



STATE OF SOUTH DAKOTA

DENNIS DAUGAARD, GOVERNOR

MEMBERS OF THE 86th LEGISLATURE OF THE STATE OF SOUTH DAKOTA

I am pleased to present the state budget report for Fiscal Year 2012. This proposal will fund necessary state government services and special appropriations for the fiscal period beginning July 1, 2011, and ending June 30, 2012.

South Dakota has endured two years of recession, and recovery from the harsh economic downturn is slow and uncertain. At the same time as financial obligations on state government have increased – due to the recession – our revenues have been falling. We must carefully prioritize spending in order to bring it in line with the revenues we expect to receive in the next fiscal year. South Dakota must be **frugal and self-reliant**. That means we will have to make some difficult and perhaps unpopular choices. Declining revenues not only impact next year's budget but also require adjusting the current budget.

We have an obligation to care for those people who cannot take care of themselves, but those who can earn their own way should not consider themselves entitled to state assistance.

My proposed budget will fund essential government services but will require the use of federal stimulus funds, ongoing receipts from the property tax reduction fund, interest from state trust funds, and a portion of other revenues to meet the ongoing expenses of state government.

I also am proposing significant cuts in many state agencies, departments, and entitlements. Most will be at least 10 %. I believe we need to take active steps now to curtail our spending on entitlement programs over which we have little or no control. Those areas of our budget continue growing each year.

My FY2012 budget recommendations reflect the most recent revenue conditions while meeting the needs of South Dakota citizens and prudently stewarding taxpayers' money.

Key among my recommendations:

- **Increased state funding to offset termination of federal stimulus programs** – The State of South Dakota will lose more than \$76 million with expiration of the American Recovery and Reinvestment Act of 2009, requiring additional state funds to replace those lost federal funds. Fortunately, the FY2011 and FY2012 budgets will be eased a bit by the nearly \$54.4 million in additional stimulus funds that were included in H.R.1586 last August.

• **Increased funding for the state's share of mandated federal health care programs -**

The national recession has resulted in a large increase in the state's Medicaid program. The number of Medicaid eligibles in South Dakota continues to grow. The **skyrocketing** costs of providing these **federally mandated** services, coupled with expanded caseloads, comprise a significant increase in my recommended budget for FY2012. Another concern is the new wave of Medicaid eligibles the state will see as a result of national Health Care Reform. South Dakota also faces mandatory Maintenance of Effort requirements as a result of the new federal law. For all these reasons, I recommend a 10% rate reduction to our medical services' providers.

• **Education funding in FY2012** – I propose to reduce funding for Education at all levels by 10%. This recommendation for reduced funding is being offered for K-12 Education, the four Technical Institutes and the Board of Regents' system.

• **Protecting the public** – Among our greatest obligations is keeping South Dakotans safe from the criminal element. I believe many of the people housed in our corrections system can be rehabilitated and someday be contributing members of society. But until then, we must keep them locked up. My budget supports the state prison system and maintains a strong, effective court system.

• **Commitment to our employees** - The most valuable resource in state government is its employees. Demand for government services has increased in these uncertain economic times, and state employees have stepped up to help. Despite that heavy demand, the percentage of the state budget for the remainder of state government has declined in the last eight years. State employees have received no inflationary salary increase for the last two years. I wish we could boost their pay in this proposed budget, but we just do not have adequate revenues to support that added expense.

• **Cuts to ongoing expenses** – In an effort to bring our structural deficit under control, I am proposing a total of nearly \$127 million in general fund cuts. To accomplish this, shared sacrifice must be undertaken. A minimum of 10% in cuts is being offered in each agency budget.

Without doubt the FY2012 budget will be a challenge. Many programs are being recommended for elimination. Several others will be reduced significantly because of limited financial resources.

To balance the budget, we must increase ongoing revenues or cut ongoing expenses. Because the revenue picture continues to be weak, I believe we must make the hard choice this year of reducing ongoing expenses.

Through self-reliance, frugality, persistence and determination, we can develop a budget that meets the needs of South Dakotans but does not spend more than necessary.

Thank you for the opportunity to present my budget, now let's get down to work. We can **make** South Dakota a better place in the future by **making the right decisions** now. Our state budget remains one of the healthiest in the nation. Let's make it **the** healthiest!

Sincerely,

A handwritten signature in blue ink that reads "Dennis Daugaard". The signature is written in a cursive style with a large, stylized initial 'D'.

Dennis Daugaard