

A low-angle, upward-looking photograph of the South Dakota State Capitol building. The building is a grand, classical-style structure with a prominent dome and a portico supported by tall, fluted columns. The words "SOUTH DAKOTA" are carved into the stone above the columns. The sky is a clear, bright blue. The text "Fiscal Year 2026 Budget Overview" is overlaid on the left side of the image in a large, white, sans-serif font.

Fiscal Year 2026 Budget Overview

*Bureau of Finance and Management
January 14, 2025*

Agenda



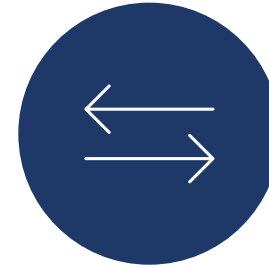
**BUDGET
BACKGROUND**



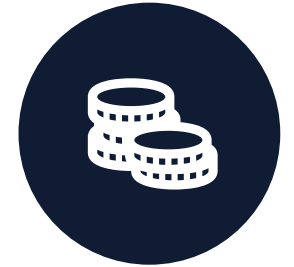
**ECONOMIC
OUTLOOK**



REVENUES



**FY2025
MID-YEAR
ADJUSTMENTS**



**FY2026
ONGOING
EXPENSES**

BUDGET BACKGROUND



BFM Budget Team



Jim Terwilliger

Commissioner



Steven Kohler

Deputy Commissioner



Derek Johnson

State Economist



Brandy Miesner

Chief Budget Analyst



Yolanda Sung

Budget Analyst



Duncan Koch

Budget Analyst



Grant Judson

Budget Analyst

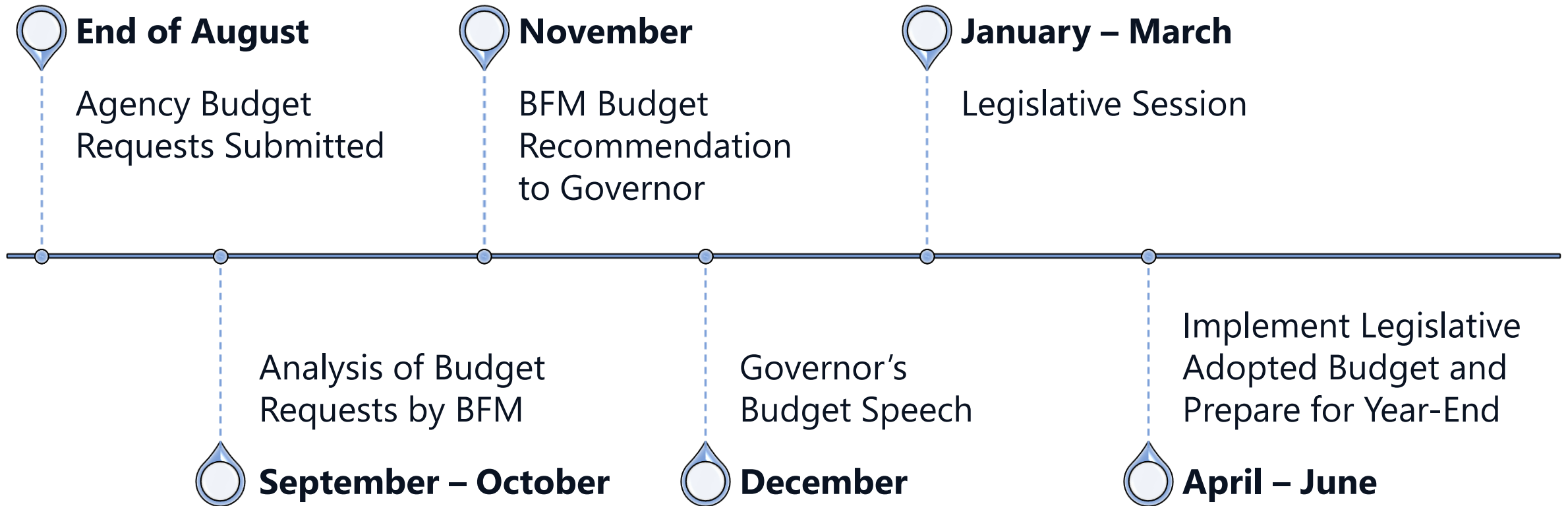


Colin Keeler

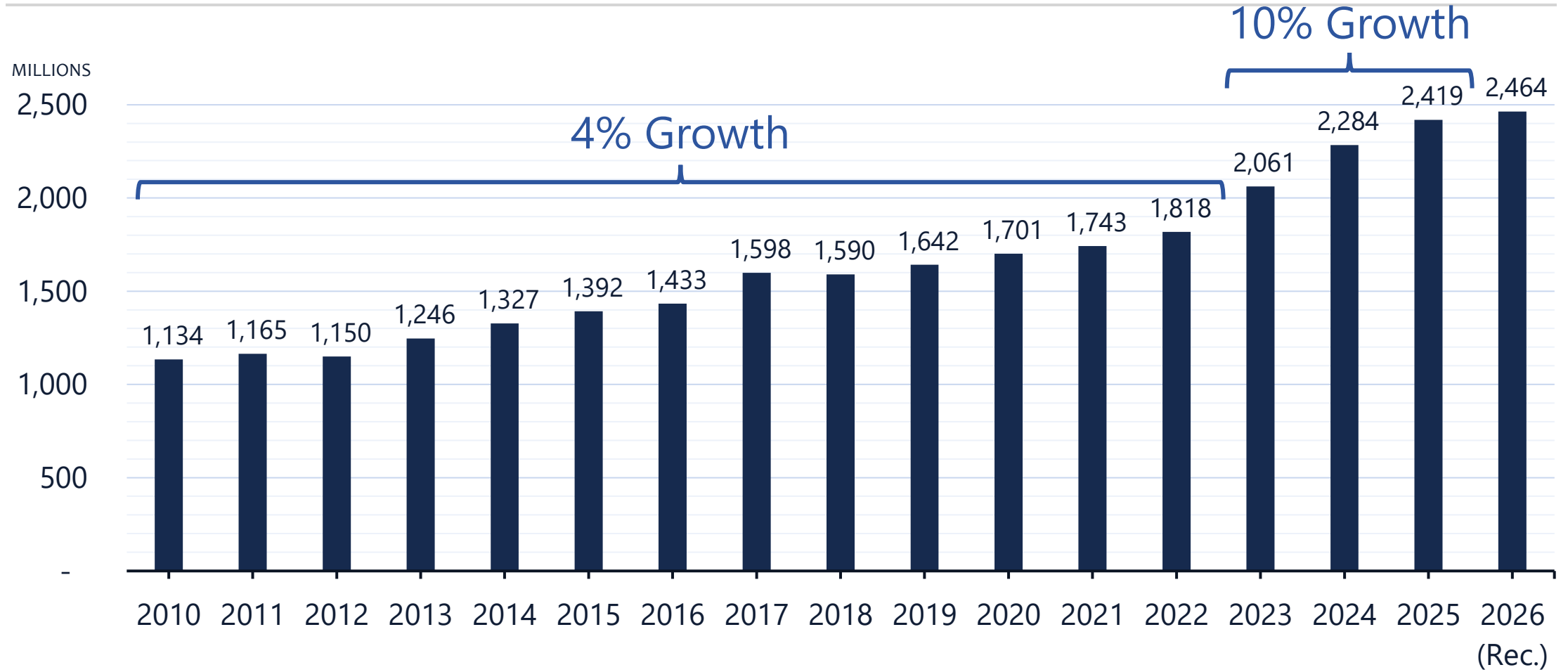
Financial Systems Director



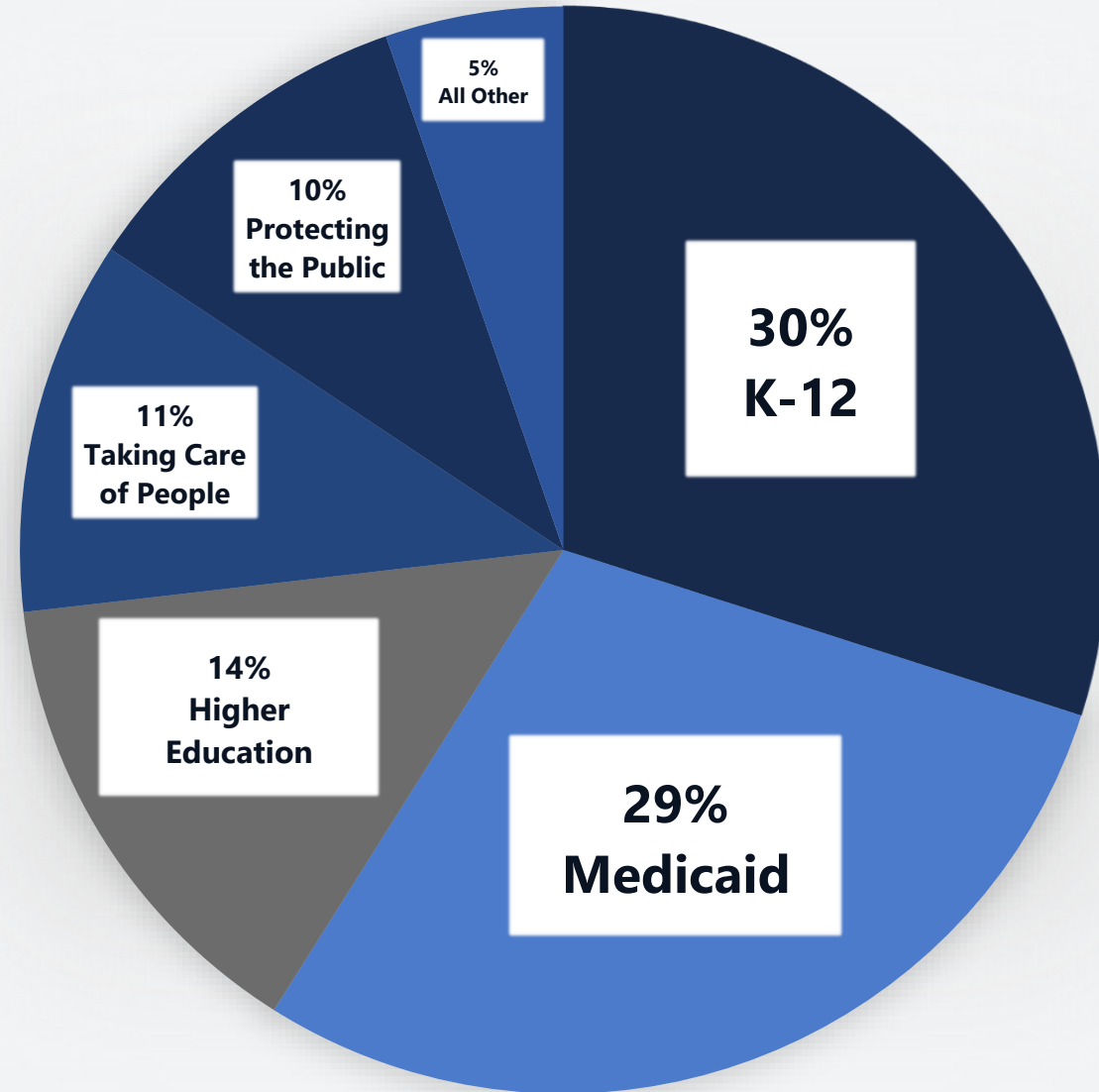
Budget Process



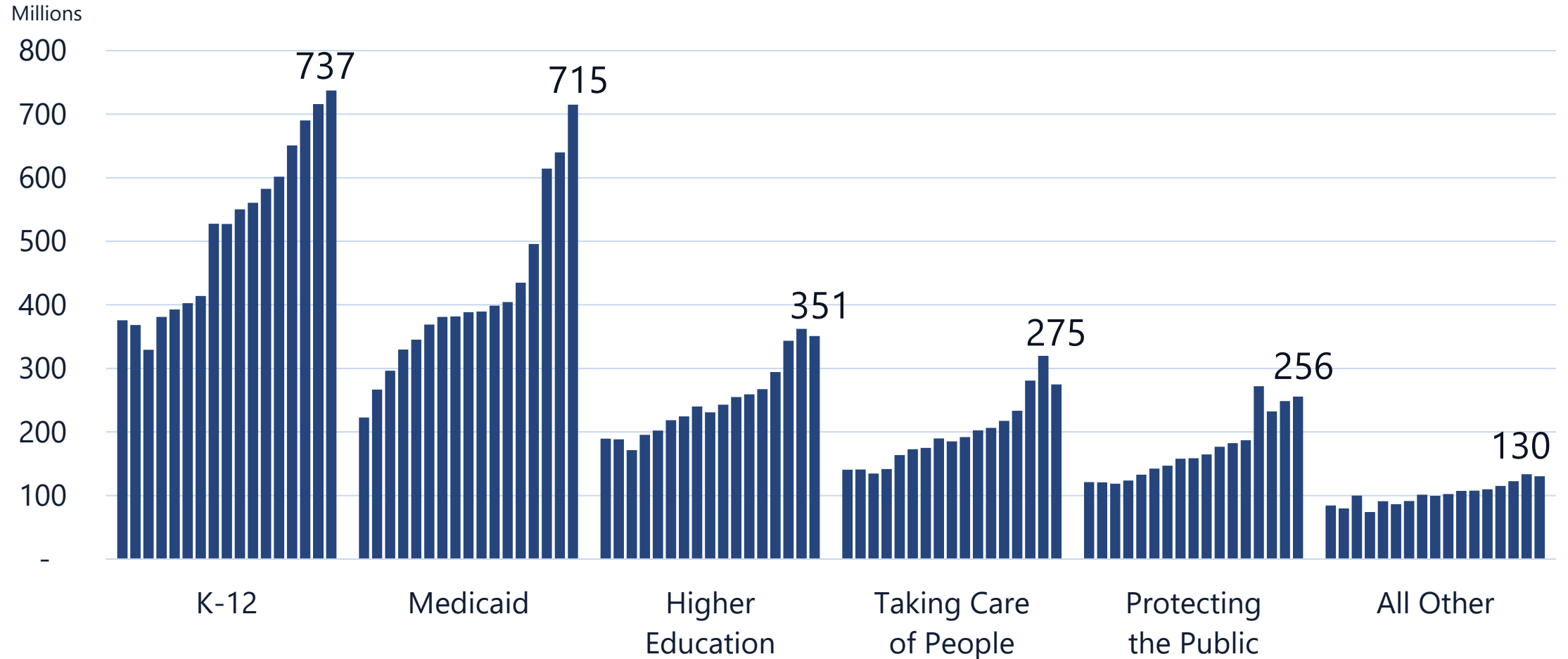
Historical Adopted General Fund Budget



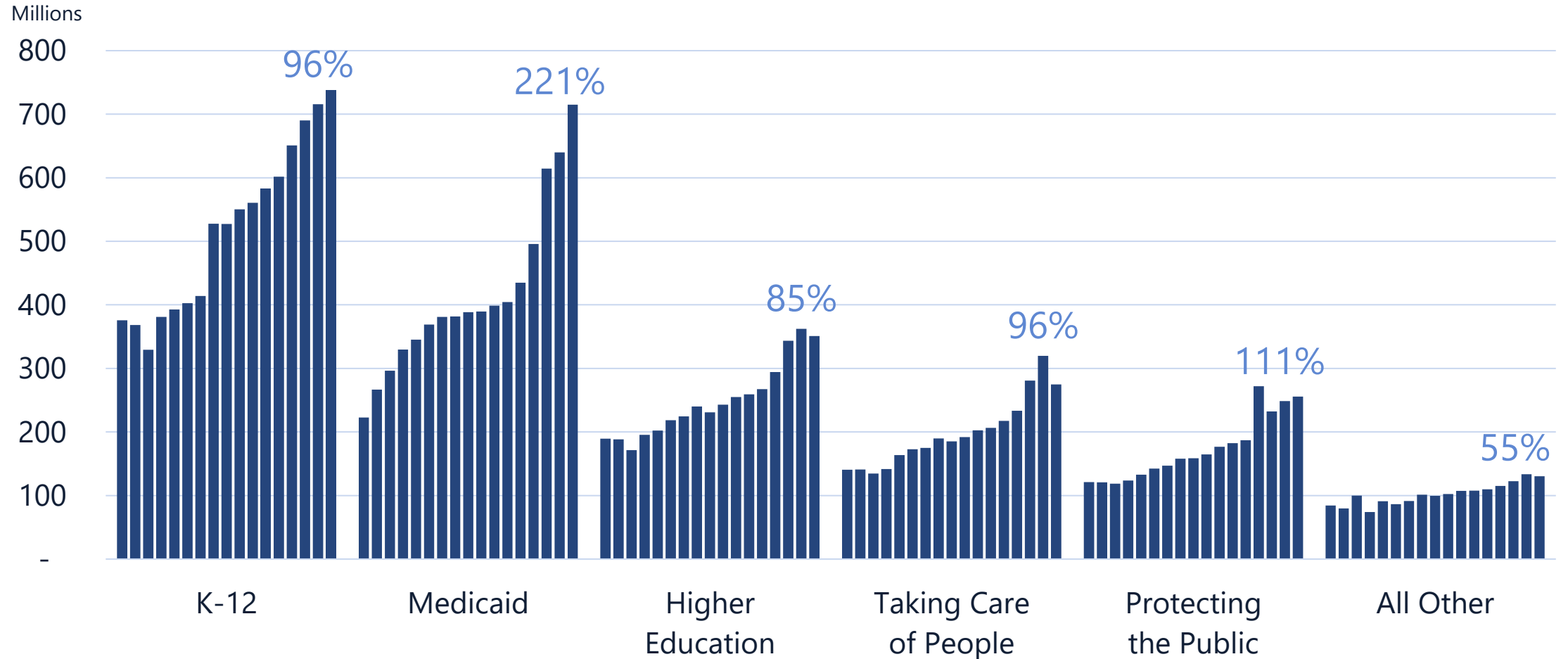
Budget by Category



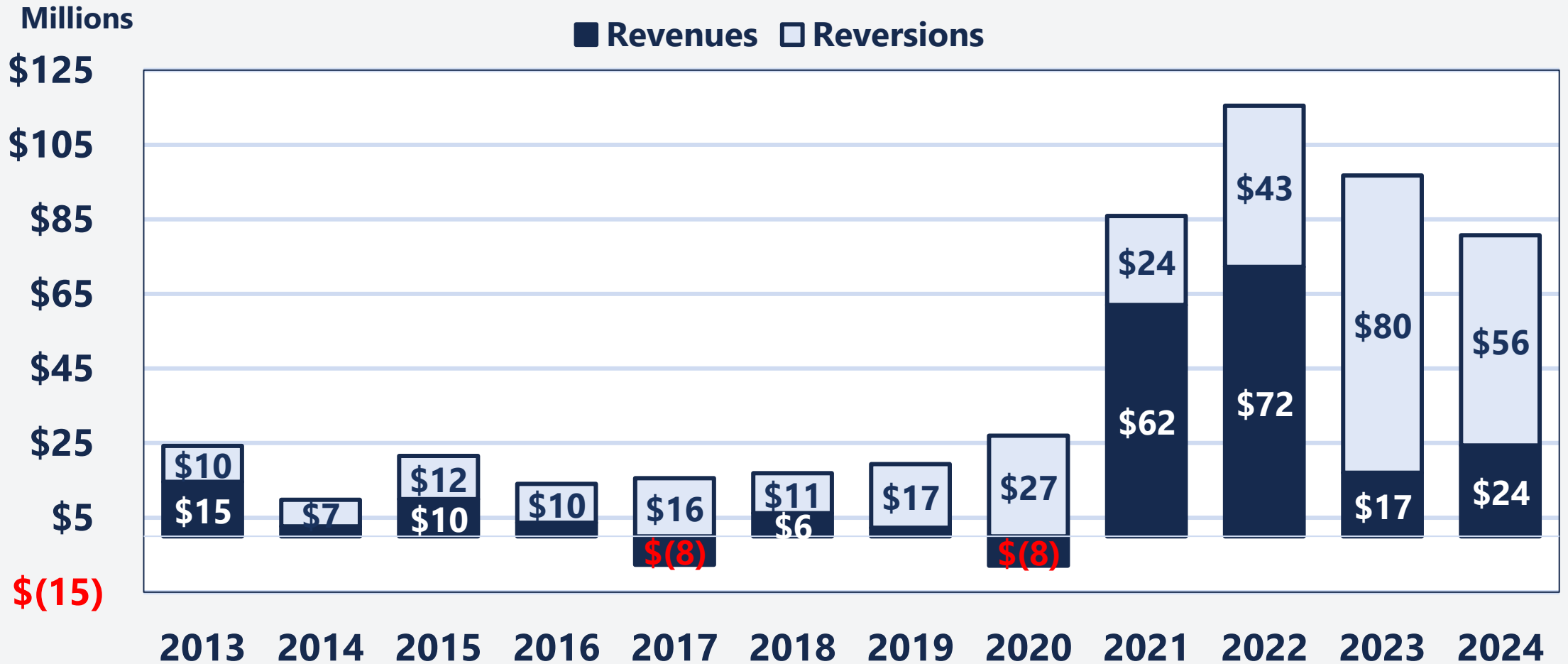
Budget by Category Since 2010



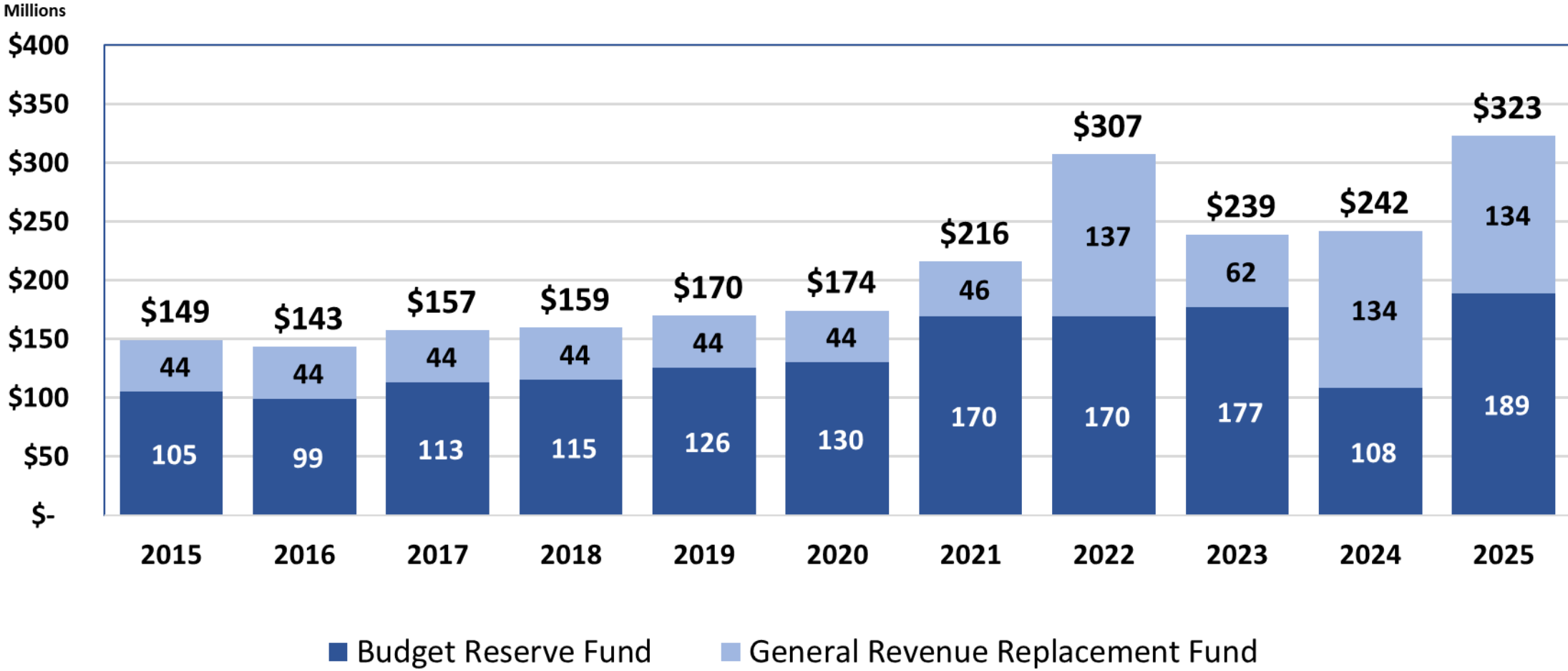
Growth by Category Since 2010



Historical Year-End Surplus



Rainy Day Fund Balance



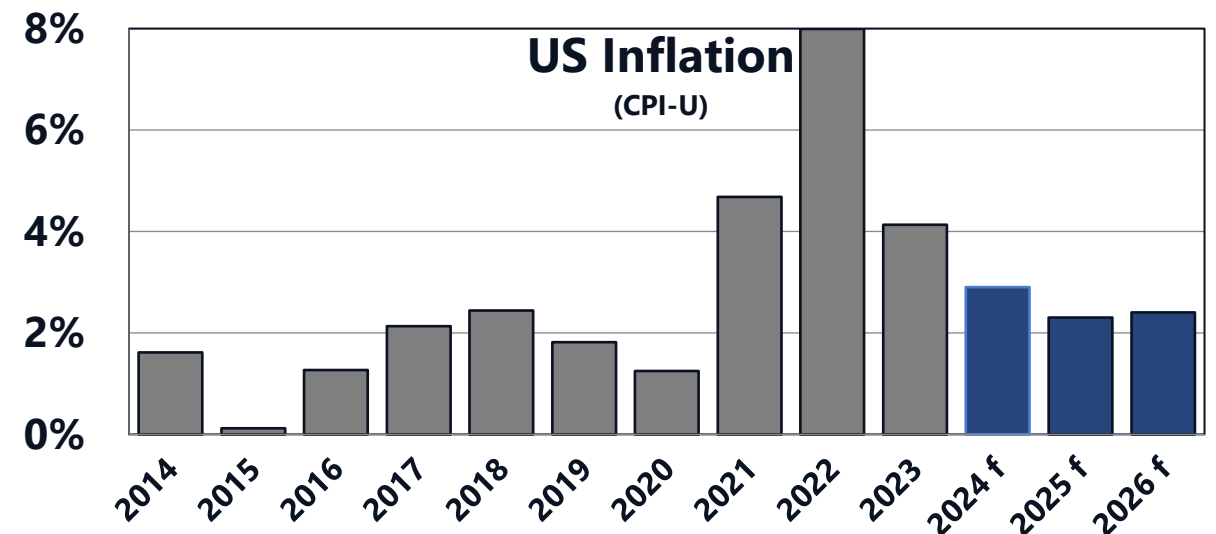
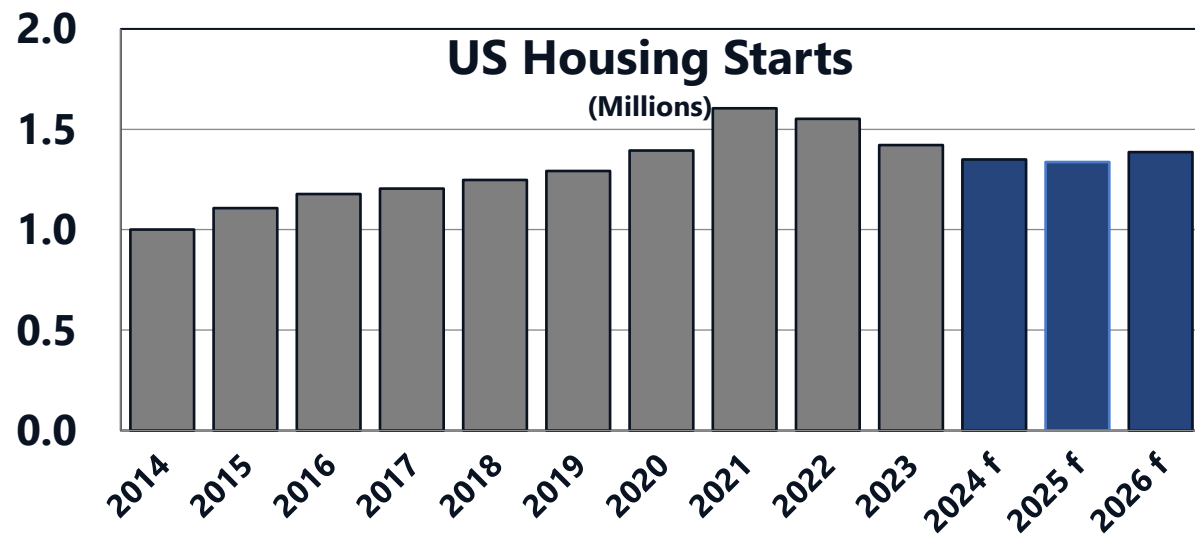
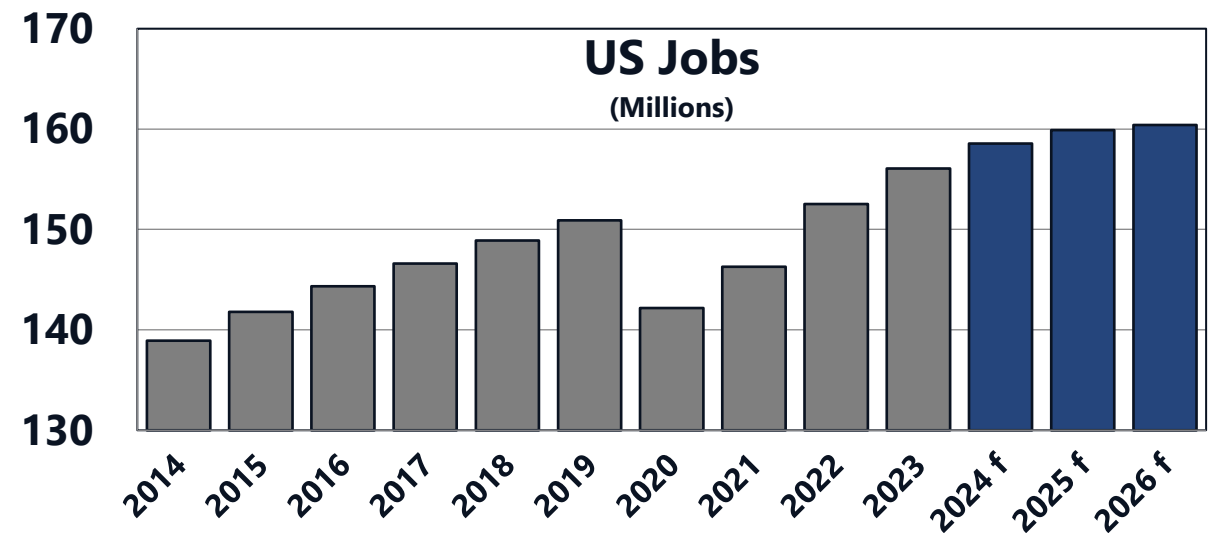
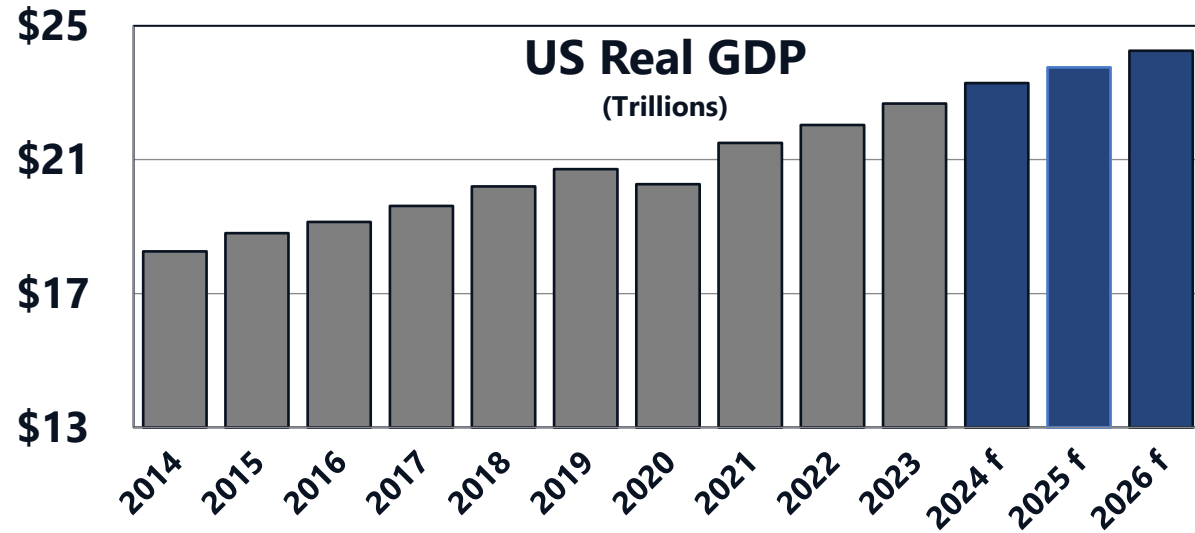
ECONOMIC OUTLOOK



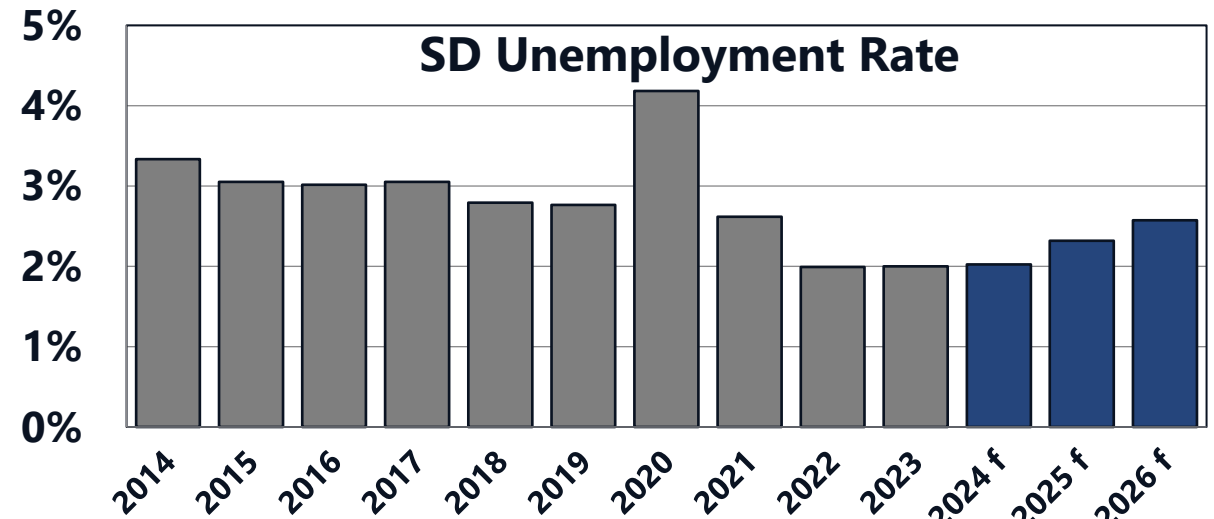
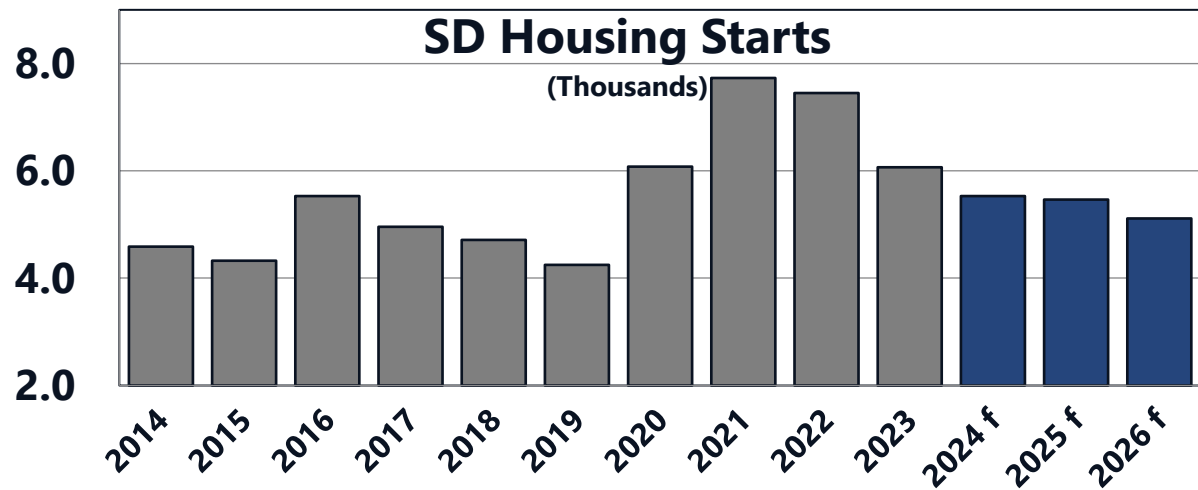
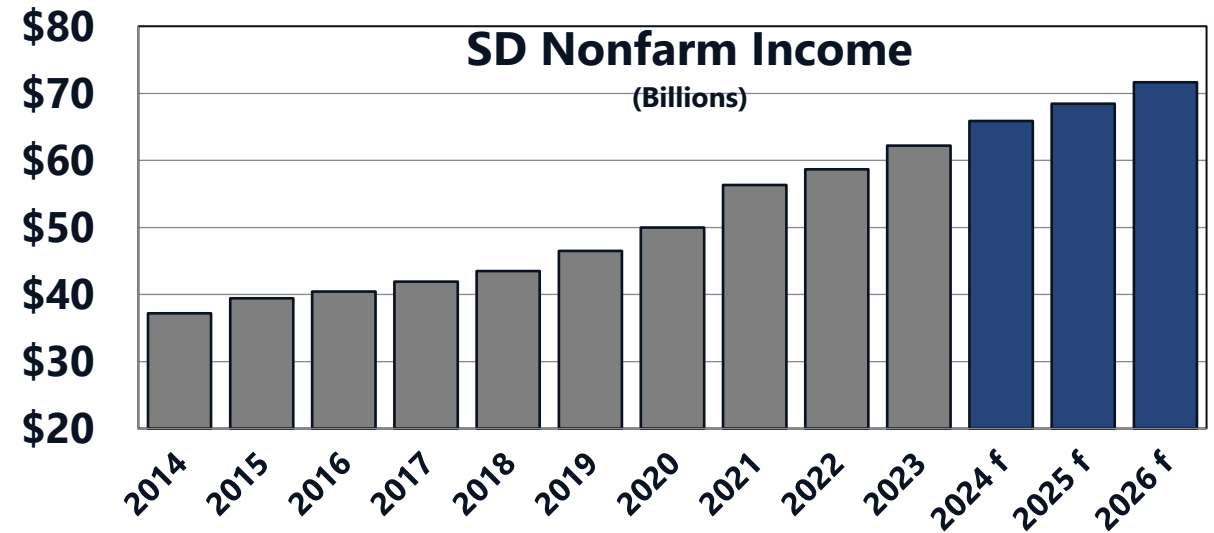
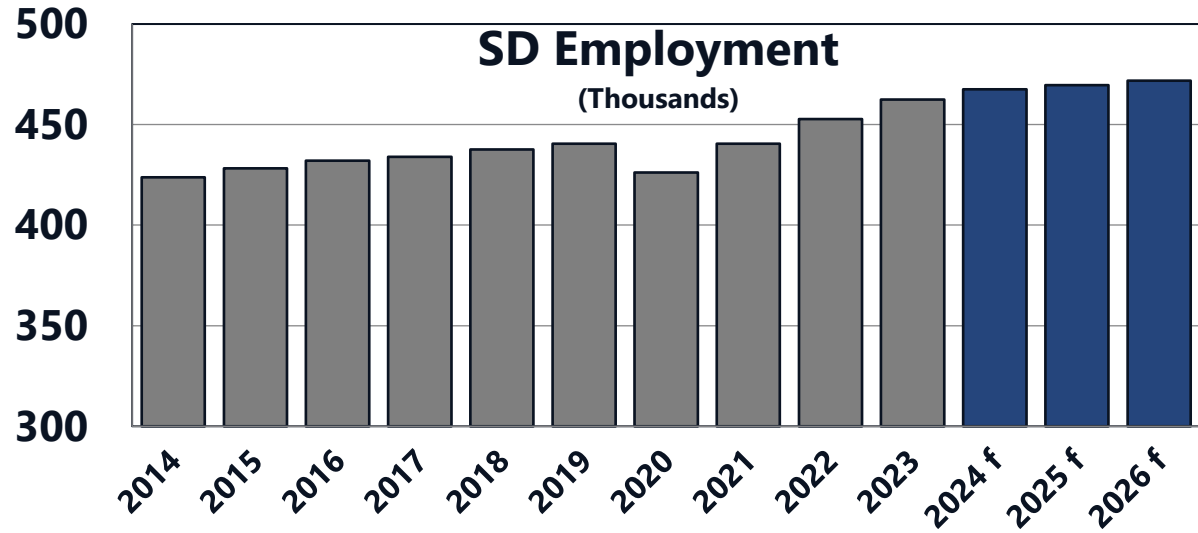
Economic Assumptions

- Baseline national forecast is for no recession
- Employment growth projected to slow both nationally and in South Dakota
- Expect continued Fed policy rate cuts in 2025
- Inflation slows to 2.3% in 2025 and 2.4% in 2026
- Continued income growth in 2025 and 2026 but slower growth

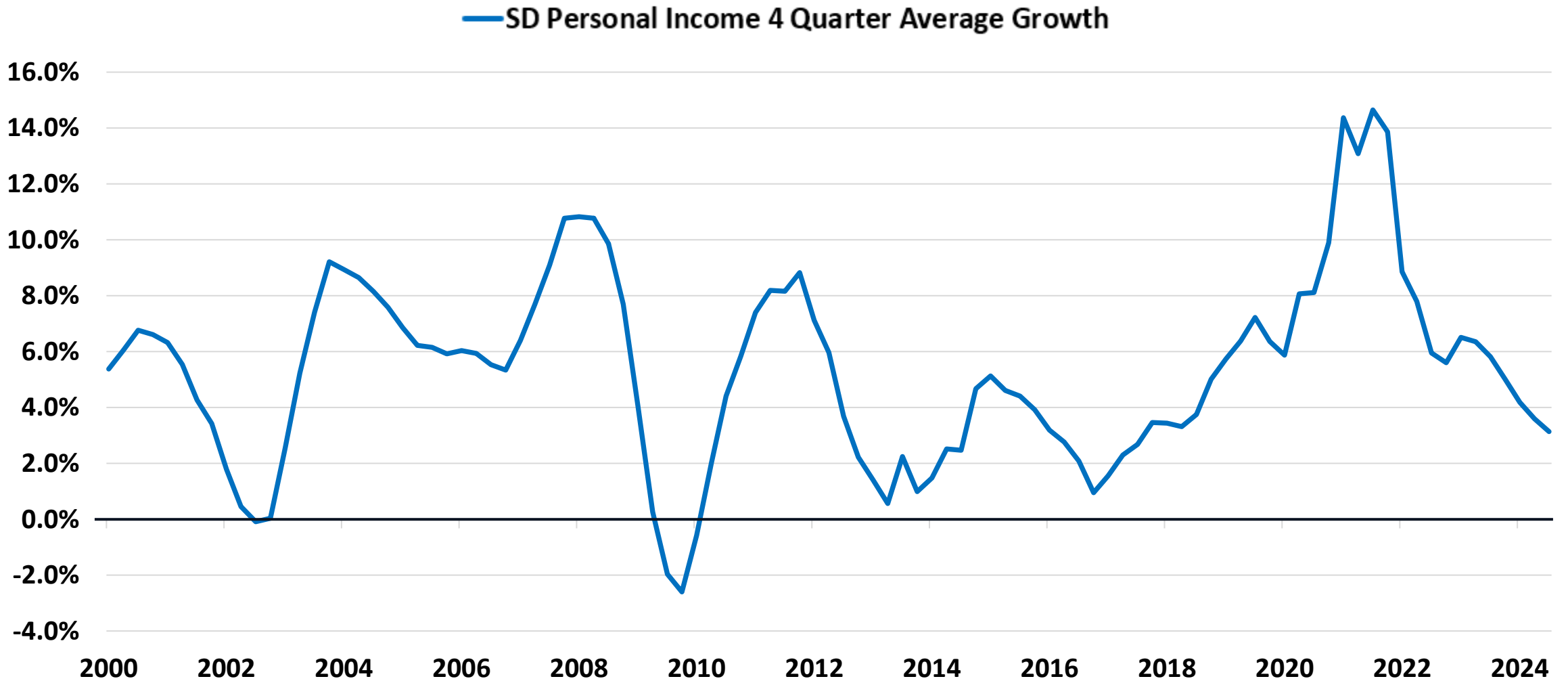
S&P Global US Economy Forecast



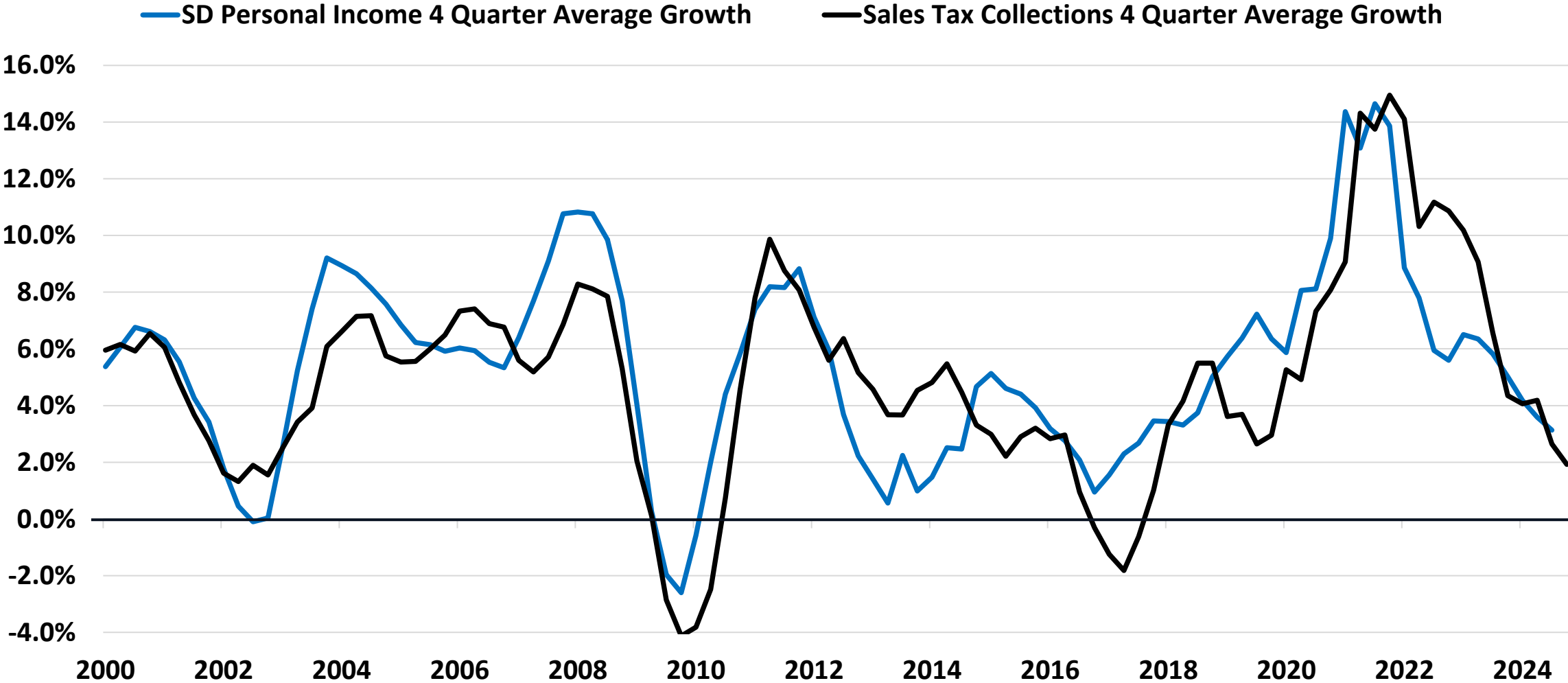
SD Economy Forecast



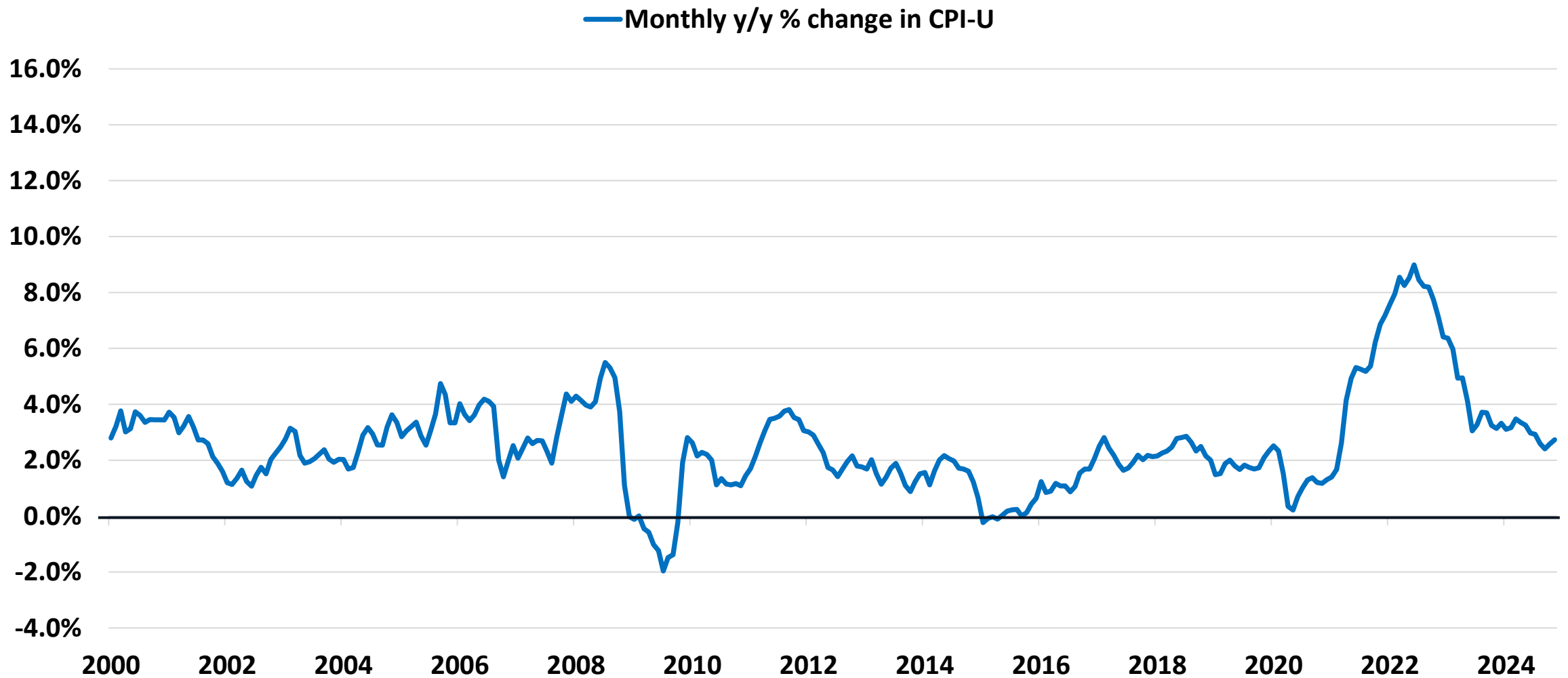
SD Personal Income



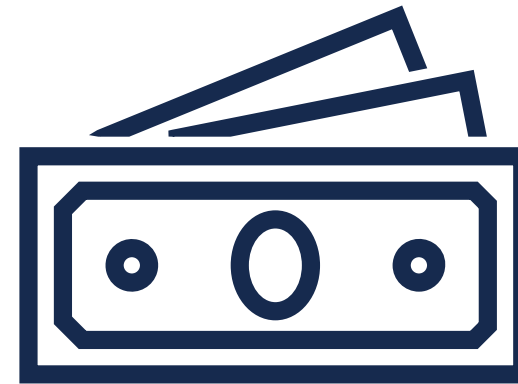
SD Personal Income vs. Sales Tax Collections



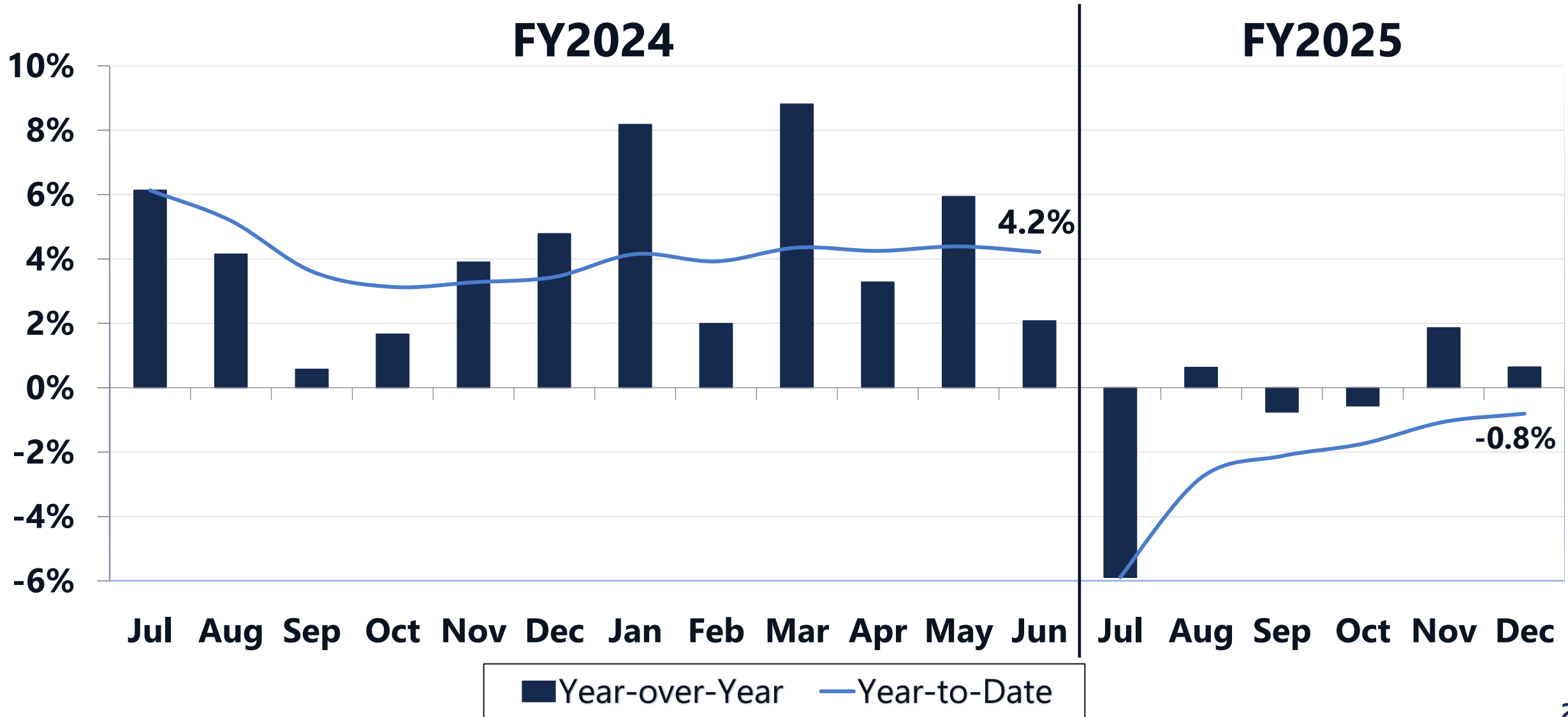
Inflation: Consumer Price Index



REVENUES



Ongoing State Sales and Use Tax



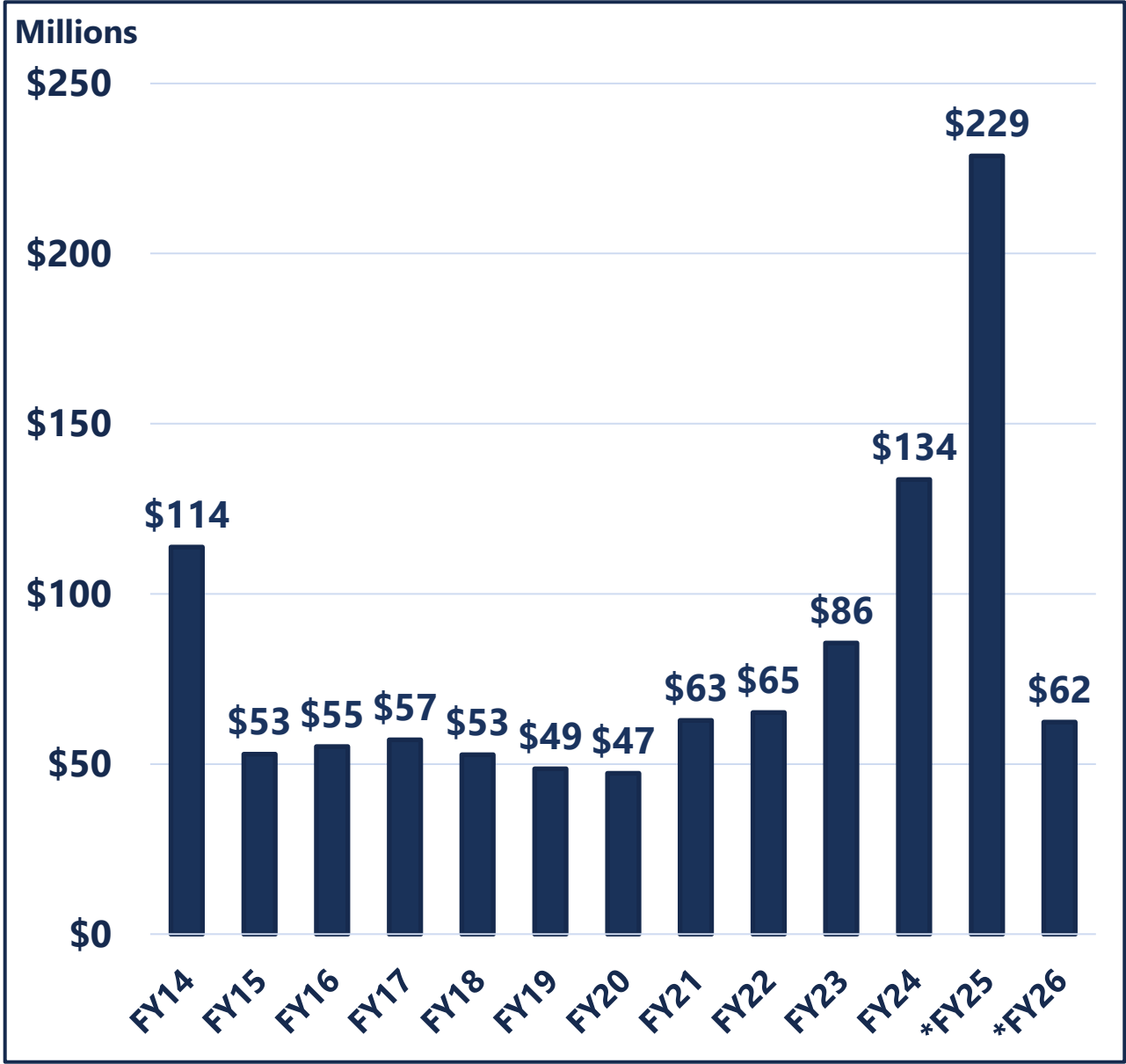
FY2025 Adopted vs. Revised Revenue

Revenue Source	Adopted FY2025	Revised FY2025	Change
Sales and Use Tax	1,503.1	1,447.5	(55.6)
Lottery	183.1	180.4	(2.8)
Contractor's Excise Tax	221.4	210.5	(10.9)
Insurance Company Tax	125.1	137.9	12.8
Unclaimed Property	61.0	61.0	0.0
Licenses, Permits, and Fees	77.6	74.4	(3.3)
Tobacco Taxes	42.5	42.0	(0.5)
Other Ongoing Receipts	<u>205.6</u>	<u>239.5</u>	<u>33.9</u>
Total Ongoing Receipts	\$2,419.5	\$2,393.1	(\$26.4)
One-Time Receipts	<u>0.0</u>	<u>201.6</u>	<u>201.6</u>
Total Revenue	\$2,419.5	\$2,594.8	\$175.3

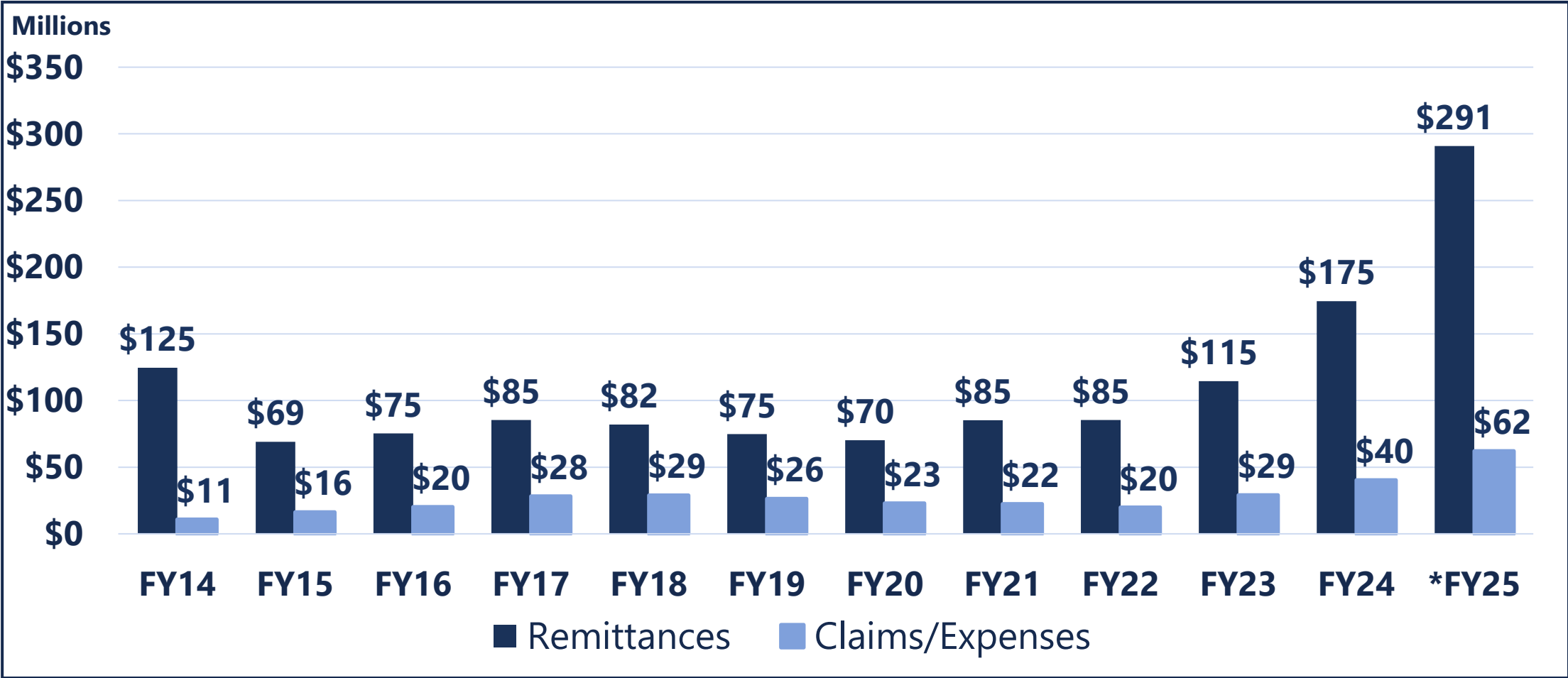
Amounts shown are in millions and may not add due to rounding.

Net Unclaimed Property Receipts

- Net Unclaimed Property Receipts (UCP) to the General Fund:
 - + UCP Remittances (majority due Nov. 1st)
 - Claims on UCP (paid all year)
 - = General Fund Receipts
- Ongoing revenue from unclaimed property is difficult to estimate



Unclaimed Property



One-Time Revenue Available

	FY2025
Revised Ongoing Revenue Growth	(26,382,379)
One-Time Revenue Growth	167,719,099
Transfer from Reserves	<u>33,926,134</u>
Total One-Time Revenue Available	\$175,262,854

FY2025 & FY2026 Revenue Forecast

Revenue Source	Adopted FY2025	Revised FY2025	Recommended FY2026	Revised FY2025 vs. Rec. FY2026
Sales and Use Tax	1,503.1	1,447.5	1,515.5	68.1
Lottery	183.1	180.4	182.4	2.0
Contractor's Excise Tax	221.4	210.5	215.9	5.4
Insurance Company Tax	125.1	137.9	145.8	7.9
Unclaimed Property	61.0	61.0	62.3	1.3
Licenses, Permits, and Fees	77.6	74.4	74.6	0.2
Tobacco Taxes	42.5	42.0	43.5	1.5
Other Ongoing Receipts	<u>205.6</u>	<u>239.5</u>	<u>223.7</u>	<u>(15.8)</u>
Total Ongoing Receipts	\$2,419.5	\$2,393.1	\$2,463.7	\$70.6
One-time Receipts	<u>0.0</u>	<u>201.6</u>	<u>0</u>	<u>(201.6)</u>
Total Revenue	\$2,419.5	\$2,594.8	\$2,463.7	(\$131.1)

Amounts shown are in millions and may not add due to rounding.

Ongoing Revenue Available

	FY2026
FY2025 Revised Ongoing Revenue Growth	(26,382,379)
FY2026 Projected Ongoing Revenue Growth	<u>70,633,554</u>
Total Ongoing Revenue Available	\$44,251,175

FY2025 MID-YEAR ADJUSTMENTS



FY2025 Recommendation Summary

	General Funds
Revenue Available	175,262,854
General Bill Amendment Reductions	105,013,060
General Bill Amendment Increases	(5,669,481)
Expenditure Transfers	(187,035,971)
Emergency Special Appropriations	(86,930,442)
Continuous Appropriation Adjustment	<u>(640,020)</u>
FY2025 Bottom-Line	\$0

General Bill Amendment Reductions

	General Funds
Utilization Adjustments (DSS, DHS)	42,315,483
5% FMAP from Medicaid Expansion Buy-Down (DSS)	31,668,300
Medicaid and CHIP Enrollments (DSS)	17,272,905
Medicaid Expansion Enrollments (DSS)	7,827,295
State to General Education Revision (DOE)	5,746,526
Technical Colleges Formula (BOTE)	<u>182,551</u>
FY2025 General Bill Amendment Reductions	\$105,013,060

General Bill Amendment Increases

	General Funds
Bureau Billings (BIT)	(1,918,166)
Veterans' Home Resident Medical Expenses (DVA)	(704,938)
Food Services (Various)	(565,719)
Spearfish Radio Tower Equipment (BIT)	(427,046)
Utilities (Various)	(425,268)
All Others	<u>(1,628,344)</u>
FY2025 General Bill Amendment Increases	(\$5,669,481)

Expenditure Transfers

	General Funds
Incarceration Construction Fund	(182,035,971)
IT Modernization Fund	<u>(5,000,000)</u>
FY2025 Expenditure Transfers	(\$187,035,971)

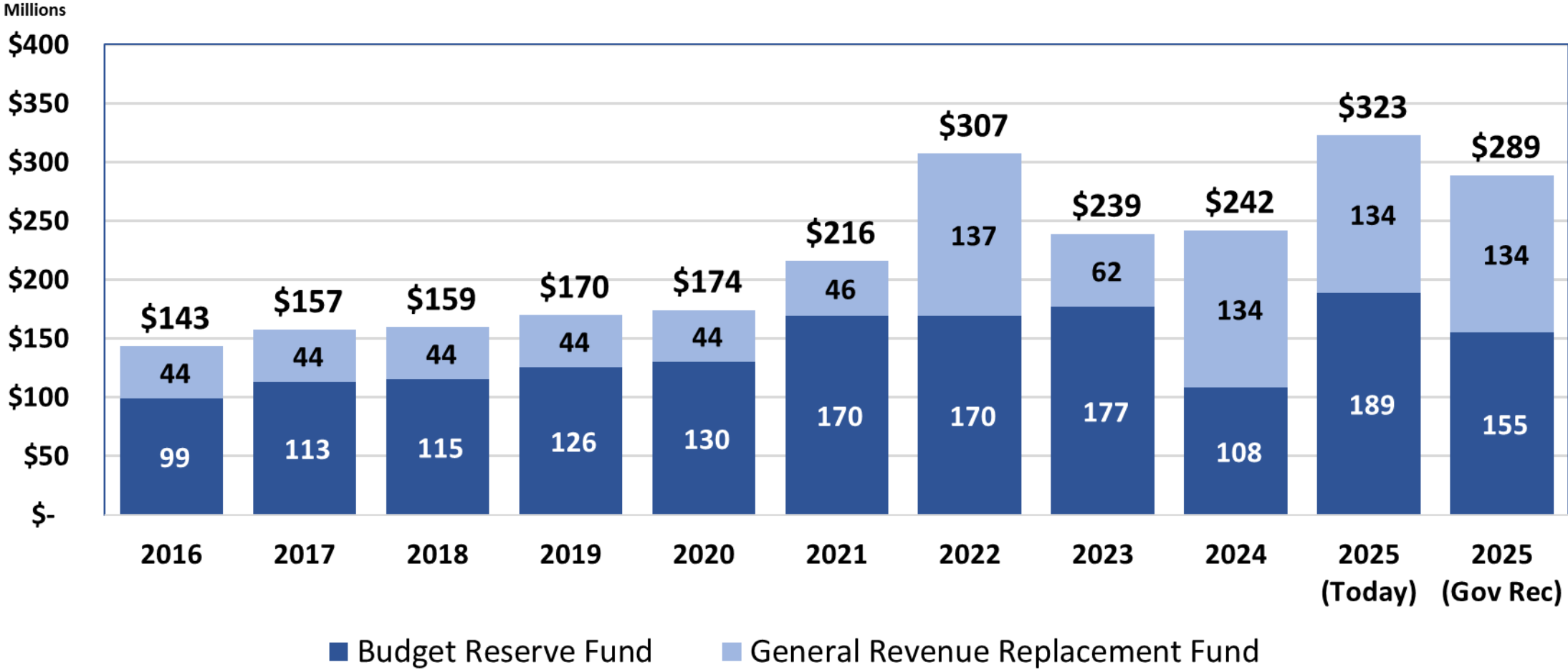
Avoiding Debt

Men's Prison	Millions
Budget for Men's Prison	825.0
Funds Dedicated in 2023	(330.9)
Funds Dedicated in 2024	(236.1)
Remaining Need	<u>258.0</u>
Estimated Interest Earnings in ICF	(76.0)
Recommended Transfer to ICF	<u>(182.0)</u>
Prison Fully Funded	\$0

- ✓ Saves \$600 million in interest and fees
- ✓ Avoids \$57 million in annual debt service payments



Rainy Day Fund Balance



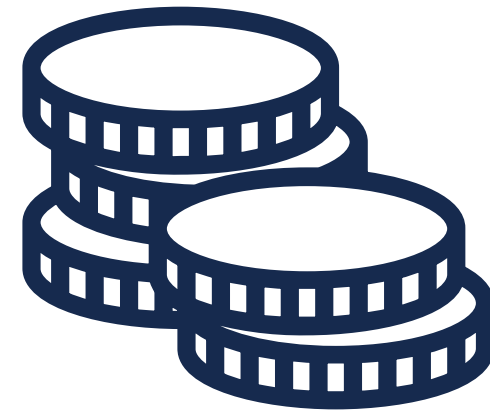
Emergency Special Appropriations

	General Funds
Bond Payoff (DANR, BOR, GFP)	(53,713,826)
Richmond Dam Replacement (SPL)	(13,046,882)
School Safety (DPS)	(10,000,000)
Emergency and Disaster Fund (DPS)	(4,951,260)
Fire Suppression Fund (DPS)	(2,602,081)
Rural Recruitment Assistance Program (DOH)	(2,116,393)
Tax Refunds for the Elderly and Disabled (DOR)	(425,000)
Veterans' Cemetery Expansion (DVA)	<u>(75,000)</u>
FY2025 Emergency Special Appropriations	(\$86,930,442)

FY2025 Recommendation Summary

	General Funds
Revenue Available	175,262,854
General Bill Amendment Reductions	105,013,060
General Bill Amendment Increases	(5,669,481)
Expenditure Transfers	(187,035,971)
Emergency Special Appropriations	(86,930,442)
Continuous Appropriation Adjustment	<u>(640,020)</u>
FY2025 Bottom-Line	\$0

FY2026 ONGOING EXPENSES



Ongoing Expense Overview

- Fully fund the 5% Federal Medical Assistance Percentage (FMAP) enhancement
- FMAP increase of 2.02% from 46.45% to 48.47%
- 1.25% inflationary increases for healthcare providers, education, and state employees
- Significantly rightsizing budgets to align with the utilization of Medicaid services
- Reductions across agencies to allow for inflationary growth

FY2026 Recommended Expense Summary

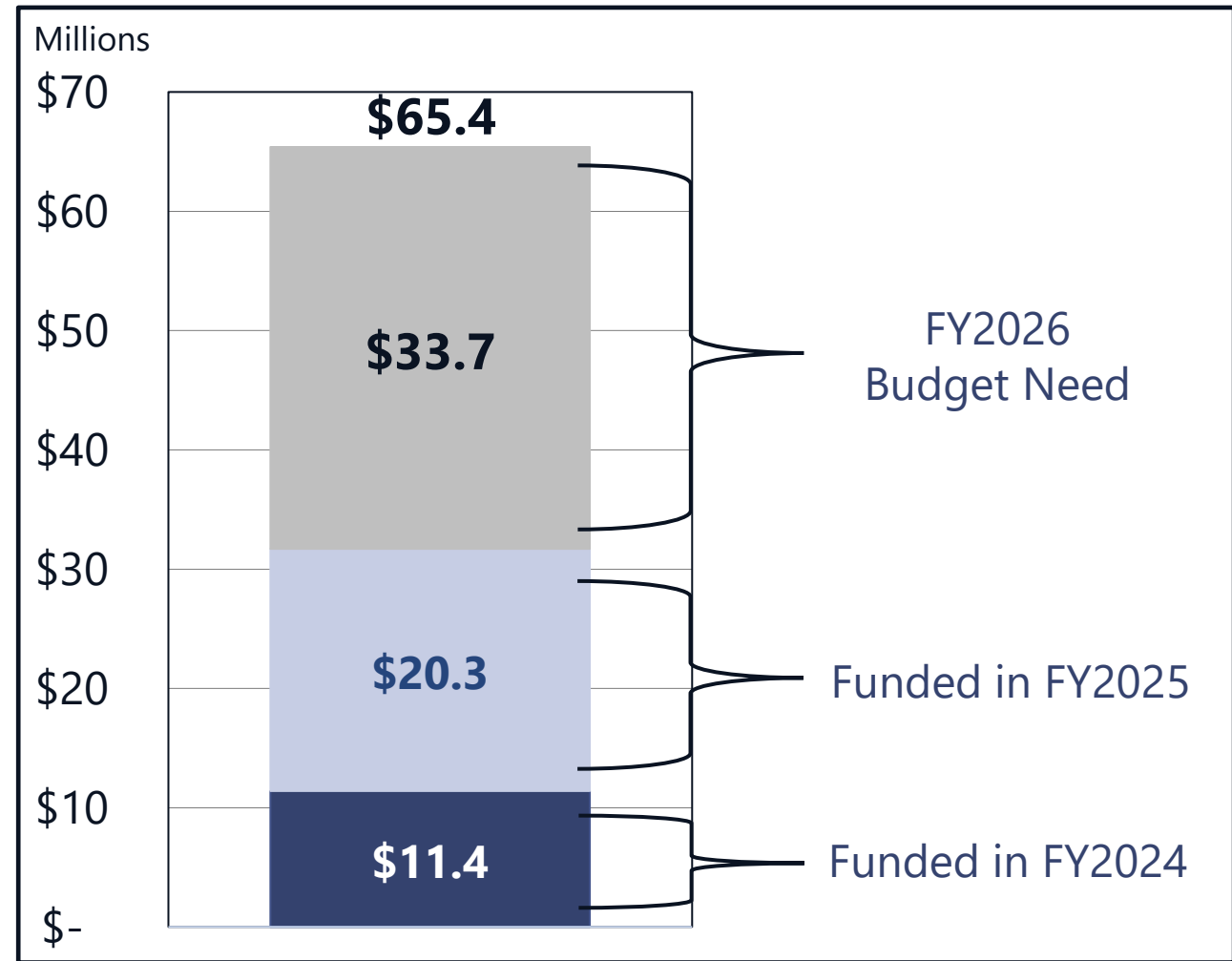
	General Funds
Mandatory Changes	85,158,770
1.25% Inflation for Education, Providers, and State Workforce	29,979,043
Discretionary Changes	(32,084,679)
Budget Reductions	(39,889,348)
Continuous Appropriations	<u>1,087,389</u>
Total Recommended Expense Summary	\$44,251,175

Mandatory Changes

	General Funds
5% Medicaid Expansion FMAP Enhancement (Various)	65,402,403
5% Medicaid Expansion Buy-Down Funds (DSS)	(31,668,300)
Federal Medical Assistance Percentage (FMAP) (Various)	27,833,979
Mandatory Inflation for Providers (DSS)	10,839,297
State Aid to Education Expansion (DOE)	9,314,362
Health Insurance (BHRA)	3,114,240
Sioux Falls One-Stop (Various)	2,843,917
Bureau Billings (BIT)	1,803,149
All Others	(4,324,277)
Total Mandatory Changes	\$85,158,770

5% FMAP – Medicaid Expansion Buy-Down

- As a result of Medicaid Expansion, the State has received a 5% enhancement on the FMAP rate for the existing Medicaid population until FY2026
- \$31.7 million has been set aside to buy-down this cost in the past two fiscal years, resulting in an FY2026 budget need of \$33.7 million



1.25% Inflationary Increases

	General Funds
Education	12,814,179
Healthcare Providers	10,386,348
State Workforce	<u>6,778,516</u>
Total Inflationary Increases	\$29,979,043

Discretionary Changes

	General Funds
Education Savings Accounts (DOE)	4,000,000
IT Systems and Hardware (Various)	2,865,000
Family Support 360 – Agency with Choice (DHS)	1,489,615
Appropriate Regional Facilities (DSS)	1,230,783
All Others	1,187,660
Bond Proceeds Available (BOR, DANR, GFP)	(5,043,655)
Program Utilization (DSS, DHS)	<u>(37,814,082)</u>
Total Discretionary Changes	(\$32,084,679)

Budget Reductions

	General Funds
Maintenance and Repair from 1.75% to 1.25% (Various)	(16,887,910)
Temporary Assistance for Needy Families (TANF) (DSS)	(5,300,000)
SD Public Broadcasting Funding Adjustment (BIT)	(3,613,698)
Board of Regents Reduction	(2,000,000)
Graduate Medical Education (DSS)	(1,747,083)
Dual Credit – 50/50 Adjustment (DOE)	(1,151,285)
Subsidized Assisted Living (DHS)	(1,093,518)
State Library (DOE)	(1,030,267)
Indigent Medical Program (DSS)	(1,011,604)
Marketing Funding Reduction (GOED)	(1,000,000)
All Others	<u>(5,053,983)</u>
Total Budget Reductions	(\$39,889,348)

Revenue Measures

	General Funds
Revenue Available (Without Revenue Measures)	34,427,702
Sales Tax Collection Allowance Repeal	6,823,473
Rightsizing Tobacco Prevention Advertising	<u>3,000,000</u>
Total Revenue Available (With Revenue Measures)	\$44,251,175

FY2026 Recommended Expense Summary

	General Funds
Mandatory Changes	85,158,770
1.25% Inflation for Education, Providers, and State Workforce	29,979,043
Discretionary Changes	(32,084,679)
Budget Reductions	(39,889,348)
Continuous Appropriations	<u>1,087,389</u>
Total Recommended Expense Summary	\$44,251,175

Bottom Line

	FY2025	FY2026
Revenue Available	175,262,854	44,251,175
General Bill Amendment Reductions	105,013,060	0
General Bill Amendment Increases	(5,669,481)	0
Expenditure Transfers	(187,035,971)	0
Emergency Special Appropriations	(86,930,442)	0
Ongoing Expense Adjustments	0	(43,163,786)
Continuous Appropriation Adjustment	<u>(640,020)</u>	<u>(1,087,389)</u>
Bottom Line	\$0	\$0

A low-angle photograph of the South Dakota State Capitol building, showing its classical architecture with columns and a dome. The text is overlaid on the left side of the image.

Fiscal Year 2026 Budget Overview

*Bureau of Finance and Management
January 14, 2025*