



STATE OF SOUTH DAKOTA  
DENNIS DAUGAARD, GOVERNOR

MEMBERS OF THE 87<sup>th</sup> LEGISLATURE  
OF THE STATE OF SOUTH DAKOTA

I am pleased to present the state budget report for Fiscal Year 2013. This proposal will fund necessary state government services and special appropriations for the fiscal period beginning July 1, 2012, and ending June 30, 2013.

Last year, we adopted a state budget that required tough choices but placed our state on a strong financial footing. Together, we eliminated the structural deficit and ended the use of one-time funds to fund ongoing operations, recognizing that ongoing expenses should not exceed ongoing revenue.

When I proposed last year's budget, I promised that tough choices one year would lead to a brighter future when we could talk about increases, not more cuts. This year, we have the opportunity to build from a new base and consider investments in key areas. At the same time, we must continue to be cautious, as many external factors – the world economy, federal budget cuts, and continued questions surrounding federal healthcare reform – could dramatically change our current projections.

My proposed budget heeds the principles I set forth last year: ongoing revenue pays for ongoing expenses, one-time funds pay for one-time expenses, and reserve funds are used only for emergencies.

This budget will fund essential government services and proposes modest ongoing funding increases for education, Medicaid providers, and state employees. I am proposing that these same three key sectors also receive one-time funds that are the result of strong revenue growth. As we move into the future, it is important that we use funding increases as an opportunity to build better institutions and systems, rather than simply increasing funding to the same approaches.

I have also proposed the use of reserve funds to pay for disaster response efforts – the historic flooding we suffered this spring and summer and the looming threat of devastation in the Black Hills because of mountain pine beetles.

**Key among my recommendations:**

- **Funding increase for K-12 according to the statutory funding formula, and additional one-time funds for schools.** I am committed to the notion that, in years where new dollars are available, education should receive “the first dollar and the last dollar” of state funds. This year, I propose to give K-12 education “the first dollar” by increasing the per-student allocation for K-12 education by 2.3 percent, at an estimated ongoing cost of \$9,834,158 in

state funds. Additional students entering the system at the new PSA will cost an additional \$2,964,241 in general funds. In addition, I propose to increase the per-student allocation, on a one-time basis, outside the formula, by an additional 0.7 percent, at a one-time state cost of \$3,937,282. Finally, because there are additional one time funds available after our other obligations are met, I propose to give schools “the last dollar” – \$8,437,031 in one-time funds for intensive professional development for teachers in the Common Core curriculum standards, and for administrators in new techniques for teacher evaluation.

- **Salary policy for state employees.** State salaries have been frozen for three years, as budget realities precluded annual salary policy. During that time, state employees have continued to work hard and to serve the state well. This year, my proposal provides a 3% ongoing increase to state employees. In addition, my budget includes a one-time payment to state employees, equal to 5 percent of their salary, to partially offset the loss of purchasing power due to inflation in the three years their salaries were frozen.
- **Increased reimbursement rates for Medicaid providers.** I am proposing to increase the rates paid on average to our medical providers by 1.8%. The cost of this in state funds is \$6,180,711. I am also proposing to increase those rates on average another 1.2% with one-time funds at a state cost of \$4,059,042. Finally, because there are additional one-time funds available, I propose to increase rates on average another 1.5% at a state cost of \$5,036,748.
- **Increased funding for Higher Education.** As proposed for K-12, my budget includes both ongoing and one-time funding increases for the Board of Regents and for the state’s Technical Institutes. I am proposing an ongoing increase to Higher Education of 0.9% at a cost of \$1,402,714. I would also propose a one-time increase of 2.1% at a cost of \$3,480,534. Finally, I am proposing the equivalent of a 1.5% additional increase in one-time funds of \$2,441,624. My proposal for the Technical Institutes is very similar to that for K-12 with a 2.3% ongoing formula adjustment, 0.7% in one-time funds and an additional 1.5% in one-time funds.
- **Use of reserves to respond to emergencies.** I have stated my belief that state reserve funds should be used to pay for emergencies. This year, our state faced historic flooding along the Missouri River, as well as in the Northeast and in other parts of South Dakota. We were all extremely proud of the resolve that South Dakotans showed as they worked together to fight this flooding. I will be proposing a special appropriation to pay for the state’s share of these costs, estimated at over \$14 million. We also face a potential disaster in the Black Hills, as the mountain pine beetle infestation, if unchecked, could lead to a massive forest fire. I am proposing to use reserves in the amount of \$6.1 million to pay for these costs.
- **A conservative approach to growth.** After several years of experiencing revenue falling short of projections, in FY12 I am proud that we adopted a conservative revenue estimate that has not overstated our projected receipts, to date. That is the responsible way to manage. In a world full of uncertainty, we must continue this conservative approach. I am proposing that \$10,000,000 in one-time funds from FY12 and \$12,108,103 in projected funds from FY13 remain unappropriated. Each of these amounts is less than one percent of our general fund budget, and leaves our budget room for weaker-than-expected revenue

collections. If we end the fiscal years on-target, these funds can revert into our reserve funds, to build back from our emergency response efforts.

Last year, we joined together to make tough decisions and balance our budget. This year, we can consider proposals about new growth and new ideas. Still, even as we have begun to recover, it is crucial that we remain true to maintaining a structurally-balanced budget based on conservative revenue estimates. If we don't, we risk a return to an era of structural deficits.

Our system asks the governor to begin the conversation by proposing a budget. As I said last year, 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,

A handwritten signature in black ink that reads "Dennis Dugaard". The signature is written in a cursive, flowing style.

Dennis Dugaard