside competition from the private sector for the math and science teachers we already have. For the same reason that math and science are important skills for our students, teachers with training in these areas have more opportunities to leave teaching for other careers.

I’ve heard stories – and most superintendents will confirm this – about school districts that get dozens of applicants for an elementary education position, but are lucky to get even one qualified applicant for a position as a math or science teacher. This is a real problem.

The way to retain our math and science teachers, and to attract more bright young people into these fields, is to apply free market principles. We simply cannot expect students to enter these challenging fields, and to remain in them, if they are not rewarded for their efforts. Beginning in the 2013-14 school year, the state will pay every middle school and high school math or science teacher a bonus of \$3500. This does not go into the base salary, but a teacher who stays in these fields will qualify for the \$3500 bonus every year.

So I am proposing two bonus programs: a \$5000 bonus for the top 20 percent of teachers, and a \$3500 bonus for math and science teachers. And a teacher can qualify for both bonuses. That means that a math or science teacher, who is in the top 20 percent of teachers in his or her district, would receive a bonus of \$8,500. For a teacher earning a salary of about \$35,000, that is a bonus of nearly 25 percent.

Funding these bonuses is a sizable obligation, and I want to emphasize my strong commitment to fully funding these incentive payments every year. These bonuses will be paid entirely with state dollars, and they will be in addition to the annual funding formula increases.

This is a three-year plan. This year, I have already proposed \$8 million in one-time funds for aggressive training that lays the groundwork for this system. Next year, I will propose adding \$5 million in ongoing funds, on top of the formula, to fund the bonuses for math and science teachers. And the year after that, I will propose another \$10 million in ongoing funds, on top of the formula, and on top of the \$5 million, to fund the incentive bonuses for our best teachers.

This is by far the largest investment in the teaching profession in the history of our state.

I am proposing one more change as a part of this package. It has to do with teacher tenure. Investing in Teachers makes a significant investment to reward our best teachers and attract more talented young people into teaching. But even as we reward our best teachers, we need to give administrators fair and objective tools to measure performance, to deal with the few teachers who just aren't able to perform in their jobs.

Teachers who currently have tenure will not lose it under my proposal. Let me repeat that: No teacher who currently has tenure will lose it under my plan. But I am proposing that South Dakota end the availability of tenure, effective July 1 of this year, for anyone who doesn't have it by that date. We are moving away from a system that relies on tenure, and into a system that is based on rigorous, evidence-based evaluation. New teachers can be confident that administrators are conducting professional evaluations and basing decisions on facts and proven methods. Administrators will have a strong foundation to make informed decisions about their teaching force, and the flexibility to carry out those decisions.

In every field, people want to strive for something better. They want to be able to achieve more through hard work. Many of our teachers go the extra mile, but most of them are still paid based solely on their degree and their years of service. A \$5000 bonus is a way to demonstrate to our top teachers that we appreciate the work they do, and that we reward them for their service to our young people. By investing in great teachers, we are investing in our young people and investing in South Dakota.

That is my vision for education in South Dakota. We are not afraid to invest in our young people, but we cannot fall into the trap of believing that more money automatically creates better results. We cannot simply pour more money into the same old system. Rather, we must focus on improving results, and spend creatively and strategically to achieve those results. The key to high achievement is great teaching and we will invest the dollars it will take to make a difference.

CONCLUSION

This is the state of our state. We have great opportunities this year to move our state forward. Now that we are on a sound financial footing, we can build a stronger South Dakota. We can budget carefully and protect against uncertainty. We can strengthen our state's workforce through a package of proposals to train South Dakotans and attract more people to our state. And we can strengthen our education system by rewarding great teaching, with a special emphasis on Math and Science.

These are not small proposals, and they will require hard work from all of us. It is only because of your courage and hard work last year that we are able to consider these proposals this year. I am confident that we will be successful, because of what we all saw in South Dakota this spring. I'd like to close today by talking about that for a moment.

We are used to natural disasters in South Dakota. We survive tornadoes, blizzards, wildfires and droughts. We have had our share of flooding in past years. And in some parts of our state, flooding happens almost every year.

But the flooding we experienced along the Missouri River this spring was different. We've never been given two weeks' notice that a disaster would occur. It was a Wednesday night in late May when the Corps of Engineers called to alert us that their releases would be much higher planned. And South Dakota immediately sprang into action.

In Dakota Dunes, in Yankton, in Pierre and Fort Pierre, and up and down the river, South Dakotans stepped up. Homeowners packed up and moved their possessions and built massive sandbag walls. Contractors worked with feverish activity to build emergency levees – compressing months of work into days. Truck drivers and heavy construction operators came from hundreds of miles and worked around the clock to hasten the construction. Law enforcement controlled traffic at every intersection, to speed the work. Prison inmates, homeowners, and neighbors filled thousands of sandbags. National Guard troops aided with preparations and patrolled the levees all summer. State employees manned the emergency operations center for nearly a month.

And thousands and thousands of volunteers poured into the affected communities to help. They came from every corner of our state. I met a group of Boy Scouts dropped their plans for

a Black Hills camping trip, and took a detour to the north, to spend their weekend filling sandbags instead. I saw college basketball teams, and football teams, and volleyball teams, come by the busload to help. I saw groups of Hutterites aiding homeowners. I saw boxes and supplies from across South Dakota sent to help those affected. I saw friends and neighbors do backbreaking work hauling sandbags, for hours and hours, to secure private homes.

I have never been prouder of South Dakota than I was during those weeks. It was a time that exemplified our values of persistence, hard work, and self-reliance. No one thought about politics or the next election. No one got distracted by petty squabbling. No one took a poll or kept a scorecard. South Dakotans were faced with a challenge, and we all rolled up our sleeves and overcame it – together.

PAUSE

As high as the floodwaters rose, South Dakota rose higher. PAUSE I call on all of us to continue in that same spirit as we move forward this year. If we do, there is no limit to how high South Dakota can rise.

Thank you all very much.