

MEMBERS OF THE 91st LEGISLATURE OF THE STATE OF SOUTH DAKOTA

I am pleased to present the state budget report for Fiscal Year 2017. This proposal will fund necessary state government services and special appropriations for the fiscal period beginning July 1, 2016, and ending June 30, 2017.

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.

The budget I propose to you this year does not deviate from those I have proposed to you the last five years. 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. Finally, targeted investments in key areas such as deferred maintenance, tiered provider rate enhancements and fixing structural imbalances in key agency revenue streams are included.

Key among my recommendations:

- **Increased reimbursement rates for Medicaid providers.** I am proposing an increase for providers of 2.7 percent, which is in excess of the projected 2.1 percent FY2017 Consumer Price Index (CPI) growth rate. Furthermore, I am proposing additional funding to bring all provider reimbursement rates to at least 90.0 percent of costs. This funding would be year one of a three-year plan. The Medicaid budget also includes increased federal expenditure authority to allow for the expansion of Medicaid, if current talks with the federal government lead to a plan that is supported by the Legislature, the tribes, the Indian Health Service, and the administration.
- **Increased funding for the State Universities.** I am proposing an ongoing increase to the Board of Regents of 2.5 percent at a cost of \$5.1 million. I am pleased to recommend an increase to allow for a tuition freeze at the state universities for in-state, on-campus residents. My budget allocates \$3.2 million to guarantee there will be no increase in tuition or mandatory fees. As the cost of college continues to rise, this is a proactive step to help keep college affordable. My recommendation also includes funds to complete our movement to funding 2.0 percent of deferred maintenance in the university system. I am also proposing funds to establish the Center for the Prevention of Child Maltreatment, which will play a significant role in strengthening the State's culture related to preventing and responding to child maltreatment.

- **Increased funding for the Technical Institutes.** I am proposing a 2.7 percent ongoing formula adjustment. This represents an increase of \$1 million. In addition, my budget allocates funding to freeze Technical Institute tuition up to \$5/credit hour at a cost of nearly \$1 million.
- **Compensation adjustments for state employees.** The most valuable resource state government has is our human resource. 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 2.7 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 1.0 percent decrease in employer paid health insurance costs. We have been successful in being proactive with our health insurance costs.
- **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. The funding formula calls for an increase in the per-student allocation of 0.3 percent. I am also recommending over \$8.6 million to fund the tri-annual rebase of State Aid to Special Education. This recommendation does not include any funding for the proposals made by the Blue Ribbon Task Force. The Task Force report offers detailed analysis and specific proposals relating to school funding and teacher salaries. I will dedicate much of my State of the State Address in January to discussing my recommendations on these important issues.
- **A conservative approach to growth.** I thank the Legislature for joining with me over the past five 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 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