



STATE OF SOUTH DAKOTA

M. MICHAEL ROUNDS, GOVERNOR

MEMBERS OF THE 86TH LEGISLATURE OF THE STATE OF SOUTH DAKOTA

It is my honor to submit the budget report for Fiscal Year 2012. This proposal will fund necessary state government services and special appropriations for the fiscal period beginning July 1, 2011, and ending June 30, 2012.

Although South Dakota has weathered the national recession better than nearly every state in the Union, the reduction to state revenue collections will force state government to even more carefully prioritize our spending. Declining revenues not only impact next year's budget but also require adjusting the current budget. However, these uncertain financial circumstances do not diminish my commitment to those who cannot take care of themselves—the very young and very old; protecting society from those who would harm others; providing a quality education for our children; and helping the private sector grow, which provides jobs and improves incomes.

My proposed budget will again fund essential government services but will require use of federal stimulus funds, the property tax reduction fund, interest from state trust funds, and a portion of other revenues to meet the ongoing expenses of state government.

I am also proposing significant cuts to many of the agencies and departments of state government. Some will be as high as 10 percent. I believe we need to take active steps now to curtail our spending in the area of our entitlements, which are the areas of our budget that continue to grow each year and for which we have little or no control without legislatively approved changes.

My FY2012 budget recommendations reflect the most recent revenue conditions while meeting the needs of our citizens and being good stewards of taxpayers' money.

Key among my recommendations:

- **Increased state funding to offset the end of federal stimulus programs** - The State of South Dakota will lose over \$76 million due to the expiration of the American Recovery and Reinvestment Act of 2009. This will require additional state funds to replace these lost federal funds. Fortunately, South Dakota has received nearly \$54.4 million in additional federal stimulus funds passed in H.R. 1586 this past August. These federal funds will be spent in FY2011; however, the state funds that are saved will be used to soften the blow in the FY2011 and FY2012 budgets.
- **Increased funding for the state's share of mandated federal health care programs** – The national recession has resulted in a large increase in the state's Medicaid program. The number of Medicaid eligibles in South Dakota continues to grow. The **skyrocketing** costs of providing these **federally mandated** services, coupled with expanded caseloads, compromise a significant increase in my recommended budget for FY2012. Another concern is the new wave of Medicaid eligibles the state will see as a result of Health Care

Reform at the national level. South Dakota also faces mandatory Maintenance of Effort requirements as a result of this legislation. For all these reasons, I am recommending a reduction of 5 percent to the rates of services to our providers of medical services.

- **Education funding in FY2012** – Although some budget areas will be cut as much as 10 percent, **I propose** to only reduce funding for education by 5 percent. This recommendation for reduced funding is being offered for K-12 education, technical institutes, and higher education.
- **Protecting the public** – One of our greatest obligations is keeping South Dakotans safe from those who would do us harm. Unfortunately, that requires a corrections system to house people convicted of crimes. I believe, many of those people can be rehabilitated and eventually become contributing members of society. My budget supports the state prison system and will maintain a strong and effective court system.
- **Commitment to our employees** – The most valuable resource in state government is its employees. State government services are in huge demand in these uncertain economic times, and state employees have stepped up to help. In spite of that increased demand for services, the percentage of our state's budget comprised by the rest of state government has decreased over the last 8 years. State employees have received no inflationary salary increase the last 2 years, and we would like to provide them with one in this proposed budget, but we simply don't have the revenues to support that additional expense.

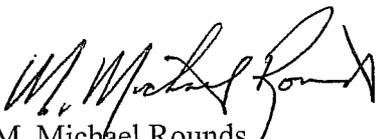
The FY2012 budget will be a challenge. Many programs are being submitted for elimination. In addition, many others will be scaled back significantly due to our limited financial resources.

We must increase our ongoing revenues or be willing to cut ongoing expenses in order to balance this budget. As you know, I will not be governor long enough to see any of these proposals finalized. However, I believe, I am submitting a budget that seeks to begin the process of reducing our ongoing expenses.

We must continue to deliver services as efficiently as possible and develop opportunities for South Dakotans. It's my duty as governor to convey my priorities for the use of tax dollars that citizens of this state have entrusted to us in the coming fiscal year. This budget assures the necessary services that citizens of this state expect us to deliver.

Thank you for the opportunity to have worked with you over the last 8 years to help make South Dakota even better.

Sincerely,



M. Michael Rounds