



STATE OF THE STATE ADDRESS OF GOVERNOR DENNIS DAUGAARD

THE STATE CAPITOL – PIERRE, SOUTH DAKOTA – JANUARY 14, 2014

Thank you very much. It's good to have you back in Pierre.

Before I begin today, I'd like to recognize a few new legislators who are joining us this year. At the Budget Address, I recognized Senator Blake Curd, Representative Dave Anderson, and Representative Kris Langer. Today I'd also like to recognize Senator Chuck Jones from Flandreau and also Senator Alan Solano from Rapid City. Would all five of you please stand and be recognized. Welcome! I can still remember how I felt on that first day, so welcome to all of you.

I am told that Governor Frank Farrar is also here. Governor Farrar would you please stand. Welcome Governor!

This is my fourth State of the State Address. Just over three years ago, in my inaugural address, you might remember a favorite quote I included from President Calvin Coolidge:

Nothing in the world can take the place of Persistence. Talent will not; nothing is more common than unsuccessful men with talent. Genius will not; unrewarded genius is almost a proverb. Education will not; the world is full of educated derelicts. Persistence and determination alone are omnipotent.

I would never belittle the importance of education or knowledge; neither did President Coolidge. But he identified the essential element to success – persistence and determination. In other words – hard work.

South Dakotans believe in hard work. When we promote South Dakota as a good place to do business, we promote the work ethic of our people. Those who do

business in multiple states, including South Dakota, will often remark to me that their South Dakota location is their most productive, because South Dakotans know how to work.

In short, South Dakota works because South Dakota's people know how to work. We succeed and excel because we work hard and stay true to our values.

We can be proud of the many ways in which South Dakota excels. During the past year, objective outsiders have recognized our state for excellence. Last April, the United States Chamber of Commerce recognized South Dakota as having the nation's "Best Business Climate." Last June, the U. S. Department of Commerce released their study of Regional Price Parity and identified South Dakota as having the lowest cost of living in the nation. Then, in July, CNBC named South Dakota "America's Top State for Business."

South Dakota's unemployment rate fell again last month to 3.6 percent – the second-lowest in the nation, even as Nevada and Rhode Island still struggle with 9 percent unemployment. Some metropolitan areas in Arizona, California, Illinois, and New Jersey have unemployment rates of 12 percent or worse.

Only 15 states have recovered all of the jobs those states lost during the recession. South Dakota is one of them. Today South Dakota has over 10,000 more jobs than we did before the recession. South Dakota, in fact, is 2.5 percent above our pre-recession peak, while the nation remains about 1 percent below pre-recession levels.

South Dakota's average personal income growth continues to be among the highest in the nation. In the third quarter of last year, personal income growth compared to the same quarter in 2012 was the highest in the nation.

We have reached another important milestone as well, as our per capita income now exceeds the national average. Numbers available for 2012 indicate that the average South Dakotan earns about 3.8 percent more than the average American.

One consequence of our strengthening economy is that 2013 saw a 1.3 percent decrease in the number of people on Medicaid and a 2.4 percent decrease in

those enrolled for SNAP or food stamps. This is the first year in recent memory that enrollments in these programs have dropped.

Of course not all rankings are economic, and we can be proud of our success in many areas. South Dakota continues to be among the nation's best in immunizations for kindergarteners and for the percentage of the population who goes out and gets a flu shot.

Our young people understand the value of education. Our high school graduates go on to college or tech school at one of the highest rates in the nation. Once those students graduate, our low student loan default rates show that those who had to borrow are able to pay back the loans they took out.

Although we must always be mindful of long-term funding needs, South Dakota's 8,000 miles of paved state highways rank a 4.4 out of 5 for quality, and our state bridges rank 91 on a 100-point scale. This year, we are going to be completing construction of South Dakota's portion of the Heartland Expressway, which we began in 1997. We have reached an agreement with the city of Sioux Falls to jump start progress on the northern part of Highway 100, which will eventually connect 1-29 to 1-90 traversing the southern and eastern edges of Sioux Falls.

We also continue to protect our environment. 98.2 percent of our state's community water systems meet or exceed EPA's National Primary Drinking Water standards. It's the same with air quality. We are one of only seven states in the nation that meet all air quality standards.

We can be thankful that South Dakota is no longer suffering from drought. A year ago at this time 100 percent of the state was in drought condition and 97 percent of that was "severe drought." Today, only 4 percent of the state is classified only as "abnormally dry," not even drought level, and none of the state is even classified otherwise.

We've been rated among the top five states in the nation for our high credit scores as one of the best states in which to retire and for volunteerism. It should be no surprise that an analysis last year of photos posted on the Internet showed South Dakotans smile more than people in any other state.

Of course, I'm very proud of the decisions we have made about our state finances. We have structurally balanced our budget without using any financial gimmicks. We have conservatively estimated revenue and enjoyed modest year-end surpluses. We are one of only a very few states in the nation to have a public pension that is more than 100 percent funded. Last year, we refinanced our tobacco bonds resulting in a \$43.9 million present value increase to the Education Enhancement Trust Fund. We have done it all without raising taxes. Achievements like these and our low debt load led to South Dakota being named the "Best Run State in America" in 2012.

Some of these achievements were caused by good decisions that you made and other governors made over the years. But the real credit should go to people of South Dakota who tell us what kind of laws they want or don't, what to regulate, and what not to regulate. They tell us every year what kind of government they want.

Whenever we face a challenge, South Dakotans roll up our sleeves and work together to find a solution.

Two years ago, I used my State of the State Address to speak to you about workforce. I announced the South Dakota Workforce Initiatives, or "South Dakota WINS," a twenty-point plan to get more South Dakotans trained and ready to work in a rapidly growing and changing South Dakota economy.

South Dakota WINS included four categories of effort. I'd like to briefly update you on some of the progress we've made in each of these areas over the past couple years and share new proposals to continue our progress.

The first area of South Dakota WINS is "preparing our youth." We need to prepare our young people to live and work in the 21st Century, and we need to give them the information they need to make wise decisions about career choices and academic programs. Students need to know that if they enter a high-need field, they will find a job in South Dakota, and they will make good money in that job.

Over the last two years, the state has continued to strengthen SDMyLife, an online portal for students and parents to research career and academic options.

We have piloted new programs to remediation, both in high school and at the universities, to help more students succeed in post-secondary programs. We have organized and promoted career camps in engineering, information technology, healthcare, and the skilled trades to expose students to these high-need career fields.

Over the past year, I have focused my attention on the need to offer high quality CTE – Career and Technical Education – in our K-12 schools. CTE is at the intersection of education and economic development. While many of our schools offer good CTE programs, these expensive programs can be difficult to offer and maintain especially for our smaller school districts.

I can't overstate the importance of these programs. CTE programs are very closely aligned with our state's workforce needs from welding and machining, to healthcare and information technology, to engineering and biosciences. These programs give students experiences so they understand these aren't "dirty jobs," but opportunities to work with the latest technology hands-on. Even higher education opportunities are available right here in South Dakota at our universities and technical institutes.

After session ended last year, I asked staff from my office and from the Department of Education to reach out to those who are engaged in CTE programs. Over the spring, summer, and fall, they visited all four technical institutes, as well as high school CTE programs. They held a series of meetings to listen to over 40 high school administrators and educators – large school and small schools. They learned about innovation already occurring in our state.

Fortunately, working together to provide CTE is not a new idea for South Dakota's schools. Northeast Technical High School has provided CTE programs for Watertown area school districts for decades. In northwestern South Dakota, a consortium of eight districts uses a fleet of portable CTE labs in semi-truck trailers to share programs and equipment. In Sioux Falls, the new CTE Academy is providing cutting-edge programs to students from all districts in that area.

We need even more innovation like this, and today, I am announcing that I will use at least \$5 million in Future Funds this year to support a series of Governor's

Grants for CTE. These grants will help schools join together to strengthen their current CTE offerings.

The Department of Education issued a Request for Information to schools last fall, and we received proposals from 26 districts totaling \$20 million in requests. We are working now to narrow down the requests we received and to sharpen the applications. We can't do it all this year, but I believe these grants are a big step toward creating new opportunities for our young people to learn, work, and live right here in South Dakota.

This year we will also help finance more high school students to take dual credit courses. More and more high school CTE programs are partnering with our technical institutes to provide courses that award both high school credit and post-secondary credit. Our state universities have also partnered for years with high schools to make dual credit opportunities available. Schools can't typically pay for university or technical institute credit. In some cases, the cost of the higher education credits makes these opportunities cost prohibitive for a student's family.

Right now, college or tech school credit can be obtained for some courses provided by the high school, if the high school course and instructor are approved by the college or tech school. For example, in college dual credit cases, students who pass their approved high school course can pay \$40 per credit hour and get college credit in addition to their high school credit. However, if that high school student takes a course directly from the college, such as Composition online for dual credit, that student pays \$300 per credit hour for that distance class.

The FY15 budget I proposed last December proposes funds to help make these opportunities more affordable. Using a combination of state funds and discounts from the Regents and the Technical Institutes, we propose to buy down the cost of entry-level university and technical institute courses. That way students can take these dual credit courses from the universities and tech schools directly at the low \$40 per credit hour.

Dual credit opportunities are a win-win-win-win. Students who start college or tech schools with some credits already earned are more likely to complete on time and at less cost. Universities and technical institutes get the opportunity to

make themselves known to prospective students and to help prepare them for success when they graduate. High schools gain flexibility to offer more opportunities to students at no cost to the district, and the state gets more young people who are ready to succeed, live, and work here in South Dakota.

Offering training for skilled jobs is the second major area of South Dakota WINS, and over the past two years, we have made major strides in this area. We created a new welding and manufacturing program at Mitchell Tech. As of this fall, 23 of the 24 slots are full. We also expanded the welding program at Mike Durfee State Prison, so that more inmates can learn this skill and prepare for a productive life after prison. The tech schools have created innovative distance-based machining and welding courses that combine online and hands-on elements. These distance-based programs have already served students in seven different South Dakota communities.

Our technical institutes strive to teach using cutting-edge, up-to-date equipment, but that can be very expensive. Last month, I asked the four technical institutes to let me know their highest-need equipment upgrades. Earlier this month, I awarded \$3.8 million in Future Fund grants to the technical institutes to fund many of the needed upgrades in our workforce priority areas. From hemodynamic monitors used in cardiovascular procedures, to computer numerically controlled press brakes and robotics trainers used in manufacturing, to telecaster production switches used in satellite communications, just to name a few. These are just a few of the funded upgrades which will offer significant improvements to our technical institute programs.

In addition, today I am announcing I will be awarding the technical institutes another \$1.5 million. That's \$500,000 a year for the next three years for scholarships in 20 high-need program areas. These scholarships of up to \$5000 for two-year programs will be awarded to students who agree to stay in South Dakota and work in a high-need field for three years.

Another important workforce need in our state is rural health care. That is the third area of South Dakota WINS. Between 2010 and 2020, South Dakota will need over 8,000 new healthcare workers. This is going to be a challenge because our elderly population is expected to double by 2025.

Most of our state's health professionals are concentrated in the more populated areas. Rural areas have been struggling to recruit and retain providers. Fifty-three of the state's sixty-six counties are federally designated as health professional shortage areas either partially or completely.

Health care providers who were raised in South Dakota, educated in South Dakota, and on-the-job trained in South Dakota are more likely to stay in South Dakota. We have to work even harder to make that happen for rural areas. That's where we've been focusing our efforts.

We've already made important strides.

Two years ago, we expanded the rural healthcare facilities recruitment program for fields such as registered nurses and physical therapists. As a result of this expansion, we have 120 health care professionals that were successfully recruited to 49 rural communities, including communities like Faulkton, Scotland, Mission, and Timber Lake.

We also needed more capacity in our educational programs. In FY13, we increased the class size at the med school by 4 students. In my budget this year, I am proposing that we add still another 11 students per class. That means in five years we will have 60 more med students being trained in our state than we did before the expansion began. In the future, we must work to add residencies to keep these additional med school graduates during their residency training right here in South Dakota.

We have also increased the capacity of the physician assistant program at USD from 20 to 25 students and reserved 20 of those spots for South Dakotans. For the first time, we are now paying preceptors who provide practice experiences for physician assistants' graduates. This has increased the number of willing preceptors in South Dakota. In my budget proposal for FY15, I am encouraging you to provide the same financial incentive for nurse practitioner preceptors. Again, if we can keep these graduates doing their on the job training after school in South Dakota, it's more likely we can keep them working in South Dakota.

To encourage practice in rural areas, the FY13 budget included funding to establish the Frontier and Rural Medicine, or FARM program, to give third-year

medical students a nine-month experience in rural communities. These programs are important because we find that students who have good rural experiences are more likely to then practice in rural areas.

The fourth and final area of South Dakota WINS is our effort to attract more workers to South Dakota. I mentioned in my Budget Address last month that the New South Dakotans program designed to recruit workers from other states has worked more slowly than we had hoped.

Conversely, we have seen great success with the Dakota Roots program, which focuses recruiting efforts on inviting former South Dakotans to come back home. Since it began, in 2006, more than 3,000 people have returned to South Dakota to accept employment thanks to Dakota Roots. A small investment of marketing dollars two years ago has led to an 89 percent increase in annual Dakota Roots registrations and a 66 percent increase in annual job placements in that two-year period.

My budget proposal reverts \$4 million of the \$5 million that was initially appropriated for New South Dakotans, but it also proposes to appropriate \$500,000 in one-time funds to continue to strengthen the successful Dakota Roots program and to wind down the New South Dakotans program.

The issue of workforce continues to be a major challenge for our state. Our low unemployment rate is a sign of our economic strength, but it also means it's difficult for employers to add more jobs even if they have the business to justify it.

Over the next several weeks, I will be going on the road to carry this message to several communities around the state. I will address chamber of commerce groups, visit with editorial boards, and meet with employers about their workforce needs. Then after session ends, in the spring and summer, we will organize larger workforce summits around the state. I'll invite you so that business and community leaders can come together to review our current efforts, learn about demographic and workforce trends, and so we can learn from them and discuss what we need to do next.

Two years ago, South Dakota WINS initiated some important efforts to address this challenge by strengthening K-12 and tech ed, addressing healthcare shortages, trying to bring more workers to our state, and other efforts. Some of these initiatives have been immediately successful, while a few haven't worked out as we had hoped. We need to recognize that the challenge of workforce will not be overcome easily, and it won't be overcome in one year. I hope we will continue to focus on this issue during this legislative session and during the years to come.

On another topic, nearly two years ago, our state embarked upon a review of the state's criminal justice system. The Chief Justice, legislative leadership, and I formed a work group to study our prison population and corrections system using a data-driven approach. We charged the work group with three clear goals: improve public safety; hold offenders accountable; and save money.

The work group recommended and the legislature passed, last session, an extensive reform of our system – the Public Safety Improvement Act. These reforms included measures to strengthen offender accountability, offender supervision, ensure sustainability of the reforms, and focus prison space on violent and career criminals.

I am pleased to report today that over the last 10 months the Executive and Judicial Branches have worked tirelessly to ensure diligent, deliberate, and effective implementation of the Act. Several parts became effective last July, others became operative last fall, and some took effect just two weeks ago, on January 1st.

Development teams are still vigorously working on a few remaining issues, but regardless of the difficulty that comes with transformational change, the Executive and Judicial Branches have worked very hard to achieve the goals we set. It's too early to declare victory, but the statutorily created Oversight Council is receiving very positive reports on the implementation so far. Let me give you an example.

Holding offenders more accountable requires a focus on those most likely to reoffend. One of the policies that took effect last July was "earned discharge credits." This policy allows compliant parolees to reduce the duration of their

parole – 30 days of reduction every time they complete 30 days of perfect compliance. The program has been shown through empirical evidence to reduce recidivism, lower parole violations, reduce caseloads, and allow parole officers to focus on more high risk offenders.

From July through November, over 91 percent of eligible parolees have been compliant following all the rules and paying their fines and restitution. Over 342,000 days of parole credit has already been earned. That is over 937 cumulative years and equates to about 5 fewer parolees supervised by each parole officer.

Experts tell us it will take 2 or 3 years to complete implementation and 3 to 5 years to see all the results of our combined efforts. However, early data suggests the reforms you passed will succeed. We will continue to closely monitor implementation of the law to ensure that the three goals of increased public safety, offender accountability, and reduced spending are met.

The other major piece of legislation that passed last session was Senate Bill 235, which created the Building South Dakota Fund. This important legislation allows the state to partner with local economic development efforts, and it recognizes the crucial role that housing, infrastructure, and career and tech ed all play in growing our state's economy. I have already discussed some efforts I have made in some of these areas. Building South Dakota ensures we will continue to focus on these issues into the future.

Over \$3.4 million in grants have already been awarded since Building South Dakota took effect last year, and the legislation is also providing extra funding for schools to support English language learners.

In the Budget Address, I discussed my proposal to change the funding mechanism for Building South Dakota. Again, by pre-funding Building South Dakota with \$30 million of one-time dollars, we can free ongoing dollars for other priorities. I know many of you wondered what this proposal would mean for the future of Building South Dakota. The bill that I introduce will ensure this program is funded for years to come.

Thanks to your commitment over the past three years to conservative budgeting, South Dakota has enjoyed a budget surplus each of the last two years. So long as we stay true to those principles, we should expect that to continue more often than not.

Under current law, budget surpluses are transferred into budget reserves as part of our rainy day funds at the end of the fiscal year. I am proposing to change that in certain circumstances. Under my proposal, the first priority for surplus funds will be to keep our rainy day funds at 10 percent of general fund appropriations for the year just ended. Once that is met, the second priority will be to automatically pre-fund Building South Dakota, so that the program is always funded at least one year in advance.

It is important to remember that the \$30 million pre-funding I have already proposed secures the Building South Dakota Fund for more than a year into the future. In addition, I believe we all agree this program is a very prudent place to invest one-time dollars mid-session. If we are conscientious about investing one-time dollars in the years when we have them, the automatic funding I am proposing will never be necessary. My proposal will guarantee that Building South Dakota is the first in line for year-end surplus funds when our rainy day funds are adequate.

Building South Dakota created some important new tools to aid our economic development efforts. Thanks to our favorable business climate, we have already seen many businesses expand and add jobs over the past three years.

For example, in the manufacturing sector, two Texas-based companies, Permian Tank & Manufacturing and Pipeline Plastics LLC, expanded to Belle Fourche to take advantage of the opportunities in the oil and gas fields, especially in North Dakota. Together, they will bring 105 jobs to the area. A third Texas company, WL Plastics, began production in their new Rapid City location last August, adding 43 jobs. In 2012, AKG North American Operations, Inc., a German-based company that provides brazed aluminum air-cooled heat exchangers, added a new addition to its Mitchell facility to create space for 215 jobs. Last year, Marmen Energy, a Quebec-based manufacturer of wind towers, purchased a 150,000 square foot building in Brandon. They are expanding the facility to over 200,000 square feet and will employ up to 250 people this year.

We have also seen growth in the financial and professional business services sector. Over the past three years, TCF Bank, Capital One, and TMone have all expanded in South Dakota. These expansions alone account for about 750 new jobs in South Dakota.

We have seized opportunities in agriculture, our state's No. 1 industry. Glanbia Nutritionals, a flax-seed processor, will cut the ribbon on their new Sioux Falls plant in April. Pulse Processors, a processor of edible beans, broke ground last October in Harrold. In 2012, we announced that Bel Brands USA would build a new cheese processing plant in Brookings. Construction is on-schedule, and it should open later this year.

To ensure a strong milk supply for Bel Brands and our state's seven other milk-processing facilities, we initiated a plan to expand our dairy herd. Through our County Site Analysis Program, state officials have worked hand-in-hand with local county commissions and landowners to identify the best locations for new livestock operations and ag development. As a result, South Dakota dairies have added or are in the process of adding 8,000 more cows to their existing herds. Several counties have issued building permits for new dairies that could expand our state's dairy herd by still another 15,000 cows. By embracing local control and working together with counties to site these facilities, we're capitalizing on the clear economic advantages of livestock agriculture.

Whether in manufacturing, finance, agriculture or elsewhere, this strong economic growth is due to the hard work of the employers and employees of many companies and the wise policy decisions you have made to preserve a strong business climate. It is also due to the efforts of local economic developers and our staff at the Governor's Office of Economic Development.

Before I move on, I'd like to speak for a moment about the concerns that have arisen surrounding alleged wrongdoing by a former employee of the economic development office. I called for an investigation into this matter last spring, and I released the Attorney General's findings to the Legislature and to the public last fall.

Good stewardship of public money is very important to me, and I know that every legislator and every South Dakotan shares this concern. In November, I sent every legislator a memo explaining that, in addition to the Attorney General's investigation, I have ordered three separate, independent audits or reviews of the economic development office in response to this situation.

One external auditor is reviewing every disbursement made under several economic development programs reaching back as far as 2009. This review will verify there was a signed agreement or approved application and supporting documentation for every disbursement, each payment amount was correct, and that a check or electronic payment was made to the intended recipient.

The second review is being conducted by your Department of Legislative Audit, which is independent of the Executive Branch and reports to you, the State Legislature. Legislative Audit is performing a financial and compliance audit of the fund financial statements for all government funds in the economic development office, again reaching back to 2009. The Attorney General has received a court order authorizing him to release records he obtained during his investigation to your Auditor General to aid in this audit, which will supplement those audits that Legislative Audit already performs of some economic development programs.

Still another third independent auditor is conducting an examination of internal control procedures. This review will look for weaknesses in policies and procedures and will make recommendations to ensure the economic development programs have adequate internal control procedures in place to safeguard public funds.

In addition, members of my team are working closely with the State Auditor's Office to improve our internal practices regarding travel reimbursements. They will be proposing administrative rules that will require additional justification for travel reimbursement submitted after 60 days. We are also implementing new protocols for submission of travel expenses at the agency level, and the State Auditor is considering processes to ensure reimbursements are not duplicated.

All of the reviews and audits I have discussed are expected to be completed by the end of January and will be shared with you, the Legislature, and the general public. When the results are known, I will work closely with legislators to decide

how the state should respond to the results and to determine if further reviews are warranted.

This is a serious matter and it deserves serious attention from state officials. It is important to be thorough and comprehensive, even if doing so takes more time. My goals moving forward are three-fold: to continue to cooperate in any way in the federal investigation, to recover misappropriated state funds, if possible, and to use these extensive audits and reviews to find ways to improve our processes.

Another topic I know many of you have heard about is the Common Core State Standards adopted by South Dakota in 2010. The Common Core standards are the product of a state-led effort by governors and chief education officers to provide a clear and rigorous set of academic standards for mathematics and language arts. The standards were not written by the federal government, are not required by the federal government, and South Dakota receives no federal funds that were contingent upon adopting the Common Core standards.

We need to have content standards. We need standards that are rigorous. We need our students to learn English and math, and we also need them to learn how to think independently and solve problems in real-world situations. These were the goals of those who wrote, evaluated, and adopted the Common Core standards, and I support those goals.

For many people, however, the Common Core has come to mean much more than that. It encapsulates our opposition to federal interference in education, our concern about the privacy of individual student data, and our strong belief in local control of our schools.

I share those concerns as well, and I hope we will all work together this year to protect our students without undermining the important goals of rigorous and competitive content standards.

I spoke earlier about our good finances. Although South Dakota's budgetary picture is good, there is one area of concern. It was an area of concern when I delivered the budget proposal last month. It was a concern a year ago, and it was concerning two years ago. I'm talking about bank franchise taxes.

In 2011, when we struggled to balance the budget, we had a repayment liability hanging over our heads. It was a bank franchise tax problem. In my budget address in 2012, I acknowledged the possibility we might not receive any revenue from bank franchise taxes. Last month, I told you that BFM had adjusted bank franchise taxes downward for FY14 and that this revenue source is significantly lower than historic levels. It's a bank franchise tax problem.

Why is this revenue source so unpredictable and so volatile? Let's understand how the tax works. First, understand how the bank franchise tax is levied.

For community banks, banks that do their business primarily in South Dakota, the tax is very straightforward and stable. Community banks do virtually all of their business in South Dakota. Thus the tax is calculated on virtually all their business.

For large interstate and international banks, which do business in many places both inside and outside South Dakota, the bank franchise tax is volatile and problematic. Those banks need to identify the share of their business activity which should be apportioned to South Dakota and then calculate the tax on that share.

South Dakota apportionment law uses three factors: property, payroll, and receipts. The first factor is property, and it's a straightforward calculation. How much property does an interstate bank have in South Dakota versus everywhere? If a bank has \$5 million of property in South Dakota and a \$100 million of property everywhere, its got 5 percent of its property in South Dakota. That's a factor. The second factor is payroll. That's also very straightforward. If a bank has \$10 million of annual payroll paid to South Dakotans and a \$100 million paid everywhere, its got 10 percent of its payroll in South Dakota.

The third factor though is the receipts factor. That's where we have this problem. Our apportionment law was last amended in 1977 before Congress approved interstate banking, before personal computers, before the Internet, and before mobile computing. South Dakota's three factors have been unchanged since 1977.

Think about 1977. In 1977, if I wanted a loan, I went into the bank, signed papers, and I paid my interest payments to that same bank. It was very easy to determine

the location of the receipt. Then came interstate banking and the Internet. Now I might go online in Colorado and connect to a computer in Nevada to apply for a credit card. The computer might have some algorithms by which it screens me automatically, but if my credit history is marginal, my file might get examined by a real human person in South Dakota. If I get the card, I might send my payments to a payment center in New York. If I have a problem with the card, I might call a call center with customer support operators, and they might be in Ohio. With all the locations involved in these credit card matters, who is entitled to claim the receipt? This is the problem confronting our interstate banks and our Department of Revenue. It makes calculating the tax a nightmare and auditing virtually impossible.

We need to modernize our statute, but we also should maintain our tax revenues. I'll say that again – maintain, not increase, our tax revenues.

South Dakota is a very good place for interstate banks. In a recent study by RSM McGladrey, banks in South Dakota rank #2 in net income, #3 in total assets, #3 for return on assets, #3 in net loans, and #3 in total deposits. Several interstate banks have located their home charters in South Dakota because of our stable regulatory environment.

Even though more banks are locating in South Dakota, our bank franchise tax revenue has actually fallen in recent years. Here is how our revenue has dropped.

Looking back twenty years, if you look to the left of the black line, that's actual bank franchise tax collections that the state has received through 2013. If you look to the right of the black line, the first two lines are what we have budgeted in FY14 and for FY15. Today, I believe if we do nothing in this area, the far right bar is what we will actually collect at the state level. We are going to have to adjust our expenditure levels down from the budget that I proposed.

I will be bringing forward legislation to address this issue in a way that does not – I repeat – does not impact our South Dakota community banks. It will impact nine very large interstate banks doing business in South Dakota, but it will not – it will not – increase the total tax paid by these nine banks collectively over historical averages. Let me say that one more time. It will impact nine large interstate

banks, but it will not increase the collective tax that these nine banks have paid historically over average years.

This legislative session I hope to have your support to address this problem, not to raise taxes, but to preserve what modest taxes we have. If you agree, we will have more stability, more transparency, and more simple tax administration. South Dakota will remain one of the lowest tax environments in the country for all banks.

Last summer, one of our very large daily newspapers ran a series of articles describing how citizens had been seriously hurt by an insurance carrier doing business in our state. After reading the articles, I asked the Secretary of Labor and Regulation to investigate how we regulate the insurance industry and how this could have happened. A few weeks later, she issued a report that found the Division of Insurance lacks the statutory authority needed to properly protect consumers.

Our Division of Insurance cannot fine carriers unless the carriers themselves agree to the penalty. The Division cannot inform affected consumers if their insurance carrier has agreed to remedial action. We can't even tell the consumer who has complained. Most states have adopted some version of a national model unfair claims act setting forth the basic requirements carriers need to follow when rejecting claims. South Dakota has no such law despite proposals to do so in 1994, 1997, 2006, 2007, and 2008.

I think you all know how much I believe in South Dakota's common sense regulatory environment. I don't like over regulation. There is, however, a vital role for government to play in protecting consumers. The Division of Insurance will be bringing four bills to address the deficiencies in our current regulatory landscape. This is the year to get these bills passed, and I hope you will join me in supporting them.

Beyond protecting consumers, a government that serves the public in an open, efficient, and accessible way is important to us all. These principles of openness, efficiency, and accessibility underpin the Better Government initiative that I began three years ago.

Unless there's a clear, compelling reason, government information should be open and accessible. Since I took office, the state has placed considerably more information online. Every economic development grant is now listed online. Restaurant inspections are now online. The Department of Environment and Natural Resources has put all oil, gas, and water drilling information online. We have released the invitation lists for the Governor's Hunt and other economic development events.

A couple of months ago, we took another important step, unveiling a new state website, rules.sd.gov, where the public can track proposed administrative rules and submit their feedback. The site is based upon the LRC website for tracking legislation. It makes it much easier for the public to be involved in the rulemaking process.

We are also moving to mobile platforms. Game, Fish, and Parks has an excellent outdoors app for hunters and fishers. The Department of Tourism has an app for visitors who come to our state, and now travelers can use the Department of Transportation's new 511 app to check road conditions.

Better government is also about finding places to roll back government, and I will be proposing another package of repealer bills this year. It's the nature of government to add to the body of laws. When running for office you've probably been asked, "If elected, what will you do?" We sometimes took that to mean, "What law will we pass?" We sometimes measure productivity by the number of bills we pass. But when it comes to laws, more isn't always better.

We shouldn't place unnecessary hurdles before our citizens or entrepreneurs. Things shouldn't be overly complicated. Thanks to you, we've already gone a long way in removing unnecessary red tape in state government.

During the 2012 and 2013 Legislative Sessions, we repealed 378 unneeded rules and 919 obsolete sections of law, totaling more than 148,000 words. This year, the Executive Branch will be introducing more than 10 bills to repeal even more unnecessary rules and laws that are just taking up space or causing confusion.

Let me share a concrete instance where these Better Government principles have made a real difference. In the summer of 2012, we had a problem at some of our

driver licensing stations. Many citizens were experiencing wait times of more than two hours. Some had to wait more than three hours.

That's unacceptable. In July of 2012, I announced a comprehensive plan to make the driver licensing system more efficient and convenient. We extended our hours of operation, instituted aggressive hiring and training programs, and developed a new scheduling system so citizens could call ahead or use the Internet and make appointments. We installed self-service kiosks at a number of exam stations. We also created a driver license superstation in Sioux Falls to handle substantially higher volumes. Last year, I worked with you to pass legislation authorizing online driver license renewals.

The steps we have taken have made a real difference. Before we made these changes, only 1 customer out of 10 was served in 10 minutes. By last summer, 4 out of 10 customers were served within 10 minutes. In the last few months, we have served 8 out of 10 customers within 10 minutes of walking in the door.

Driver licensing is not the most exciting, sexy issue, but we have seen real improvement in this area because of the changes we made and because of the hardworking employees at the exam stations. I want citizens to be able to interact with government, all government, in a way that is convenient and efficient. I'm proud of the progress we've made in this area.

In South Dakota, we enjoy a high quality of life, in part because of great outdoor spaces. People travel from around the world to enjoy them with us. We have worked hard the past three years to be good stewards of these important resources. In 2011, I began the Black Hills Forest Initiative to address the serious mountain pine beetle epidemic threatening western South Dakota. The Legislature appropriated \$6.2 million to support this work and together we have made tremendous progress.

Our cost-share program has provided direct assistance to more than 3,800 private landowners. Our crews have surveyed 189,000 acres. That's almost 300 square miles of forestland. And using progressive forestry techniques, we have treated 417,000 infested trees. Our aggressive action to improve the health of the Black Hills forest earned an "Innovations Award" from the Council of State

Governments. We know there is more to do, but we can all be proud of the progress we have made.

Even as we seek to protect our natural resources, we look forward to an exciting future. Last session, you passed, and I signed a bill to create Good Earth State Park, our first new state park in 40 years. Since its dedication in July, 12,000 visitors have experienced its scenic vistas and walked its beautiful trails.

Just last month, I convened a summit in Huron to seek ideas for confronting the recent decline in pheasant numbers. Just as we acted to “beat the beetle,” together we can identify and implement creative solutions to secure South Dakota’s position as the world’s best pheasant hunting destination.

Even as we enjoy South Dakota’s great outdoors, our climate is sometimes challenging, and we need shelter from the weather. I’d like to talk for a moment about the Governor’s House program. As you know, this program builds affordable homes using inmate labor at Mike Durfee State Prison in Springfield. The inmates gain valuable skills that help earn them jobs when they leave prison and many South Dakotans across the state gain an opportunity to own their home.

Over the past year, I asked the Department of Corrections and the Housing Development Authority to explore the options to make the Governor’s House more energy efficient.

Their first step was to build a prototype which met the *Passive House* standard. The *Passive House* standard is a rigorous energy efficiency standard that requires heavy insulation, an airtight envelope around the house, highly efficient windows, highly effective heating and cooling systems, and an energy recovery air exchanger. Structures meeting the *Passive House* standard have very low utility bills, and the homes retain enough heat to provide survivability even in extreme cold weather without power.

The demonstration house was built in only a few months applying techniques that the builders had learned only that year. In spite of these limitations, they met the *Passive House* standard, and the house was put on display at the State Fair to educate fairgoers about new cutting-edge building technologies.

Building every Governor's House to *Passive House* standard would make the house too expensive for the target purchasers, but we have redesigned the Governor's House to apply many *Passive House* principles such as better insulation and windows, an airtight envelope, and an energy recovery air exchanger. These houses will now meet the Energy Star standard, which makes them eligible for federally insured mortgages available only to energy efficient homes. We have also ensured that the increased cost of the upgrades is offset by the decreased costs homeowners see in their utility bills.

In the past few weeks, the news has covered the potential sale of the former DM&E railroad line by the Canadian Pacific Railway. This rail line hauls more than 80 million bushels of grain, 13,000 cars of clay, and hundreds of thousands of tons of cement and other material each year.

I became involved in this issue in December of 2012, when the Canadian Pacific announced its intention to sell the line, just four short years after purchasing it with promises to invest more than \$400 million in improvements. I had two concerns. First, I wanted to be certain any potential buyer would continue to operate the entire line. Second, I wanted to determine whether Canadian Pacific had fulfilled its promises to invest in line upgrades.

I believe our efforts over the past year have been a success. Last month, the federal Surface Transportation Board granted the state's petition to obtain information we need from the Canadian Pacific to verify that the upgrades have indeed been made. We were supported in that petition by the U. S. Secretary of Transportation and the U. S. Secretary of Agriculture, as well as by our congressional delegation.

Canadian Pacific has now announced its intention to sell the line to Genesee & Wyoming, the nation's largest short-line operator. The CEO of Genesee & Wyoming came to Pierre last week to meet with me. I am optimistic they will operate the line in a way that benefits our state, as they have with similar short lines in other parts of the country.

Another important piece of legislation that we passed a year ago dealt with organ donation. We created a new online donor registry to make it easier for South

Dakotans to register as an organ, eye, or tissue donor. That registry is already beginning to serve its purpose, and South Dakotans have proven again their generosity and concern for others. In 2013, we had more than doubled the number of new registered donors than we had in 2012 and more than triple the number we had in 2011. I encourage every legislator and every South Dakotan to register as a donor. Those waiting for transplants are our friends and our neighbors. They are literally in this room today. We can give no better gift than the gift of life.

I was encouraged to propose this legislation by my senior advisor, Deb Bowman. Deb would not be with us today if she had not received a kidney transplant more than a decade ago. Deb is planning to retire at the end of this legislative session after twenty-two years with state government. She has been a friend and an advisor to me, as well as to Governors Mickelson, Janklow, and Rounds. I know Deb has also worked closely with many of you in the Legislature. We all know how passionate and compassionate she can be. Please join me in thanking Deb for her years of public service.

Every one of us is here today because of the support of those who love us – our families and friends. I know I wouldn't be standing here today without my wife, Linda.

Linda has worked tirelessly over the past three years as our state's first lady. In addition to hosting thousands of people in summer tours at the Governor's Mansion, she has taken on several important initiatives that focus on our state's children.

In my first State of the State Address, I spoke about the issue of infant mortality, and Linda has also worked hard on this issue. She chaired the infant mortality task force in 2011 and has also spoken around the state to promote safe sleep practices and to raise money for the Cribs for Kids program, which has already distributed more than 3,000 cribs to families, child care programs, foster care providers, and domestic abuse shelters.

This is a tough issue, but state and private health care partners are in it for the long haul. In 2012, South Dakota had the lowest number of Sudden Infant Death Syndrome deaths we've ever had, but the overall infant mortality rate actually

went up. Preliminary numbers for 2013 indicate that the rate has dropped, but we understand we need to continue to work on this important issue.

Shortly after I took office, Linda also began traveling the state to promote reading in our elementary schools. So far, she has visited the third, fourth, and fifth graders in 242 grade schools – over half of the elementary schools in our state.

As part of the FosterOne campaign, this past summer and fall, Linda traveled across the state to talk with more than 500 people about the importance of foster care and the positive impact foster parenting has on children who need our support. Linda has asked that people learn more about foster care, and her efforts are paying off. In just the last six months, the number of people interested in becoming foster parents has doubled. More than one-third of those people have already taken the next step toward becoming a foster family.

Please do me a big favor, and thank our first lady for her efforts.

Just days before Christmas, I joined soldiers and family members in Harrisburg to send off the National Guard's 1742nd Transportation Company. Holiday or not, 162 soldiers answered the call to duty, leaving homes and families for a year-long tour in Afghanistan.

Since the 9/11 terrorist attacks, the South Dakota National Guard has deployed more than 7,200 soldiers and airmen overseas. I am very happy to report that, according to the Adjutant General, we believe the 1742nd may be the last South Dakota National Guard unit called up to deploy in support of the wars in Iraq and Afghanistan.

These brave men and women represent the finest that our state has to offer. They have served and sacrificed much in defense of our state and nation.

Our returning heroes are also creating a new generation of veterans. Since South Dakota gained statehood in 1889, our state has provided a home for veterans in Hot Springs. I read the initial State of the State by Governor Mellette and he talked about that home. As I reported to you last month, our plan to build the new Michael J. Fitzmaurice Veterans Home is on track and under budget. Since December, contractors have been busy moving earth and blasting rock.

Underground utilities are being installed and one old building is being demolished. The new home, which is scheduled to open late next year, will provide a place for our aging veterans for decades to come.

Of course, the veterans who live in Hot Springs are just a small portion of the 75,000 veterans living in South Dakota. Our veterans range in age from World War II veterans to those just returning from Afghanistan. This year, the South Dakota Department of Veterans Affairs is launching “Operation Reach All Veterans,” a plan to meet every veteran in South Dakota and to offer assistance with federal, state, and local benefits. The Department will host more than 130 open houses, including at least one in every single county to reach out to veterans. Later today, I will sign a proclamation declaring today “Operation Reach All Veterans Day” in South Dakota to kick off this effort.

Please join me in a round of applause for the service of our veterans and active military personnel.

As I close today, I’d like to return to the topic of workforce. Last year, I convened the Employment Works Task Force to focus on employment opportunities for a very specific group of South Dakotans – our citizens with disabilities.

Too often, employers with job openings overlook people with disabilities. According to a 2011 estimate, only 41 percent of working age individuals with a disability were employed in South Dakota – less than half the rate of those without a disability.

I can’t pretend that I understand all the obstacles that confront a person with disabilities, but I do feel a special appreciation for the disabled worker and for the employers who hire them. Both my parents were born deaf, and I witnessed the challenges they faced as they job-hunted. My father was a farmer, but our small farm wasn’t big enough to support our family and cover the farm mortgage, so Dad always had another job off the farm.

I believe that in this world people with disabilities often develop higher levels of determination and accomplishment. Like my parents, they work harder than most. They have to. Good employers know that the most valuable worker is the one who works hard, is loyal, is honorable, and gives an honest day’s work for an

honest day's pay, whether that worker is disabled or not. These employers know that hiring people with disabilities is good business. They know that adversity builds character, and people with character are good employees.

For too long, some have seen employment of people with disabilities as a favor done with sympathy. But I agree with the Employment Works Task Force – that needs to end in South Dakota. We need to connect employers with employees who have disabilities because it makes good business sense for the employer, and we need to start today.

We can begin by making the state of South Dakota an employer that sets the example for others. There are already many examples in which state agencies and service providers work together to provide employment opportunities for those with disabilities. The Bureau of Human Resources and the Department of Human Services are working together to increase those opportunities in the state work force.

In the past year, the Division of Vocational Rehabilitation alone assisted over 900 people with disabilities to reach their employment goals. I support the task force's report to make the Department of Human Services a single point of contact to educate employers, provide technical assistance, and connect employers with qualified individuals with disabilities.

The best thing we can provide for every South Dakotan is the opportunity to enjoy the rewards that come from work. I'm not talking about financial rewards. They are important, of course, but I am talking about the sense of self-worth that we all gain from accomplishment gained through personal effort and hard work.

South Dakota works in so many ways because of our values. Through blizzards, droughts, tornadoes, fires, and floods, we always come together to overcome adversity.

As Laura Ingalls Wilder recalled her father's words in "The Long Winter" of 1881, "It's got to quit sometime and we don't. It can't lick us. We won't give up."

South Dakotans don't give up, and we saw that proven to us, again, last fall. The early winter storm hit western South Dakota at the worst time for our ranchers.

They lost tens of thousands of sheep and cattle and saw decades of work wiped out in just a few days.

But as a friend from Union Center said to me yesterday, the next rancher to demand a government handout will be the first one. Ranchers worked hard, braved the elements, and did what they could to save their livestock. Neighbors came together to help respond to the devastation. State and local governments helped clear away carcasses. As of last week, the Rancher Relief Fund has raised more than \$4 million to help those who were hurt to get back on their feet. \$4 million is a lot of money, but in comparison to the value of lost livestock, it's relatively small. Still, what's important is what it says about South Dakotans – that we care about each other and do what we can to help when we can.

That's what we do in South Dakota. We pull together when times get tough. We work hard, take care of ourselves, and help our neighbors. As South Dakota celebrates 125 years of statehood this year, we can be proud that we are strong because we have not forgotten those values.

What is the state of our state today? The state of South Dakota is strong. I know the best is yet to come. Let's all work hard this year.