

Governor's Column: The Direct Effects Of Financial Stewardship



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EDITORS/NEWS DIRECTORS: Please consider the following column from Gov. Dennis Daugaard. For an audio recording of the Governor's weekly column, visit news.sd.gov/media.aspx and click on "Audio" under "Governor Dennis Daugaard."

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The Direct Effects Of Financial Stewardship

A column by Gov. Dennis Daugaard:

As Governor of South Dakota, financial stewardship is one of my top priorities. When it comes to balancing the budget, managing the retirement system and maintaining our AAA credit ratings, I dive into the details. Although it may take time, responsible stewardship can bring financial rewards.

The latest example of this can be found in South Dakota's unemployment insurance trust fund. In 2004, the cost of our state's unemployment benefits began to exceed normal revenue. Continuing on the same path would mean the trust fund would decline and eventually become insolvent. The Rounds Administration and the Unemployment Insurance Advisory Council addressed the problem by adopting a series of comprehensive solvency packages which began working to restore solvency.

Then in 2008, the Great Recession arrived in full force. Thousands of South Dakotans lost their jobs and made claims for unemployment. Weekly benefit payments from the trust fund were unprecedented. The trust fund balance was dropping faster than any predictions. By the end of 2009, South Dakota was forced to obtain federal loans to make benefit payments.

Emergency legislation was proposed during the 2010 Legislative Session which increased the taxable wage base through 2015, established higher tax rates for employers with negative account balances and raised the maximum tax rate to 9.5 percent. These reforms did the trick. In June 2010, the trust fund had steadily increased, and South Dakota was able to repay the federal loan of \$24 million and start rebuilding.

Four years later, the trust fund was back in a good position, so we brought legislation reducing employer taxes starting Jan. 1, 2015. Even with the reduction, the trust fund continued to grow at a steady pace. Recognizing the need to plan for the future, the Advisory Council recommended that the unemployment trust fund be maintained at a level which could pay 19 months of benefits at the average highest cost rate.

As a result of this recommendation, last legislative session, the Legislature passed and I signed a bill to revise the current UI tax rates and provide a tax break to employers. Under this new law, employers receive a permanent tax break of 0.05 percent effective Jan. 1, 2018. This will save employers \$2.3 million annually. Additionally, each year, if the trust fund balance on June 30 reaches the 19-month safety net threshold, employer tax rates will be reduced by another 0.1 percent. Based on the current balance of the trust fund, this means employers will save an additional \$5 million for 2018.

Through much diligence and ongoing evaluation, South Dakota's unemployment insurance trust fund is healthier now than it has ever been. I thank the Advisory Council, the SD Department of Labor and Regulation, and legislators for advancing policies that have put the fund in this unprecedented condition. They recognize, as I do, that employers have enough hurdles in front of them and we should give them a break when we can.