BUDGET ADDRESS OF GOVERNOR DENNIS DAUGAARD

THE STATE CAPITOL – PIERRE, SOUTH DAKOTA – JANUARY 19, 2011

Thank you for the opportunity to visit with you today.

I would like to begin the discussion about the budget by describing a fellow that we are going to call Steve Downing. Steve Downing works for a bank, and he went to visit with his boss to have his annual performance review and he got in the office and the boss said, "Steve, I have some good news and some bad news. The good news is you are doing a great job and you have a bright future with this bank and we are very happy with what you are doing. The bad news is the bank is having some difficult times. We have had some loan losses, we are not making money, and we need to cut, and Steve, I am sorry to tell you we are going to have to cut your salary." So, Steve was surprised and dismayed, but he went home and he talked to his wife about it. She said, "Well honey, that is not very good news because you are telling me our income is down and we just put one of our kids in preschool so we've got that additional expense, and we just put braces on one of the kids, we've got that additional expense, so our expenses are up and now you are telling me our income is down. What are we going to do?" and Steve said, "Well, we got some money that I inherited from my uncle and we can use that to fill the gap between expenses and income and next year will be better." A year went by and Steve went in to see his boss again for his annual review. He was hoping he would get his pay restored, maybe even get a raise. His boss said, "Steve, I got kind of the same news again. The bank is still doing poorly, in fact we are worse than we ever were, and I am going to have to cut your salary again. I am going to have to cut it more than I cut it the first time." Steve went home and explained that to his wife, and his wife said, "Well that is just great news because we have two kids in braces now, we have two kids in preschool now and so our expenses have gone up again this year, and you are telling me our income went down still further. What are we going to do?" Steve said, "Well we still have some money left from my uncle. We will use that to fill the gap."

It is no coincidence that Steve Downing's initials SD are the same as the initials of our state. South Dakota has experienced kind of the same thing that Steve has experienced. We have had a couple of years of declining revenue, not slowdown in growth, but declining revenue, and we have had at the same time increasing medical and education expenditures; and we have been doing the same thing that Steve has been doing. We have been relying on our Uncle Sam to fill the gap with stimulus money. We have a structural deficit.

Let's talk about what a structural deficit is…

A structural deficit is when ongoing expenses exceed ongoing revenues. We have that situation. Steve had that situation. We exclude stimulus funds; we exclude one-time revenues; we exclude one-time expenses. To determine how we are doing, we look at ongoing revenue versus ongoing expenses.

As I crafted my budget, my goal was to eliminate the structural deficit this year, and we are going to be making some tough choices for that to occur. Let me start by showing you where we are and how we got there. Let's start by looking at revenues.

This chart shows the history of our ongoing revenues. It ignores one time revenues. This is ongoing revenues: our sales tax, our contractor's excise, video lottery, all of our ongoing revenue sources. In the adopted column, you can see the dollar amount that the legislature and governor agreed on when they adopted the budget. They were projecting those revenues for the following fiscal year. The actual receipts you can see is the money that actually came in, and the difference is shown on the right. In FY2002, for example, you can see we projected we'd raise $851 million. We actually brought in $837, a negative of $13 million, so we overestimated what we would bring in. Then we did a pretty good job for 4 years. In 2003 and 2004, we were pretty conservative. We got in quite a bit more than we thought we would. In 2005 and 2006, we did a pretty good job. Then, in 2007 and 2008, we missed the mark a little bit, not by a lot, but we missed it by a little bit. And then in 2009 and 2010, we missed the mark by quite a bit. You can see at the bottom the year we are in right now. For FY11 we are projecting right now we are going to miss the mark by about $15.8 million. We adjourned last year thinking we would get in $1.154 billion but it looks more like we are going to get in $1.138 billion now. So, the take away point is that over the last 11 years, we have not done a very good job most of the time in predicting our revenue.

The other thing I want you to take away from this is to look down the actual receipts column. You can see from 2002 to 2003 our revenue went up, and up again in 2004, 2005, and 2006, and up again in 2007, and 2008. In FY09, our revenue went down, just like Steve. In FY10, it went down still more. In FY11, we are expecting to get about $1.138 billion. We are still not up to where we were in 2008. Our revenue has really been soft for 3 years in a row now, and we are still below where we were in FY08.

Let's look at FY11, the year we are in right now, a little more closely. When the legislature adjourned last year, we adopted this revenue estimate. We thought we'd bring in $1,154.7 billion and as you can see, we were receiving a lot more Sales and Use Tax, but four out of the top five general fund revenue sources have been revised lower as a sluggish economy along with several other factors that have caused some key revenue sources to decline. You can see there is that $15.8 million drop in revenue for FY11. Although income will be lower, I will show that expenses are also predicted to be a little lower for FY11, and with revisions to the FY11 budget, I believe we can balance without using any reserves.

Now let's look at FY12 projections. This column shows what we believe now will be the income we receive in FY11, and then to the right of it, what we think we will get in FY12 as of now. You can see that we are expecting that our Sales and Use Tax will go up quite a bit and other sources will go up. We are expecting about $25.3 million more in gross revenue, but you also see a one-time receipt in FY12 that is a negative number. There is a positive one-time receipt that is combined with a negative. A positive one-time receipt of $2.1 million is being offset by a large one-time tax refund of $27.5 million that the state is liable to pay. We owe a refund of bank franchise taxes that were overpaid. Sort of like when you file your income tax return, and you realize you have been withholding too much, or if you are a business person, you've submitted too much into your quarterly estimates, and now you are asking for a refund. Our bank franchise tax payments quarterly estimates grossly overpaid the bank franchise taxes owed as a consequence of the federal legislation bank income that went way down, and so we owe $27.5 million in a refund, and that is shown here as offset in a slight degree by a $2.1 million one-time positive.

We have looked at revenue. Now let's look at some expense information. This shows in a pie chart the four areas in which we spend our general funds. Education as you can see receives about half of our general fund dollars, 36 percent goes to Taking Care of People, and Medicaid is the big part of that fraction. Then protecting the public, the Corrections, Courts, and Public Safety represents 11 percent of our spending. All the rest of government, the eight Departments, four Bureaus, the Legislature, the Governor's Office, the five Constitutional Offices, collectively only represent about 4 percent or $55 million of our expenditures. Many people would advocate that the "bureaucracy" of government must be cut to solve our budget problems. If we eliminated this entirely, it wouldn't do the job.

Let's look at a history of spending in these four categories. These bar charts show that over the years FY04 to FY11 our expenses have grown year after year. Now in the last three years, you can see that the rate of increase has slowed, but nevertheless, there has been continued increase in our total expenditures. Let's look at each of these four, and you can see Taking Care of People, that's the blue bar. You can see how that has grown over those years. Education is the gray part of the bar. Protecting the Public is the red, and all the rest is represented by the green.

Let's look at those separately in a line chart. This represents the breakout per the legislative adopted budgets for FY03 through FY11. If we assume that FY03 is 0 and we have spent more money in these categories, how much have we spent in addition to what we are spending in FY03? In the case of Taking Care of People, we are spending $188 million more this year than we spent in FY03. Now why? We have almost 21,000 more people on Medicaid or in the Children's Health Insurance Program, and incidentally, that larger number is utilizing Medicaid more per person than the smaller number used it per person, so more people using it more.

Education - We are spending $125 million more than we spent in FY03. Part of that is because we have almost 2,400 more students in our higher education system. In our K-12 system, we actually have 3,500 fewer students, but most of this increase is increases spent in K-12.

Protecting the Public - We are spending about $43 million more. That has leveled off that growth in the last few years.

I forgot to mention the reason why the drop occurred from FY10 to FY11 is because of the cuts that the legislature and governor made to Higher Ed last year, mostly that.

The rest of state government − $9 million more is spent than in FY03. You can see it went up. It has come back down relatively flat. Almost half of that additional money is research, money spent on our research centers. It is not bureaucracy, it is not people in little cubicles in Pierre or other offices, it is in money spent on research. So that is kind of where our spending has gone.

Let's look at ongoing revenue and ongoing expenses together. The blue line shows ongoing expenses from FY03 through the current year as it was proposed last December. The black line represents our ongoing revenues, again estimating as of last December, and you can see that we've got a gap under the December proposal for FY11. We got a gap of about $108 million.

Let's look further into the future. This adds the December proposed budget for FY 2012. Again, this proposal that was offered to you last December, and you can see the structural deficit which is the gap between ongoing revenues and ongoing expenses is reduced in FY11 a little bit, and the FY12 is reduced, but it still leaves a structural deficit of $74.8 million. It does not solve the problem of our structural deficit. It shows that even the 5 percent cuts that were proposed last December and the 5.9 percent cuts that were proposed to the executive agencies. Although it reduces our expenses down, as you can see here, and we acknowledge that revenue will come up, it still does not solve the problem. In the future these two lines have to be matching. They have to be together like they were back here, and as you can see in my proposed budget, they do match.

This chart shows my proposal for revisions to the 2011 budget as well as my recommended 2012 budget. And again, it is ongoing revenue versus ongoing expenses. The FY11 gap has improved slightly to $103 million because again we've updated the revenue estimates, and we have updated the expense estimates. So the gap is narrowed in FY11. The FY12 budget proposal will close the gap between ongoing revenue and ongoing expenses, eliminating the structural deficit and positioning ourselves responsibly for the long term. We must eliminate the structural deficit. This is the principle upon which the whole budget is based.

Let's look at the structural deficit in a different way. This graph shows the structural deficit again − ongoing revenues minus ongoing expenses. You can see in FY07 we had a structural surplus. Our revenues exceeded our ongoing expenses. Then in FY08, we had a small structural deficit of $20 million, small relative to our entire budget. $20 million is a lot of money, certainly. In FY09, our income dropped at the same time our expenses went up, so the gap between revenues and expenses expanded to $87 million. It worsened in FY10 to $121.9 million, and the revised FY11 gap is predicted to be $103.6 million. My proposal will bring it to $0 in FY12.

The goal is a structurally balanced budget in FY12. Why? Well we don't want to have this discussion year after year, and those of you who have been in the legislature the last several years know that it has resulted in cuts and freezes and dissatisfaction all around. Let's take our medicine once. That way in the future, we can talk about growth and increases - not death from a thousand cuts.

Now let me give you some specifics on how I am proposing we get there.

First, although I want to talk about cuts I am proposing, the following are mandatory General Fund increases we must fund for FY12. These are things over which we have little or no control. The top two lines show a mandatory shift in Medicaid funding. The feds will pay less, and we must pay more of each Medicaid dollar. The top number, the $25 million amount, is the burden the federal government took off our shoulders when the recession began. They said we will pay more Medicaid for awhile than we should. They are giving that burden back to us now. That's the $25 million.

The second number increases our burden because of our strong personal income growth as compared to other states. In other words, South Dakota is stronger than other states so the federal government says you must pay a larger share. This assessment of relative strengths of the states is something that occurs every year. That reassessment that compares us to other states was frozen and was not done during these last several years of the recession. That's over now; we are back to the catch-22. We are stronger. We have strong personal income growth. In fact, the second quarter of 2010 we had the highest personal income growth in the nation. The flip side of that coin is the federal government says South Dakota you are so strong we are giving you more of the burden of each Medicaid dollar, and we are taking less from the federal government.

The third line is some additional stimulus money that we must replace with General Funds. The $12 million is a continuation of what we've seen already: more people using Medicaid and using it more often. I mentioned that K-12 enrollment was lower now than it was in FY03, but this past year it would have been still lower if not for about a 1,000-pupil growth in the FY11 enrollments. So we have to add more money for state aid because of those additional students. We also have a special education increase because it's required to meet a federal Maintenance of Effort for special education funding. The federal government is increasing the rate of reimbursement for several Medicare programs. That impacts us and we have to add almost $2 million to our general funds for that. Not only is K-12 and Higher Ed enrollment growing this next year, but so is Tech School enrollment growing. We need to add some dollars for additional Tech School students, and then various other mandatory increases for a grand total of $85 million, 500 thousand in increased expenditures.

We need to address these increased expenditures at the same time we eliminate the structural deficit. How will we do it? We can't spend what we don't have. I am proposing to cut 10 percent throughout state government, more so in some of my executive branch agencies.

Education funding at all levels includes the Per Student Allocation in K-12 funding in state aid to general education, the per student funding in post-secondary institutes, and the Board of Regents.

The 10 percent cuts to Medicaid providers also include cuts in the following agencies: Social Services, Corrections, Human Services, and the Unified Judicial System. The rest of the cuts were made to specific agencies including every agency within state government. For example: Social Services cut provider rates by 10 percent and also cut the rest of their budget by 10 percent at least.

After two years now of no salary increases, I regret we still have no resources to increase the salaries of our highly competent state workforce. It is my hope that when better times return, we can offer raises to our state workers, but not this year. State employees in leadership positions are already leading by examples. I have asked every member of my cabinet to accept a pay cut of 10 percent or more. New cabinet members will make at least 10 percent less than their predecessors. This will save the state over $200,000 per year. In addition, I cut the total salaries earned by the Governor's Office by 12 percent, a savings to the state of another $200,000 per year. This $400,000 in cuts took effect last week. I also cut my own salary by 15 percent last week. I believe strongly we cannot ask others to accept cuts and find deficiencies unless we are willing to do it ourselves.

Now let's take a closer look at the cuts I am proposing. The minimum cuts to the Executive Branch, on the left hand, are 10 percent and some as high as 22 percent. Every office, agency, and branch of government will see a 10 percent reduction at least in this budget proposal. I believe in shared sacrifice, and unless everyone participates I believe we won't be able to reach the goal. I have asked the other branches and offices to also find 10 percent cuts, on the right hand side here. Many were able to do this and are working toward this goal still. Some have concerns about their ability to reach 10 percent, and I believe that is a good discussion for them to have with the Appropriations Committee. For my part, I have built a budget that incorporates a minimum of 10 percent cut for everyone. As you can see, the grand total of the cuts is nearly $127 million.

Now the next slide talks specifically about how these cuts will affect K-12 school districts. This chart shows that school districts receive many sources of revenue in addition to the per student allocation that is determined by the legislature each year. In the bar, you can see that on average the state school districts spend about $8,847 per student across the state. This is made in the green part that is capital outlay receipt. Special ed receipts in the purple. Other general fund receipts like weigh station fines, speeding tickets, and electricity. Gross receipts tax, other kinds of general fund receipts in the orange. Then the blue bar and the gray bar together represent the per pupil allocation which today is $5,166.39.

The 10 percent reduction that is being proposed eats into these two pieces. It is in part a reduction of state aid, and it is in part a reduction of property taxes. You can see the white sliver that is divided between those sources. A 10 percent cut to the per student allocation is

$480.46 per student. Considering all the revenues that school districts receive, the reduction on a statewide average is only 5.4 percent in total funding. Many people have said this will just increase property taxes over the long term. In fact just the opposite is true. A reduction in my budget proposal of 10 percent actually means that property taxes will decrease for the next two years. If schools can make their case that they would rather increase property taxes or maintain them than streamline their operations like state government is doing, they have that option. I am a big believer in local control and this proposal allows that option to work on a school-by-school basis.

I want to be very clear here. This proposal reduces property taxes. Again, if school boards can convince the voters to opt out and maintain or raise the levels of property taxes back to what they were paying before the reduction, that's a local decision. I would encourage administrators to look first for efficiencies.

Let's look now how my budget proposal will affect the FTE count. My budget proposal reduces agencies under my control by 161 FTE. This is the third consecutive year of a recommended reduction in FTEs in agencies under control of the governor. The large reduction in Tourism and State Development is attributable to employees transferring to the Deep Underground Science and Engineering Laboratory funded by the National Science Foundation or the US Department of Energy. A reduction of 39.7 FTE in the Department of Correction impacts each institution while still providing sufficient security and safety to both inmates and staff. A 178.9 increase in the Board of Regents is to cover growing federal and private grant and contract awards for research, faculty, and assistants. These are not generally funded FTE, so that does not impact our structural deficit at all.

Now let's turn to the structural deficit. What is our structural deficit? This slide shows the structural deficit for FY2012 under the December proposal compared to my proposal now. In the December proposal, ongoing revenue of $1.156 billion less ongoing expenses of $1.296 billion creates a structural deficit of $140 million before the proposed cuts. The cuts that were proposed last December, the 5 and 5.9 percent cuts still leaves a deficit, a structural deficit of $74.8 million. My proposal recognizes that revenue will go up a little bit. It also recognizes that expenses will go down a little bit and results in a structural deficit that is a little bit better, but still $127 million. This is what we need to cut as I said to balance our budget structurally.

Let's look at December's proposal graphically. Under the December proposal, you will recall that we had a structural deficit above the $0 line. We had a $7.1 million surplus in FY07. We dropped to a $20 million structural deficit in FY08 and then the recession hit us and our structural deficit became $87 million. Then FY10 was $121.9 million. The revised FY11 projection brought us to $108.4 million which was laid out to you last December. If no cuts had been made, you saw there were mandatory increases in spending. That would have brought our deficit down to about a $140 million structural deficit. In the budget proposed last December, there were 5.9 percent cuts to the agencies, 5 percent to K-12 Education and Higher Ed, and 5 percent cut to providers. Even with those cuts, the improvement is only $65.5 million. We still were short of 0, and we made it up with one-time monies. The December budget proposed to spend stimulus money and also use part of our one-time reserves, our rainy day funds. This is a short-term solution to a long-term problem. It was a good start, but it does not eliminate the structural deficit. It still leaves us with a deficit that needs to be made up.

Now let's look at my proposal. Again, this shows the same kind of history except that it improves the structural deficit for FY12 before the cuts again because of improved revenue and expense projections, but it recognized that we have to cut $127 million to get our structural deficit to 0. It solves the problem at hand and offers us a brighter tomorrow.

Now some have advocated using our rainy day funds to help balance the budget. What about our rainy day funds? Let's take a look at what governments hold in rainy day funds or in their cash balances. From FY03 to 2009, you can see what various government entities have as a percentage of their operating budgets. We had at one time as high as maybe 17 percent of our operating budget in reserves. That has come down to less than 10 percent, which is less than one month's operating expenses. K-12 school districts, over that time, their percentage in reserves have grown from about 18 percent to something now between 20 and 25, maybe 22 percent. Cities have grown from 35 to something less than 40 percent of their operating budget. Counties at the top there, they had in FY03 something over 45 percent. Now they have about 50 percent. Now these are averages. These are averages. Some school districts have more than 100 percent of their general fund, or their operating fund, in reserves. Some have less than 1 percent. It is all over the board. Same is true with cities. Some have more than 100 percent, some have less. I think the smallest reserve that counties have is 20 percent, some have over 100 percent in reserves. I am not saying these are good or bad things. I am just giving you some information.

Let's look at dollar amounts. Where have the dollar amounts gone? In our state, again, we had about $106.5 million in reserves in FY03. In 2004, on the tail end of another mini recession, the federal government gave us some stimulus money back then. I am calling it Stimulus 1. Back then our budget was pretty healthy. We used a little bit of it but we banked most of it. That is why our reserves went up to almost $160 million. Then it came down, and we spent money for the Deep Underground Lab in FY05. Then it has come down to where it is today − $107 million. This carries only through 2009 because not all government entities have information publically available yet for 2010. It shows that counties have gone up in their total reserves. You can see where cities have gone up to about $140 million. K-12 schools have gone up a little over $180 million. Again, I am not saying this is right or wrong on the part of any government entity. One thing I'd say is we are not fat. South Dakota isn't fat when we compare ourselves to other governments.

Now that we have compared ourselves to other entities, let's take a look at what happens if we use one-time money to continue spending more than we are taking in like Steve did.

Why not use reserves? This chart shows how we achieved our expenditures in FY09-11, and what would happen if we followed the plan that was laid out last December. Let's look at FY09.

The gray part of this bar is ongoing revenue. That's our tax income. It is our sales tax, it's our contractor's excise. That is the gray part of the bar, and you can see it is about $1.139 billion. We also used some one-time money cash balances in one of our accounts like the Aeronautics Fund or one of the other funds, Railroad Trust Fund, some of the monies that the legislature has segregated, but the legislature still has the power to take and sweep out and use. The legislature did that. They took about $13 million in one-time money from one of these cash balances, or more than one, and they used this blue part of the bar as Stimulus 2. You can see we spent about a $1.1227 billion total. Where did it come from? Mostly from our own resources but quite a bit from one-time monies.

In FY10, the gray part of the bar shrinks. Remember our income went down in FY10. We made that difference up because our overall expenses went up. How did it go up? Because we used more one-time money in cash balances, and we also used more stimulus money. $101 million in stimulus money.

Now FY11, the proposed budget that was laid before you last December showed that our revenue is increasing, it's recovering. Remember it is still below 2008 revenue, but it's up from FY10. Not as far up as we thought it would be, but about 16 million short of where we thought would be, but it is still up. We used some one-time money. The proposal was to spend some of our reserves − $14 million of our reserves, and then the rest of what I am calling Stimulus 2. Stimulus 2 was the big stimulus package that the federal government appropriated near the beginning of the recession. The federal government passed more stimulus help for the states last August after we adjourned so the proposed amendment to the FY11 budget would add some of that so we could achieve this increase in overall spending for FY11 that we wanted to achieve. The FY12 budget that was laid before you last December proposed that we estimate revenue for FY12, our ongoing tax revenue, at $1.156 billion. We would spend about $1 million in one-time money right there; this little sliver uses about $36.9 million of our own reserves from that $107 million and then spend the rest of the stimulus money. You can see the overall expenses are down because remember that budget proposed a 5 percent cut, 5 and 5.9, so the overall expenses are down, but we are spending in FY11 $14 million and FY12 $36.9 million from our $107 million rainy day funds.

What do we do in FY13? Let's look ahead. Let's assume expenses and income remain the same. That's probably unreasonable. We can probably project that our income is going to go up but so will our expenses. We know for certain that our FMAP will grow. Again, our personal income growth is very strong and so we know 2 out of the 3 years that are used by the federal government to average that assessment are very strong. In the third year, we were highest in the nation one of the quarters, so the chance that our FMAP burden will shrink is zero. The chance that it will grow is virtually 100 percent. Let's assume there is no growth in revenue and no growth in expenses. The stimulus money is gone and we only got $56.1 million left of our rainy day funds. Where is the rest of the money coming from? We don't have it. The gun is at our head.

Using reserves sounds good but it just kicks the can down the road for another year, and FY13 presents a year in which our options are gone. It is not enough to go just part way. If we do, we will be back here again next year talking about more cuts, and we will have squandered most, if not all of our reserves. I am tired of talking about cuts every year and about freezes. I am tired of looking at death by a thousand paper cuts. We need to hit the reset button and get our budget to a new norm. The new norm for state government must be a level of ongoing expenditures that equals our ongoing revenues. It is like having a bandage on your arm. Do you want to peel it off a little tiny bit at a time? No, let's tear it off. Let's get the pain over with. Let's set ourselves up for a positive future, a brighter future, instead of this freeze and cut year after year. I am tired of it. If we do this, if we adopt the budget I propose, I believe we can come back in future years and talk about growing revenue and new ideas to invest in our state.

Now let's talk about some of the revisions to the FY 2011 budget that we must make. We have to amend the general fund because things have changed since we adjourned last year. The $17.56 million number is a reduction to our general fund. That's an amendment we would pass because of the new federal stimulus money that was passed in August after we had already adjourned and adopted our budget.

The second number, the DHS adjustments of $2.9 million, we're reducing in 2011 so we can also reduce in 2012, so we will still meet Maintenance of Effort levels for mental health and alcohol and drug abuse. We also have a reduction proposed for the FY11 budget in utilities due to the utility costs being lower than what was originally projected.

The Tech School enrollments are up, so we need to put more money into the FY11 budget to pay for those additional students. I mentioned earlier that the K-12 enrollments are up above what we believed they would be, so we need to put more money into the FY11 budget to cover those.

All told, it is a $15.7 million reduction in general fund expenditures in the FY11, meaning we no longer would need reserves to balance the FY11 budget.

Now let's look at special appropriations that we would need to also have in the FY12 budget. Over the last twelve months, an unprecedented seven disaster declarations were issued in our state; setting a costly and burdensome new record for South Dakota. Additionally, the Office of Emergency Management is continuing to administer seven other disasters that occurred in previous years and are not yet closed out. Since all of the disasters have not yet been finalized, we are proposing that this $13.378 million appropriation be delayed until the FY12 budget. This is a special appropriation we would do in FY12.

Here is another one that you see annually. It is the Physician Tuition Reimbursement Program. We need to have that special appropriation in FY12 and Tax Refunds for the Elderly and Disabled. Again, this is a recurring special appropriation that I propose as part of the FY12 budget.

Now let's look at how the two revised budgets compare under my proposal and this includes special and continuous appropriations. We will spend in general funds $1.148 billion in FY11. Spend less than that in FY12. In Federal Funds, we will spend $1.9 billion in FY11. Less than that in FY12. In other funds, we will spend a little over a billion in FY11. Less than that in FY12. Total funds expended in 2011 would be $4.095 billion. In 2012, would be about $3.922 billion.

Let's summarize. Our budget picture is thus – ongoing revenues have remained soft. Ongoing expenses have continued to grow. Stimulus 2 and 3 gave us time. In an ordinary recession recovery cycle, it would have been enough time, but it is not. Reserves are not the answer for the reasons I showed just a minute ago. I am committed to eliminate the structural deficit. So let's revisit that goal. The goal is to eliminate the structural deficit in FY2012 that will mean $127 million in cuts. This is our goal.

As governor, my job is to present a budget proposal that starts the discussion. I have put before you a plan that eliminates the structural deficit without raising taxes as the voters have called upon us to do. The plan recognizes that we can only meet our goal if everyone, everyone shares in the sacrifice. This is not THE plan - it is A plan. It is the beginning of the discussion, and I am sure you will have ideas to improve it. I am ready to consider those ideas, but I am not willing to abandon the principles upon which the budget is built. Ongoing expenses must be covered by ongoing revenue. The budget must be structurally balanced without raising taxes. One-time money should be used for one-time expenses and not perpetuate overspending. We owe it to the people of South Dakota to have a serious discussion about this budget. Now, we owe them more than just an exchange of rhetoric. It is easy to oppose some of these cuts. It is easy to talk vaguely about waste in government, yet offer no concrete solutions. That gets us nowhere. I propose a real plan with real numbers that eliminates our structural deficit and balances our budget. To do that required me to call for cuts that many oppose. This discussion can only work if we talk about changes and items in terms of dollars and cents. When some seek to restore funding in one area or another, we must ask what will that cost and where else can we cut. Because we can't spend money we don't have.

I mentioned this the other day and I would like to mention it again. The halls of our capitol are filled with good people who represent the special interests of our state. They have a job to do. Their job is not to look at the big picture. Their job is to represent their clients. There is nothing wrong with that. We cannot forget, though, that there is a larger but less organized group, the taxpayers. We are sent here to represent all of South Dakota, not just those who are organized and represented here. We represent the taxpayers as well as the tax spenders. As governor, my promise is to always put the taxpayers first. We are all here to do the peoples' business. The answers to our problems are simple, they are not easy, but they are simple.

As I said 11 days ago, some of our sister states and some cities within them face the real prospect of default because of their mountains of deficits and debt. They have yet to learn that you cannot spend your way out of a recession. Their broken systems perpetuate the unsustainable patterns of spending and borrowing that have brought them to the brink of ruin. They have promised their citizens something for nothing and created a society where everyone wants to be carried and no one wants to pull their own weight. South Dakota is not like that. Our values work. Our system works. Our state works. We don't spend money we don't have. We save during the years of plenty and to provide during the years of not, and we let our taxpayers keep more of their hard earned money, more than any other state in fact.

Now, it is not preordained that South Dakota will always be strong, or prosperous, or free. It is the obligation of every generation to secure these blessings for the generation to come. If we fail, if we allow our state to become ensnared in a pattern of entitlement and debt, it will be because we forgot these core principles that have served us for so long. It is too easy to let the expediencies of the present distract us from the values that will carry us in the future. It is too easy to make an exception just this once rather than face the tough choices. I know others will urge that we defer our problems rather than face them. That might be the easy way, and it might be the politically expedient way, but we will not go down that path, not on our watch. We will make the tough choices, the right choices to put our state on a strong foundation for the future, and when we look back from that brighter future, we will know we did our job and South Dakota is better and stronger for our having done it. Thank you.