

**MEMBERS OF THE 92nd LEGISLATURE
OF THE STATE OF SOUTH DAKOTA**

I am pleased to present the state budget report for Fiscal Year 2018. This proposal will fund necessary state government services and special appropriations for the fiscal period beginning July 1, 2017, and ending June 30, 2018.

In South Dakota, we remain committed to fiscal responsibility and conservative management principles. We don't spend money that 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 and in recent years have made major strides to reduce our liabilities. We work hard to ensure your tax dollars are used wisely to fund a fiscally strong state government.

Improving our budget and financial practices as a state has been a major priority the past several years and our hard work hasn't gone unnoticed. South Dakota now holds the highest credit ratings possible from each of the three major credit rating agencies, after being upgraded by each agency over the past two years. This exceptional credit worthiness as a state will lead to substantial savings in future interest payments for the people of South Dakota.

The budget I propose to you this year reflects the most recent revenue conditions. State tax collections are below the adopted revenue estimates in the current year. Lower revenue collections not only impact next year's budget, but also require adjustments in the current budget. Citizens of South Dakota have been cautious with their spending and they expect their government to do the same. Therefore, careful prioritization of state spending is a necessity. By controlling key expenditure areas, my budget allows for modest investments in education, medical provider rates, and our state's employees, while maintaining a structurally balanced budget.

Key among my recommendations:

- **Continued commitment to education.** 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 of 0.3 percent. However, I am recommending an increase of 1.0 percent, providing a \$6.3 million increase in state aid to general education funding. My proposal also includes funding for planned maintenance at the Board of Regents and increases in the South Dakota Opportunity Scholarship.
- **Increased reimbursement rates for Medicaid providers.** I am proposing an inflationary increase for providers of 1.0 percent. Furthermore, I am proposing to continue the plan to provide additional funding to bring all provider reimbursement rates to at least 90 percent of costs. This funding would complete year two of the three-year plan.

- **Compensation adjustments for state employees.** One of the most valuable resources state government has is its employees. This year I am proposing a modest market adjustment for state employees be adopted. My salary policy recommendation includes:
 - A 1.0 percent market adjustment for permanent state employees.
 - An increase of range minimums for eight of our lower pay grades in the General Pay Structure to 90% of the market minimums.
 - A 0.4 percent increase in employer paid health insurance.

- **Reduction in expenses.** I am recommending reductions in several areas:
 - A reduction in the State's share of Medicaid expenses, in light of an increase in the Federal Medical Assistance Percentage.
 - Reductions in the Department of Social Services, Department of Health, and Department of Corrections due to the closure of the State Treatment and Rehabilitation Academy.
 - Reductions due to the completion of the sale-leaseback program.
 - Reductions in utilities due to decreased usage and projected costs.

We have been entrusted with the people's money. Our 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 the public over the coming months to continue our stewardship of this state. Together, we will maintain stability and continue our state's path to greater prosperity.

Sincerely,

Dennis Daugaard