



STATE OF SOUTH DAKOTA
M. MICHAEL ROUNDS, GOVERNOR

MEMBERS OF THE 81st LEGISLATURE
OF THE STATE OF SOUTH DAKOTA

It is my honor to submit the governor's budget report for Fiscal Year 2007. This is my proposal for funding necessary state government services and special appropriations for the fiscal period beginning July 1, 2006, and ending June 30, 2007.

As we continue to grow our way out of the structural deficit, prioritization of state programs has been a necessity. This budget continues to reflect my commitment to three key segments of our state's priorities: helping those who cannot take care of themselves, the very young and the very old; protecting our society from those who would do us harm; and providing a quality education for our children...because they are our future.

My proposed budget will allow for the funding of our essential government services, while still reducing our structural deficit. This budget also continues an emphasis on growing our economy through job creation, education and research development.

No additional tax increases are necessary to implement this proposed budget.

The use of our reserve funds, along with a continued conservative fiscal policy, will allow us to eliminate our structural deficit in the coming years. My proposed budget for FY2007 contains recommendations that reflect the current revenue conditions, while meeting the needs of our citizens and being stewards of our taxpayers' money. Key among these:

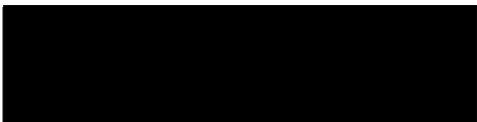
- **A continued commitment to education in FY2007** – This budget reflects the commitment to education in South Dakota. We are proposing to increase funding for education at the required rate of inflation. This budget also includes the use of one-time dollars to begin a technology initiative to ensure that South Dakota continues to maintain the #1 national ranking in being technology literate in our schools. Finally, I am also proposing on a one-time basis providing resources to our schools to combat the increased costs of energy.
- **Increased funding for the state's share of federal health care programs** – The state's Medicaid Program continues to grow. The increasing costs of health care services, coupled with expanded caseloads and inflationary provider reimbursements, comprise a significant increase in my recommended budget for FY2007. Due to the healthy increases in our state's per capita incomes, our federal match rates continue to rise. The cost of this year's FMAP change (state's match of Medicaid costs) will exceed \$11.1 million in general funds. I am also proposing that to ensure greater access to healthcare we provide a 3 percent inflationary adjustment to our providers of medical services.

- **Protecting the public** – One of our greatest obligations is keeping our state’s citizens safe from those who would do us harm. Our primary concern is the safety of our citizens. Unfortunately, this requires a corrections system that incarcerates people convicted of crimes. I believe many of these individuals, most of whom will return to society, can be rehabilitated, eventually becoming contributing members of their communities. Specifically, this budget addresses the increases in our state's prison population, which includes the final phase of opening of new facilities as directed by the 2003 legislature, maintaining a strong and effective court system, and providing a coordinated effort to distribute millions of dollars from the federal government to address homeland security issues at the local level.
- **Commitment to our employees** – The most valuable resource in state government is our employees. Today, our citizens rely on state government for services more than any other time in history. In spite of that, the executive branch of state government has grown by less than 1 percent over the last 5 years. We continue to reform state government by providing more accountability to the citizens of our state, while improving the responsiveness and quality of the services we provide. I propose that we continue the PACE program started by former Governor George S. Mickelson:
 - State employees receive a 3 percent salary increase across the board.
 - Continuation of the 2.5 percent movement to job worth.
 - A 6.3 percent increase in employer paid health insurance costs.

Expanding our economy through the 2010 Initiative will allow us to support our budget through a growing economic base. We will work together to find ways to deliver services as efficiently as possible and strive to develop opportunities for the people of South Dakota.

As governor, it is my duty to convey my priorities for the use of the tax dollars the citizens of this state have entrusted to us in the coming fiscal year. This budget provides for the necessary services which the citizens of this state expect us to deliver.

Sincerely,



M. Michael Rounds /