



STATE OF SOUTH DAKOTA
DENNIS DAUGAARD, GOVERNOR

**MEMBERS OF THE 88th LEGISLATURE
OF THE STATE OF SOUTH DAKOTA**

I am pleased to present the state budget report for Fiscal Year 2014. This proposal will fund necessary state government services and special appropriations for the fiscal period beginning July 1, 2013, and ending June 30, 2014.

South Dakota has emerged from the Great Recession more fiscally and economically strong than many other states. Thanks to a courageous legislature and tough choices made two years ago, our state budget is on a firm footing. We eliminated our structural deficit and avoided the uncertainty which remains problematic at the national level.

Much like last year, we again see moderate growth in our tax revenues. This growth is founded on increased economic activity, not higher tax rates. For existing programs, the FY14 budget will again support modest increases rather than cuts. The budget will also allow a small amount of spending in other targeted areas. We must continue to be cautious, as many external factors – the world economy, federal budget cuts, expiring tax cuts, and continued questions surrounding federal healthcare reform – could dramatically change our current projections.

My proposed budget again heeds the principles I believe are essential: ongoing expenses should be paid only from ongoing revenue, and one-time funds should pay only for one-time expenses.

This budget will fund essential government services and proposes modest ongoing funding increases for education, Medicaid providers, and state employees. I am proposing these same three key sectors receive an inflationary increase of 3.0% due to predictable revenue growth. As we move into the future, it is important to use revenue increases as an opportunity to build better institutions and systems, rather than simply increasing funding for the same approaches.

I am not proposing to use any reserves this year. At the end of FY2012, we were able to replenish the reserves we used for emergencies last year and add further to them.

Key among my recommendations:

- **Funding increase for K-12 according to the statutory funding formula.** Where new dollars are available, education funding should follow the statutory formula policy. This year, I propose to increase the per-student allocation for K-12 education by 3.0%, at an estimated ongoing cost of \$11,011,279 in state funds. Additional students entering the system at the new Per Student Allocation will cost an additional \$4,346,910 in general funds. For special education, I am also recommending \$6,291,437 in state funds, which will correct the base funding and provide a 3.0% increase.
- **Salary policy for state employees.** State government's most valuable resource is our human resources. Today, we have fewer employees than when I first took office, yet we are providing more services than ever to our citizens. State salaries were frozen for three years

from FY2010 through FY2012, as budget realities precluded salary increases. Last year we were able to return to a more traditional salary policy, and this year my proposal includes a continuation of that return to normalcy. As the economy strengthens, we need to be able to compete with other employers to maintain a quality work force. I am proposing that we continue with the PACE program started by former Governor George S. Mickelson and also with the Career Bands established in FY2010 for job families that are far below market. My salary policy recommendation includes:

- A 3.0% cost of living adjustment across the board for permanent state employees, and market adjustments for the career band job families.
 - An enhanced movement toward job worth of 3.5% for FY2014 for PACE employees, and performance-based increases of 0% to 4.5% to move career band employees towards market.
 - A 14.7% increase in employer paid health insurance costs, given rapidly rising costs of health care.
- **Increased reimbursement rates for Medicaid providers.** I am proposing to increase the rates paid on average to our medical providers by 3.0%. Our prospective funding model for inflation called for 1.8%. However, I feel that a 3.0% increase is affordable and warranted. The cost of this in state general funds is \$11,038,694.
 - **Increased funding for Higher Education.** I am proposing an ongoing increase of 3.2% to the Board of Regents at a cost of \$5,347,191. My proposal for the Technical Institutes is very similar to that for K-12 with a 3.0% ongoing formula adjustment.
 - **A conservative approach to growth.** After several years of experiencing revenue falling short of projections, we are now fortunate that FY2013 revenues are running higher than expected. While some may suggest this demonstrates too-conservative revenue forecasts, it is better to spend dollars after they are probable than to commit them when they are hopeful. This is the responsible way to manage. In a world full of uncertainty, we must continue this conservative approach. I am again leaving \$16.4 million in one-time funds from FY13 and \$10.2 million in projected funds from FY14 unappropriated at this time. Each of these amounts is about 1% of our general fund budget, and leaves our budget room for weaker-than-expected revenue collections. It also gives us room to move as we await federal decisions that will impact our budget.

I hope you will agree it is a very solemn duty to spend the people's money entrusted to us. I treat this duty very seriously, and my budget proposals this year were developed as if these were my own dollars to spend.

Our system asks the governor to begin the conversation by proposing a budget. My proposal is A plan, not THE plan, and I look forward to working with the legislature and public to create the best budget for South Dakota's future.

Sincerely,



Dennis Daugaard