BUDGET ADDRESS OF GOVERNOR DENNIS DAUGAARD

THE STATE CAPITOL – PIERRE, SOUTH DAKOTA – DECEMBER 2, 2014

Thank you and welcome.

Before I begin the budget speech, I would like to welcome the new legislators who may be joining us today. I would like to say a special thank you to the legislators who will not be returning in January for your great service over these last years. I thank you for your service to our state, and I wish you well.

In today's remarks, I am going to be updating you on the state's economy, reviewing our revenues and expenses for the current year, and of course, proposing those revenues and expenses for next year.

To begin by looking back, we all know how difficult it was four years ago when we were languishing in the great recession and difficult decisions had to be made. In my view, we acted responsibly, reduced our spending, and balanced our budget. We have seen steady improvements to the economy since then. We budgeted responsibly in the meantime by projecting revenues conservatively, and we have kept ongoing expenses under control.

FY2014 marked our third consecutive year of budget surplus at year-end. Every budget I have proposed and you have adopted has ended in the black. Over the last three years, we have been able to add to our rainy day funds.

As you can see by the chart, the surpluses have been rooted in both revenue improvements and expenditure controls to create the year-end figures. Looking at this chart, you may be concerned by the trend you see here. When I first saw this chart, I was too. When you look into the numbers more, it becomes explainable.

The red parts of each bar show the degree to which we are spending less than the money that was appropriated. These have been fairly stable. We have been spending less than what you appropriated, between $7 and $13 million less every year. Most of these reversions have been in our entitlement areas, particularly in Medicaid where we have been able to control spending below the appropriated levels.

The blue parts of each bar depict revenue received beyond the adopted expectation. These revenue numbers are consistent with an economy that is recovering from a recession. It is difficult to predict how quickly an economy will recover. We remained conservative and didn't build our budgets on hopes of a fast recovery. I think that was the right move – we would rather have extra money than find ourselves in a hole when we predict too rosily what the expectation might be.

All that being said things have changed a little bit. We are going to see in a few charts that we find ourselves with revenues coming in under projections.

However, let's first look at how those surpluses have affected our rainy day funds. This chart represents our rainy day fund balances, and the numbers are combining the Property Tax Reduction Fund and the Budget Reserve Fund into one rainy day fund collectively.

First, look at the blue line and the left axis to see the value in dollars. Follow that blue line. Starting in FY2003, we had just over $100 million in reserves. The next year it grew to just under $160 million. Then over several years it fell down to just over $100 million again. In recent years, we have added nearly $82 million to our rainy day funds. After spending for disasters and debt reduction last year, we are at $149 million today.

The red line and the right axis represent the percentage of our general fund expenditures that the rainy day dollars represent. If you look at FY2003, we started at about 12 percent reserves against what we were spending. It went up to about 18 percent of expenditures and back to around 13 percent for a few years, then down around 9 to 10 percent for a few years, then up, ending today at about 11.5 percent of our general fund expenditures.

Nationally, if you compare South Dakota to other states, the Spring 2014 National Association of State Budget Officers' Fiscal Survey of the States reveals that the average among most states is about 5.7 percent. Our 11.5 percent is pretty good as compared to that average.

Next, I want to update you on the trends we are seeing in the South Dakota economy.

South Dakota's economy has long been viewed as a lagging economy, meaning changes to the national Gross Domestic Product, or the national employment numbers, or housing starts are seen in South Dakota a little bit later. The way I like to express it is if the world was going to end, you want to be in South Dakota because it will happen here a little bit later than the rest of the world.

South Dakota continued its lagging trend when entering the recession. In fact, when the US economy went into recession, it took about 10 months before we started to see the recession here in South Dakota. However, when the recovery took place, South Dakota actually emerged in recovery sooner than the US economy. We saw our economy recover its lost jobs over two years sooner than the national economy did. In short, our economy fell later and not as far and then recovered sooner than the US economy, the best of both possible outcomes. At the national level, we are now seeing post-recession economic growth which is comparable to the growth South Dakota saw a few years ago.

Let’s take a look now at how we are matching up against the national economy.

These are some of the economic dashboards we review regularly. The top left graph – this shows the unemployment rate - South Dakota is in blue and the US unemployment rate is in red. The shaded area represents the past two economic recessions in the nation. As you can see, both South Dakota and the United States realized a sharp increase in the unemployment rate during the recession. In South Dakota, unemployment reached 5.3 percent. In the United States as a whole, it reached 10 percent. The unemployment rate has been dropping since 2010. As of October, the most recent data that is available, South Dakota had an unemployment rate of 3.3 percent. That is second lowest in the nation behind only North Dakota. The US unemployment rate in October was 5.8 percent. One factor contributing to the sharp reduction in the national unemployment rate is the number of people who have dropped out of the labor force. They are not counted in the unemployment numbers because they are not looking anymore. They have given up. As the number of people actively searching for employment decreases, the unemployment rate decreases despite the lack of significant job creation in the economy.

Now, let’s look at the top right graph – nonfarm employment growth. This shows on a year-over-year percentage growth basis. Again, South Dakota is represented by the blue line and the United States is the red line. Since about the middle of 2012, the US economy has been adding jobs at a faster rate than South Dakota. Remember the US lost significantly more jobs at one point during the recession, losing jobs at nearly a 5 percent rate for a few months. South Dakota’s relative rate of job loss was only half that of the United States during the recession. The US is finally catching up to where South Dakota is on a relative basis, and that is the reason it has been growing jobs at a seemingly faster rate than South Dakota.

The bottom left shows the Consumer Price Index on a year-over-year growth rate over the past several years. That is a measure of overall inflation. Inflation continues to be relatively low in the 1.5 to 2.0 percent range, still less than the Federal Reserve target which allows the Fed to be patient when adjusting interest rates. Low inflation means we will likely see lower than historical growth in some of our major tax sources in South Dakota, sales and use tax for example. At the same time, it also means slower growth in our expenditures as well. Costs are rising more slowly.

In the bottom right, this chart shows the year-over-year growth in nonfarm income – nonfarm income. In South Dakota, we have been tracking similar to the United States average over the past several quarters, but still realizing less than historical average growth rates. So we are both slower than normal. Low rates of inflation will affect nonfarm income growth as well.

Let’s now look at how well we have been doing in projecting these economic variables.

Many United States economic variables can help predict how the South Dakota economy performs. In fact, you may know the Bureau of Finance and Management projects our income.

They use national variables that are correlated to how our South Dakota tax revenues come in. Because the 2014 economy has not been growing as fast as predicted, the forecasts for 2015, this chart is talking about what the forecasted numbers are for next calendar year. They have been revised downward twice.

Look at this column here. These are numbers from last February just before we adjourned the session. These were the numbers that were being predicted for calendar year 2015. By July, every economic forecast for 2015 had been adjusted down. These are numbers not created by us but created by Global Insights which is a national econometric firm, probably one of the most commonly used by the states for economic projecting. As you look down the chart, you can see the percentages in virtually every case were reduced between .3 - .4 of a percentage point.

By October, most variables were projected even still lower. Only consumer spending was projected to be stronger, and we saw in our South Dakota nonfarm employment a little bit of strength. Otherwise everything else was adjusted downward still further.

When we built our 2015 spending proposals last session, we made assumptions for these projections and how those variables would grow. Because these benchmarks have been revised downward, it now becomes much more unlikely that we will achieve our revenue estimates. We built the 2015 budget assuming for example - look at Real GDP around the center of the chart - when we built the budget, it was 3.3 percent predicted for next year. Now, it is all the way down to 2.7 percent.

Today, you will see the South Dakota forecasted indicators have been revised lower. As I mentioned, we have to use realistic assumptions when we use economic indicators to make revenue forecasts. Upon review of the most recent South Dakota centric numbers, it appeared to be too optimistic when reviewed with the Governor's Council of Economic Advisors. Ralph Brown and other economists from around the state come together and look at Global Insights' numbers and then give South Dakota an opinion about them. We hear from farm implement dealers, for example, and say, "It looks like it is growing in the national level, but we are not doing so well in South Dakota." So the revision you see here in the right most column represents a more realistic forecast, we believe, that is achievable given the current economic conditions.

For you farmers, it's like when you buy a combine when corn is at $7 a bushel and then you go to make your first payment and corn is only bringing $2.70 a bushel.

Let's now see how those new economic variables will affect our revenues that we project for the remainder of the current year. We are about half way through the FY2015 year and for the entire 2016 fiscal year.

You can recognize this chart as one I have used in the past for you returning legislators to explain why we need to be careful as we forecast revenue that we will have to spend from year to year.
This chart compares ongoing general fund revenue as adopted to the actual revenues that we later received. For example, look at the first line. When the Legislature in 2004 adopted a revenue estimate for the 2005 budget, we predicted $952 million would be received. We actually received about $4 million more than that – in the difference on the right hand side. In FY2005-FY2008, before the recession, the forecasts were pretty close to actual collections, with actual collections a little bit lower in FY2007 and FY2008. Then during the recession, our adopted estimates were much too high and our actual collections were lower in FY2009 and FY2010. Not just lower than adopted, but lower than previous years. Look at the middle column – the actual revenues received in FY2008. Compare that to FY2009. Revenue fell – not that our recommendation was not only wrong, but we lost revenue. There was no growth, and then it fell still again in FY2010. The result was that we had to use one-time stimulus dollars to balance our budget.

In FY2011 through FY2014, the Legislature was more conservative in adopting estimates, as the actual collections for ongoing revenues exceeded the original adopted estimate each year. This is something we saw in that earlier bar chart. This meant that we had extra one-time money to spend in these years.

Now, in FY2015, it looks like we may have projected too high again. We are currently running below our adopted levels and the revisions for the current fiscal year suggest we are going to be about $10.7 million short of the adopted ongoing revenue estimate. That is the ongoing revenue estimate.

If you compare South Dakota's situation to other states according to the National Association of State Budget Officers Fall Fiscal Survey of the States, we were surveyed in September along with the other states - that is going to be released next week - 7 states are seeing revenue come in above projections. About 26 are on target, and in September we thought we would be on target. We are among those 26. Ten at that time had already seen that they are in deficit. Wisconsin is in deficit, Delaware I think is in deficit – there are several states that are in deficit situations that are going to have to address it when their Legislature convenes.

The next chart shows more detail of the revised forecast for this year, fiscal year 2015. We are almost half way through it.

Sales and Use Tax has been revised lower by $6.5 million as our collections have been soft so far this fiscal year. Softer overall economic growth and fewer purchases of farm equipment are impacting sales tax this year.

Lottery has been revised lower by $0.9 million. This represents the instant and online portion of the general fund.

The Contractor's Excise Tax has been lowered slightly, from $95.4 million to $94.9 million, but still anticipates relatively strong spending on construction. This is still a good number.

The Insurance Company Tax has been improving as collections this year have been robust, reflecting continuing premium increases in property, casualty, and health insurance.

Unclaimed Property revenues have been revised lower. The adopted estimate of $60.2 million has been revised lower to $54.2 million. I will have more detail on this in a later chart.

Licenses, Permits, and Fees have been revised up $1.5 million primarily because a security fee revenue that has been stronger.

Interest Income - this has been revised down. I am proposing a change on how this income is accounted for into our general fund. I will cover this in more detail later. Remember this $0.8 million figure.

Property Tax Reduction Fund Revenue – that is the state's share of video lottery revenue. That is growing more than anticipated this year, so that has been increased.

Other Ongoing Revenues which include several other categories have been revised slightly higher for FY2015.

The revised Total Ongoing Revenue indicates $1,381.1 million, which is $10.7 million lower than the adopted forecast. Those are all ongoing revenue sources. We do have some one-time revenue collected or expected based on my recommendation today if you agree.

The first number - $6.7 million identified as One-time Revenue is comprised of two items.

First, $5.4 million is refinancing gains realized or expected from refunding bonds through the South Dakota Building Authority. This also includes some funds that were remaining after the bonds were defeased earlier this year. Remember we spent a lot of our unclaimed property money on paying off some bonds and some you could not actually call, but you had to escrow some funds so that those bonds could be paid off when they came due. It turns out that the investments we are getting in those escrow funds are better in terms of their rates than we had expected to get, so there is a little bit of money that comes back to us.

The second part of this $6.7 million number is the remaining funds in the Large Project Construction account under the old 10-45B statutes that permitted refunds of sales and use tax and contractor's excise tax. You know we ended that program, but we still had potential claimants out there. There was a hard deadline for September of this year that any claimants had to make claim on those funds by September, and now that the date has come and gone, there is about $1.3 million left in that fund. That is a one-time revenue.

The $18.4 million number is also comprised of two items. Both represent savings from proposed repeals of certain expenditures. They are reductions to expenditures. However, for accounting purposes, we need to recognize them as one-time revenues.

One is $2.4 million of one-time revenues that will come from the South Dakota risk pool reserve, which I am proposing to repeal. $16.0 million of one-time funds will come from discontinuing the $16.0 million Medicaid reserve. I will have more about these later.

In total though, including these one-time revenue sources, the total revised revenue is $1,406.2 million or $14.4 million higher than the adopted forecast. Again, $18.4 million of increase comes from these reduced one-time expenditures.

Now, let's look at our projections for FY2016.

This shows the revised FY2015 numbers on the left. These are the numbers I just showed you that the revision recommendation was for. On the left are the revised FY2015 revenues, and in the center column, the estimated projection for FY2016 which begins of course next July and ends June 30, 2016.

You will notice some changes in how the revenue is categorized for FY2016, as I will be recommending legislation to make some changes on how revenues are allocated to the general fund. This legislation will repeal several unnecessary funds, including the Property Tax Reduction Fund. These changes do not represent any net new increase to general fund revenue. It merely simplifies how revenue flows to the general fund.

Let's go through it.

Sales and Use Tax collections for FY2016 are estimated at $879 million, an increase of $34.8 million over the revised FY2015 estimate. This represents a growth rate of 4.1 percent. It's less than historical growth but still assumes a growing economy for FY2016.

In FY2016, beyond the instant and online lottery revenues, the lottery category, if you agree, will include the state's share of video lottery revenue, as I am recommending to repeal the Property Tax Reduction Fund to allow those revenues to flow directly to the state general fund. In FY2016, video lottery is projected to grow about 3.5 percent. So this just simply consolidates and makes it more transparent in my view to call a revenue source by the name of some fund is really not very transparent in my mind. This will simplify things and make it more transparent. Again, they do not represent any net new increase to general fund revenue. It just simplifies things.

The Contractor's Excise Tax is forecast to grow $5.0 million in FY2016. That is a 5.3 percent growth rate, indicating continued healthy construction activity in South Dakota that we hope will occur.

We are predicting an increase in Insurance Company Tax of $4.1 million. That is also a 5.3 percent increase over the revised FY2015 estimate.

Unclaimed Property is up $2.5 million in FY2016. I will review that revenue source in more detail in just a minute.

Licenses, Permits and Fees are up $1.7 million, mostly from growth in security fees anticipated for FY2016.

Interest Income is up $3.4 million reflecting my recommendation to change the current interest proration practice. Again, I am going to cover that in more detail in another slide.

The Property Tax Reduction Fund revenues will be relabeled for FY2016 and included as Lottery, as shown above, if you accept my recommendation. That is why there is "not applicable" in that column.

The Other Ongoing Revenue is up $19.8 million. This is mostly due again to the repeal of the Property Tax Reduction Fund. Not only does it get video lottery money flowing through that fund, also the telecommunications tax flows into and out of that fund as does some of the tobacco tax flows into and then back out of that fund. These two, telecommunications tax and tobacco tax, will be included in this other revenue category.

Total ongoing revenue for FY2016 is up $60 million as compared to the revised FY2015 estimate of total revenue. If compared to the originally adopted FY2015 revenue estimates, the new money available to spend will be $49.4 million. So $60 million, if you compare it to the original ongoing adoption since we are revising it down, it is $49 million against the new number - $60 million against the newest number.

We do not anticipate any one-time revenue for FY2016. Total revenue is projected at $1,441.2 million, up $35.0 million from the total revised FY2015 forecast.

Let's look at a couple of things in more detail. First, we will look at the Ongoing Unclaimed Property line. On that chart revised for FY2015 to $54.2 million and $56.7 million for FY2016.

Let's look at this in more detail.

South Dakota's Unclaimed Property revenues have become significant in the past several years. A change in dormancy laws, coupled with the designation of home bank offices in South Dakota, has resulted in unclaimed property in South Dakota growing from just $350,000 in FY2002 to a net of nearly $114 million in FY2014. Estimating unclaimed property ongoing is a challenge, and we need to be careful as we project for future years.

This chart shows how we have estimated unclaimed property revenue. In the first two columns, you can see our remitters of unclaimed property and the amounts we estimated they would remit in FY2015. From our two large holders, Large Holder #1 and Large Holder #2, we expected $32.6 and $27.6 million respectively. We assumed about $5.5 million would come from the rest of the remitters beyond these two big ones, and that claims paid out would also be about $5.5 million. Of course when the money comes in, our treasurer makes it known and people come and claim those dollars, and we assumed about $5.5 million for a net of $60.2 million.

Unclaimed property must be remitted to the state by November 1st, so we have already got the money for this fiscal year. We know actual collections. This year we received $28 million from one, $31.8 million from the other large holder, and about $4.4 million from all the other remitters of unclaimed property. However, our claim payments and reciprocity payments, which are payments to other states, have been larger than anticipated. Already this fiscal year, we have paid out $5.8 million out of this $10 million you see there. We have already paid $5.8, which is more than we thought we would pay for the whole year. We are projecting that to grow to $10.0 million by the end of FY2015. Thus, after considering the higher claim payments, the total unclaimed property estimate for this fiscal year has been revised to $54 million, which is of course $6.0 million less than we had estimated it would be.

The right-most blue column shows what we are projecting for FY2016. We are assuming the same levels of collections for FY2016 from the two large holders and from the rest. The main change in FY2016 is what we are anticipating - $7.5 million in claims and reciprocity payments. I first questioned why would we drop down. That is not very conservative. Well, the answer is about $2.3 million of the $10.0 million is from an anomaly that we do not expect to recur. It is one large reciprocal payment due another state, and we do not expect that to recur in 2016. So in total, you can see we are projecting $56.7 million in unclaimed property in FY2016. You can see that is $3.5 million below the original FY2015 adoption, but it is a little bit higher than what we believe we are going to get this year in FY2015.

The other thing I promised to talk about is the 90 percent interest proration. Now, do not try to figure out the numbers, just listen to me for a moment if you would. One thing that impacts our revenue is how we treat revenue and when you acknowledge receipt of revenue and treat it as received. That is an accounting decision. This chart shows my recommendation to reverse a methodology that we have been employing called in short a 90 percent interest proration practice. This practice was employed over a decade ago when the state needed money to accelerate by one year the recognition of interest earned by the general fund cash. It recognized 90 percent of that earning a year earlier than you otherwise had been recognizing it historically. No other participating fund in the general fund cash account does this. The general fund for the general fund budget is the only participating fund that does this. The Board of Regents does not do this, the Highway Fund does not do this, Game, Fish, and Parks does not do this. Only our share that is general fund that is not assigned to one of these other entities does this. I was unaware of this practice until BFM and the State Investment Council made me aware of it last summer when we were talking about the practices surrounding general fund cash investments.

Many states use accounting gimmicks like this to accelerate revenues into an earlier year or to postpone expenses into a later year to balance their budget on a nominal basis. This is done, in my opinion, to avoid making hard choices that might be politically unpopular. I dislike these kinds of gimmicks, and I believe we should not employ them in South Dakota. I am recommending that we reverse this one.

Right now under current law, 90 percent of the estimated earnings from the cash flow fund that is due to the general fund is transferred early in June before the close of the fiscal year. We do not even know how much interest we will earn at the end of the fiscal year. We just guess about what it will be and transfer it before the end of the fiscal year. The year this was done it had the result of getting 190 percent of the interest that fund would earn in one year. The next year you got the remaining 10 percent of actual and then 90 percent of the estimated. And, the next year 10 percent of actual and 90 percent of the estimated. That 10 percent amount is $754,294. That would be what we would recognize as interest income in FY2015. If we continue to do what we are doing now, we have increased bureaucracy and activity that does not generate any benefit except when it created the illusion of improved revenue in the year it was first employed.

The bottom chart shows my recommendation that we undo this practice this year in 2015 and allow 100 percent of the actual earnings to flow to the general fund in the following fiscal year beginning in 2016 just the way the Board of Regents does it, the highway fund does it, Game, Fish, and Parks does it, and the way in my mind we should do it. This will cause a one-time reduction in the current year, FY2015, and will reduce it down to $750,000 roughly. In FY2016, the revenue would return to actual earnings and be more typical of what you would see in a full year's worth of earnings.

Let's take a look at our aggregate total revenue picture as compared to last year. This kind of gives you a perspective on how difficult it was to budget this year as compared to last year.

Last year at this time we had the luxury of a $6 million structural surplus that the Legislature left on the bottom line. Remember when we adopted in 2013 the FY2014 budget, we were looking at the possibility of federal sequester. We were looking at the possibility of federal government budget shutdown, all kinds of uncertainty. The Legislature said let's be careful and leave $6 million unspent on the bottom line, which you did. When you came back last year, that $6 million was there. We do not have that this year, obviously.

Last year at this time we also saw an expectantly large unclaimed property dollar, about $33 million in ongoing revenue from unclaimed property that we really did not expect to see. This year you see that instead of revising up our ongoing revenue by $33 million as we did this time last year, we had to revise down our ongoing revenue by about $11 million.

Last year we were looking at $40 million in new projected ongoing revenue growth. That included our assumptions for a full year of the collection allowance by retailers as well as the potential to lose the grandfathered status of our sales tax collected on Internet access.

Without those two potential reductions we are actually going to do better in terms of our projected ongoing revenue growth of $60 million.

I know you have heard me state in the past that we have been able to use two years' worth of revenue growth to fund one year of expenditure growth. Again, that was because we underestimate revenue when we project for our budget. We come back into session and old revenue is doing a lot better, so we have not only the improvement in the current year, but the projection of further improvement in the out year. That was true with the FY2013 budget, the FY2014 budget, and the FY2015 budget. However, that is not the case in FY2016 budget. It is just the reverse. We overestimated revenue and it is coming in lower than they thought. So that is sort of globally what the picture is.

But let's shift gears now and talk about how I am proposing to utilize this $49 million that we believe will be available to us in FY2016 – these ongoing expenditure improvements in FY2016.

As I stated before, this will be the first year since FY2012 that we will not have a mid-year improvement over adopted revenue numbers. Despite that, we are fortunate that our state expenditures are trending lower than our budget - expenditures are trending lower than our budget. It is projected to benefit us in a couple of ways.

First, the reduction in FY2015 expenditures gives us some one-time money because we budgeted to spend "x" and we are spending less than "x". So that difference is available in FY2015 to spend on a one-time basis. That lower level of expenditures is the new base from which to project actual increases, and we have got some room that we would not otherwise have. By budgeting expenses at levels last year that were conservatively high, this ensures no shortfalls this year even though our revenues are coming in less than we want. We did the hard work last year in that respect, and we are seeing expenditure trends favorable to budget. Low inflation will also contribute to an affordable level of expenditure growth for FY2016.

Let's take a look at that in more detail.

As we discussed earlier, inflation has been at relative lows historically. Look at the first three line items – K-12 Education, Technical Institutes, and Board of Regents. The inflator that is used for that is the CPI-W, which is a retrospective look that is about a year old. For the CPI-W, which is a benchmark for education spending that was at 1.5 percent for the year ended June 30, 2014. So as of last June 30th, inflation for the year ending on that date was 1.5 percent. It has actually gone down a little bit, projecting down a little bit from there. As we built the budget, CPI-U, second from the bottom, is used for provider inflation and is a prospective number. Economic analysts look at what they think the inflation will be beginning July 1 of 2016 and going forward a year. They are projecting 1.4 percent. Traditionally, for our cost of living, we followed the other percentage above of 1.5 percent for state workforce.

Let me now show you my proposals for FY2016 given those inflation numbers.

I will be proposing a rate of 2.0 percent increase for K-12 Education, Technical Institutes, Providers, and the State Workforce. I am proposing a 2.3 percent increase in expenditures related to the Board of Regents' total budget. From the Board of Regents' perspective, their revenue will be up 1.6 percent even though our expenditure is 2.3 percent up. Their receipts will be up 1.6 percent. I will explain more in a minute.

Again, all of these increases are higher than what inflation either was or what it is predicted to be in these areas for the coming fiscal year. Everyone should be able to gain a little ground on that basis.

This is possible, as I said, because our base operations budget is high enough today in FY2015, higher than we are actually seeing it come in during FY2015. In addition, there are savings we can achieve that will allow us to buy up to that 2.0 percent mark.

This summarizes my expenses in dollar numbers.

Education increases would be $15.4 million. This includes a 2.0 percent increase for state aid, for special education, and for the technical institutes. Additional funding for the Board of Regents increases the 4-year value of the Opportunity Scholarship Recipients to $6,500 over 4 years, up from the current $5,000 opportunity value today. Again, Opportunity Scholarships today are worth $5,000 over 4 years. I am proposing that we raise that to $6,500. That is why the Board of Regents does not get any more money. We are spending that money in the students rather than at the Board of Regents, but it is an expenditure we are making, if you adopt my proposal.

Medical Services and Provider Assistance would be up $16.2 million. This includes a 2 percent inflationary increases as well as a 0.5 percent increase for FMAP, the federal medical assistance percentage, and funding for a Juvenile Justice Reinvestment Initiative, which we described to you as part of the legislative proposals.

In State Employee Compensation, I am proposing $11.1 million. This would be a 2.0 percent market adjustment and family specific increases for the career bands along with 2.5 percent movement toward market value. We have seen favorable conditions in our state health plan, which I will discuss later that makes this low dollar possible.

All the rest is $6.6 million. This includes money for M and R, that extra 0.5 percent that moves us a little further down the path toward our goal of having 2.0 percent of building value as an ongoing maintenance and repair budget. It includes utility increases, increased Drug and DUI courts, and some additional funding again for the Juvenile Justice Reinvestment Initiative.
The total of $49.4 million matches the new ongoing revenue that we are projecting above the FY2015 adopted revenues.

Let's look deeper into each of these subcategories here.

Education Funding – that $15 million number I just showed you. Here is how it breaks out.

State Aid to General Education would be $9.0 million almost. This includes 2.0 percent inflation in general education. It also represents moving the traditional state aid to general education to 2.0 percent and the per-student allocation under my proposal is $4,876.76. This amount does not include rolling in technology in the schools, sparsity, and student assessment in the formula. Although those savings will be used to help fund the movement to 2.0 percent.

The State Aid to Special Education is $2.7 million nearly. This includes a 2.0 percent inflation adjustment. Included in the formula is $200 thousand for the summer school program within the South Dakota School for the Blind and Visually Impaired.

The Board of Regents Maintenance and Repair is $2.0 million. This is the third year as I said of a four-year plan we started several years ago to get our maintenance and repair budgets to a level which equates to 2.0 percent of the replacement value of the state buildings. This amount is the cost for the regental buildings.

The South Dakota Opportunity Scholarships line item is $1.3 million. This will fund the first increase in the value of the Opportunity Scholarship since it was created over ten years ago. We all know that tuition has gone up during that time, and we need to keep the scholarship competitive so it continues to be an incentive for students to take a rigorous high school curriculum and stay in South Dakota for college. Over 3,800 recipients are projected for the coming school year. As I said, this will raise the scholarship value over four years from $5,000 as it currently is to $6,500.

The next line item is Board of Regents Utility Costs at $1.2 million. We are projecting a 5.0 percent growth factor in utility costs for FY2016.

Dual Credit Increased Demand of $802 thousand. We have seen the dual credit program succeed beyond our projections. We should all be very happy about this. It means more students are getting a head start on college or technical school, and they are earning affordable credits while they are still in high school. We budgeted approximately 2,900 credit hours for the current year, but based on this program's success we are budgeting for 10,500 credits – over triple that amount for next year. These credits cost students only $40 per credit hour, rather than up to $300 per credit hour. They get credit toward their high school graduation as well as getting credit toward a post-secondary degree. It encourages higher utilization, which is beneficial to post-secondary institutions and even more so to the students themselves. It makes those students more likely, in my opinion, to attend a post-secondary school in South Dakota because they are further along. It makes them more likely to succeed if they go, and more likely to graduate if they go.

The next line item is the Technical Institutes Facilities. This is funding to assist the Technical Institutes with their facilities.

Miscellaneous Increases/Decreases total up to a savings of $2.0 million. There are a number of things in that $186 thousand for tech institute bonding. Through House Bill 1098 passed during the 2013 Session, nearly two years ago, the state committed to match the Technical Institutes commitment to bond payments on a 1:2 ratio.

Also, an increase of $114 thousand for South Dakota STARS - that is ongoing support for the Longitudinal Data System, which provides student data for school districts across South Dakota.

An increase of $80 thousand for nurse practitioner preceptors. In the FY2015 budget process, the Rapid City campus students were not included in the calculations because that program only is offered every other year. This is the year it is offered – last year it wasn't. That is why it is not in the FY1205 budget.

An increase of $59,911 for a 2.0 percent increase in the Tech Institute formula.

A decrease of $7 thousand to reflect a lease payment for FY2016.

A decrease of $159 thousand to reflect adjustments related to insurance costs.

There is going to be a savings, if you adopt this budget, of $2.6 million to add technology in the schools, sparsity, and statewide assessment budgets as a component of the state aid to general education formula. The savings will be used to increase the per student allocation growth from 1.5 percent to 2 percent. This also reflects increases in sparsity and tech in the schools budgets for a net decrease as shown here, before the other decreases of $2,003,906.

The next chart details the Medical and Provider Assistance ongoing expense number. You saw that $16 million on an earlier chart. This is made up of a number of things. Provider Inflation is about $10 million. Again, that is a 2.0 percent inflation adjustment for providers. This supports providers such as nursing homes, community support providers, physicians, and many other provider types. Most are Medicaid providers.

Secondly, the Federal Medical Assistance Percentage or FMAP costs us $5.1 million. We are experiencing an increase of 0.5 percent from 47.88 percent to 48.38 percent. This means for every $100 of Medicaid expense in South Dakota the state will pay $48.38 and the federal government will pay the rest. Included in this $5 million increase is a $1.2 million switch from federal funds to general funds because an enhanced match rate from providing Health Homes to Medicaid recipients goes from 10 percent general funds/90 percent federal funds to the regular FMAP rate of 48.38 percent.

Juvenile Justice Reinvestment Initiative. Two years ago, you proposed and you approved the Public Safety Improvement Act, which impacted our adult parole and probation systems. If we had not passed that legislation, our projections at that time showed I would be needing to ask you, this year, for tens of millions of dollars to add to the State Women's Prison. We avoided that major cost I believe thanks to this reform. This year, I am proposing to reform our juvenile corrections system so that we can continue this success in the juvenile arena. $2.9 million for Juvenile Justice Reinvestment is for the Department of Social Services. They will spend $2.3 million of that amount in community based interventions, $150 thousand for quality assurance monitoring, $331 thousand is training for providers on the functional family therapy model along with other training needed. Again, this is all dependent on your support of the Juvenile Justice Reinvestment Initiative.

It also includes $83 thousand to provide a rate specific to rural providers to serve rural communities and $47,600 for crisis intervention residence services. All collectively that is $2.9 million.

Second to the last line item before the total is Growth and Utilization - $1.9 million. Our programs for helping people who cannot help themselves are seeing benefits from a strengthening economy. This is reflected in slower growth in the number of persons eligible for Medicaid services and Child Care Subsidies. In FY2016, we are projecting the growth in Medicaid eligibles to be only 858 individuals. I can remember during the recession there were some months we were adding 1,000 in one month. This is 858 for the entire fiscal year, less than 1 percent of our current enrollees. Caseloads have dropped in child care subsidies, allowing us to save $900 thousand in the FY2015 and FY2016 budgets. Additionally, other programs in DSS and the Department of Corrections are experiencing declines in their caseloads, which results in savings of $1.7 million.

Miscellaneous Increases and Decreases – Other changes throughout the Departments of Social Services, Health, and Human Services allow us to save $3.8 million or spend less than what we are spending today in FY2016. The largest factor in this is a federal match rate change in our Children's Health Insurance Program, where the federal government is paying a higher percentage of the medical bills.

The next chart shows the $11 million number which you saw earlier broken down for our state workforce.

Market Adjustments - I am proposing that permanent state employees receive a 2.0 percent market adjustment. Most will receive that 2 percent, which is essentially a cost of living increase. Employees in the career bands may receive more than that or less than that dependent upon the market value of their profession.

For example, nursing will receive zero - information technology - 1.1 percent, accountants and auditors - 1.7 percent, engineers - 2.0 percent, environmental scientists - 6.6 percent. On balance, the market adjustment is about 2.0 percent of gross salaries.

The second item there is Movement toward Market Value that is taking the place of what you heard us talk about as Movement to Job Worth. I have directed the Bureau of Human Resources to establish a new market-based general pay structure. All permanent employees under my control will be moved into this new market-based structure. Those employees are recommended to receive 2.5 percent movement toward the new market values, if they are below market value for their jobs.

In the future, this structure will be used to pay for performance for all employees, with some employees entitled to less and some to more, dependent upon performance.

Finally, Career Band Pay for Performance is one area where we have already adopted pay for performance. We are recommending the continuation of 0.0-4.5 percent pay for performance for the career band families. Some employees in these groups do receive zero improvement; others will receive up to 4.0 percent. In total, managers have to demonstrate they are not rating everyone at the middle. They have to identify those that are under-performing and those that are over-performing and spread the dollars appropriately. You have seen this kind of pay for performance system before, and I am hoping to expand it into more areas of the government.

No budget increase is recommended for the employer-paid portion of the state employee's health insurance plan. That is a true bright spot in our budget this year. We are currently estimating a $13.0 million reserve at the end of FY2015, estimating a $12.7 million reserve by the end of FY2016. Our actuaries recommend a reserve level at $13.3 million. We will be close to that at the end of this fiscal year.

All other expenses in FY2016 budget - Maintenance and Repair - $3.4 million. Again, similar to the regental institutions, the Bureau of Administration is charged with taking care of our state owned buildings. This is the third year of a four-year plan to increase the maintenance and repair budget for state buildings to 2.0 percent of replacement value. This will bring up our annual appropriation to 1.5 percent. We have one more year to go after this next one to get to that 2.0 percent level.

Correctional Health is $970 thousand. This includes $970 thousand for treating inmates with Hepatitis C, as well as contractual and inflationary increases.

Drug and DUI Courts. I am recommending an increase of $667 thousand. They continue to be a successful alternative to incarceration and have helped to reduce recidivism. This funding would establish a Drug Court in both Brown and Beadle Counties, as well as a DUI Court in Meade County. Additionally, this increased funding would bring the number of Drug or DUI courts in South Dakota to 12 total statewide.

Utilities and Internal Service Rates - $648 thousand. They are charged to the departments by the bureaus. They are expected to increase. As the bureaus' costs increase due to things like utility costs, employee compensation, and recommended budget changes, the rates they charge also increase.

Law Enforcement Officers Training Fund – $608 thousand. This is a partial fix. Those of you on the Appropriations Committee know this fund has been running in the red. The Law

Enforcement Officers Training Fund is used to train law enforcement throughout South Dakota, but the ending cash balance in FY2015 is projected to be a negative $1.1 million. In order to be good financial stewards of this fund, I am proposing this increase in the Attorney General's office and in Unified Judicial System budgets. This amount includes a funding change from other funds to general funds of $522 thousand within Attorney General's office for space billing and $86 thousand within UJS for a training position.

Property and Casualty Insurance - $593 thousand. In order to better protect our state facilities, I am proposing that we begin the process of self-insuring our state assets. Let me repeat that because this is a change that is significant. I am proposing we begin the process of self-insuring our state assets, our buildings, our equipment, and our vehicles. This provides ongoing funding related to establishment of captive insurance companies that will bring nearly $2 billion of additional insured value into the insurance captive. Right now, the building we are sitting in is not insured. Most of the buildings on this campus are not insured. We are dependent upon our emergency and disaster fund in case of a catastrophic loss. That is not an irresponsible approach to take, but I believe a different and better approach would be to create some captive insurance companies. One in the property and casualty arena, one in the liability arena, and pay ourselves to insure our buildings. This amount, the property and casualty insurance ongoing expense, would be the premium we would pay to ourselves in these captive companies and would allow us to have insurance essentially through these captives. It would also insulate us by insuring ourselves from premium increases that are unrelated to our loss experiences. They might be related to a Hurricane Katrina or some other event that is occurring elsewhere in the nation that has nothing to do with us. To continue on the path we are right now is one approach, but that is dependent wholly on our emergency and disaster fund. This approach gains insurance for us in a different way. I think a more responsible way. It will not save us money in the short run. In the long run, I believe it will save us money.

Through this proposal we will create a captive insurance company for property and casualty and one for liability, add all our properties to the list of those insured, and will provide immediate coverage for all of them. Over time as I said, I believe our internal self-insured captive rate will save us ongoing general expense while covering more of our property.

The next line item is also related to Juvenile Justice Reinvestment.   I am proposing $300 thousand within UJS and $5 thousand within the Department of Tribal Relations. That funding is intended to keep youth from formal court processing, when appropriate, and utilize diversions like Teen Court. In addition, this funding is also intended to assist counties with the costs of keeping juveniles in detention centers for short-term stays that are appropriate to any variation or misbehavior rather than sending them to the Department of Corrections. In total, I am proposing a total increase of $3.2 million in general funds for the Juvenile Justice Reinvestment Initiative. This is part of it and you saw the other part under the Social Service budget.

The remainder of increases and decreases for budget adjustments across state government is $965 thousand.

State Vets Home Savings – You remember last year when I proposed spending money to pay cash for the State Vets Home, I said this would not save us money in FY2015, but it will save us money in FY2016. Here is that saving I promised you a year ago - $1.5 million. This is money that we were fortunate to receive as an abundance of one-time funds in FY2014 when we paid cash for the Vets Home. Because we are not bonding for that money and now we are receiving both Medicaid reimbursements and VA per diems, I was planning to use those VA payments and Medicaid per diems to cover the bond payment instead of general funds. Now, we do not need those and they can offset general funds, and that is why those dollar amounts go down.

As I mentioned before, let's go back to FY2015. I said that our expenditures were going to be lower than we projected and that even though we have some negative cash in our revenue situation, we have some one-time offsets that provide some one-time dollars we can spend in FY2015.

Let me explain the areas of reduction and where I am proposing to redeploy the savings.

This chart shows where the available one-time funds for FY2015 come from.

The nominal surplus of course is zero because we do not have that as we did in FY2015.

The total reduced revenues based on revised revenue estimates including the one-time revenues total $4.0 million. Remember we said it was going to be about $10.7 million less revenue than we thought, but we had $6 million of one-time revenue to offset against that. This leaves a negative of $4 million of reduced revenue that we need to cover some way.

We can reduce some one-time special appropriations. That is $18.4 million. I am going to show that in the next chart.

Reduction of annual appropriations of $13 million. Total net available of one-time funds to spend in FY15 - $27.8 million.

Now, let's look at the detail.

The $18 million that I just talked about is from two sources. One, we repealed the Medicaid reserve program. Several years ago we proposed and you adopted a reserve fund for our Medicaid program. It was set at $20 million. We have never had to use it since it has been established.

Last year, you took that reserve and established through a special appropriation a contingency fund to hold the money until it was needed.

The primary reason the reserve was created was to sustain the Medicaid program while the Legislature was not in session. However, in order to spend from it, the Legislature's appropriations committee would have to formally act to gain access to these dollars.
We are proposing to fund the Medicaid program properly, using sound estimates that will ensure the programs funding throughout the year. This reserve then can be redeployed to cover one-time costs I will lay out in a minute. This repeal again would provide $16 million in general funds.

Secondly, with the Affordable Care Act and the federal risk pool, there will not be the demand for the state risk pool. The Legislature removed the ongoing funding last year, and once the second ACA open enrollment period ends in February, we will only need funding for the remaining participants. Therefore, we will be proposing to redeploy that reserve, which was started with state funds, to other areas of priority.

This will provide combining those two $18.4 million in expenditure reductions for FY2015. It was shown as a one-time revenue in an earlier chart.

Here are the reductions in the areas of annual appropriation ongoing reductions that I am recommending for this year.

State Aid Revision **-** A decrease of $6.9 million in general funds in state aid to general education due to 354 fewer students than budgeted and higher property valuation growth than budgeted in FY2015.

DSS Medicaid Eligibles Revision **-** Decreases of $2.6 million in general funds and $600 thousand in federal fund expenditure authority due to changes in Medicaid eligibles, utilization, and cost. That is a $2.6 million reduction.

Juvenile Placement Revision **-** A decrease of nearly $1.4 million in general funds due to updated projections which estimate the juvenile population within the Department of Corrections to be fewer than previously anticipated. This is before the Juvenile Justice Reinvestment Act. This is before any impact of that.

Child Care Subsidies and Psychiatric Residential Treatment Services Revision **-** This is a $1.3 million reduction in general funds and $2.1 million in federal fund expenditure authority due to decreases in child care subsidies because people are doing better economically and moving above the threshold under which they qualify and also a decrease in psychiatric residential treatment services caseloads.

Technical Institutes Formula and Bonding **-** A decrease of $1.1 million in general funds for the Tech Institutes due to actual student numbers being 225 students fewer than budgeted in 2015 and a lower bond payment than anticipated.

Correctional Healthcare Revision **-** A decrease of $143,960 in general funds and a decrease in other fund expenditure authority related to the stabilizing of cost trends in the correctional healthcare system. All told, these reductions will allow additional one-time spending in 2015, and the new bases have been revised in proposing growth of expenditures for 2016.

Here is how I propose to spend those one-time dollars.

Emergency & Disaster fund – $7.9 million. As you know, this fund is spent negative as emergencies and natural disasters such as flooding or tornadoes occur and then we backfill the fund. This year our bill to backfill the fund is $7.9 million, and includes events like the spring 2014 flooding in southeast South Dakota and the tornadoes in Wessington Springs as well as disasters that have occurred prior to 2014. This figure also calls for the state to pay 25 percent of the D&I railroad costs which occurred during the spring 2014 flooding damaging of the state owned railroad. FEMA has declared these costs ineligible for reimbursement. However, I believe we should contribute our share as we appeal their decision. And, we are appealing that.

Provider Direct Care Hiring Supplement – I am proposing a $4.125 million expenditure to provide one-time funding to the states' medical providers to help facilities find, hire, and retain direct-care staff in their specific facilities. This is not only hospitals, but nursing homes, development disability facilities, as well as many other kinds of facilities like this. It is equivalent to a 1.5 percent increase for community-based providers, but it is a one-time payment.

The third and fourth line items are the funds needed to capitalize those captive insurance companies that I described earlier.

Capitalize P&C Insurance Captive - $4 million will capitalize that fund. We are essentially paying it to ourselves - $4 million, but it gives us the capital necessary to hold ourselves out responsibly as an insurance provider. It will help us protect our state assets and help keep our rates at levels we can control rather than the market place controls. We will self-insure the captive and also procure reinsurance.

Capitalize Liability Insurance Captive - $2 million. We have liability that is being paid by the Housing Authority, the Building Authority, and the Science and Technology Authority. Those premiums are being paid by organizations that rarely have a claim. It is essentially throwing money down a hole. Let's take possession of that hole and throw it down into our own hole and keep it. I am proposing $2 million to establish the Liability Insurance Captive to help our state authorities similar to the property and casualty captive I just described.

Ross Shaft Construction - I am proposing $3.95 million to help the Science and Tech Authority continue the reconstruction of the Ross Shaft. It will help them invest in its infrastructure and prepare for physics experiments being conducted in the Northern Hills and in particular the long base-line neutrino experiment which is the very big experiment that we are very hopeful the Department of Energy will place. Toward that we must have that Ross Shaft upgraded if we are going to be a competitor for that experiment. I believe we are the best and the only competitor for that experiment if we do this.

South Dakota Conservation Fund - $1.5 million. One of the recommendations of the Pheasant Habitat Workgroup was to establish a Conservation Fund to encourage habitat creation or preservation. This $1.5 million will go towards protecting and enhancing wildlife habitat. It is not just $1.5 million, though, because it would be designed to match private dollars. I believe the way it should be structured is that it is placed in the fund but not available until the match is provided in the private sector. Only when the fund would grow to $3 million would the dollars become spendable.

DOE JAG Startup – $925 thousand for the Department of Education Jobs for America's Graduate program will provide funding for 26 school districts over the course of two years to establish and operate a Jobs for Americas Graduates program in their school districts. The Jobs for America's Graduates, or the JAG program, not only helps our kids stay in school and gain the skills they need for success in later life, but it also helps the school districts retain them as students so they do not drop out. The school districts like this because by taking this one-time money establishing the program they keep those kids in the school district. They get the per-student allocation money every year because they are still in school rather than lose those dollars when the kids drop out.

DOE Dual Credit - As I mentioned in my 2016 budget proposal, we have just seen tremendous take-up of the dual credit demands. This one-time expenditure would cover us in the current fiscal year for the rest of the FY2015 year, and the budget proposal you saw earlier would cover 2016.

Big Sioux River Flow Study - This $500 thousand will allow South Dakota to model river flow patterns in southeast South Dakota, where we have experienced repeated flooding over the course of the last several years and many years before that. This would help the state plan and prepare for potential disasters and would enable us to identify the areas that will be inundated by water in given flood situations and the degree to which they will be inundated. Right now, the data is insufficient for us to be able to accurately do that.

Tax Refunds for the Elderly - $450 thousand is the annual appropriation to provide sales and property tax refunds for elderly and disabled persons based on income guidelines.

Department of Health Rural Healthcare Tuition Reimbursement Program - This $381 thousand in general funds continues to attract practitioners to rural areas. This funding will pay for 2 dentists, 2 nurse practitioners, 1 physician, and 1 physician assistant. It will give them reimbursement if they stick to those rural areas of practice.

DENR Information Systems Upgrade – This agency has never asked for any increase to general funds under my administration. This $350 thousand will allow DENR to make necessary computer upgrades so that their IT systems continue to serve South Dakotans well. They have an old FoxPro program that is no longer going to be supported, and it needs to be replaced.

Department of Health Rural Healthcare Facility Recruitment Program - Recruiting healthcare professionals of course is a need for South Dakota. This $302 thousand will pay for 44 health professionals practicing in over 30 rural communities.

Game, Fish, and Parks Bond Payments - This $185 thousand will let GF&P continue to provide and enhance our state's recreational opportunities. It repays the general fund for any bonding, so this essentially costs the general fund nothing. This will provide for bond payments at Good Earth State Park and Custer State Park.

Continuous Appropriations - An increase in the continuous appropriations related to the Fire Premium Refund.

In total, I am proposing just under $28 million in new spending based on the reductions in spending we are fortunate to see this year.

So those are the one-time expenditures in this chart and the previous one that I am proposing in FY2015. Let's summarize and boil it down to these revisions for FY2015 and proposals for FY2016.

In FY2016, we will see a reduction to our ongoing revenues of just over $10.75 million, an increase in one-time revenues of $6.7 million, reduced expenses of nearly $32 million, new proposed expenditures of nearly $28 million, and a bottom line of zero for FY2015.

In FY2016, new ongoing revenues of $60 million on top of the reduced, revised FY2015 projection, a reduction of revenue from the FY15 adopted budget of $4 million, the loss of one-time revenue receipted in FY15 of $6.7 million, and the new proposed expenditures of $49.4 million with a bottom line of zero.

Here are the total general fund spending figures in simple terms. Both of these years will represent structurally balanced budgets. This is the budget proposal for this year and, of course, the 2016 year. We have total revenues of $1.406 billion in FY2015 and those expenditures and total revenues of $1.441 billion in FY2016 and expenditures at that level.

These are my budget proposals for this year that we are in right now and for next year, FY2016. Of course, there are many policies that are driven by the budget, and the Legislature is going to consider this as well as many other issues this year.

Last month, we celebrated 125 years of statehood. We can proudly say that we have balanced our budget every single year. Next year will be our 126th year of a balanced budget.

We have prudently set aside rainy day funds that allow us to address emergencies and seize opportunities available to us.

We have kept our taxes among the lowest in America.

We have used one-time dollars prudently, ensuring that they do not become ongoing obligations.

We have a state pension system that is over 100 percent funded. I want to depart from the script there and reflect on Boston College's Retirement Research Center. Earlier this year, they evaluated 150 public pension plans in America. All the state plans, all the big city plans, like New York and Chicago, where you have a firefighter plan that is very large or a teacher's plan that is very large and stand alone. If you are in the top 150 in the nation in scale, you are in this review. They looked at the most recently available audited statements. Of course for most entities, including South Dakota, the FY2014 statements were not available. They looked at fiscal year-end 2013. This was over a year ago. At that point in time, of those 150 plans, only 9 were fully funded. South Dakota was 1 of those 9. We are in better shape today than we were a year ago. That is something that we can be very proud of.

When I go to governor association meetings, and I talk to Governors who are looking at hills that are virtually insurmountable, I feel sorry for them. Their states are a train wreck and South Dakota is in such great shape because of you. I thank you for your responsible, adult-like behavior when it comes to money. It is just great. I am very lucky to be Governor of a state like South Dakota.

We have issued in the last year two new executive orders to help us formalize and improve our financial practices including long-term revenue and expense forecasting. Those plans will be available when you come back to session next year - capital expenditure, budget planning, and policies to guide issuance of debt. I think it is one thing to be responsible managers. It is another thing to establish policies that are out there and transparent so that these policies go on to guide our state after we are gone. I want that to happen.

These practices are paying off. We invited the rating agencies to South Dakota last summer. S&P sent some of their people, Moody's sent some of their people, and the Lt. Governor and Commissioner Dilges went to New York and met with them there. They came to South Dakota and met with us here. I am proud to announce that S&P upgraded our state outlook from stable to positive. What that means is that they are essentially telling us that we are on the right track, and that if we stay on that track, they will typically in this situation upgrade a state to AAA status. That is a status that I believe we deserve, if we stay true to our values and principles that we and others have put in place.

I want to thank you again for joining with me today to hear these proposals. As I said in the past, this is a plan. It is not the plan. I hope you will see it is the best darn plan, but we will discuss, and we will decide this.

I want to close by thanking South Dakota voters for giving me the opportunity to serve another term. I am looking forward to next year's legislative session. Beyond this budget, we are going to discuss a lot of issues, from Juvenile Justice to public health, to red tape review, to transportation funding.

I want to say in particular regarding transportation funding – every good discussion begins with a specific proposal. I applaud your interim study committee for putting together a specific proposal. That gives us something to discuss that is concrete. I know we are all going to have lots of debate about that. I agree with them that this is a year that we need to act to adequately fund our roads, and I thank the interim committee for making a specific proposal to start the discussion. I look forward to having that discussion among many other discussions with you in the next session.

Thank you so much for everything you do for South Dakota. Through your efforts, South Dakota is even stronger today and will be stronger in the future. I know.

Thank you.