STATE OF SOUTH DAKOTA
FISCAL YEAR 2010 BUDGET ADDRESS
PIERRE, SOUTH DAKOTA
DECEMBER 2, 2008
GOVERNOR M. MICHAEL ROUNDS

Thank you. Once you hear my budget, you may not be that happy.

Ladies and gentlemen, I appreciate the opportunity to share with you today my proposed budget for the fiscal year 2010. It is a very cautious budget. We are providing it to you at a time in which we have a very uncertain economy throughout the United States—a time in which we, as a state, are literally running out of reserves. The funding that I am proposing today will take care of only our basic needs—taking care of people, protecting the public, and educating our children.

As you've seen in the past, I've tried to split the budget up into those areas which are mandatory, those which are discretionary, and then to break it out into these categories so you can see where you spend the taxpayers' money. I also ask this year, that we update the fees that we are allowed to, for the operation of state government. In fact, making this budget work will require the use of additional fees in multiple areas across many different departments within state government.

We're not alone in the challenges that we face. States from all over this country are faced with similar types of messages. In fact, as you go on, I only put in two pages of the types of headlines that you're going to be able to review if you read the national news. But everybody is feeling the challenges of a national recession. The bottom line—we'll start with this slide and share with you what it looks like.

The bottom line is that for the fiscal year 2010, we will be collecting approximately 1 billion, 203.8 million dollars in revenues. We will be requesting you to spend 1 billion, 236.2 million dollars. That will require $32.4 million more from our Property Tax Reduction Fund than what is going in to that fund. We can't do this forever, but nonetheless, we have an obligation to take care of the basic needs of the citizens of our state.

Let me share with you a little bit about where we're at in terms of the Property Tax Reduction Fund today. December 2nd, the starting point, we have $63.6 million in the Property Tax Reduction Fund. I am proposing that we will be using $26 million for the existing fiscal year. Remember, as a legislative body, when you left last March, you had expected to use approximately $11 million to $12 million of that fund because of less revenues coming in than what you projected last year. And, because of some mandatory increases in expenditures for the remaining part of this year, we will be asking you to take $26.8 million from the Reserve Fund this year and then $32.4 million more for the fiscal year that begins next July and ends June 30, 2010. That'll take $59.2 million out of the reserve account, leaving $4,521,552 in the Property Tax

Reduction Fund. For all practical purposes, we will have exhausted the Property Tax Reduction Fund.

Let me also share with you a little bit about the challenges we face with regard to this year's remaining budget. When you left last March, those of you that were here, you had adopted a budget which had expected to be funded with 1 billion, 208.2 million dollars in funds revenues. The actual amount that we're projecting that will come in for this fiscal year is down from that approximately 6.3 million dollars, or 1 billion, 201.9 million dollars. It will be less than what you had projected.

Furthermore, we're going to be requesting that you spend about $8.6 million, and I'll be presenting that to you in two slides, one of which will be emergency specials, and one of which will be amendments to this year's general bill, that I will ask you to approve. The bottom line is that, very honestly, we have two things hitting us. Number one, the optimistic revenue projections that you adopted last year will not be met this year. Second of all, the following year is just as tough, if not tougher.

Let's share now the fiscal year 2009 revenues and the fiscal year 2010 revenues. If you look about three quarters of the way down the page, this year, once again, for the remaining part of this year, we're going to have about 1 billion, 201.9 million dollars in receipts. Next year, we're only projecting 1 billion, 203.8 million dollars, or only a 1.9 million dollar increase in revenues from one year to the next. That is very, very small, and, in fact, if you do not accept the proposed fee increases from the multiple departments, then our budget does not work because this particular budget will add about 3.3 million dollars to the revenues and are included in these figures. That's what the fees will do. If not, your receipts that you can work with for next year will actually decrease by 1.4 million dollars—you would actually have less money to utilize next year than what you have this year.

I wanted to explain this in a little bit more detail for you, because many of you will be skeptical about whether or not we are using correct numbers for estimating what the revenues are. If you take a look at the first one on the left hand side, the sales and use taxes for the remaining part of this year and, as a matter of fact, this entire budget year, we're expecting it to be a very robust growth of 6.38 percent. That is a very, very good growth of sales tax. In fact, even next year, we're proposing that it will still be 3.48 percent during a national recession. So we're still being optimistic, in part because our unemployment rates in South Dakota are the lowest in the nation. You have done a good job of creating a business climate in which businesses can survive even when the national economy is tough. That can change very quickly, if we start to have layoffs with some of our major institutions.

The Contractors Excise Tax, which was up 7.81 percent, is what we are projecting for this year. It's going to go up an additional 6.81 percent next year, even in a time in which many businesses find it difficult to borrow money to build new projects—even at a time in which we have very little money available for highway construction, which also collects Contractors' Excise Tax.

If you look at the insurance premium taxes this year, it's up 8.80 percent—very, very strong, while at the same time next year, it will be up 6.41 percent, which is a very strong growth as well.

But then take a look at what happens—the Bank Franchise Tax for this year is down 17.11 percent, and it will go down an additional 6.78 percent next year. That's on top of the 17.11 percent this year. That is a significant decline in revenues from one part of our revenue segments.

Also, along with that, is the loss of interest in our trust funds. This year, our interest on trust funds is down about 0.72 percent, along with some other areas. But it will be down 11.08 percent next year. Now, I want to point this out. We determine how much money we get from our trust funds based upon the value of those funds on December 31st of this year. So in less than 30 days, these will not be projections, they will be actual figures that you will use. We are actually below the principal amount, the original principal amount, in our trust funds this year. And, by constitutional directive, we cannot invade the principal; we cannot take money from the Trust Funds, if it falls below the principal amount. We will know for sure on December 31st. I am not optimistic that there will be a significant increase in the revenue increases, or the interest in earnings incomes in those trust amounts, even to make up to the existing original principal balance.

Now let me shift a little bit and talk about where we have spent our money in the past. Since 2003, which is when I became governor of this state, and we have been working side-by-side since that time, and many of you have been here just as long as I have, we've increased funding in a couple of different areas, and I have always taken the liberty of trying to divide this out into areas that perhaps make sense, and something you can share with constituents.

In the areas of taking care of people, the social service aspects, taking care of people that have nowhere else to go, the very young, the very old, the disabled, we've increased funding by $165 million since 2003—if you accept this budget. We will have increased funding for education by $130 million since 2003. Protecting the public, which are the courts, corrections, the Attorney General's Office, the Highway Patrol, and so forth, will be $49 million since 2003. And, finally, all the rest of state government, everything else, will be up $17 million since 2003.

General funds—the major spending changes—well, I've divided it in two areas, and I will then divide it again in other segments, but first of all, those areas this year that I'm recommending increases—I start out with the mandatory increases, the ones which either state law says we have to do, or in order to meet or comply with federal directives in order to get federal funds, I call them mandatory. They do not include any salary policy. These are strictly mandatory increases that you would have to change a law not to do. There's $24.3 million—almost $24.4 million—in mandatory expenses that we have included. There is discretionary $388,695, that's 1.6 percent of the total general fund increases that are actually optional this year.

General funding major spending categories—let's take a look at those mandatories. Disagree or agree with me—I have included 3 percent in the State Aid Formula for a per student increase across the board. That cost is $12.5 million.

I've also asked for an increase in Mandatory Medical Costs of $3.4 million. We've asked for the increase in Utilization of Medical Services of $2.3 million.

An increase in the Placement/Community Services, that's $2.3 million. And that's for juveniles for group and residential placements.

We also have a Lost Federal Funding for Juvenile Services of approximately $1.7 million. We lost money because Medicaid will no longer pay for juvenile placements unless it is in a psychiatric facility.

And then growth in the Title XIX Medicaid Clients—we see an increase of 1,148 in the caseload for Medicaid. That's $1.7 million of additional funding necessary just to maintain the existing levels for 1,148 more anticipated in our caseload.

Increased Utility Costs—across the board—that's paying the electric bills and the heat bills in all the Regental institutions, and all the state institutions as well. And, finally, All the Rest of state government will contribute a $1 million decrease. Principally, the federal matching rate went down and I'll share a little bit about that with you.

General funds major spending categories for FY 2010 that are discretionary in nature—approximately $388,000. This is a combination of several increases and several rather challenging decreases.

State employee compensation—I am proposing a 1.5 percent in salary policy. Traditionally, we do 3 percent.

Traditionally, we do 3 percent for provider inflation. This year I can't do that. The second item on the list is provider inflation at 1.5 percent.

Moving meth programs to the base budget—last year and the year before you identified those as special appropriations. You gave us permission to hire people and to have the meth treatment program in the Women's Prison. That is $1.8 million I am asking once again that you move that into the base budget for this year.

Moving the State Fair to the base budget—I've asked for it 2 years in a row, and 2 years in a row you have left it as a special—you have funded it—once again I think being honest with the folks of this state, it is an ongoing expenditure of state government. The cost is $800,000. I have moved that into the base of the budget.

Everything else that we are proposing will save the general fund $14 million to offset the increases we have proposed in the FY 2010 budget.

Now, rather than looking at mandatory and discretionary, let's break the budget down into those areas that basically explain how we spend taxpayer money within our state, based upon education, taking care of people, protecting the public, and then all the rest of state government.

Education will receive an increase in their total funds this year to the tune of approximately $4,249,964. They will receive an increase, but if you noticed earlier, this amounts to approximately 17.2 percent of the total increases that I'm requesting for this year. Remember this is for K-12 education, this is for the tech schools, and this is for the Regents.

Let's take a look at what's happening here. We have a provision in state law that says even in tough economic times, state law mandates that school districts receive per student state aid increases at the rate of inflation or 3 percent, whichever is less. This year, that mandates that we provide, on a per student basis, a 3 percent increase in the funding. That is a $139.94 per student increase in funding before the small school factor is applied. If you noticed, if you have $12.5 million, it's offset some place.

Let me share with you what the offsets are. First of all, K-12 education funding at 3 percent is $12.5 million as indicated earlier.

The Board of Regents and Department of Education employee compensation, the same as everybody else, now broken down department by department, is $2.7 million.

The Board of Regents' utilities amount to $1.1 million.

The Birth to Three funding, which also includes provider inflation for those individuals who provide this service at 1.5 percent is $337,761 in increases.

The technical institute formula funding at 3 percent is increased by $280,000.

Here's the part that gets challenging. We are proposing, this year, that you repeal the increasing and the decreasing enrollment supplements. That saves the general fund of the state of South Dakota $5.7 million this year. What this does, it eliminates the 2-year averaging of fall enrollments eligible for state aid payments. That's the declining enrollment. Some of you refer to that as paying for phantom students that no longer exist, okay? That is, one in which you had students, you don't have them anymore, but we pay you for them as if you did. I'm recommending that you eliminate that as part of this.

Second of all, I'm recommending that you eliminate the growing enrollment adjustment in the state aid formula for districts that grow by 25 students or 5 percent. That only benefits 23 school districts within the state.

I'm also recommending that we maintain the current reduced tax levies you provided for an additional $9 million in property tax relief 2 years ago. I'm asking that you freeze those levies at that level for the coming year. That saves the state general fund $6.3 million.

All the rest of state government is reduced by approximately $715,000 in small areas. The total increase is $4,249,000.

I want to show you something because I think some of you, many of you, feel very strongly about properly funding education and providing as much as we can back to local school districts. This graph shows the comparison of school general fund reserves, cash reserves on hand, to total state reserves. Take a look right in the middle where in FY 2005, the state had approximately $134.3 million in its reserve accounts. The schools had about $138.6 million. Since 2005 until now, we're now projecting that, at the end of FY 2010, we're going to have $47.9 million in the state's cash reserves. That includes the budget reserve and the property tax reduction fund. At the same time, based upon the most current fiscal data available to us, which is June 30 of this year, the school districts will have cash balances, cash accounts, of approximately $181 million, about $10.2 million more this year than what they had at the same time last year.

In essence, you have been dipping into your reserves while the school districts have been able to maintain or increase their cash reserves during the same time.

Let me share with you a little bit about what the per student increase in state aid to local schools will be if you accept our budget proposal. It will go up from $4,664.66 to a new balance of $4,804.60 per student. That is an increase of $139.94 per student before the small school factor is applied, which could increase that up to an additional 20 percent in the smallest of the schools.

Now, if you were to look at that in a different way, that's $915.41 more for every single student in South Dakota since 2003. If you want to put it in the perspective of what it looks like to the entire school district(s), well, for every classroom with 20 kids in it, you have worked very, very hard to provide an additional $18,308.20 for every single classroom in this state with 20 children in it since 2003. That is the increase in funding for K-12 since 2003--$18,308.20 for every classroom with 20 children in it.

The second part of the discussion we have to have is, what about the projected levies? Because every single year we have a discussion about levies for property tax. That's where we deliver property tax relief. Well, back in 2006, payable in 2007, ag levies were $3.03; you added an additional $9 million of property tax relief in 2007 for the 2008 payables. It brought the ag levies down from $3.03 to $2.71. Last year, you reduced them again to $2.61. I'm asking you to freeze those levies for this year at $2.61, simply because we do not have additional funding in the property tax reduction fund to offer additional property tax relief at this time.

The non-ag from $4.03 down to $3.61—I'm asking you to freeze it at $3.61. The same with owner occupied, we reduced it from $4.76 down to $4.10. I'm asking you to hold it at $4.10 this year.

And, finally, the commercial rate has been reduced from $10.19 per thousand down to $8.78 per thousand. I am asking that you maintain and hold those current low rates but I cannot ask you to decrease them because I don't have the money to further decrease the mill rate levies this year.

Let's take a look at the next category of funding found within the budget, and that is taking care of people. This is 59 percent of the entire increase that we are requesting this year. That's $14,654,941. It takes care of the budgeted expenses and payments made by the Departments of Social Services, Human Services, and Health.

The major spending increases for 2010 in those categories: Provider inflation—these are the physicians, these are the people that operate nursing homes, and these are the people that provide assistance to the elderly for both the Department of Social Services and the Department of Health. Many are contracted with us. If we increase this, the provider inflation is $8,645,410.

Medical services eligibles growth and utilization—is an additional $6.9 million—that would take care of making the payments for the anticipated 1,148 additional Medicaid clients that we expect next year. It will also take care of the funding for 187 additional children that we expect to quality for your existing State's Children Health Insurance plan.

We've also lost federal funding in the tune of $1,863,960. I thought I'd give you a sense of what they are, because we are asking you to replace that funding. When we do that, we should be able to justify why.

The federal government is no longer providing enough money for the vaccines for South Dakota children. We're asking you to make up the difference.

The federal government is no longer funding mosquito control grants to over 170 communities within our state. I think it's still important to provide that.

The federal funding is inadequate for the amount of child care subsidies currently being administered at the existing level. I'm asking you to continue that.

And, finally, the federal funding is insufficient to fund the Children's Health Insurance Program. It's a block grant—we have to make up the difference, if we want that plan to continue.

We've also included in this the employee compensation for all the departments at 1½ percent and that is a $1.4 million increase in the total budget.

And, finally the FMAP (Federal Medical Assistance Percentage) rate actually changed in our favor, and it is down $5 million this year.

I noted also that we have one special that I forgot to mention and that is $920,287. That is these departments' contribution to the meth treatment program for women in prison. This is a good program, it was a special for the last 2 years, and I am asking you to include it in the base budget for this year.

What is Medicaid? Many of you know it by heart, many of you are new, I want to explain a little bit about it, because this is something many of our taxpayers say, "Why are you paying any part of Medicaid?" Medicaid is the federal/state partnership—it provides for protection for those that are the most vulnerable within our society—the very young, the very old, people that are living in poverty, those that are disabled.

Title XIX is a federal entitlement program created in 1965 as part of the Social Security Act. It provides comprehensive healthcare to those in poverty such as the disabled, children, and the elderly. In fiscal year 2008, Medicaid and the Children's Health Insurance Program covered 109,000 different South Dakotans, of which 74,000 were children. The safety net/funding source for individuals who have no where else to turn is Medicaid—when it comes to catastrophic illnesses. It is the largest payer of health care in our state. One out of eight South Dakotans and 50 percent of all children under 1 year of age are on Medicaid. The total cost for Medicaid, that's both the federal share and the state's share, will increase by $19 million next year.

Ladies and gentlemen, we're facing an uncertain future in terms of the economy. Sometimes those individuals who are least able to cope with significant reductions in an economic cycle are the very young, the very old, the very poor, and the disabled. I do not believe it is appropriate for us to cut our basic Medicaid program here in South Dakota. We should not cut programs that will hurt the most vulnerable people in our state—at a time in which it might be most in need.

The third category that we break this out traditionally is in protecting the public. It includes the budget from the Department of Corrections, the Department of Public Safety, the Unified Judicial System, and the Attorney General's Office, and, yes, also the Highway Patrol. It includes 26.2 percent of the total funding for this next year. Some of the major areas—well, we've lost some federal funding once again to the tune of about 2.3 almost 2.4 million dollars.

The Byrne Grants have been reduced once again.

Medicaid for juveniles that are being held by the state—unless they are in psychiatric facility—has been eliminated from the federal program. That costs the state $2.4 million but nonetheless, it is a necessary service to provide.

The Unified Judicial System, the Attorney General's Office, the Department of Corrections, the Department of Public Safety employee compensation costs are $1.8 million. Increased placement services—this is for juveniles that we are placing in other facilities other than state facilities—is $1.1 million more. The fiscal year 2009 specials we are adding to the base—it amounts to $865,000. That is principally the meth treatment coming out of the Department of Corrections' budget for the women's health program. Its total of about $1.8 million, but it was a special for the last 2 years—I'm asking that you include it in the base budget this year. It is a good program.

The Unified Judicial System budget increases—now this excludes their employee compensation and specials—they're asking for $537,319. I want to make special note of this, because I want to personally thank the Chief Justice for the work he has done in reducing the original expenditures they had requested. They had brought forth a budget. I shared with the Chief Justice the concern we had about the challenge we, as taxpayers and as the folks that have to make the budget decisions, were going to have this year because of the loss in revenues. He said to me, "Let me go back to the other justices and let us rework this, because if everybody is having those kinds of challenges, we will do everything we can to live within our budget, but there are some things that I think we do need." He is making requests for some additional judges that I think should be approved. Let me share those with you. The Unified Judicial System budget increases include funding for six new positions. They include the FTEs for two circuit judges, one in Rapid City and one in Sioux Falls; two court reporters to go with those two judges; one circuit court law clerk; and one court services officer for Minnehaha and Pennington County. I believe those are very appropriate increases in their budget, and I would ask your very favorable approval of the chief's request.

Prior specials added to this base include the drug court which is found out in the Hills. It's been a special—we have asked that you include that in the base budget this year.

Finally, utilities costs are simply the costs to maintain our structures at $357,013. All the rest of those areas will reduce funding by $705,000, for a total increase of almost $6.5 million in the new year.

What about the rest of government? The rest of government, in terms of the expenditures for this year, including salary policy, will actually go down 2.5 percent when compared with the other increases for education, social services, and for protecting the public. That's a $613,000 reduction in the operations of the rest of state government. That includes within that area the Department of Game, Fish, and Parks' general funds; Tourism and State Development; Military and Veterans Affairs; the Department of Ag; the Department of Environment and Natural Resources; the Department of Revenue; the Department of Labor; the Department of Transportation, general funds portion; the executive management branch of government, which includes the Bureau of Finance and Management, as well as the Governor's Office, the Legislature, the State Auditor, the State Treasurer, and School and Public Lands. These are the areas in which most people who do not understand government simply

call bureaucracy. When that occurs, my message to you is that this year we are reducing it in total amount from 6 percent of the total expenditures of government to 5 percent of the total expenditures of government with this decrease in the proposed FY 2010.

Now all the rest of state government, where's it at? Well, let me share with you a little bit about where the major expenditure changes are. Agriculture and the Animal Industry Board will go up $603,000, but only because we're including the State Fair's budget, which has been included the last 2 years as a special—that's $800,000 in their budget—they're going to offset that with additional fees that they are requesting from you for approval. The Military and Veterans Affairs—it's $167,000 primarily for the Veterans Home for utility costs. Tourism and State Development—space billing in the amount of $115,000. Labor—$13,000. Transportation—up $5,900. Revenue and Regulation—a reduction of $5,621. The legislature and other elected officials are reducing their budget by $275,000, in part because of two vacancies in FTEs you have had within the Legislative Research Council for over 6 years, so we have included in our budget, a reduction of those two FTEs. Environment and Natural Resources will be reducing their general fund budget by $323,000 and will be offset by fees they are requesting for your approval. Executive Management will decrease by $448,000 principally because of sale leasebacks—it's an in and out and it does not necessarily impact the dollars requested, but it's being reduced by $448,000. Game, Fish, and Parks will reduce their general fund expenditure request by $466,000. It will be offset by additional fees to make up the difference. The total, $613,000 in reductions. Once again, this means that the total operation of all those departments will go from 6 percent of the total amount funded within government to 5 percent of the general fund that you allow for appropriating for the operation of government.

Let's take a look at the proposed FTEs, and once again I'm going to remind you that an FTE is not an employee. It is the opportunity to authorize for the payment of 40 hours of work. If you have a student who is being hired to do research, they are considered part of an FTE. If they work for 8 hours, that's one-fifth of a 40-hour week, that's one-fifth of an FTE. So if we're putting a student to work, they're part of an FTE. We have to count them as if they're an employee. So anybody that does research at the universities—they have to be included.

Let's take a look at where the FTEs are located: outside the control of the governor—well, 75; inside the control of the governor—7.7; but of the 7.7, the meth program at the Women's Prison, which is already in operation and has been considered in the last two budget years as a special appropriation, has 16 employees. If you take those 16 employees out that are already employed by the state, we actually have a net 8.3 reductions in FTEs for the coming year.

Outside the control of the governor—if you take a look at this, the Board of Regents is requesting 67 FTEs, three of which would be funded by general funds, and those are auditors. Along with that, they have requested 64 FTEs for faculty, researchers, graduate assistants, student labor, and support staff. No general funds are included in

their request. Of that amount, 32 would be support staff; six would be graduate assistant FTEs, now that could be 5 of them or 4 of them for every graduate—it's not that many students, it's that many FTEs or 40-hour units; 22 faculty/researchers/assistants; and four student laborers. That means four FTEs for student labor.

The Unified Judicial System is requesting nine FTE and as I indicated earlier, three of those FTE are for the Fourth Circuit Drug Court, which was a special last year and the year before—this time we're including them in the base, we're not calling them a special appropriation anymore. So actually the Unified Judicial System is only asking for six new FTEs. They include two FTEs for new circuit court judges, one in Rapid City and one in Sioux Falls; two FTEs for court reporters, one in Rapid City and one in Sioux Falls; one FTE for a circuit court law clerk in Pennington County; one FTE for a court services officer in Minnehaha County. Once again, this is not the original proposal, this is after they went back and worked with us to try to reduce it, and, in fact, they cut their original in half.

The Attorney General is asking for one FTE for a consumer protection agent due to the increase in consumer fraud caseloads.

And, finally, the Legislative Research Council has two fewer FTE due to continuously vacant Legislative Research Council staff positions that we are requesting you consider eliminating.

The 2009 emergency special appropriations—now so far we have been talking about the fiscal year 2010. Now let's come back to this year—let's remember earlier I shared with you that not only are revenues down for this year, but I'm going to be asking you to increase some expenditures for this year that are not what I consider to be optional—they are, I believe, mandatory in nature. Let me share with you why.

The Sales Tax on Food Refund Program, which you have supported in the past for 40,000 households, is $2 million.

The Emergency and Disaster Fund—we have three blizzards and two floods that we are still paying on—the cost is $1,916.721. The expenses are already there. Traditionally what happens is in the case of an emergency, which is declared, we then ask you the following year to pick up the costs involved in the declaration of the emergency.

School District Consolidation Incentives—well, we have one group which is first year and one group which is in their second year of consolidations—the total cost is about $1,154,293. The first year schools include $925,800 for Highmore-Harrold, Mobridge-Pollock, and the Faulkton area schools combined. Not combined all together in one, but three separate combinations totaling $925,800 in expenditures. And, second year schools, those that have already been there for 1 year, they're coming back for their second year of payments—that's $228,000, and that includes the Irene-Wakonda consolidation, the Kadoka area consolidation, and the Platte-Geddes consolidation.

Finally, there is the Fire Suppression Fund, which are the costs related to the suppression of wildfires within South Dakota. Now we currently have $3.4 million in costs, we expect $2.8 million in reimbursement from the federal government and some other areas—we're requesting a payment of $641,065 to cover the rest of that shortfall.

The general bill amendments—now these are the ones which are general bill amendments—they're parts to the general bill that you passed last year. These are increases, but they are increases that are mandated, I believe.

The first one, remember how we talked earlier about how the trust funds have gone down in value? Part of the challenge that we've got is that the Cement Plant trust fund actually had a positive balance on June 30th. The Constitution requires that, as of that date, we account for any money in there and it must be fully delivered for educational purposes. We can't say—oh, we're just not going to pay up this year, we're going to hold it for other stuff—it has to be expended for constitutional and statutory direction.

Cement Plant earnings for education are $1,522,942. You didn't know about it when you left session, because we didn't know what the trust fund would provide. It didn't happen until June 30th, that's when we make the decision. That will help pay for scholarships under the Opportunity Scholarships for 3,240 very worthy South Dakota students.

There will also be the Department of Social Services' Medical Services shortfall. Because of higher medical costs, we are requesting $862,396 to cover the difference of what we estimated it would cost last year.

Custer State Park Bond Payment in the amount of $156,382. We have the revenues coming in—we have to make the bond payment. It is not a direct impact on the general fund—it comes into the general fund—we authorize it to go out of the general fund. It's revenue in—payment for the bond going out.

Finally, the state's Veterans Home utility shortfall. We had anticipated putting in a whole new heating and cooling system in the state's Vets Home. We waited to find out what the long-term care report would show in terms of where nursing homes, including the state's Vets Home, should be. Now that that's been completed, we know that we have utility expenses that we're going to have to handle for the state's Vets Home for the rest of this year. That is $70,464.

The total general funds amendments for this existing year is $2,612,184.

Now let's take a look at FY 2010 special appropriations, and it doesn't take long to go through it, because we don't have much money. So the only special appropriations that I am requesting are $800,000 for tax refunds for the elderly and the disabled. And, rural health tuition reimbursement in the amount of $145,938 for two physicians—actually one physician located in Scotland and one dentist located in Martin—and that is per South Dakota law which provides for this payment of the reimbursement costs.

State employee compensation—as I've indicated throughout this and tried to divide it out, department by department, will be a 1.5 percent salary policy for the year; the two and a half movement to job worth; continuation of the longevity program; and then the part that I'd like to draw your attention to health care costs for state employees because of what they've done with us in terms of health care costs. They have put up with higher deductibles and higher co-pays. We have been able to limit the health care costs for state employees that you pay 100 percent of the original premium on, to 1.5 percent. They will have an obligation as employees to pick up the cost for their dependants. They pay that cost themselves, but your responsibility is for the premium on the self funding of health care for state employees. That's a 1.5 percent increase in state funded health care costs. It's approximately $500,000 in general funds this year. Compare that with what you're finding in your own businesses or in your own home areas of increases of 10, 12, and 15 percent in health care for the coming year.

I have to share with you that state employees have done a very good job of working with us on the state employee health care plan, and I will also tell you, that we are expecting more of them now than ever before, during this time in which we are restricting travel, restricting purchases, and asking them to do more with fewer employees as we freeze hiring over the next months.

The budget proposal—here are the big picture items. For FY 2010, we expect general funds, if you approve them, will be $1,236.2 million. Federal funds would be $1,476.8 million, and all the other funds would be $953.3 million—a total budget of $3.67 billion, including both special and continuous appropriations for FY 2010.

Where will you tax dollars go? Fifty cents out of every dollar, should you accept this budget proposal, 50 cents out of every dollar that we collect in the general fund, will go for K-12 education, higher education, Board of Regents, the technical schools, and the Department of Education.

Thirty-four cents out of every dollar will go into the area of taking care of people—that's Medicaid, the State Hospital, Temporary Assistance to Needy Families (TANF), the Department of Social Services, Department of Human Services, and the Department of Health.

Eleven cents of the general fund dollar will go to protecting the public. That includes the Department of Corrections, the courts, Public Safety, and the Attorney General.

Five cents will go to the operation of all the rest of state government, including eight departments, four bureaus, the legislature, the Governor's Office, the five constitutional offices, and all our special appropriations.

Put this in another way, if I could for just a second. I know that when it comes time, and when you are asking for people's votes, and when you are assuring people that you have a real interest in providing them with additional services, and you want to also assure them that you will do everything you can to make sure government is run as

efficiently as possible, sometimes there's a suggestion that, you know we ought to be able to rearrange and just take. Well, without touching education and without touching social services—we ought to be able to find five percent and just reallocate to those areas which all come back. Look at what it would take to reallocate five percent of the general fund of the state. You could do it, if you eliminated all the general funding for the Public Utilities Commission; all the general funding for the State Auditor; the State Treasurer; School and Public Lands; the Secretary of State; Legislative Audit; Legislative Research Council; the Bureau of Personnel; the Bureau of Information and Telecommunications; the Bureau of Administration; the Bureau of Finance and Management; all the Environment and Natural Resources general funds; the Military and Veterans Affairs; the Department of Transportation general funds; the Department of Labor general funds; Game, Fish, and Parks' general funds; Tourism and State Development; the Department of Agriculture and the Animal Industry Boards; you'd have to eliminate the Department of Revenue and Regulation. Yes, you would get to eliminate the Governor's Office; and you would also have to eliminate all the funding for the legislature, if you wanted to reallocate just 5 percent of the general fund to other areas.

Put it in another way, if you want to reallocate 10 percent, just 10 percent of the general fund, you could do it, if you wanted to eliminate all the prisons, all the courts, and all the cops. It's not going to happen.

General funds offset due to proposed fee increases—This budget, in its current form, does not work, and you do not have enough money remaining in the property tax reduction fund unless you also accept some proposed fee increases across the board. They are $4.9 million, they are included in our budget proposal this year, and they go from all the different departments.

Finally, what are we doing in terms of what's being done now to reduce the shortfall for 2009? I will tell you that we cannot make all these changes without having a change and a reduction in performance from the part of state government. But we are focusing now rather on being at peak performance to being in an area of peak efficiency, and there is a difference It means you are not operating as quickly to get things done, because you are not going to have as many employees to do the work. It means you are going to miss some meetings that you might have thought to be very good for the state, but travel will be restricted. There is a price to be paid when we move into this mode of operation.

We're not going to be filling vacancies in the executive branch unless there is a clearly demonstrated need for the job to be filled. All other vacancies will stay open.

We are not approving any out-of-state travel in the executive branch unless it is absolutely necessary. I have cancelled our national meeting of the CSG (Council of State Governments) that I will be the incoming chair on in Omaha and canceling it as an example of what we have to do in state government. I will not attend the meeting.

We are not approving large executive branch capital expenditures such as computers, furniture, and equipment unless the replacement is needed immediately. We will be looking and we will be trying to utilize secondhand furniture wherever possible. This will delay the spending; it will delay the spending until we can afford it. It is no different than what South Dakota families do in tough times, when the revenue starts to slow down, and I expect no less from government.

Solutions so far that we've tried to put together. So far, here's what we've done. We've cut from fiscal year 2010 budget requests and the base budgets $100.1 million.

We are asking that you maintain the existing low levies and not provide additional property tax relief in the amount of $6.3 million. I wish we could provide an additional property tax relief this year, and so do you, but we don't have the money.

We are repealing the increasing and decreasing enrollment supplements—that is $5.7 million.

We are asking you to approve fee increases for many fees across multiple departments in state government. The fee increases are going to up the rate of inflation. Some of them have not been increased since the 1970s. That will raise $4.9 million, which helps to balance the budget with ongoing revenues.

How far have we come? Well, since September, the first couple of lines show you that the general fund receipts forecast—this is what we thought we would receive in September—we thought our revenues would be $1,235,400,000. We expected, based upon the recommendations from the different departments, potential expenses of $1,336,200,000. We expected a shortfall of 100.8 million dollars.

But then things started to change rather dramatically. To begin with, the general fund receipts, the revenues actually decreased by 31.6 million dollars. A lot of that is not just projections; they are actually losses in the expenditures that we know will occur, because they will be determined by the end of December of this year. $31.6 million dollars in less revenues meant that we were faced with a new general fund receipt forecast of $1,203,800,000. That meant a shortfall to begin with of $132.4 million.

General fund requests and expenses—this is not just pie in the sky requests. This is not just wants, there are some basic things that were in the budget before, that have been eliminated. We have eliminated 100.1 million dollars. The new general fund expense is $1,236,100,000—that still leaves us with a shortfall of $32.4 million which comes from the property tax reduction fund.

What have we done so far in terms of examples of items that are not in the budget due to the lack of resources? The Board of Regents has requested $22.5 million for new initiatives. These were good proposals. They were good for young people who wanted to go to school in South Dakota. They included a new masters program in sociology, they included more research opportunities, and they included a modern mobile

computing system that a lot of the universities across the United States now recognize that they have to have. We don't have the money to do it this year with general funds, so I have not included it in the budget.

Reduce the current tax levies—I would love to be able to recommend to you that we have enough money to further reduce the property tax levies in this state. But we do not have the money to do that.

Funding for South Dakota's new research mission—I put together a group of individuals last year and I asked them, they were research-minded in nature, and I asked them to give me a proposal on how South Dakota research environment could be maximized for the long term. Their recommendations asked for $6 million to be used for recruiting top researchers for South Dakota, to be competitive with startup packages for them and to provide working lab space facilities to foster more research. Long term, it would be a very, very good use of taxpayer dollars, but we don't have the money to do it.

We've included the increasing and decreasing enrollment supplements as part of the package that cannot be funded. It's $5.7 million. A lot of you would love to see it included.

I would love to see salary policy at 3 percent for state employees that we're going to be asking a lot of this year, including the Board of Regents' employees. That would have cost us $4.7 million. We don't have the money to do it.

Provider inflation at 3 percent—for people that provide services for Medicaid, that includes people that have nursing homes, it includes providers for kids, it includes providers that provide medical services. That would cost us $4.6 million. I do not have the money available.

Continuation of maintenance and repair funding to 2 percent—as many of you have tried to do in past years is $4.3 million. We simply do not have the money.

Here's one I think is important. It's Title XIX eligibility for pregnant women. Moving the eligibility from 133 percent of poverty to 200 percent of poverty would cost us $3.1 million, but it would provide health care costs to pregnant women in the tune of 1,268 more women that do not have it today. We don't have the money.

Classroom Connections Year 4—you know how I feel about the Classroom Connections providing computers in our schools. Long term it is the right thing to do. The cost would have been $2.5 million for 5,000 students to have computers available for them to do their studies in 20 different schools. We simply don't have the money, and I cannot recommend it.

K-12 Sparsity—this was a very good add-on which was sunsetted last year. It is no longer a part of the budget. I would have liked to have put it back in the budget—the cost would have been $2.3 million and it would have provided sparsity funding for those

schools that were small by geographic location and not by choice. Twenty-five schools will not receive that funding in the year 2010. I wish we could provide it; we do not have the resources.

Prevnar vaccine for children—the cost would be $1.4 million to provide vaccinations for all our kids to protect them against pneumonia. We don't have the money.

The SCHIP program eligibility from 200 to 250 percent—that would have provided health care for kids that are above 200 percent of the poverty level but below 250 percent of the family poverty level—the cost would have been $1.2 million. It would have provided health care coverage for 2,000 more South Dakota youngsters. We don't have the money to do it.

Preserve the TANF block grant—we will run out of the Temporary Assistance to Needy Families block grant money in the year 2011, because we are overspending what it takes—a half million dollars would have helped us to defer that.

And, finally, the Sixth Circuit Court had requested a drug court program—I think it's a good way, because it directly addresses drug problems without necessarily sending them to prison—the cost would have been $200,000. I cannot recommend it, because we don't have the money.

Now, many of you will pick out your favorites in there. Many of you will look at it and say, well, we should do this, and we should do that. I can tell you right now that I have felt exactly the same way, but you cannot do it unless you have the resources available.

The bottom line for the fiscal year 2010 is that we will bring in $1,203,800,000—we will be expending $1,236,200,000—$32.4 million more than what we're bringing in. That comes out of the property tax reduction fund—you will have slightly over $4 million left that is available to you when you're all done.

Ladies and gentlemen, look, I understand that nobody likes to come in and go to work on a budget in which there's literally no money to do very good things for the citizens of South Dakota. But you also have an obligation not to spend more than what the taxpayers have provided to you. I know that when we get all done with this, that most of you will be asked by members of the press who will ask you, what do you think about the budget? And many of you, rather than saying we should cut more, because I understand that cutting more is going to be very, very challenging, many of you will simply say, we should be able to find the money and I think we have to find more money for property tax relief. And some of you are going to say, we have to find more money for education. And some of you are going will say, there has to be a way to cover pregnant women who are below a certain poverty level. But I also ask you to be prepared to answer the question that I hope these reporters that are out there will ask, and that is, if you want to spend more money, where do you intend to get the ongoing revenues to pay for the costs? Be prepared to answer the question, because the two now go hand in hand, because there is no money left in the property tax reduction fund.

It now requires either more revenue from you, or it requires a different sense of fiscal responsibility that all of us are capable of doing just like the families back home can—and that is living within the dollars that are provided to us on an annual basis.

I look forward to working with you in a very challenging budget year. I look forward to working with you at a time in which the good Lord truly has blessed our state with many things that other states wish they did have. If you'll look back at it, we had good rains this year, we had good crops, and the good Lord has smiled upon our state. We have individual people within this state that work very, very hard—their work ethic is second to none. While other states have significant increases in their unemployment, we still see good employment numbers and very low unemployment numbers, but that could always change. So, in this very uncertain time, I ask for your cooperation, I ask for your understanding, and I'm asking you to work with me to live within the budget that we have for the betterment of the citizens of this state.

Thank you for the opportunity to share my message with you today.