



STATE OF SOUTH DAKOTA

DENNIS DAUGAARD, GOVERNOR

MEMBERS OF THE 89th LEGISLATURE OF THE STATE OF SOUTH DAKOTA

I am pleased to present the state budget report for Fiscal Year 2015. This proposal will fund necessary state government services and special appropriations for the fiscal period beginning July 1, 2014, and ending June 30, 2015.

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. Instead, when one-time dollars are available, we use those dollars to eliminate a liability, build or improve an asset, secure an asset, or endow a program for the future.

As a result of our good stewardship, South Dakota is in a strong position. Our tax revenues are increasing because of economic growth, not tax increases, and we enjoy one of the lowest state tax burdens in America. South Dakota has the lowest cost 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.

This year, the growth in our tax base is sufficient to fund only a basic level of modest increases. I will be proposing, however, a means to use unexpected one-time dollars to free up additional ongoing dollars, so that we can offer increases 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 1.6 percent. By using one-time dollars creatively to free up additional ongoing revenue, however, I am able to propose a budget that will increase the per-student allocation for K-12 education by 3.0 percent. The cost of the additional 1.4 percent increase is \$6.5 million in state funds. Of the total increase for K-12, \$3.6 million is necessary due to increased enrollments. I am also recommending a 3.0 percent increase for special education disability levels in FY2015.
- **Increased reimbursement rates for Medicaid providers.** As with K-12 education, I am proposing an increase for providers of 3.0 percent, which is in excess of the projected 1.6 percent FY2015 Consumer Price Index (CPI) growth rate. The cost of all provider inflation, including a 3.0 percent rate increase for provider reimbursement rates, is \$15.7 million in state funds.
- **Increased funding for the State Universities.** I am proposing an ongoing increase to the Board of Regents of 2.6 percent at a cost of \$4.8 million. In addition to this proposal is a tuition freeze at the state universities for in-state, on-campus students. My budget allocates \$4 million in state dollars to the Regents to guarantee there will be no tuition increase for these students.

As the cost of college continues to rise, this is a proactive step to help keep college affordable. My recommendation also includes funds for an expansion of the Sanford School of Medicine at the University of South Dakota. As many physicians near retirement, the need for primary care physicians continues to escalate, especially in rural areas. This expansion will help meet our need for a new generation of primary care physicians.

- **Increased funding for the Technical Institutes.** My proposal for the Technical Institutes is very similar to that for K-12 with a 3.0 percent ongoing formula adjustment. In addition, my budget allocates dollars to assume a larger share of the Technical Institute's bonding costs. The Technical Institutes have transformed themselves through the construction of modern facilities, and the state is paying its share to ensure they continue to meet our state's workforce needs. Finally, my budget also recommends state dollars to freeze Technical Institute tuition up to \$5/credit hour at a cost of nearly \$1 million.
- **Salary policy 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 two years, and my budget proposes we continue that pattern. I am proposing 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 percent cost of living adjustment across the board for permanent state employees, including 3.0 percent market adjustments for the career band job families.
 - Movement towards job worth of 3.0 percent for PACE employees, and performance-based increases of 0 percent to 4.5 percent to move career band employees towards market.
 - Targeted compensation adjustments for a small number of mostly vocational jobs that are below market, experiencing high turnover, a decline in applicants, or are difficult to fill because of the nature of the work.
 - An 18.6 percent increase in employer paid health insurance costs.
- **A conservative approach to growth.** I thank the Legislature for joining with me over the past three years to budget conservatively. 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.

The people of South Dakota trust you and I – their Legislature and their Governor – to spend the people's money and to manage the people's assets prudently. I treat this duty very seriously, and I know the Legislature does as well. 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 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