

**MEMBERS OF THE 93rd LEGISLATURE
OF THE STATE OF SOUTH DAKOTA**

I am pleased to present the state budget report for Fiscal Year 2019. This proposal will fund necessary state government services and special appropriations for the fiscal period beginning July 1, 2018, and ending June 30, 2019.

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.

As a result of our fiscal responsibility, South Dakota holds the highest credit ratings possible from each of the three major credit rating agencies. This exceptional credit worthiness as a state is already leading to substantial savings in future interest payments for the people of South Dakota. These savings help us weather challenging economic conditions.

My FY2019 budget recommendations reflect the most recent revenue conditions. State tax collections are below the adopted estimates in the current year. Lower revenue collections will require adjustments in the current budget, and allow for only modest increases in the FY2019 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.

Key among my recommendations:

- **Continued commitment to education.** I am recommending an increase of \$16.1 million in state aid to general and special education for increased student numbers. I remain committed to the notion that, in years where new dollars are available, education should follow the formula in statute. This year, the funding formula calls for an increase of 1.7 percent. Unfortunately, my recommendation this year does not include a formula increase due to the current revenue conditions.
- **Increased reimbursement rates for medical providers.** Two years ago, we began a plan to provide additional funding to bring all provider reimbursement rates to at least 90 percent of costs. The funding I am recommending this year will complete that three-year plan. Although I am not recommending an inflationary increase for providers, I do believe that rate increases are justified if funding becomes available.
- **Compensation adjustments for state employees.** Lack of available funding prevents me from being able to recommend even a modest market adjustment for our state employees. However, if more funding becomes available, this should also be a top priority. Just because we cannot afford to increase our employees' salaries does not mean the market value of their jobs stops moving. We simply fall further behind on both the market value and minimum levels of our pay structures. My recommendation does include funding to move the minimum

of all grades in the general pay structure to at least 86% of the true market minimums. This will prevent a further widening of the gap between where we hire people and where the market says we should hire them.

- **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 and the Department of Human Services due to changes in utilization trends.
 - Reduction in the Department of Corrections due to the proposed sale of the State Treatment and Rehabilitation Academy.

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