



C.L. "BUTCH" OTTER  
GOVERNOR

## **STATE OF THE STATE AND BUDGET ADDRESS**

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Mr. Speaker, Mr. President, Honorable Justices, my fellow constitutional officers, distinguished legislators and members of my Cabinet, honored guests, friends, my family and our First Lady ... my fellow Idahoans.

Thank you for inviting me to provide my perspective on where the past year has taken us and where we should go from here.

Before I begin, please join me in paying tribute to Colonel Jerry Russell, who's retiring as Idaho State Police director after a distinguished career in law enforcement; and also to Donna Jones, our dear friend and former legislator who stepped down as State Controller to focus on recovering from a terrible car accident in 2012.

They have my sincere thanks and deep regard for their years of dedicated service to the people of Idaho.

I also want to congratulate all the members of this 62<sup>nd</sup> Idaho Legislature on your election. Thank you for your public service. It's an honorable pursuit, and I appreciate your willingness to take it on.

My congratulations as well to the Legislature's newly elected leadership teams – House and Senate, Republican and Democrat. Thank you for stepping up to the challenge of constructively channeling the civic virtue within your respective caucuses into public policy that reflects the will of your constituents, the directives of our Constitution, and the better angels of your own conscience.

As many of you know, March 4<sup>th</sup> of this year – 2013 – marks the 150<sup>th</sup> anniversary of Idaho officially becoming a U.S. territory.

President Abraham Lincoln signed the act of Congress just two months after issuing the Emancipation Proclamation, and eight months before speaking some of the most cherished and timeless words in American history at the site where thousands of Americans lost their lives in battle – Gettysburg.

I'm sure many of you also know that the new Idaho Territory was created by carving out areas from other newly formed jurisdictions.

That made for a geographic hybrid, and in a wartime wilderness Idaho was left to create its own identity and its own way forward.

It was the birth of Idaho's fierce independence and steadfast commitment to individual liberty that remain defining qualities of our state and our people.

Now most of us live in relative comfort and plenty – the frontier tamed, the desert bloom, our state and the world seemingly filled with marvels our pioneer forefathers never imagined. But the search for our own identity and way forward continues.

Idaho is a work in progress, and what's past is prologue.

No less today than in 1863 – and in many ways more than ever – WE citizens of Idaho have the opportunity and indeed the obligation to chart a path forward reflecting our independence, our self-reliance and our love of liberty.

We are the products of the "new birth of freedom" that Lincoln proclaimed at Gettysburg.

Today I'd like to talk with you about how we use that freedom to advance our shared goals and values.

That involves thinking about public policy and the proper role of government in terms of the next generation – not just the next election – in order to build a more responsible, sustainable and inclusive future.

We all want an Idaho where government wisely uses the people's resources to provide the public services and infrastructure needed for our citizens' safety, health and security.

We all want an Idaho where government encourages the creation of career opportunities and ensures citizens can prepare for those careers right here at home.

We all want an Idaho where government works fairly and effectively to improve public efficiency, transparency and what the Founders called the "general welfare" of the people.

We all want an Idaho where government promotes and protects equal justice under law while carefully, consistently and fiercely safeguarding individual and private property rights guaranteed by the Constitution.

And as other institutions, states and nations struggle and often fail to find fiscal balance, we all understand that our responsibilities must be met within the people's means.

I hope you share my commitment to ensuring that our State government never grows as fast as our economy and the people's ability to pay for it.

So with that as a starting point, I am submitting a budget recommendation today calling for a 3.1-percent increase in General Fund spending. That reflects slow but steady growth in our economy – an estimated 5.3-percent revenue increase for fiscal year 2014.

It also reflects great uncertainty due to irresponsible federal leadership, and our continuing need for caution and prudence in the collection and expenditure of the people's hard-earned dollars.

But I am pleased to report that I've done as promised and brought you a General Fund budget recommendation that is structurally sound, with no one-time revenue used for ongoing financial obligations.

Like you, my highest priority remains public schools. You will find that my budget recommendation includes increased funding for K-12 education.

However, I do NOT seek to simply revisit issues related to school improvement that were raised in the recent election. Instead, I've asked the State Board of Education to assemble a broad cross-section of stakeholders to study the message voters sent us and identify elements of school improvement on which there is broad agreement.

I'm convinced that acting too quickly or without due deliberation will generate needless distraction from our goals of improving efficiency, effectiveness, transparency and accountability in our education system.

There was no electoral mandate for the changes we proposed on November 6<sup>th</sup>. But I also heard no clarion call for the status quo.

What I heard was dissatisfaction with the process and a plea for more collaborative leadership. We must respond with appropriate sensitivity and care.

Let me say it again: I am neither calling for nor expecting major school improvement measures this year. But I believe there are areas in which we can make progress, and I encourage you and all citizens to engage in that public discussion. It's our very best chance to strengthen the foundation of our future.

Likewise, it is with our future in mind that my budget recommendation for fiscal 2014 builds on the great work you have already done in starting to refill our rainy day accounts. As you know, we are putting a total of almost \$71 million in the Budget and Public Education stabilization funds by the end of this fiscal year.

For next year I'm calling for that effort to continue as a hedge against national and global economic and fiscal uncertainty.

The Great Recession showed us beyond any doubt the value of maintaining a healthy financial reserve. As much as any other factor, it set Idaho apart from most other states in response to tough times.

We must exercise foresight and frugality while working to sustain and grow our economy. Building up our rainy day funds provides the kind of budget stability that Idaho taxpayers need and expect.

Budget stability and fiscal responsibility also are key parts of our State efforts to promote economic development and job creation. They are essential to enabling existing businesses to grow and new enterprises to make their home here, as well as advancing the kinds of public-private partnerships that will be an increasing part of America's 21<sup>st</sup> century social dynamic.

Neither government nor business alone can provide all the ingredients necessary for progress. We must leverage our limited resources toward realizing unlimited opportunities together.

That's the idea behind IGEM – the Idaho Global Entrepreneurial Mission, which you created last year. You will hear much more about its work as the IGEM Council reports to the germane House and Senate committees.

But I can tell you that never before have our three research universities worked together more collaboratively or been more committed to finding common ground and mutual benefit with our business leaders.

Together with the Idaho National Laboratory and the Center for Advanced Energy Studies – and given time and our sustained support – they will nurture a rising tide of economic activity that will lift all our boats.

Meanwhile, Commerce Director Jeff Sayer, Labor Director Roger Madsen and the State Board of Education, our universities and our community colleges are preparing our workforce, encouraging our employers and putting the right policies and programs in place for a more prosperous Idaho.

At North Idaho College, new President Joe Dunlap is using a \$3 million federal grant to create an aerospace center in Coeur d'Alene to meet the workforce demands of a growing industry in the Panhandle. It's a watershed event for the region. Such employers as Empire Aerospace, Tamarack Aerospace and Quest Aircraft are building a critical mass of manufacturing, service and support operations.

Growing a highly skilled northern Idaho workforce will help advance that process.

At the College of Western Idaho, President Bert Glandon is working with the Idaho Technology Council on developing an industry certified software developer program to help address a chronic shortage of qualified workers for the growing technology sector here in the Treasure Valley.

CWI also recently opened an impressive Professional Technical Education center in Nampa to help meet rapidly expanding employer and student needs.

And at the College of Southern Idaho, new and growing businesses like Chobani and Glanbia have President Jerry Beck working to accommodate the workforce needs of the Magic Valley's rapidly expanding value-added industry by building an \$8.5 million Applied Technology and Innovation Center.

I would be remiss today if I failed to extend my gratitude to the J.A. and Kathryn Albertson Foundation for its continued generous financial support of Idaho education.

It most recently granted \$5 million to the University of Idaho and Northwest Nazarene University to establish technology learning and innovation centers for teachers.

That's a godsend for our efforts to improve and expand technology in Idaho classrooms, and I'm confident it will result in development of more educators like Katie Pemberton of Canfield Middle School in Coeur d'Alene.

Many of you know that Katie is our 2013 Idaho Teacher of the Year, and she's earned that recognition in part by making technology a cornerstone of her math classes at Canfield.

Such responsive, forward-looking people and programs are helping lift our statewide economic activity to almost \$58 billion a year. That's up from about \$51.5 billion just a few years ago. And that puts achievement of my Project 60 economic development goal well within reach, and soon.

But \$60 billion a year isn't a finish line; it's only a benchmark.

Let me tell you just how committed many of our Idaho entrepreneurs are to seeing that milestone in the rearview mirror.

Doug Sayer of Premier Technology in Blackfoot recently made a simple but profound change in the way he does business – shifting to Idaho suppliers for a greater share of everything he buys for his company's operations. And he did it without sacrificing quality or profitability.

Now he's challenging other Idaho business leaders to join him in that endeavor.

Doug is working with the Idaho Association of Commerce and Industry and other organizations to spread the word, and I've agreed to help by issuing a challenge of my own to Idaho businesses: Make it a priority to invest here at home. Join Premier Technology and others in devoting a greater percentage of your supply-chain purchases to Idaho vendors.

That step alone can help ensure we're providing Idaho enterprises with every possible chance for success, and creating more Idaho jobs in the process.

This goes well beyond the Buy Idaho organization that's still flourishing more than 25 years after I helped start it. And it's especially gratifying to see a grassroots initiative from our responsible and engaged corporate citizens and employers.

My thanks to them for advancing this proposal, and for working to see that its promise is realized.

There's another investment that Idaho taxpayers are making in job creation.

It's called the Hire One Act, which you approved at my request in 2011.

We'll soon see how many employers took advantage of the income tax credit it provides for creating new jobs as those businesses start filing their 2012 tax returns.

But a number of companies already have told us that the terms and conditions of qualifying for that incentive are too complex and onerous to be the useful tool we'd hoped in economic development.

So I'm bringing you legislation this year to address those concerns and reflect our changing conditions and needs. It simplifies, clarifies and streamlines the law so that our local and state economic development experts can maximize its potential for growing our workforce and our tax base.

In addition, my new Hire One More Employee or HOME Act recognizes the special needs and our special responsibility to veterans – including the brave men and women returning home from the Global War on Terror, whose unemployment rate is much higher than the overall percentage of jobless Americans.

That's a national disgrace, and our State agencies are working together to focus public attention and address the problem through the Hire One Hero program.

My new legislation is intended to provide one more reason for employers to consider veterans, besides their skills, training and work ethic. Beyond a 4-percent income tax credit for each new employee they hire, it also would add \$1,000 to the employer's tax credit for each of those new employees who also are veterans.

Tragically, some of our Idaho heroes don't come home. In 2012, we lost:

- Lance Corporal Kenneth Cochran of rural Canyon County
- Sergeant Daniel J. Brown of Twin Falls
- Specialist Chris Workman of Rupert
- Specialist Cody Moosman of Preston
- Specialist Ethan Martin of Bonners Ferry, and
- Private First Class Shane Wilson of Kuna

And yes, we still await the release from Taliban custody and pray for the homecoming of Bowe Bergdahl. Please join me in honoring the valor and sacrifice of these Idaho war fighters, and in reaffirming our own commitment to protecting and defending the American and Idaho way of life.

For those Idaho veterans now returning to civilian life, even our difficult job market is substantially better than it was a year ago.

Our unemployment rate has fallen more than 20 percent in the past 17 months.

And while growth has been limited, our economy IS recovering from the loss of more than 50,000 jobs during the Great Recession.

One significant sign of recovery is Idaho's first reduction in unemployment insurance rates in several years. It will result in about \$50 million in savings to Idaho employers in 2013 alone.

That will give those businesses more flexibility to invest in capital improvements, expansion, and we hope even more job creation.

Career and economic growth opportunities are also at the heart of the work being done by my Leadership in Nuclear Energy or LINE Commission.

Contrary to what you might see in the news, its work is not about making Idaho the nation's nuclear dumping ground.

Rather, it's focused on assessing our long-term options for securing, enhancing and leveraging work being done at the Idaho National Laboratory and the Center for Advanced Energy Studies.

To do otherwise ignores the existing impact and the enormous untapped potential of those operations and their private-sector spinoffs – not just in eastern Idaho, but throughout our state and the entire region.

I am as committed as ever to enforcing the terms of our 1995 agreement with the federal government to get all nuclear waste out of Idaho by 2035.

But the Yucca Mountain facility in Nevada may never open, leaving fulfillment of the agreement at the mercy of the feds' failure to secure a permanent waste repository. That leaves the matter of preparing for an uncertain future to us.

A 30-day public comment period on the seven key questions raised by the LINE Commission ended last Friday. A final report will be submitted to me by January 31.

Mr. Speaker, Mr. Pro Tem, I encourage you to add hearings on that report to your busy legislative agenda in order to broaden and advance the discussion.

Of course, your agenda already includes discussions on eliminating the personal property tax – which nearly everyone agrees is an unfair drag on our economy.

I believe we now have consensus that accomplishing that should be a priority for this legislative session. The question is how.

As you know, personal property tax receipts are a significant part of how some of our counties pay for public services. Whether the tax is eliminated all at once or phased out over a few years is less important to me than an exit strategy that considers our counties' financial stability.

That isn't necessarily about using State revenues to make counties "whole." In fact, my preference is granting local-option taxing authority that enables county voters to decide for themselves how to address their most pressing needs. However, I also have set aside \$20 million in my budget for easing counties' transition. I look forward to hearing your debate and considering your alternatives.

Like our counties, our State has the right and we certainly have the responsibility to keep as many options as possible open to the people.

That's part of the dynamic behind my recent decision to pursue a state-based health insurance exchange rather than defaulting to total federal control of that process.

Rejecting the opportunity to assert ourselves will result in an unresponsive, one-size-fits-all federal exchange wreaking havoc on some of America's most reasonable costs of coverage.

At its core, this is a matter of state's rights.

You all know how I feel about Obamacare. I will continue encouraging and supporting efforts by our Idaho congressional delegation and many others to repeal and replace the law. But the fact remains that for now and for the foreseeable future it is the law.

And as responsible elected officials we're sworn to uphold the rule of law – not just those laws that we support.

So I urge you to look beyond the important work of changing a misguided federal law to the essential task at hand for those of us in this chamber today – preserving for Idaho citizens the option of having a voice in how one element of that law is implemented.

I soon will be introducing legislation affirming my decision.

My door is open to discussing the challenges and our shared frustrations, and Department of Insurance Director Bill Deal is ready to answer your questions and explain the process. I'm grateful to Bill and the working group that he led on this issue, including Senator John Goedde, Representative John Rusche and Representative Lynn Luker.

The other Obamacare provision I want to address briefly today is Medicaid.

As you know, the U.S. Supreme Court exempted states from the mandate to expand Medicaid eligibility to more low-income adults. But that leaves us with both a question and an opportunity: What will federal Medicaid changes mean for our own Catastrophic Health Care or "Cat" fund, and is there a better way forward for Idaho?

Health and Welfare Director Dick Armstrong led a Medicaid working group I assembled last summer that included Representative Fred Wood, Senator Patti Anne Lodge and Senator Dan Schmidt. They did a great job of analyzing this sensitive issue and developing a thoughtful recommendation.

It sets some specific and significant conditions on expanding coverage for the working poor in Idaho. They include a greater focus on personal accountability and steps for encouraging preventive measures and healthy behaviors.

In addition, the working group called for basing incentives for Medicaid reimbursements not on the number of patients a provider sees but rather on how successfully they keep people healthy.

As you'll hear in a moment, we have some pretty good ideas about that kind of managed care model. But there's a lot more work to do, and we face no immediate federal deadline. We have time to do this right, and there is broad agreement that the existing Medicaid program is broken. So I'm seeking no expansion of those benefits.

Instead, I'm asking Director Armstrong to lead an effort to flesh out a plan for changing Idaho's system with an eye toward the potential costs, savings and economic impact. I hope to return in 2014 with specific proposals based on that work, and I encourage all Idahoans to get involved with this process.

Now, putting aside our federal challenges, I'd like to update you on what the State of Idaho is doing to help achieve our own goal of more affordable, accessible health care for all our citizens.

First, here are some scary numbers: Idaho has the sixth-oldest physician workforce in America, and we rank 49<sup>th</sup> in the nation for doctors per capita.

That's a formula for trouble unless we step up our efforts to get beyond the 20 medical school seats available for Idaho students each year. It's the same number available to us since 1972, when Idaho's population was less than half the 1.5 million people we have today.

You will find in my budget recommendation two proposals for improvement.

One would fund rural rotation training for each of the 24 participants in the Internal Medicine Residency program at the Boise VA Medical Center. The federal government pays for student costs in other aspects of the program, but not rural rotations.

We know that internal medicine residency graduates are twice as likely to practice primary care if they have a rural training experience.

In fact, a recent national study found that rural training is the only kind of residency program that increases the number of new physicians entering the primary care field.

Besides giving us a better chance of keeping these doctors in Idaho after their residency, the rural training itself provides direct care to more than 25,000 Idaho citizens – including 1,500 Idaho National Guard members who returned from deployment a little over a year ago.

My second budget recommendation calls for funding five additional seats in the WWAMI collaborative medical school program at the University of Washington. Those extra seats would go to students in the Targeted Rural and Under-Served Track or TRUST program, designed to turn more Idaho students into Idaho physicians.

Like the rest of my budget, both these requests deserve your strong support.

Before I leave the topic of health care, let me tell you a little about a program for which there is no General Fund request but which could have a major impact on how we administer Medicaid in the years to come. It's called the Idaho Medical Home Collaborative, and it was established by my executive order in September 2010 to implement a patient-centered model of care.

That involves improving accountability by building personal relationships between medical home physicians and their patients – a new approach to the old-fashioned idea of making health care decisions a more personal process.

Starting this month, 23 organizations will participate in a pilot program involving 290,000 patients. It will test medical home theory in urban and rural areas and in medical practices large and small.

All three of Idaho's private health insurers are participating, as well as Medicaid. I look forward to watching the progress of our Medical Home Collaborative in improving care and holding down costs for Idaho patients.

There is another population of Idahoans for whom "care" is a matter of public safety.

We all saw just a few weeks ago the terrible impact on a community and a nation when mental illness leads to tragedy.

Cost is just one of the enormous barriers to effectively addressing the challenges of protecting the public from those whose illness leads them to commit unspeakable acts. Those challenges deserve our earnest discussion. But we also must act where and how we can to reduce the risk.

More than a quarter of the inmates in our State prison system have some level of mental illness.

Many can be housed safely within appropriate settings in our existing facilities. But others need higher levels of care, more treatment and more intensive intervention for their own safety and that of others. That's why I support the Department of Correction's request for permission to issue \$70 million in bonds for a 579-bed secure mental health facility at the prison complex south of Boise.

Correction Director Reinke has discussed this proposal with some of you. Now he stands ready to make his case for reauthorizing the previous request you approved – which would have built a smaller facility at the same cost.

No one likes spending money on prisons or inmates. But public safety is increasingly compromised by our inability to provide secure housing and appropriate treatment for mentally ill offenders.

So I appreciate your careful and considered attention to helping us avoid more costly measures being imposed by federal courts.

We're all painfully aware of the damage that federal court rulings can do to our traditional industries and our Idaho lifestyle. We need look no further than the Endangered Species Act to see the essential conflict between federal and state priorities – especially when it comes to our natural resources.

Even putting aside wolves and grizzly bears, there's no doubt that the threat of federal edicts on sage-grouse, slickspot peppergrass, woodland caribou and other species have a profound impact not only on public policy here in Idaho but also on how our farmers, ranchers and others can pursue their livelihoods.

We are working proactively to avoid worst-case scenarios and to assert our rights as a state.

However, this past year we reaped the whirlwind sown by federal neglect and mismanagement of our public lands.

Wildfire suppression costs alone approached a quarter-billion dollars – not counting huge impacts on the environment, public health, property, and the unrealized benefits of healthy, actively managed forests and rangeland.

Then there was Anne Veseth, a 20-year-old Lewis-Clark State College student from Moscow.

Ann was killed in August while working as a seasonal firefighter for the U.S. Forest Service in Clearwater County.

We owe her and thousands like her a fighting chance while protecting our forests and rangelands. That's why my budget includes a \$400,000 request to help create four more volunteer fire protection associations like the one formed by Mountain Home-area ranchers last summer.

Nonprofit groups like theirs can assist the BLM, Idaho Department of Lands and rural fire districts in fighting and maybe even preventing catastrophic wildfires on the nearly two-thirds of Idaho land “managed” by the federal government.

Another example of our Idaho preference for actively managing our precious natural resources is the newly revised State Water Plan being submitted for your approval this session.

It's the first update since 1996, and it reflects use of the latest technology in better evaluating our needs and the status of our water supplies.

Just as importantly, for the first time the plan is about more than our goals – it also includes strategies and milestones for executing our management policies and evaluating their effectiveness.

It goes to the very heart of the data-driven policy making I've been promoting throughout my administration.

My thanks to Water Resources Director Gary Spackman and members of the Water Resource Board, the water-user community and the public at large for participating in this important work. It will help guide how we use, protect and replenish our water supplies for a more sustainable future.

Of course, our best chance for sustaining our Idaho way of life is an engaged public.

During the past year I've conducted Capital for a Day in communities throughout Idaho, from Nordman to Victor and Ashton to Fruitland. I've met with hundreds of individual citizens of every age, education, occupation and political view – including many legislators, and I thank you for participating in those open community forums.

What all of the people I've met at Capital for a Day have in common – and what they share with those of us in this chamber – are civic virtue and a deep commitment to retaining and building on what is great about Idaho.

That greatness plays out not only in what makes the headlines or the evening news, and certainly not only in what we do here, but more fundamentally in what our people do in their own lives and communities.

I was proud to note that Idaho recently was ranked as second only to our neighbor Utah for the rate at which our citizens volunteer to uplift and improve the lives of others. More than a third of us gave of ourselves in 2011, and we as a state contributed an estimated \$1.4 billion worth of service.

I'm confident that level of personal philanthropy continued and even grew in 2012, and that we'll keep paying it forward in 2013 and beyond – because volunteering and taking care of our own is in our DNA. It's who we are. It's who you are, and I'm proud to join you in pressing ahead toward an ever-brighter and more hopeful future for us all.

Thank you for your time and attention. I wish you all the best in your work here, and may God continue to bless Idaho and the United States of America.