



# STATE OF SOUTH DAKOTA

DENNIS DAUGAARD, GOVERNOR

## MEMBERS OF THE 90<sup>th</sup> LEGISLATURE OF THE STATE OF SOUTH DAKOTA

I am pleased to present the state budget report for Fiscal Year 2016. This proposal will fund necessary state government services and special appropriations for the fiscal period beginning July 1, 2015, and ending June 30, 2016.

In South Dakota, we remain committed to fiscal responsibility and conservative management principles. We don't spend what we don't have. We use one-time money for one-time expenses and ongoing money for ongoing expenses. When possible, we avoid the creation of unfunded liabilities. We work hard to ensure your tax dollars are used wisely to fund a fiscally strong state government.

As a result of our good stewardship, South Dakota is in a strong position. Our tax revenues are increasing because of economic growth, and we enjoy one of the lowest state tax burdens in America. South Dakota has among the lowest costs of living in America, and continues to have one of the lowest rates of unemployment in the nation. South Dakotans can enjoy stability and predictability from their state government, and our state has grown and prospered as a result.

South Dakota lead the recovery from the national recession and has enjoyed several years of economic growth, driven by a thriving agricultural economy. As the rest of the nation recovers, South Dakota's economic growth has stabilized. I am pleased that this year the growth in our tax base is sufficient to fund inflationary spending increases. In addition, by controlling key expenditure areas, I can offer a budget that funds an additional amount of incremental spending growth beyond what is statutorily required.

### **Key among my recommendations:**

- **Funding increase for K-12 according to the statutory funding formula.** I am committed to the notion that, in years where new dollars are available, education should follow the formula in statute. This year, the funding formula would call for an increase in the per-student allocation of 1.5 percent. However, by incorporating certain budgetary items into the state aid formula, we can afford to increase the per-student allocation for K-12 education to 2.0 percent. I am also recommending a 2.0 percent increase for special education disability levels in FY2016 as well.
- **Increased reimbursement rates for Medicaid providers.** As with K-12 education, cost control in the entitlement area will allow me to propose an increase for providers of 2.0 percent, which is in excess of the projected 1.4 percent FY2016 Consumer Price Index (CPI) growth rate.

- **Increased funding for the State Universities.** I am proposing an ongoing increase to the Board of Regents operations of 1.6 percent, which includes dollars to continue our movement to funding 2.0 percent of deferred maintenance in the university system. In addition, I am pleased to recommend an increase in the value of the South Dakota Opportunity Scholarship from \$5,000 to \$6,500. This will be the first increase in the value of the scholarship since it was created. I'm recommending that the total budget of the Board of Regents increase by 2.3 percent.
- **Increased funding for the Technical Institutes.** My proposal for the Technical Institutes is very similar to that for K-12 with a 2.0 percent ongoing formula adjustment. In addition, my budget allocates dollars to pay for additional debt service for the Technical Institute's additional bonding costs. The Technical Institutes have transformed themselves through the construction of modern facilities, and the state is paying its share to ensure that they continue to meet our state's workforce needs.
- **Compensation adjustments for state employees.** The most valuable resource state government has is our human resource. After three years of frozen salaries, we returned to traditional salary policy packages the last three years. This year I am proposing that a market adjustment for state employees be adopted. I am also recommending we continue with the Career Bands established in FY2010 for job families that are far below market. My salary policy recommendation includes:
  - A 2.0 percent market adjustment for permanent state employees, including various market based adjustments for the career band job families.
  - Movement toward market value of 2.5 percent for employees entering the new compensation structure, and performance-based increases of 0 percent to 4.5 percent to move career band employees towards market.
  - A 0 percent increase in employer paid health insurance costs. We have been successful in being proactive with our health insurance costs so that no increase will be necessary this year.
- **A conservative approach to growth.** I thank the Legislature for joining with me over the past four years to budget conservatively. Today we find our fiscal situation stronger than ever. It is better to spend dollars when they are probable than to commit them when they are hopeful. No projection can be perfect, and we should always hope that if we err, we err on the side of caution. I would much rather face a surplus each year than a shortfall.

We have been entrusted with the people's money. That responsibility is to spend the people's money wisely and to manage the people's assets prudently. I treat this duty very seriously, and I know the Legislature does as well. I look forward to working with the Legislature and the public over the coming months to continue our stewardship of this state. Together, we will continue our state's path to prosperity and stability.

Sincerely,



Dennis Daugaard