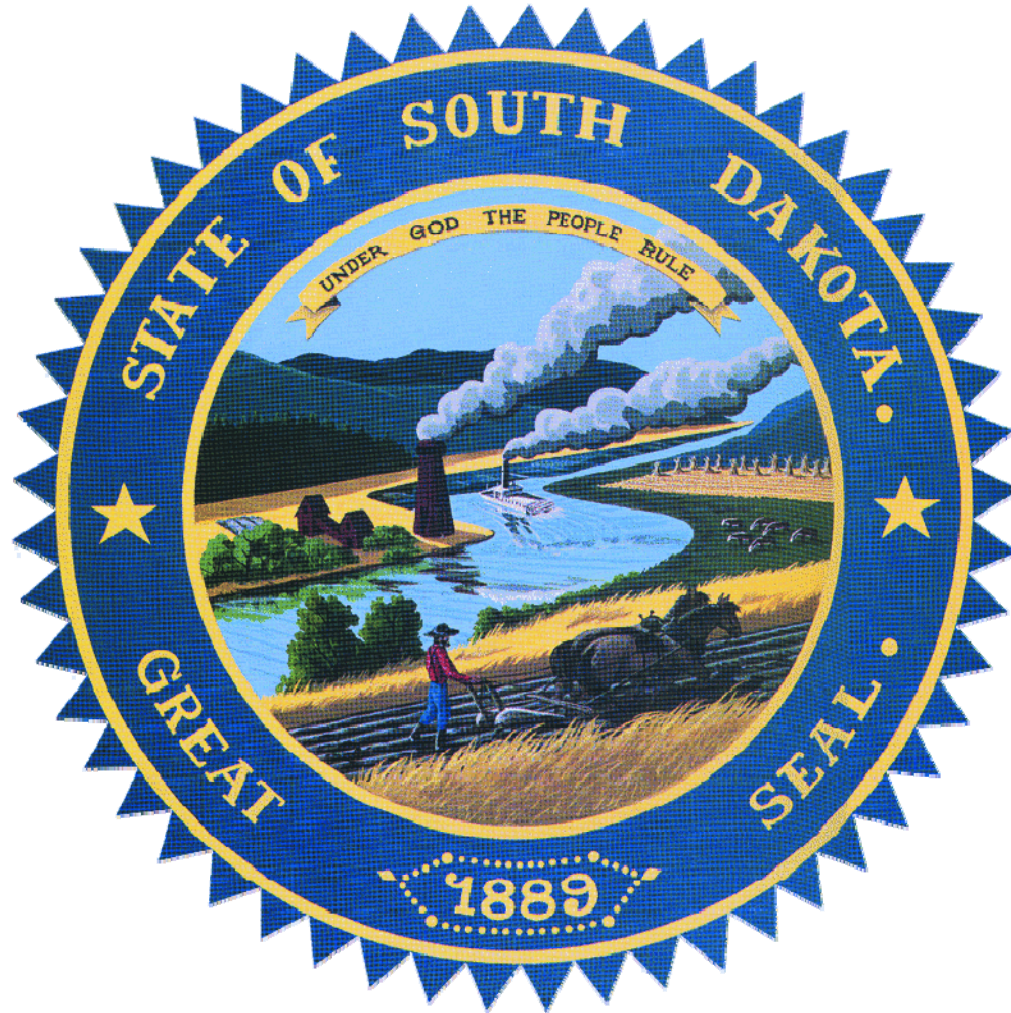
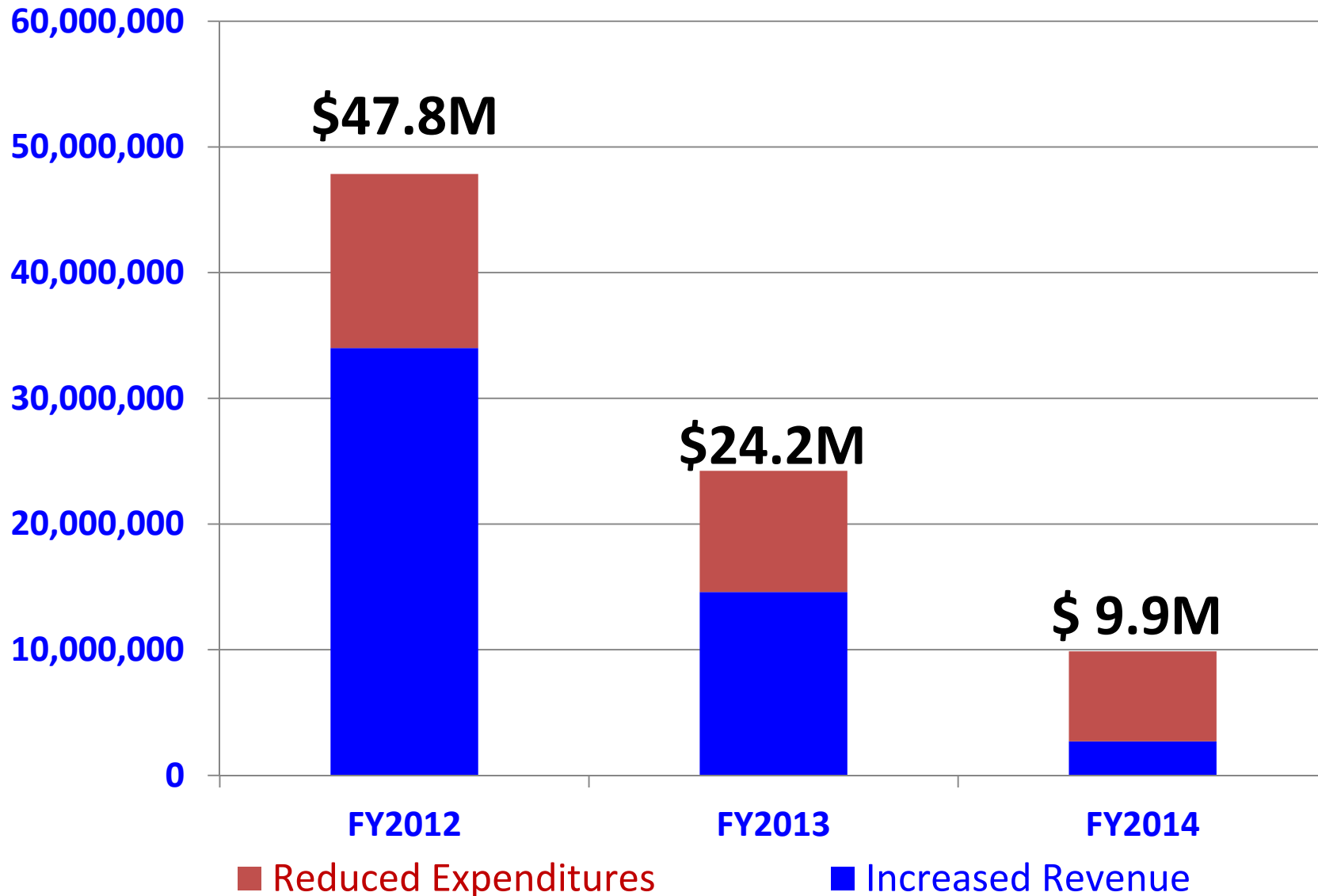


Governor Dennis Daugaard's FY2016 Budget Recommendations

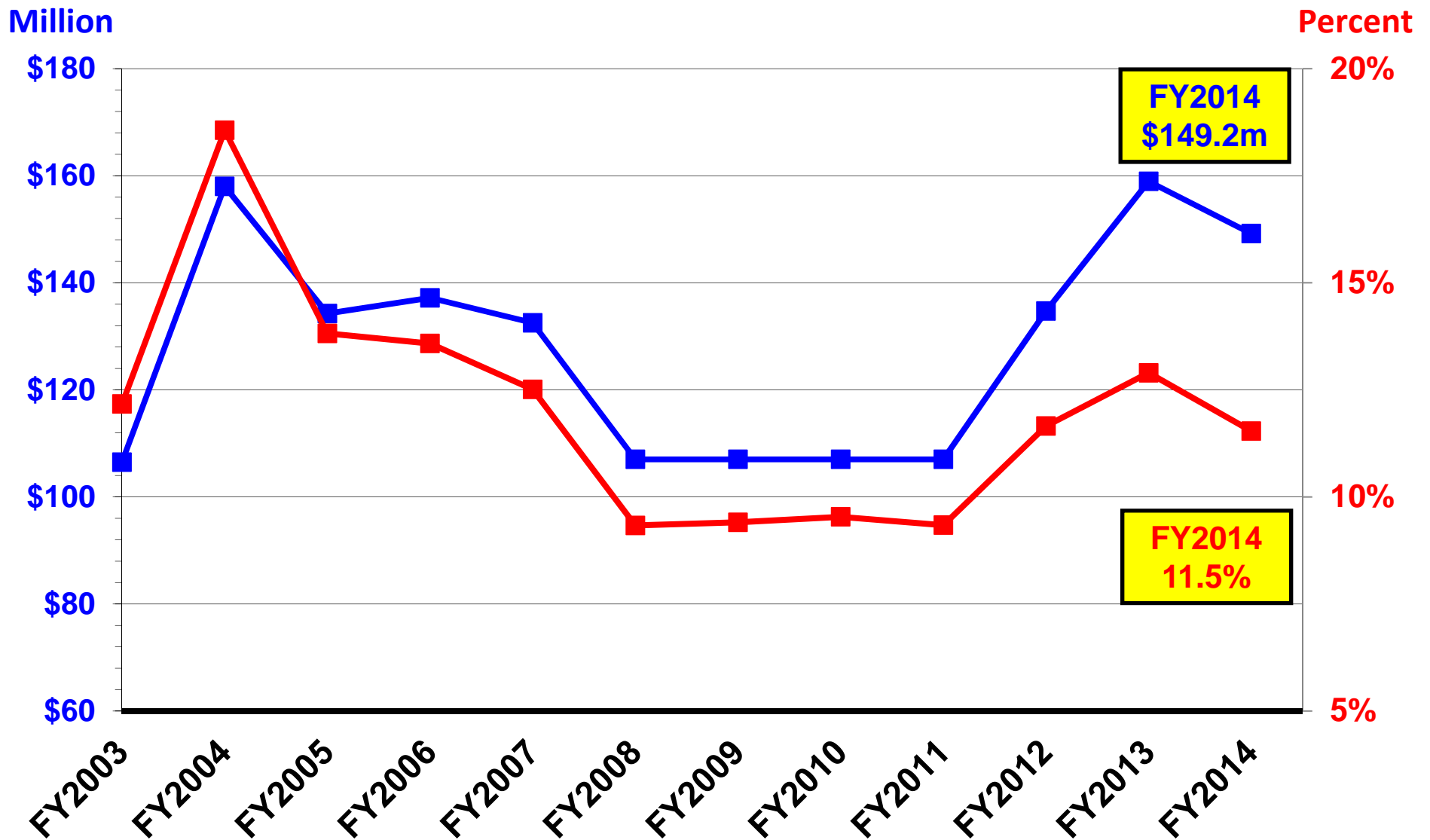


December 2, 2014

FY14 = Third Straight Year of Surplus

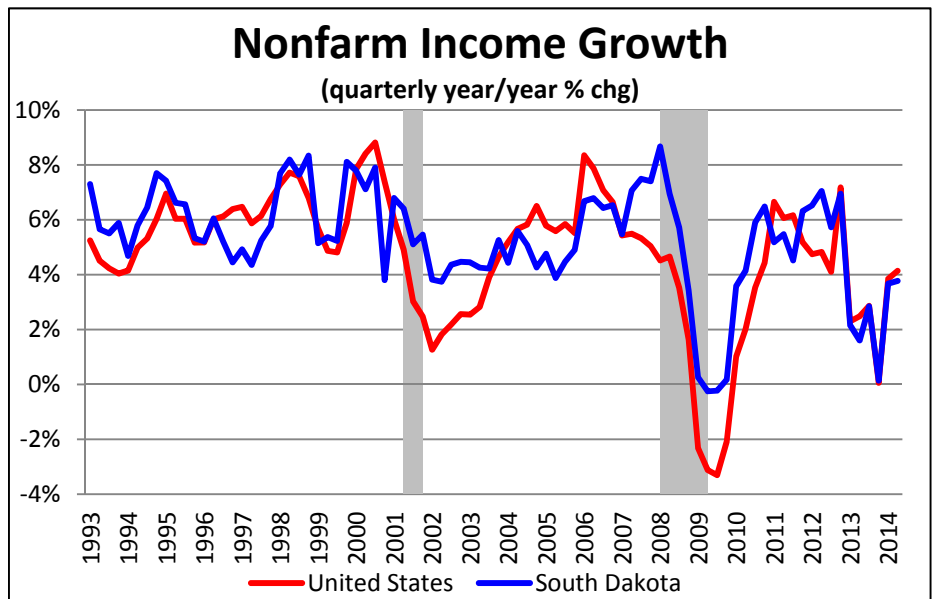
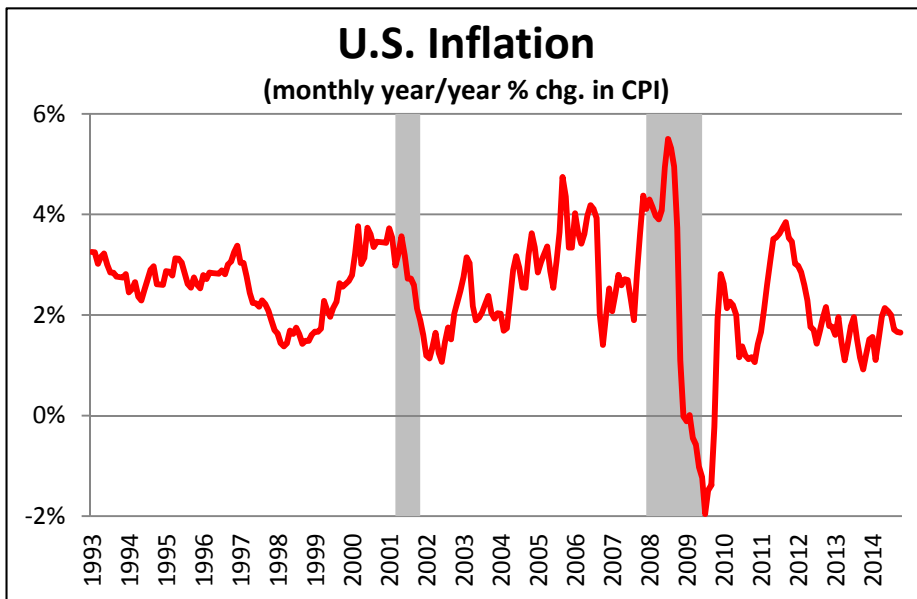
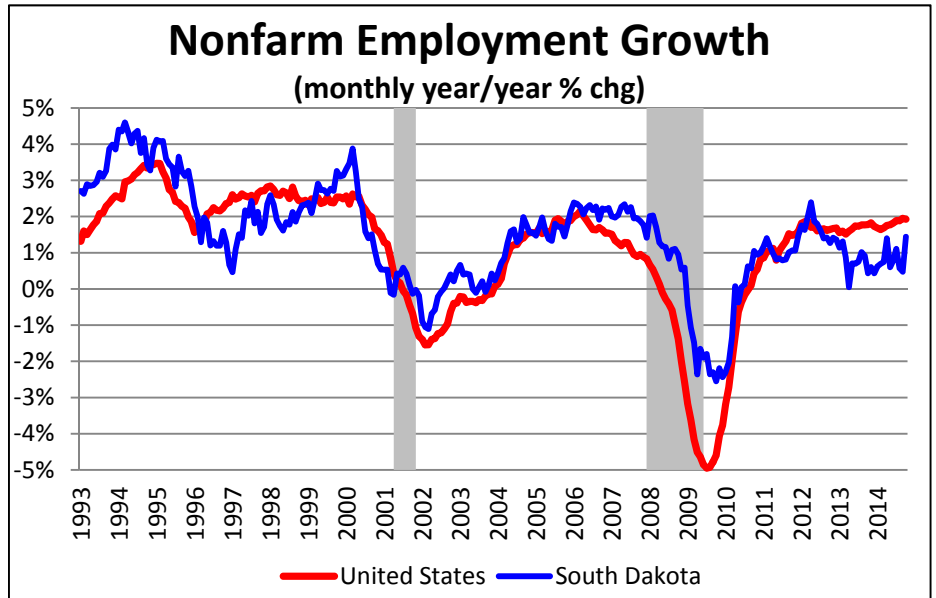
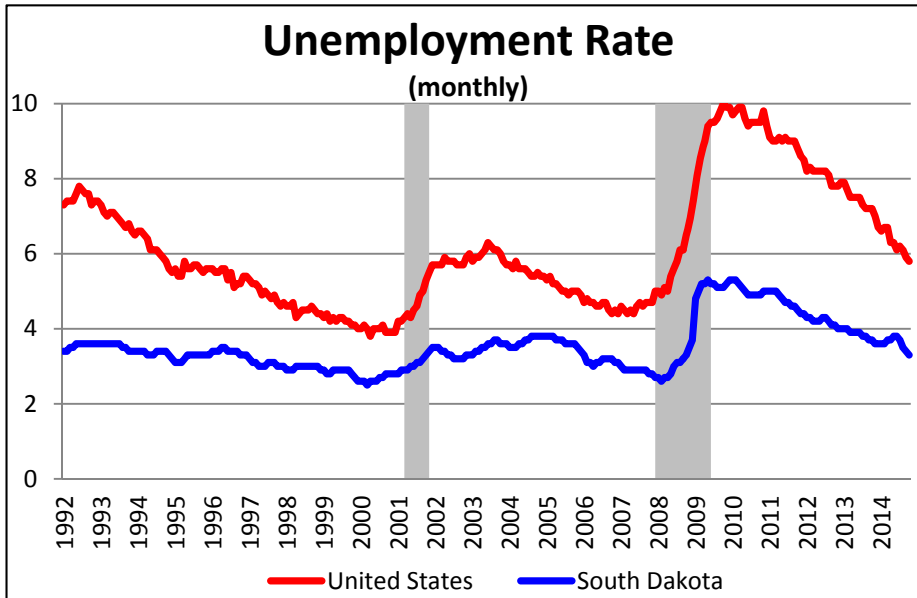


Rainy Day Fund Balances



SOUTH DAKOTA'S ECONOMY

SD Economic Indicators



Forecasted Growth for Major Economic Variables Continues to Revise Downward

Changes in Forecasts for CY 2015				
SD Variables	Feb. 2014			
SD Nonfarm Empl.	1.9%			
SD Nonfarm Income	5.4%			
SD Housing Starts	6,100			
US Variables				
Real GDP	3.3%			
US Housing Starts	1.47M			
Business Investment	6.8%			
Consumption Expend.	3.1%			
US Total Income	5.1%			

Forecasted Growth for Major Economic Variables Continues to Revise Downward

Changes in Forecasts for CY 2015				
SD Variables	Feb. 2014	July 2014		
SD Nonfarm Empl.	1.9%	1.7%		
SD Nonfarm Income	5.4%	5.1%		
SD Housing Starts	6,100	5,900		
US Variables				
Real GDP	3.3%	3.0%		
US Housing Starts	1.47M	1.37M		
Business Investment	6.8%	6.5%		
Consumption Expend.	3.1%	2.7%		
US Total Income	5.1%	4.7%		

Forecasted Growth for Major Economic Variables Continues to Revise Downward

Changes in Forecasts for CY 2015				
SD Variables	Feb. 2014	July 2014	Oct. 2014	
SD Nonfarm Empl.	1.9%	1.7%	1.9%	
SD Nonfarm Income	5.4%	5.1%	4.9%	
SD Housing Starts	6,100	5,900	5,800	
US Variables				
Real GDP	3.3%	3.0%	2.7%	
US Housing Starts	1.47M	1.37M	1.19M	
Business Investment	6.8%	6.5%	5.5%	
Consumption Expend.	3.1%	2.7%	2.8%	
US Total Income	5.1%	4.7%	4.6%	

Forecasted Growth for Major Economic Variables Continues to Revise Downward

Changes in Forecasts for CY 2015				
SD Variables	Feb. 2014	July 2014	Oct. 2014	BFM/Nov. 2014
SD Nonfarm Empl.	1.9%	1.7%	1.9%	1.2%
SD Nonfarm Income	5.4%	5.1%	4.9%	4.4%
SD Housing Starts	6,100	5,900	5,800	4,800
US Variables				
Real GDP	3.3%	3.0%	2.7%	2.7%
US Housing Starts	1.47M	1.37M	1.19M	1.19M
Business Investment	6.8%	6.5%	5.5%	5.5%
Consumption Expend.	3.1%	2.7%	2.8%	2.8%
US Total Income	5.1%	4.7%	4.6%	4.6%

REVENUES

A History of Ongoing Revenue Estimating

Year	Adopted	Actual Revenues	Difference
FY2005	\$952,696,623	\$956,751,219	\$4,054,596
FY2006*	\$1,001,797,801	\$1,013,115,062	\$11,317,261
FY2007*	\$1,065,991,069	\$1,061,350,024	(\$4,641,045)
FY2008*	\$1,148,973,257	\$1,143,748,223	(\$5,225,034)
FY2009	\$1,195,459,836	\$1,138,901,445	(\$56,558,391)
FY2010*	\$1,130,101,479	\$1,109,359,945	(\$20,741,534)
FY2011	\$1,154,744,209	\$1,163,046,393	\$8,302,184
FY2012	\$1,165,379,488	\$1,235,903,897	\$70,524,409
FY2013	\$1,233,473,042	\$1,258,177,217	\$24,704,175
FY2014	\$1,320,558,795	\$1,353,797,245	\$33,238,450
FY2015	\$1,391,836,433	\$1,381,085,998	(\$10,750,435)

*includes adjustments

FY2015 Adopted vs. Revised Revenues

Source (millions)	Ad. FY2015	Rev. FY2015	Change
Sales and Use Tax	\$851.3	\$844.8	- 6.5
Lottery	7.8	6.9	- 0.9
Contractor's Excise Tax	95.4	94.9	- 0.5
Insurance Company Tax	78.0	79.3	+ 1.3
Unclaimed Property	60.2	54.2	- 6.0
Licenses, Permits, and Fees	52.3	53.8	+ 1.5
Interest Income	2.9	0.8	- 2.1
Property Tax Red. Fund	107.8	110.1	+ 2.3
Other Ongoing Revenues	<u>136.1</u>	<u>136.3</u>	<u>+ 0.2</u>
Total Ongoing Revenues	\$1,391.8	\$1,381.1	- 10.7
One-time Revenues	0.0	6.7	+ 6.7
Repeal of Special Approp.	<u>0.0</u>	<u>18.4</u>	<u>+ 18.4</u>
Total Revenues	\$1,391.8	\$1,406.2	+ 14.4

FY2015 & FY2016 Revenues & Forecasts

Source (millions)	Rev. FY2015	Est. FY2016	Change
Sales and Use Tax	\$844.8	\$879.6	+ 34.8
Lottery	6.9	105.8	+ 98.9
Contractor's Excise Tax	94.9	99.9	+ 5.0
Insurance Company Tax	79.3	83.4	+ 4.1
Unclaimed Property	54.2	56.7	+ 2.5
Licenses, Permits, and Fees	53.8	55.5	+ 1.7
Interest Income	0.8	4.2	+ 3.4
Property Tax Red. Fund	110.1	N/A	- 110.1
Other Ongoing Revenues	<u>136.3</u>	<u>156.1</u>	<u>+ 19.8</u>
Total Ongoing Revenues	\$1,381.1	\$1,441.2	+ 60.1
One-time Revenues	6.7	0.0	- 6.7
Repeal of Special Approp.	<u>18.4</u>	<u>0.0</u>	<u>- 18.4</u>
Total Revenues	\$1,406.2	\$1,441.2	+ 35.0

Sorting out our Unclaimed Property Revenues

(millions)

Revenue Source	Adopted FY2015 Est.	Current FY2015 Est.	Change	Current FY2016 Est.	Chg. From Adopted FY15
Large Holder #1	\$32.6	\$28.0	- 4.6	\$28.0	- 4.6
Large Holder #2	\$27.6	\$31.8	+ 4.2	\$31.8	+ 4.2
"Rest" Ongoing	\$5.5	\$4.4	- 1.1	\$4.4	- 1.1
Claims & Reciprocity	<u>-\$5.5</u>	<u>-\$10.0</u>	<u>- 4.5</u>	<u>-\$7.5</u>	<u>- 2.0</u>
Total UCP	\$60.2	\$54.2	- 6.0	\$56.7	- 3.5

Reversal of 90% Interest Proration

Current Law	FY2015	FY2016
Final 10% from previous FY	\$754,294	\$423,329
Est. 90% from current FY	<u>\$3,809,961</u>	<u>\$4,819,601</u>
Total GF Interest Income	\$4,564,256	\$5,242,930

Recommendation	FY2015	FY2016
Final 10% from previous FY	\$754,294	\$0
100% actual from previous FY	<u>\$0</u>	<u>\$4,233,290</u>
Total GF Interest Income	\$754,294	\$4,233,290

Revenue Growth Available to Fund Expenses

(Ongoing)

	<u>Year Ago</u>	<u>Today</u>
Structural Surplus left by Legislature	\$6M	\$0M
Current Year Revised Ongoing Revenue Growth	\$33M	-\$11M
Budgeted Year Projected Ongoing Revenue Growth	\$40M	\$60M
Total Ongoing Revenue Growth Available	\$79M	\$49M

EXPENSES

Inflation Remains Low

- K-12 Education (CPI-W) +1.5%**
- Technical Institutes (CPI-W) +1.5%**
- Board of Regents (CPI-W) +1.5%**
- Provider Inflation (CPI-U) +1.4%**
- State Workforce (COLA) +1.5%**

FY2016 Ongoing General Fund Proposals

- K-12 Education** **+2.0%**
- Technical Institutes** **+2.0%**
- Board of Regents** **+2.3%/1.6%**
- Provider Inflation** **+2.0%**
- State Workforce COLA** **+2.0%**

FY2016 Recommended Ongoing Expense - Summary

Major Increases/Decreases	General Funds
Education Increases	\$15,425,486
Medical & Provider Assistance Increases	\$16,228,696
State Employee Compensation Package	\$11,134,753
All the Rest	<u>\$6,617,539</u>
TOTAL GENERAL FUND INCREASES	\$49,406,474

FY2016 Recommended Ongoing Expense - Education

Major Increases/Decreases	General Funds
State Aid to General Education	\$8,962,141
State Aid to Special Education	\$2,666,902
BOR Maintenance and Repair	\$2,055,512
Grow SD Opportunity Scholarships	\$1,274,001
BOR Utility Costs	\$1,230,803
Dual Credit Increased Demand	\$802,500
Technical Institute Facilities	\$437,533
Miscellaneous Increases/Decreases	<u>(\$2,003,906)</u>
TOTAL GENERAL FUND INCREASES	\$15,425,486

FY2016 Recommended Ongoing Expense – Medical & Provider Assistance

Major Increases/Decreases	General Funds
Provider Inflation	\$10,102,790
Federal Medical Assistance Percentage	\$5,090,176
Juvenile Justice Reinvestment Initiative	\$2,930,540
Growth and Utilization	\$1,901,953
Miscellaneous Increases/Decreases	<u>(\$3,796,763)</u>
TOTAL GENERAL FUND INCREASES	\$16,228,696

FY2016 Recommended Ongoing Expense - State Workforce

Major Increases/Decreases	General Funds
Market Adjustment	\$6,817,056
Movement towards Market Value	\$3,858,561
Career Banding Pay for Performance	\$558,136
Health Insurance	<u>\$0</u>
TOTAL GENERAL FUND INCREASES	\$11,134,753

FY2016 Recommended Ongoing Expense - All Others

Major Increases/Decreases	General Funds
State Buildings Maintenance and Repair	\$3,449,606
Correctional Health	\$970,134
Drug/DUI Courts	\$666,815
Utilities/Internal Service Rates	\$648,385
Law Enforcement Officers Training Fund	\$607,801
Property and Casualty Insurance	\$592,982
Rest of Juvenile Justice Reinvestment	\$305,000
Miscellaneous Increases/Decreases	\$965,885
State Veterans' Home Savings	<u>(\$1,589,069)</u>
TOTAL GENERAL FUND INCREASES	\$6,617,539

ONE-TIME

Where did the One-time Funds Come From?

Reduced Revenue and Reduced Expenses	FY2015
Nominal FY15 Surplus left by Legislature	\$0
Reduced Revenues	(\$4,044,023)
Reduction of One-time Specials	\$18,420,000
Reduction of Annual Appropriations	<u>\$13,473,928</u>
Total One-time Funds Available in FY2015	\$27,849,905

Reduction of One-time Specials

	General Funds
Repeal of Medicaid Reserve	(\$16,000,000)
Repeal of Risk Pool Reserve	<u>(\$2,420,000)</u>
Total	(\$18,420,000)

Reduction of Annual Appropriations

	General Funds
State Aid	(\$6,933,797)
Medicaid Eligibles	(\$2,647,655)
Juvenile Placement	(\$1,395,094)
Child Care Subsidies	(\$1,296,081)
Technical Institutes Formula and Bonding	(\$1,057,341)
Correctional Health Care	<u>(\$143,960)</u>
Total	(\$13,473,928)

One-time Proposed Expenses

	General Funds
Emergency & Disaster Fund	\$7,994,449
Provider Direct Care Hiring Supplement	\$4,125,000
Capitalize Property & Casualty Insurance Captive	\$4,000,000
Capitalize Liability Insurance Captive	\$2,000,000
Science & Tech Authority Ross Shaft Construction	\$3,950,000
SD Conservation Fund (Pheasant Habitat Work Group)	\$1,500,000
DOE Jobs for America's Graduates Startup Funding	\$925,000
DOE Dual Credit Increased Demand	\$577,500
Statewide Utilities	\$546,793

One-time Proposed Expenses

Continued:	General Funds
Big Sioux River Flow Study	\$500,000
Tax Refunds for Elderly and Disabled	\$450,000
Rural Healthcare Tuition Reimbursement Program	\$381,766
DENR Information Systems Upgrade	\$350,000
Rural Healthcare Facility Recruitment Assistance	\$302,500
GFP Bond Payments	\$184,896
Fire Premium Refunds	<u>\$62,001</u>
Total	\$27,849,905

Summary of Budget Recommendations

	Revised FY2015	Recommended FY2016
Change to Ongoing Revenues	(\$10,750,435)	\$60,156,909
Reduced Revenue from FY15 Adopted		(\$4,044,023)
Change to One-time Revenues	\$6,706,412	(\$6,706,412)
Reduced Expenses	\$31,893,928	
New Proposed Expenses	<u>(\$27,849,905)</u>	<u>(\$49,406,474)</u>
Total	\$0	\$0

New Budget Bottom Line

	FY2015	FY2016
Total Recommended Revenues	\$1,406,212,410	\$1,441,242,907
Total Recommended Expenses	<u>\$1,406,212,410</u>	<u>\$1,441,242,907</u>
Unobligated Net	\$0	\$0

Setting a Good Fiscal Example

- Balancing Our Budget for 126 years**
- Managing Rainy Day Funds Responsibly**
- Keeping Taxes low**
- Building Structural Soundness**
- SDRS Pension Fund over 100% funded**
- Improved financial practices**
- S&P outlook upgrade from stable to positive**

A Stronger South Dakota

