

MEMBERS OF THE 79TH LEGISLATURE OF THE STATE OF SOUTH DAKOTA

It is my honor to submit the governor's budget report for Fiscal Year 2005. This report is my proposal for funding necessary state government services and special appropriations for the fiscal year beginning July 1, 2004, and ending June 30, 2005.

As our economy begins to recover from this state's first recession in nearly two decades, prioritizing our needs has been essential. As a result, this budget reflects my commitment to our state's top priorities: helping 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.

Earlier this year, the federal government appropriated substantial one-time funding to the states in an effort to provide short-term fiscal relief. The use of these federal dollars, along with some of our state's reserve funds, temporarily fills our state's structural deficit and makes it possible for me to propose a balanced budget without recommending any tax increases. Fortunately, if we continue to exercise restraint on government spending, growth in our economy will eliminate the structural deficit in coming years.

I believe that this FY2005 proposed budget is a conservative and reasonable approach to meeting the needs of our citizens while protecting our role as stewards of taxpayers' money. Some of the key components of this proposed budget are:

- **A continued commitment to education in FY2005** – This budget proposes an inflationary increase in education funding, and also includes dollars otherwise lost from the school formula through declining enrollment. These "declining enrollment" funds will provide additional state resources to schools, based on Average Daily Membership (ADM), above and beyond the requirements of the current formula. I've also recommended that we use some of the interest from the state's Education Enhancement Trust Fund to provide new resources to our schools. Finally, because of higher than expected earnings from that trust fund in FY2004, I am also recommending that the legislature appropriate some of those one-time funds to funding our state's schools in FY2005.
- **Increased funding for the state's share of federal health care programs** – The number of people enrolled in the 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 both FY2004 and FY2005. The money paid for citizens on Medicaid in South Dakota is budgeted to increase by more than 12 percent.
- **Protecting the public** – One of our largest challenges is keeping our state free from those who would do us harm. An important part of keeping our communities safe is to provide adequate rehabilitative services to those who need them so that they can rejoin society as productive citizens. This budget contains resources to address this increasingly important and challenging goal. It also addresses the increasing population at our state's prisons, the need to maintaining a strong and effective court system, and also provides us with the

ability to pass on millions of dollars from the federal government for homeland security.

- **Commitment to our employees** – The most valuable resources in state government are our employees. Today, the executive branch of state government has fewer employees and contractual labor than it did when I was first elected to the Senate in 1991. During that same time, however, the needs of our citizens have increased, and the scope of state government has expanded. Working together I know that we will continue to reshape state government by providing more accountability to our citizens and improving the responsiveness and quality of the programs and services we provide. Good employees are vital to those efforts. As a result, I propose that we:

- Provide an across the board 3 percent salary increase for state employees.
- Continue the 2.5 percent movement to the “job worth” program.
- Fund a 2 percent increase in employee health benefits.

As we move forward I know that we will work together to find ways to deliver services to our citizens as efficiently as possible. We'll also work to expand our economy through efforts like the 2010 Initiative. The quality of life in South Dakota is better than anywhere else, and our limited, caring, and responsible approach to government will play an important role in keeping that a reality. This budget proves we can and will do what it takes to make our state an even better place to live.

Sincerely,

M. Michael Rounds