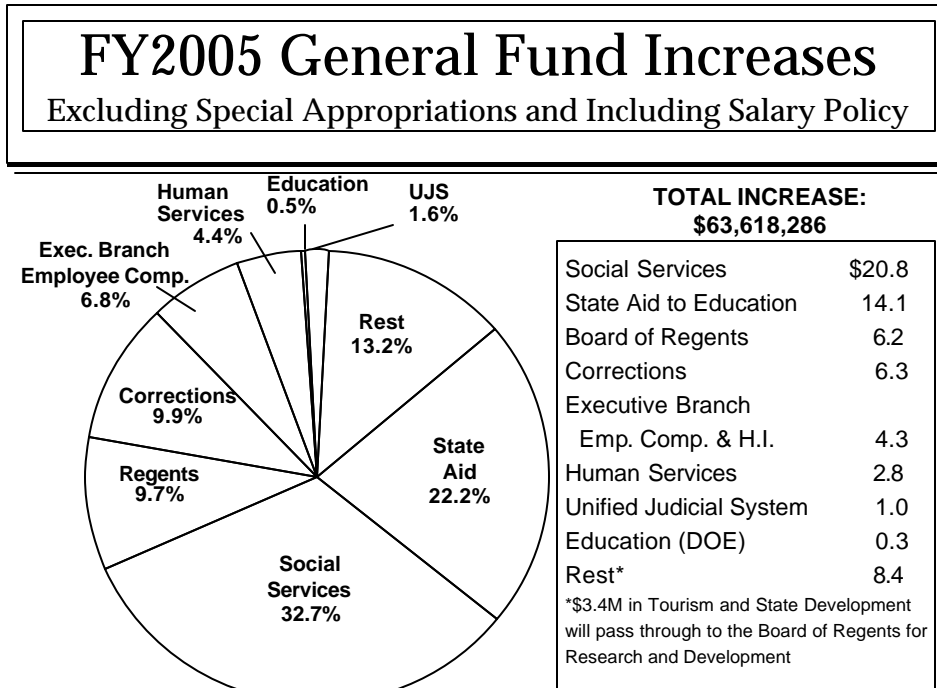


SUMMARY OVERVIEW

Governor Rounds is recommending a budget for FY2005 totaling \$2,907,015,129, and 13,549.5 FTE. This represents an increase of \$146,535,767, and 211.9 FTE over FY2004. For FY2005, the Governor is proposing a general fund budget of \$975,666,667, which is an increase of \$41.5 million over the FY2004 budget. The proposed FY2005 general fund budget (excluding Sale Leaseback and CRP Programs) is distributed as follows:

- \$352.5 million, or 36.6% for Aid to Schools;
- \$291.6 million, or 30.3% for Health, Human and Social Services;
- \$148.1 million, or 15.4% for Higher Education;
- \$ 65.5 million, or 6.8% for Corrections;
- \$ 46.8 million, or 4.9% for the Legislature, Unified Judicial System, Public Utilities Commission, and Elected Officials;
- \$ 14.3 million, or 1.5% for Agriculture; Environment and Natural Resources; and Game, Fish, and Parks; and,
- \$ 44.0 million, or 4.5% for the Remainder of State Government.

The graph below depicts the FY2005 recommended general fund increases, excluding special appropriations, and including salary policy.



SOUTH DAKOTA AND U.S. ECONOMIC FORECAST

U.S. ECONOMY

RECENT ECONOMIC ACTIVITY

The following section briefly summarizes recent economic activity in the United States, based on publications by Global Insight. Global Insight is one of the most respected economic forecasting firms in the world.

The U.S. economic expansion, after lasting 10 years, ended with the U.S. economy dipping into a recession from March 2001 to November 2001. The main reason for the slowdown in the economy was the high-tech bubble burst. Losses in the stock market had significant impacts on the job market and consumers' savings and retirement accounts. Although the terrorist events of September 11th occurred after the economy was officially in a recession, thousands of additional jobs were lost due to the event as consumers cut back on travel and related recreational spending.

The recovery from the recession has been tagged a "jobless recovery" since payroll employment has yet to see a significant turnaround in positive growth. However, the employment outlook has brightened lately as the last few months have shown gains in nonfarm employment. According to the latest figures, the economy added 35,000 jobs in August, 125,000 jobs in September, and 126,000 jobs in October. The majority of the growth in jobs has been in service-providing sectors, as the manufacturing sector continues to shed jobs.

A major reason the economy has been able to grow despite the lack of job growth is because of outstanding gains in productivity. Productivity rose 5.4% in 2002, and in 2003, nonfarm productivity has grown 7.0% in the second quarter and 8.1% in the third quarter. Over the past eight quarters, productivity has increased 11%. The U.S. has not had a stretch of productivity growth like this since 1950.

Consumer spending on vehicles and housing, which are usually drags on the economy during recessions, helped prop it up during the downturn. Strong consumer spending on vehicles was fueled primarily by automotive incentives. The housing market benefited from low mortgage rates and the drop in the stock market as investors moved their savings into more tangible assets. Consumer spending on vehicles continues to remain strong, and the housing market continues to shatter records.

- Real gross domestic product (GDP) grew 3.8% in 2000, 0.3% in 2001, and 2.4% in 2002. So far, in the first three quarters of 2003, real GDP has grown 1.4%, 3.3%, and 7.2%. The 7.2% growth in GDP in the third quarter was the best GDP growth in 19 years.
- The ISM index for manufacturing activity rose to 57 in October. This was the fourth straight month of an increase, and the 57 was the highest reading since February 2000. A reading below 50 usually indicates the manufacturing sector is contracting, and a reading above 50 usually indicates it is expanding.
- The October employment index for manufacturing was below 50 for the 37th consecutive month at 47.7, indicating that manufacturing continues to cut payrolls. However, the index for October was the best reading since late 2000, signaling that the pace of job losses in the manufacturing sector is at least slowing.
- The unemployment rate fell 0.1% between September and October to 6.0%. The 6.0% rate in October was below the June peak of 6.4%, but above the 5.8% unemployment rate reported in October 2002.
- The September employment cost index posted a four-quarter rise of 3.1% in wages and salaries. This gain was higher than in the prior two quarters, but is still substantially lower than the increases from 1996 through the summer of 2002. In October, average hourly wages showed a 12-month increase of 2.4%. This was the smallest gain since the mid-1990's.
- In the first three quarters of 2003, personal income grew 3.0%, 3.4%, and 4.0%. Between 1996 and 2000, personal income increased between 4.9% and 8.0%. In 2001 and 2002, the growth in personal income slowed, increasing 3.3% and 2.7%, respectively.
- Consumer expenditures decreased 0.3% in September, after growing 1.1% in August and 1.0% in July. For the third quarter of 2003, consumer spending rose at a 6.6% annual rate, much higher than the prior two quarters of the year (3.8% in the second quarter and 2.0% in the first quarter).
- Construction spending posted its second-best performance in 30 months in September, rising 1.3%. Nonresidential construction accounted for

the majority of the strength in the September figure, increasing 2.5%. Residential construction increased 1.3%, and public construction was flat for the month.

- In the month of October, single-family housing starts increased 5.7%, up 18.4% from last year. In addition, permits for single-family homes hit a record high for the fifth straight month, rising 3.2% in October. Overall, housing starts rose to an annual rate of 1.96 million units for the month, the highest rate since January 1986.
- The Federal Reserve lowered the target federal funds rate 25 basis points in June to 1.00%. The last time the Federal Reserve lowered rates prior to this cut was November 2002.

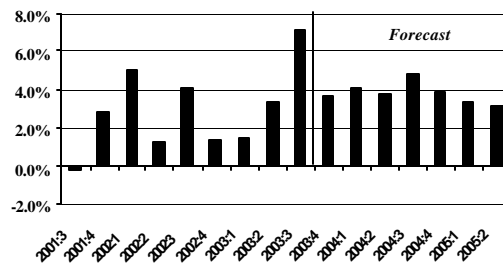
NATIONAL FORECAST HIGHLIGHTS

This section summarizes Global Insight's forecast as of November 2003 for various categories in the U.S. economy.

GDP: The economic expansion appears to be underway in the U.S., and recent economic indicators point towards further strengthening in the economy. However, the 7.2% annual rate of real GDP growth in the third quarter is not expected to be repeated in the near future. This is because during the third quarter, both consumption and residential investment growth were unsustainably strong. In regards to consumer spending, it seems consumers spent their tax cuts in the third quarter. This translated into an amazing annualized growth rate of 6.6% in consumer spending for the quarter. However, there will be no tax rebate checks in the fourth quarter, which will slow income and consumer spending. As far as the housing market, it has continued to shatter records. However, it is not anticipated that the record-breaking pace can continue indefinitely, and therefore will start to slow.

GDP is expected to grow at more modest rates in the next few quarters. In the fourth quarter of this year, GDP is forecasted to rise 3.6%. For the four quarters in 2004, Global Insight is projecting GDP growth of 4.1%, 3.7%, 4.9%, and 3.9%. For 2005, GDP growth is forecasted to be 3.3% in the first quarter and 3.2% in the second quarter.

Global Insight's Baseline Forecast of GDP



On an annual basis, GDP grew 4.3% in 1998, 4.1% in 1999, 3.8% in 2000, 0.3% in 2001, and 2.4% in 2002. Global insight's latest forecast shows GDP growth of 2.9% in 2003, 4.3% in 2004, and 3.6% in 2005.

CONSUMERS: Consumers continue to be a driving force in the economic recovery. Due to income tax cuts, real disposable income grew 7.2% in the third quarter. However, despite the rise in disposable income, consumers' savings rate remained essentially the same. In the second quarter of 2003, the savings rate was 3.2%, and in the third quarter it was 3.3%. This shows households spent the majority of their tax cuts in the third quarter, which propelled real consumer spending for the quarter to its strongest growth rate in six years. Global Insight does not believe that the third quarter growth in consumer spending is sustainable, however, and that consumption growth will only post a gain of 1.1% in the fourth quarter. The projected slow growth primarily comes from retreating sales of cars and light trucks. Excluding light vehicles, real consumer spending is forecasted to grow at a 3.4% annual rate in the fourth quarter. This projection includes a good holiday shopping season. It is expected that retailers will see their best holiday sales gains since 1999 this year, as nominal retail sales, excluding autos, are expected to rise 6% over last year. Overall for the year, real consumer expenditures are expected to grow 3.1%. Real consumer expenditures rose 4.3% in 2000, 2.5% in 2001, and 3.1% in 2002.

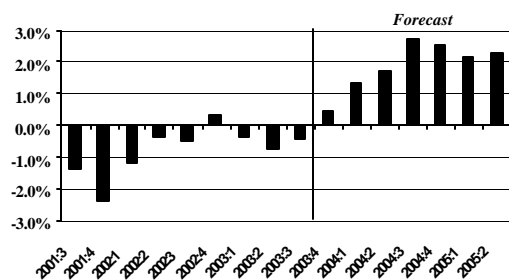
Real consumer expenditures are projected to grow 3.7% in 2004, based on a couple of major factors. First, the employment situation is expected to recover, which will give a boost to consumer markets. Also, real disposable income is projected to increase 4.3% in 2004, which should spur consumers to spend. Growth in real consumer expenditures in 2005 is not expected to be as robust as in 2004, though, as the stimulus of the tax cuts will be winding down. However, growth is expected to remain relatively strong at 3.3% due to continued gains in employment and income.

EMPLOYMENT: Recent economic evidence indicates that the job market is finally beginning to recover, as for the last three months the employment report has actually shown gains rather than losses. All of the gains in the past three months have been in the service sector. The manufacturing sector continues to lose jobs, falling by 24,000 in October. This was the 39th consecutive month the manufacturing sector has shed jobs. However, the October employment index for manufacturing was 47.7, the best reading since late 2000. Over time, a PMI employment index of 47.8 is consistent with increasing manufacturing employment. Therefore, the October number may be a sign that employment in the manufacturing sector is on the brink of a recovery.

Payroll employment is expected to have bottomed out in the third quarter of 2003. In the months ahead, the job market should strengthen and contribute to economic growth. The amazing gains that have been seen in productivity lately have allowed businesses to produce extra output without hiring more workers. However, the monthly employment data indicates that businesses may have finally pushed their current work force to the limit, and therefore are now being forced to add more workers. In the next few quarters, Global Insight is projecting more moderate productivity gains, combined with increases in employment. The gains in employment are expected to continue to be concentrated in the service sector. Although the pace of job losses in the manufacturing sector is slowing, Global Insight does not expect industrial payrolls to bottom out until the first quarter of 2004.

Overall, after falling 0.4% in the third quarter of 2003, payroll employment is projected to grow 0.5% in the fourth quarter of 2003, and 1.3%, 1.7%, 2.7%, and 2.5% in the four quarters of 2004. In the first two quarters of 2005, payroll employment is projected to grow 2.1% and 2.3%, respectively.

Global Insight's Baseline Forecast of Payroll Employment



On an annual basis, payroll employment in the U.S. grew 2.4% in 1999, 2.2% in 2000, 0.0% in 2001, and -1.1% in 2002. Payroll employment is forecasted to decrease 0.3% in 2003 and increase 1.1% in 2004

and 2.2% in 2005. The unemployment rate was 4.2% in 1999, 4.0% in 2000, 4.8% in 2001, and 5.8% in 2002. The unemployment rate is projected to be 6.0% in 2003, 6.0% in 2004, and 5.8% in 2005.

HOUSING: The housing sector continues to post robust numbers. Housing starts rose 2.9% in October, after rising 4.0% in September. The October annual rate of 1.96 million units is the highest rate recorded since January 1986. Housing permits, which are an indicator of future activity in the housing market, grew 5.9% in October to an annualized rate of 1.97 million units. This rate is the highest since February 1984. Global Insight forecasts that residential construction will contract moderately in the fourth quarter of this year, but will continue to post robust numbers over the next few years as rising employment and income will offset the negative impact of increasing mortgage rates. Housing starts are projected to be 1.792 million units in 2003, 1.722 million units in 2004, and 1.612 million units in 2005. In 2000, 2001, and 2002, housing starts were 1.573, 1.601, and 1.711 million units, respectively.

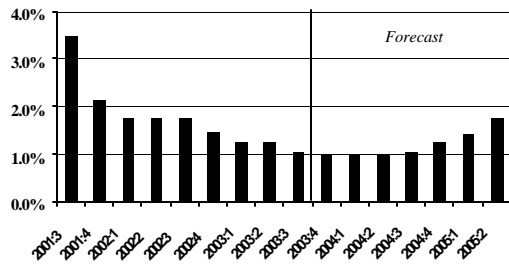
The 30-year fixed mortgage rate was 5.83% the first quarter of 2003, 5.51% in the second quarter, and 6.01% in the third quarter. In the fourth quarter, the rate is expected to rise to 6.10%, and continue to increase each quarter until the first quarter of 2006. On an annual basis, the 30-year fixed mortgage rate was 8.06% in 2000, 6.97% in 2001, and 6.54% in 2002. It is projected to fall to 5.86% in 2003, and rise to 6.48% in 2004, and 7.01% in 2005.

INFLATION: The latest data continues to show very little inflation in the economy. The core consumer price index rose only 1.5% in the third quarter, and the core producer price index for finished goods has exhibited only a fractional increase in the 12 months through September. Global Insight projects that the current stretch of stable prices will gradually give way to mild inflation. After a 2.3% rise in the third quarter, the CPI is expected to increase 1.1% in the fourth quarter. On an annual basis, the CPI increased 2.8% in 2001, and 1.6% in 2002. It is forecasted to increase 2.3% in 2003, 1.4% in 2004, and 1.9% in 2005. The core CPI increased 2.7% in 2001 and 2.3% in 2002. It is projected to increase 1.5% in 2003, 1.9% in 2004, and 2.4% in 2005. The PPI increased 2.0% in 2001 and fell 1.3% in 2002. It is expected to rise 3.0% in 2003, and fall 0.1% in both 2004 and 2005.

MONETARY AND FISCAL POLICY: Monetary policy was very aggressive during the economic downturn, with the Federal Reserve cutting rates eleven times in 2001. In 2002, rates were lowered once in November. So far in 2003, the Federal Reserve has cut rates once (in June). The target federal funds rate is now at 1.00%. Global Insight's

view is that the Federal Reserve will not raise the target federal funds rate until next September. This is because the current rate does not risk a rapid acceleration of inflation due to the amount of excess capacity in the economy and the slack in the job market. The prime rate has fallen from 4.75% last October to 4.00% this October.

Global Insight's Baseline Forecast of the Federal Funds Rate



The federal government appears to have been successful in stimulating the economy. According to Global Insight, federal tax reductions accounted for nearly three percentage points of the economy's 7.2% GDP growth in the third quarter, as consumers spent the majority of their tax cuts during this time. Federal government purchases also continue to invigorate the economy. After growing 4.8% in 2001 and 7.5% in 2002, real federal government purchases are expected to increase 8.2% in 2003, 5.3% in 2004, and 1.6% in 2005.

INTERNATIONAL: The recent imbalanced pattern of world growth has produced a U.S. current account imbalance of 5% of GDP. The dollar has fallen in response, and is expected to fall even further. The third quarter national accounts posted its first significant rise in exports since the second quarter of 2002. Goods exports increased at a 7.6% annualized rate, and overall exports rose 9.3%. Global Insight believes the prospects for a sustained, vigorous acceleration in exports are good. This is because of the projected weakening of the dollar and the view that the U.S. is once again leading another rebound in the world economy. After growing 2.0% in 2002, world GDP is forecasted to rise 2.4% in 2003 and 3.3% in 2004.

RISKS TO THE FORECAST

Global Insight's baseline forecast assumes that the economic recovery is in place, and that the U.S. economy will continue to strengthen. There is a 20% probability that growth will be more robust than what is anticipated. In the optimistic forecast, GDP growth is projected to be 3.0% in 2003, 4.9% in 2004, and 4.0% in 2005. This higher growth comes from a number of areas that have potential for growth

greater than what is in the baseline forecast. For example, world growth may accelerate more than projected, giving U.S. exporters an extra boost. In addition, Global Insight's optimistic scenario assumes the economic recovery allows state and local governments to increase spending faster in 2004 and 2005 than what is in the baseline forecast. It also assumes faster consumer spending growth, spurred by higher consumer sentiment in the next few months. Finally, the optimistic scenario assumes housing will once again outperform the baseline forecast.

Global Insight's pessimistic scenario has a 20% probability of occurring, and is based on a gloomier view of growth than what is in the baseline forecast. The pessimistic scenario assumes that world growth is anemic, and business investing slows. Companies add employees only sparingly, and count on gains in productivity to meet the modest growth in demand. Consumer sentiment then falls in response to the slow pace of hiring in the job market, which slows down growth in consumer spending. In the pessimistic scenario, GDP growth is 2.9% in 2003, 3.2% in 2004, and 2.1% in 2005.

SOUTH DAKOTA ECONOMY

RECENT ECONOMIC ACTIVITY

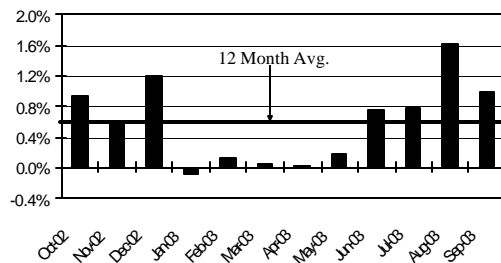
This section briefly summarizes recent economic activity in South Dakota. A prime indicator of a state's economic health is the growth rate of nonfarm employment, considered by most economists as the most timely and comprehensive measure of the performance of a state's economy.

The U.S. economy was in a recession from March 2001 to November 2001. In terms of nonfarm employment, the South Dakota economy experienced a slowdown before the national economy. U.S. nonfarm employment growth was 2.4% in 1999 and 2.2% in 2000. Nonfarm employment growth in South Dakota was 2.8% in 1999 and only 1.2% in 2000. However, South Dakota did not see the severity of job losses that occurred nationally during the recession, or what has been seen during the national "job-less recovery." In 2001, U.S. nonfarm employment growth was flat (0.0%), and in 2002 nonfarm employment fell 1.1%. In South Dakota, nonfarm employment grew 0.2% in 2001 and fell 0.2% in 2002. South Dakota has experienced positive year-over-year growth each quarter since the third quarter of 2002, while the U.S. still has yet to see a turnaround in quarterly year-over-year growth.

In the last twelve months (October 2002 to September 2003), nonfarm employment in South Dakota has grown 0.60% over the same period a

year ago. January was the only month that posted a year-over-year loss in jobs in the last twelve months.

Recent Trends in Nonfarm Employment



- Sectors that experienced strong growth in the last twelve months were construction (3.3%); educational and health services (2.6%); leisure and hospitality (2.5%); government (1.1%); and, trade, transportation, and utilities (0.9%). Sectors that continued to shed jobs, resulting in negative year-over-year growth over the last twelve months were manufacturing (-2.3%) and financial activities (-1.8%).
- For the latest month, September, South Dakota's unemployment rate was 3.4%, up from September 2002's 2.9% rate. At the national level, the unemployment rate for September was 6.1%, also up from the prior year's rate of 5.7%.
- During the month of September, average weekly earnings of manufacturing production workers were up 7.5% over September 2002. Average hourly earnings were up 5.1% over September 2002, and average weekly hours increased 2.3% over the same period.
- In the third quarter of 2003, nonfarm employment in South Dakota grew 1.1% over the same period in 2002. Specifically, the leisure and hospitality sector was up 6.4%, the health services and construction sectors were each up 3.1%, and the educational sector was up 3.0%. The manufacturing sector experienced its fourteenth consecutive quarter of decline, falling 1.8% in the third quarter. Other sectors that reported negative growth in the third quarter of 2003 over the third quarter of 2002 were administrative and support and waste services (-3.5%); finance and insurance (-2.1%); and, professional, scientific, and technical services (-1.2%). In the third quarter of 2002, nonfarm employment grew 0.1% over the same period in 2001.
- Total personal income in South Dakota increased 1.5% from the first quarter of 2003 to the second

quarter of 2003. This growth was considered above average, as growth for the U.S. in the second quarter was 0.8%. Total personal income in South Dakota grew 9.3% from the second quarter of 2002 to the second quarter of 2003. Nonfarm personal income increased 3.9% from the second quarter of 2002 to the second quarter of 2003, while farm income was up 481.8% over the same time period.

- During the latest 12-month period (October 2002 through September 2003), the number of titles issued for new noncommercial vehicles was 36,960, a decrease of 412 (-1.1%) vehicles titled over the prior 12-month period.
- The total number of residential building permits issued during the past 12 months (October 2002 through September 2003) was 3,456, up 410 (13.5%) from the prior 12-month period. The value of building permits issued was \$446.29 million for the past 12 months, an increase of \$80.58 million (22.0%) from the prior 12-month period.

COUNCIL OF ECONOMIC ADVISORS

The Council of Economic Advisors, which has been in existence since 1991, consists of economics professors and business people from South Dakota. The purpose of the council is to assist in the development of the best possible forecast of South Dakota's economy. This section summarizes the council's view of South Dakota's economy.

TOURISM: Tourism activity has been good in South Dakota so far this year, particularly in the Black Hills area. The Department of Transportation reported that vehicles entering Sturgis during the Rally was up 8.8% this year compared to last year (541,390 in 2003 versus 497,474 in 2002). According to the Department of Tourism and State Development, visitation at Mount Rushmore National Memorial was up 2.9% year-to-date through October (with 2,914,815 visitors) compared to a year ago. Rapid City Regional Airport passenger traffic was up 18% in October over the same month last year, and passengers were up 4.1% year-to-date over the same period in 2002. Visitation at the Interstate Information Centers was also up through October by 10.7%. Motel occupancy for the state in September was down 2.8% compared to a year ago, but campground occupancy was up 4.5% statewide in August over the same month in 2002. The strong tourism year may be attributed in part to the September 11th attacks, as automobile vacations have taken the place of some air travel and Americans have wanted to take more patriotic vacations. For 2004, tourism is projected to remain robust as increased promotions and improvements to many attractions throughout the state are

expected. Also, tourism should see strong growth in the next few years due to rising incomes, pent-up demand, and a growing retiree population.

AGRICULTURE: The drought took its toll on much of South Dakota's agriculture in 2002. Crop yields were down in 2002 from 2001 due to the dry conditions. In addition, the lack of rainfall resulted in shortages of feed and water supplies for livestock, which forced many producers in the state to reduce their herd size. Currently, 2003 production levels look mixed. According to the National Agricultural Statistics Service, South Dakota corn production is projected to be 430.5 million bushels, which is 42% above last year's level. The yield for corn is forecasted to be up ten bushels from last year, at 105 bushels per acre. Soybean production is expected to be down 4% from last year, at 121.8 million bushels. The yield for soybeans is projected to be 29 bushels per acre, down two bushels per acre from last year. All wheat production is up 175% from last year's drought reduced levels, with a yield increase from 2002 of 16.4 bushels. On the livestock side, as of July 1, all cattle and calves in South Dakota were down 3% compared to last year and, as of September 1, the inventory of all hogs and pigs was down 5% from 2002.

The forecast for the South Dakota agricultural economy looks optimistic due to higher prices. Lately, crop prices have been rather high, and due to normal seasonal increases, should remain relatively high. Cattle prices have been extremely strong recently. It is expected that prices will continue to remain strong throughout the end of the year for cattle, and then start to soften. Hog prices are expected to remain relatively stable for the remainder of the year, and then start to ease as we move into 2004. Due to the relatively high prices on both the crop and livestock sides, overall farm income should be up in 2003. However, many farmers and ranchers in the state continue to remain concerned over moisture levels, as topsoil and subsoil moisture continues to be classified as very short to short across a large portion of the state.

WAGE RATES: The unemployment rate in South Dakota was relatively low in September at 3.4%, and is projected to be even lower in the future. A low unemployment rate exhibits a tight labor market, which keeps pressure on businesses to increase wage rates to keep and gain employees. Also, it is expected that productivity will remain strong in the state. This should translate into real wage gains for workers as they get compensated for their increased productivity. Overall, wages are expected to continue to rise in South Dakota, and the gains in wage rates should contribute to economic growth in the state.

CONSTRUCTION: Construction activity has been extremely robust in South Dakota so far in 2003. This is mostly attributable to the housing market. From January to September, the total number of building permits issued for family houses in South Dakota was 2,714, up 320 over the total number of permits issued during the same period in 2002. The value of building permits issued continues to remain exceptionally strong as well, up \$71.79 million in the last nine months compared to the same period in 2002. It is the council's view that the housing market will continue to post relatively strong numbers due to attractive mortgage rates and strong demand for home ownership. In addition, commercial and contract road construction is expected to give construction activity a boost.

SOUTH DAKOTA FORECAST HIGHLIGHTS

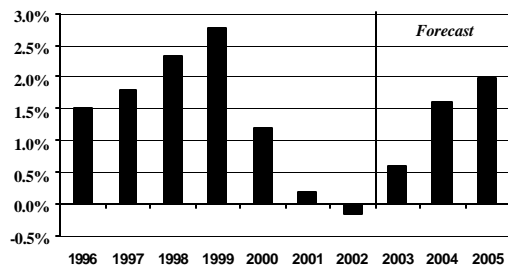
Global Insight's forecast of the national economy and the input of the Council of Economic Advisors were incorporated into the forecast of South Dakota's economy. This section summarizes various categories of the latest forecast for the South Dakota economy.

EMPLOYMENT: South Dakota has several advantages over other states that account for its ability to post strong gains in employment. Some of these advantages include a pro-business environment, a central geographic location, an advanced technology base, a low cost of doing business, and a high quality of life.

Between 1990 and 1995, nonfarm employment in South Dakota grew at an average annual rate of 3.5%, which was significantly higher than the national average annual growth rate of 1.4% during this period. The majority of additional jobs in South Dakota during this time period occurred in the manufacturing, construction, and service sectors.

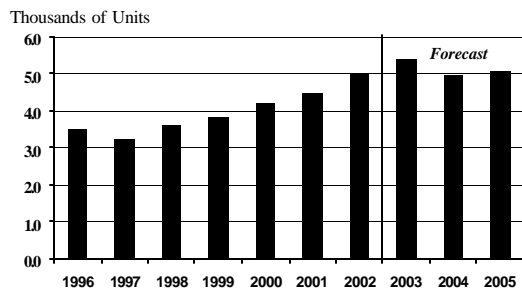
In 1996 and 1997, growth in nonfarm employment slowed to 1.5% and 1.8%, respectively. In 1998, nonfarm employment growth rebounded back to 2.3%, and in 1999 nonfarm employment rose 2.8%. The construction and service sectors experienced strong gains during these years. In 2000, growth slowed again to 1.2%, and then slowed further in 2001 to just 0.2%. In 2002, nonfarm employment fell 0.2%. For 2003, 2004, and 2005, nonfarm employment is projected to grow 0.6%, 1.6%, and 2.0%. Sectors in service-providing industries are expected to see the strongest growth in these years.

Growth in Nonfarm Employment



HOUSING: Favorable interest rates and changing demographics in the state have contributed to a strong housing sector in recent years. Between 1991 and 1994, the number of housing starts increased from 2,539 to 4,378 units. In 1995, 1996, and 1997, housing starts decreased. However, since 1998, housing starts have once again increased each year. In 2001 there were 4,479 housing starts, and in 2002 there were 5,015 housing starts. Considering the softness of the South Dakota economy in 2001 and 2002, housing starts in these years were a positive anomaly. Housing starts have continued to remain strong in 2003 and are expected to be higher this year than in 2002. However, housing starts are projected to be lower in 2004 than in 2003 due to rising mortgage rates. Strong demand and strengthening in the job market should keep the housing market relatively strong in 2004, though. In 2005, housing starts are once again expected to be higher than the prior year due to strong demand and rising incomes.

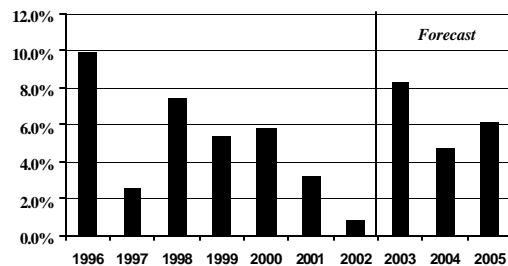
Housing Starts



INCOME: Between 1990 and 2000, the average annual growth rate in total personal income in South Dakota was slightly higher than the U.S. average during the same time period (5.6% versus 5.5%). Due to the recession and decline in nonfarm employment, income growth has slowed both in South Dakota and in the U.S. Total personal income in South Dakota only grew 3.3% in 2001 and 0.9% in 2002. The poor growth in 2002 was not only due to

the fall in nonfarm employment, but also from the negative impact the drought had on farm income. For 2003, total personal income is forecasted to rebound significantly, growing 8.2% based on rising nonfarm employment, disaster payments to farmers, and higher crop and livestock prices. In 2004 and 2005, total personal income growth is projected to remain relatively strong, but be more sustainable. Growth is forecasted to be 4.7% in 2004 and 6.1% in 2005. The strong gains in income growth are expected due to a tight labor market and employers compensating employees for increased productivity.

Growth in Total Personal Income



Nonfarm income rose 6.6% in 1998, 5.4% in 1999, 6.4% in 2000, 4.5% in 2001, and 3.5% in 2002. Growth rates for 2003, 2004, and 2005 are projected to be 4.6%, 6.0%, and 6.4%, respectively.

RISKS TO THE FORECAST

The current forecast assumes that the South Dakota economy is on the rebound and will continue to strengthen. There are a number of risks to this forecast, though. For example, the national economy may not recover as fast as projected. This scenario would likely hamper expected nonfarm employment growth in South Dakota. One sector that would especially be hurt if the U.S. economy does not recover as forecasted is the struggling manufacturing sector. This sector in South Dakota has already been hit hard by the national recession, losing almost 6,000 jobs between 1999 and 2002. If overall nonfarm employment rises less than projected in South Dakota, it will likely have a negative impact on consumers' confidence in the economy. Lower consumer confidence and slow growth in the labor market often causes consumers to cut back on their demand for goods and services. This reduces current businesses' willingness to hire more employees, and new businesses' desires to start up. Overall, keys to the projected growth in the South Dakota economy are a strengthening national economy, businesses that invest in additional employees, and consumers who are willing to spend money to spur economic growth.

STATE OF THE STATES

The Governors' recommended budgets for fiscal year 2004 show some signs of improvement. States continue to grapple with short-term cyclical and long-term structural problems. Plagued by budget shortfalls for the past three years, states still face uncertainty in the current fiscal year and difficult budgetary choices in the years ahead, even amid strong growth recently in gross domestic product and declining job losses. States currently find themselves in a familiar spot: struggling to keep their budgets in balance. Budget gaps are lingering as spending pressures persist, particularly from Medicaid and other health care.

SPENDING

States pared back spending significantly in FY2003 and FY2004. General fund spending in FY2003 grew only by 0.6% above FY2002 levels. Based on FY2004 appropriations, expenditures are expected to rise only by 0.2% over the previous year, the smallest nominal increase since 1979. By comparison, between FY2000 and FY2001, general fund expenditures increased by 8.3%. Expenditures include one-time spending from surplus funds, transfers into budget stabilization funds and other reserve funds, and payments to local governments to reduce property taxes. Some findings include the following:

States continue to rely heavily on certain budget balancing strategies to close spending and revenue gaps. To address these gaps, in FY2003, 32 states enacted across-the-board cuts, 25 states used rainy day funds, 16 states laid off employees, 13 states used early retirement, 13 states reorganized programs, and 29 states used a variety of other methods.

Continuing to provide supportive services for families to achieve self-sufficiency, seven states increased their Temporary Assistance for Needy Families (TANF) cash assistance benefit levels from 1% to 2% in FY2004. One state decreased cash assistance benefit levels by 26%.

More than half the states' budget changes affected local governments in FY2004. Many of these changes reduced aid to local governments.

STATE REVENUE ACTIONS

Revenue collections at the beginning of FY2004 were stagnant, due largely to the length of time it has taken economic recovery to take hold, although revenues recently have begun to improve in some states. In addition to controlling expenditures,

drawing from one-time revenue sources, and using a mass of other budget balancing strategies to deal with the budget problems still hounding them, 36 states enacted broad-based net tax and fee increases for FY2004, totaling \$9.4 billion. Two states enacted net tax reductions totaling \$31.1 million.

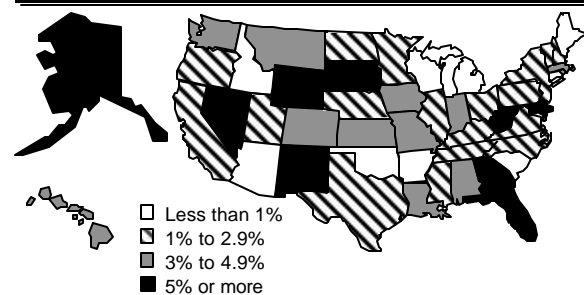
The largest enacted increases are in the sales tax (\$2.6 billion), personal income tax (\$2.3 billion), and fees (\$1.8 billion). Additionally, 24 states enacted revenue measures that enhance general fund revenue but do not affect taxpayer liability totaling \$3 billion.

In FY2003, sales taxes, personal income taxes, and corporate income taxes were 6% lower than originally budgeted.

STATE YEAR-END BALANCES

Year-end balances, which include both ending balances and the amounts in budget stabilization funds, play a critical role in providing states with necessary resources to deal with unforeseen fiscal downturns. Balances appear to have stabilized: actual FY2002 balances totaled \$18.3 billion, or 3.7% of expenditures, preliminary actual FY2003 balances totaled \$15.2 billion, or 3.1% of expenditures, and appropriated FY2004 balances totaled \$15.8 billion, or 3.2% of general fund expenditures.

FY2003 Total Year-End Balance as a Percentage of Expenditures



MEDICAID TRENDS

The rise in Medicaid spending, coupled with the downturn in state revenue collections, continues to put severe strain on state budgets. Of the total Medicaid beneficiaries, approximately one-quarter are elderly and disabled and three-quarters are children and non-disabled adults, while the costs of Medicaid services are approximately three-quarters for the elderly and the disabled and one-quarter for children and non-disabled adults. Health care costs have a significant impact on state budgets since Medicaid and other health care spending accounts for 30% of total state spending.

Medicaid spending increased by 9.3% in FY2003, after increasing by 12.8% in FY2002, based on the most recent findings of the Kaiser Commission on Medicaid and the Uninsured. This growth rate, at about 23% over two years, compares to an actual decline of 0.3% in state revenue growth during the same time period. States appropriated an increase of 4.6% for FY2004, an amount that most likely will prove to be too low. In fact, 32 states already assume they will have a shortfall in their FY2004 Medicaid budgets. The trends in Medicaid are consistent with the rise in private insurance costs, though Medicaid growth rates in fact are lower. The most recent figures for private insurance reflect an increase in employer-sponsored health benefits of 13.9% in 2003, up from 12.9% in 2002.

States have been able to maintain a growth rate below private insurance levels due to the aggressive cost containment efforts used by all 50 states. States are faced with the same cost pressures affecting private insurance, such as prescription drug costs increasing at double-digit rates and rising medical services. Enrollment increases have also played a major role in the increase in Medicaid spending, with enrollment increases of 7.8% in FY2003 and an additional 5.3% estimated in FY2004. States are not only limiting spending, but about one-half of them also planned to generate additional revenues for Medicaid. Additional resources often involve fees or taxes placed on health care providers. Other measures include reallocating tobacco settlement funds and increasing cigarette taxes.

Escalating Medicaid costs continue to place Medicaid in the forefront of state budget issues. The Jobs and Growth Reconciliation Act has helped states by providing a temporary increase in the federal Medicaid matching rate, which is expected to provide \$10 billion in fiscal relief to states during FY2003 and FY2004. As states plan for FY2005, the drop-off of the federal relief will force another round of difficult decisions in Medicaid. Over the decade, Medicaid spending is projected to increase at an average annual rate of 8.5%, according to the Congressional Budget Office, a rate that would far outstrip state revenue growth even after a full economic recovery is underway.

REVENUE ESTIMATES

SUMMARY

Total general fund receipts for FY2004 are forecasted at \$938.6 million. Ongoing revenue sources comprise \$10.1 million of the total, and one-time revenue sources are \$28.5 million of the total. The ongoing estimate for FY2004 is an increase of \$35.4 million over FY2003 collections. The primary increase is from the sales and use tax, which is expected to grow \$27.7 million. Net transfers in is expected to increase \$10.7 million over FY2003, primarily due to the transfer of interest earnings from the Education Enhancement and Health Care Trust Funds. Other significant projected sources of growth are from the cigarette tax (+\$6.2M), Property Tax Reduction Fund (+\$5.3M), contractor's excise tax (+\$3.9M), insurance company tax (+\$3.8M), and licenses, permits, and fees (+\$1.9M). Sources that are expected to see a significant decrease in collections between FY2003 and FY2004 are the inheritance tax (-\$17.4M) and investment income and interest (-\$3.9M).

The revised ongoing estimate for FY2004 is \$33.4 million more than the estimate adopted during the 2003 legislative session. Major revisions upward are from the sales and use tax (+\$11.8M), net transfers in (+\$9.1M), and the inheritance tax (+\$5.1M). The most significant downward revision is from investment income and interest (-\$0.8M).

For FY2005, total general fund receipts are projected to be \$975.7 million. Ongoing revenues are forecasted to be \$51.5 million, and one-time receipts are expected to be \$24.2 million. Ongoing receipts are forecasted to increase \$41.4 million, or 4.55%, from revised FY2004 to projected FY2005. The sales and use tax is expected to grow \$31.3 million over revised FY2004 collections. Other significant projected sources of ongoing revenue growth are from the contractor's excise tax (+\$4.0M), the insurance company tax (+\$3.7M), investment income and interest (+\$2.8M), and the Property Tax Reduction Fund (+\$2.2M). The major decrease in collections is expected to be from the inheritance tax (-\$3.6M).

CURRENT REVENUE FORECAST (Dollars in Millions)

	<u>FY2004</u>	<u>FY2005</u>
Sales and Use Tax	503.7	535.0
Contractor's Excise Tax	60.1	64.0
Bank Franchise Tax	33.7	34.3
Insurance Company Tax	53.6	57.3
Inheritance Tax	7.1	3.5
Property Tax Reduction Fund	110.2	112.4
Other Ongoing Revenues	141.7	145.0
One-Time Receipts	27.2	7.6
Property Tax Reserves	0	16.6
Obligated Cash Carried Forward	<u>1.4</u>	<u>0.0</u>
Total Revenue	<u>938.6</u>	<u>975.7</u>

SALES AND USE TAX

In the past few years, sales and use tax collections have accounted for approximately 55% of ongoing general fund revenues. Between FY1980 and FY2003, sales and use tax collections grew from \$140.6 million to \$476.0 million, an average annual increase of 5.45%. During FY2003, sales and use tax collections grew \$18.0 million, or 3.93% over FY2002. Through the first four months of FY2003, sales tax collections were \$168.0 million, or 2.95% above the first four months in FY2002. Through the first four months of FY2004, sales tax collections were \$179.2 million, an increase of 6.65% over the same period last year. For the revised FY2004 estimate, sales and use tax collections are forecasted at \$503.7 million, an increase of \$27.7 million, or 5.83% over FY2003 collections. For FY2005, sales and use tax collections are forecasted at \$535.0 million, an increase of \$31.3 million, or 6.21% over revised FY2004 collections.

CONTRACTOR'S EXCISE TAX

The healthy growth in construction activity had a direct impact on the growth in contractor's excise tax collections between CY1988 and CY2002. The number of housing starts in South Dakota during that period of time increased from 1,979 units to 5,015 units. This expansion in activity contributed to the increase in contractor's excise tax collections from \$16.2 million in FY1988 to \$56.1 million in FY2003, an increase of \$39.9 million. Due to the continuation of relatively low mortgage rates, the housing market has continued to remain robust in 2003. From January to September, building permits issued were up 320 over the same period last year. Growth in the contractor's excise tax is expected to remain relatively strong in FY2004 and FY2005 due to the forecasted strength in the housing market and the South Dakota economy.

Collections from the contractor's excise tax were \$56.1 million in FY2003, up 6.44% over FY2002. Through the first four months of FY2003, contractor's excise tax collections were \$21.9 million, up 6.85% over the first four months of FY2002. During the first four months of FY2004, collections were \$23.7 million, 8.26% more than the same period last year. Contractor's excise tax collections for FY2004 are forecasted at \$60.1 million, an increase of 7.01% over actual FY2003 collections. FY2005 collections are forecasted at \$64.0 million, an increase of 6.58% over estimated FY2004 collections.

BANK FRANCHISE TAX

The bank franchise tax is one of the few general fund revenue sources that is impacted more by the national economy than by the South Dakota economy. This is due to the fact that approximately 90% of bank franchise tax collections are generated by bank card institutions. During the late 1980's, collections grew as the national economy experienced large growth. Collections also grew as the usage of credit cards increased. As the national economy slowed in the early 1990's, bank franchise tax collections decreased. In the mid 1990's, the economy gained momentum. Credit card usage and consumer debt increased, which allowed bank franchise tax collections to increase. The recent slowdown in the economy led to a slowdown in bank franchise tax collections. Now, as the U.S. economy is recovering from the recession, bank franchise tax collections are expected to recover as well.

Through the first four months of FY2004, collections are up 3.52%, or \$0.5 million, over the same period last year. Total FY2004 collections are projected to be \$33.7 million, \$0.5 million higher than actual FY2003 collections. Collections are expected to increase in FY2005 to \$34.3 million, \$0.6 million higher than estimated FY2004 collections.

INSURANCE COMPANY TAX

Between FY1985 and FY2003, insurance company tax collections grew from \$17.2 million to \$49.8 million, an average annual increase of 6.08%.

In FY2003, insurance tax collections were \$49.8 million, an increase of \$3.6 million, or 7.78%, over FY2002 collections. During the first four months of FY2003, collections were only \$17.6 million, or 2.89% over the same period in FY2002. During the first four months of FY2004, insurance company tax collections were \$19.3 million, an increase of 9.56% over the same period last year. For FY2004, insurance company tax collections are forecasted at \$53.6 million, an increase of 7.53% over actual FY2003 collections. For FY2005, insurance company tax collections are forecasted to grow

6.97% over estimated FY2004 collections to \$57.3 million.

INHERITANCE TAX

Included in this category is the state's share of the inheritance tax and the estate tax. In November of 2000, the voters of South Dakota passed Constitutional Amendment C, which repealed the state inheritance tax on July 1, 2001. The estate tax is imposed upon an estate subject to the federal estate tax. The tax is equal to the credit on the federal tax return for state estate taxes. The state estate tax has no effect on the total amount of tax paid by a deceased person's estate.

Inheritance tax collections were \$31.4 million in FY2001, \$21.1 million in FY2002, and \$24.5 million in FY2003. The increase in collections between FY2002 and FY2003 was due to a settlement of a large estate. Collections in FY2004 and beyond will most likely consist solely of the state's credit of federal estate tax due. For FY2004, collections are expected to decrease \$17.4 million from FY2003 to \$7.1 million. In FY2005, collections are estimated to decrease \$3.6 million from the FY2004 estimate to \$3.5 million.

PROPERTY TAX REDUCTION FUND

The Property Tax Reduction Fund has traditionally been the source from which the state has funded property tax relief. In 1996, the legislature directed that all receipts from video lottery be transferred into the Property Tax Reduction Fund and checks were written from the fund to the counties to fund the first Property Tax Credit Program. When the new state aid formula went into effect in January of 1997, property tax relief was then paid out of the general fund through state aid to education. The legislature then directed that dollars in the Property Tax Reduction Fund (video lottery receipts) be transferred to the state general fund for property tax relief. A bill was also passed that any general fund surplus at the end of the fiscal year be transferred back to the Property Tax Reduction Fund, after the transfer to the budget reserve. As a result, the balance in the Property Tax Reduction Fund grew to \$65.8 million at the end of FY2003.

HB1104, passed by the 2003 legislature, imposed a tax of 4% on the gross receipts of telecommunication services, beginning in FY2004. Sixty percent of the revenue collected from this tax is deposited in the Property Tax Reduction Fund. Included in the FY2004 and FY2005 Property Tax Reduction Fund estimates are \$3.6 million and \$4.1 million, respectively, from this tax. Video lottery receipts to the Property Tax Reduction Fund in FY2004 and FY2005 are projected to be \$106.7 million and \$108.3 million, respectively.

The total Property Tax Reduction Fund estimate for FY2004 is \$110.2 million. However, due to the \$66.3 million in fiscal relief that will be provided by the federal government, not all the revenues received in the Property Tax Reduction Fund will need to be transferred to the general fund in FY2004. Rather, the transfer from the Property Tax Reduction Fund for FY2004 will be reduced by the amount of the fiscal relief. Therefore, the projected amount that will be transferred to the general fund in FY2004 from the Property Tax Reduction Fund is \$43.9 million.

customers prior to and subsequent to the market falling off in 2000.

In FY2005, all video lottery receipts and revenue from the gross receipts tax on telecommunication services are projected to be transferred to the general fund. Also, it is anticipated that a portion of the cash balance in the form of one-time receipts will need to be transferred to the general fund in order to balance the budget. This amounts to a total transfer of \$129.0 million from the Property Tax Reduction Fund to the general fund in FY2005, of which \$16.6 million is one-time cash from the property tax reserves.

ONE-TIME RECEIPTS

The \$27.2 million estimate in FY2004 from one-time receipts is from the acceleration of interest earnings into the general fund and a \$15.0 million transfer from the Petroleum Release Compensation Fund. HB1099, passed by the 2003 legislature, accelerated the proration of interest earnings in the cash flow fund by having 90% of the estimated proration due to the general fund for the next fiscal year transferred to the general fund in the year in which the interest is earned. This results in one year (FY2004) where the general fund will receive two years of earnings deposits. Included in this category is the estimated amount of FY2004 interest earnings that will be deposited into the general fund (\$12.2 million). HB1069, passed by the 2003 legislature, transferred \$15.0 million to the Petroleum Release Compensation Fund. These funds were transferred to the highway fund during the 2002 legislative session to cover an expected deficit in matching federal highway dollars. This shortfall never occurred; therefore, HB1069 moved the dollars back to the Petroleum Release Compensation Fund. HB1283, the general appropriations bill, transferred the \$15.0 million from the Petroleum Release Compensation Fund to the general fund in FY2004.

The FY2005 estimate of one-time receipts is \$7.6 million. Included in this figure is a one-time transfer of \$3.0 million from the video lottery operating fund to the general fund to help balance the projected budget shortfall in FY2005. The figure also includes \$4.6 million from a securities global settlement with various large brokerage firms accused of providing bad investment advice to their

BUDGET RESERVE

House Bill 1287, passed by the 1991 South Dakota Legislature, created the budget reserve fund. The purpose of its creation was to place resources into a reserve that would only be used to address emergency situations without having to raise taxes or cut spending. Beginning in FY1992, \$20.0 million was transferred from the general fund to the budget reserve fund. For each year thereafter, the maximum level of funds in the reserve was set at 5% of the general funds appropriated the prior year in the General Appropriations Act, with the funding coming from any unobligated cash remaining in the general fund at the end of a fiscal year. House Bill

1195, passed by the 2002 South Dakota Legislature, changed the maximum level of funds in the reserve to 10% of the general fund appropriations from the General Appropriations Act for the prior fiscal year. The use of funds within the reserve requires an act passed by the South Dakota Legislature. The ending cash balance for FY2005 does not assume that surplus funds will be available. To the extent there is a surplus in FY2004, the ending balance in the budget reserve fund will be adjusted accordingly.

BUDGET RESERVE FUND CONDITION STATEMENT

	<u>ACTUAL FY2002</u>	<u>ACTUAL FY2003</u>	<u>ESTIMATED FY2004</u>	<u>ESTIMATED FY2005</u>
Beginning Balance	\$ 38,226,604	\$ 33,146,391	\$ 39,324,961	\$ 40,680,675
Calculation for Maximum Balance in Reserve:				
General Bill Appropriation for Prior Year	795,761,825	850,885,481	875,000,575	903,761,508
Budget Reserve Percentage	<u>5.00</u>	<u>10.00</u>	<u>10.00</u>	<u>10.00</u>
Maximum Amount in Reserve	<u>\$ 39,788,091</u>	<u>\$ 85,088,548</u>	<u>\$ 87,500,058</u>	<u>\$ 90,376,151</u>
Maximum Transferable Amount	<u>\$ 1,561,487</u>	<u>\$ 51,942,157</u>	<u>\$ 48,175,097</u>	<u>\$ 49,695,476</u>
Amount of General Funds Available End of Prior Year	\$ 1,561,487	\$ 6,178,570	\$ 1,355,714	\$ 0
Transferred in from General Fund	<u>\$ 1,561,487</u>	<u>\$ 6,178,570</u>	<u>\$ 1,355,714</u>	<u>\$ 0</u>
Transferred out to General Fund	(6,641,700)	<u>0</u>	<u>0</u>	<u>0</u>
Ending Balance	<u>\$ 33,146,391</u>	<u>\$ 39,324,961</u>	<u>\$ 40,680,675</u>	<u>\$ 40,680,675</u>

**COMPARISON BETWEEN LEGISLATIVE AND
REVISED ESTIMATE FOR FY2004**

	<u>LEGISLATIVE ADOPTED</u>	<u>REVISED FY2004</u>	<u>DOLLAR CHANGE</u>	<u>PERCENT CHANGE</u>
CONTINUING RECEIPTS				
Sales and Use Tax	\$491,864,847	\$503,688,444	\$ 11,823,597	2.40
Contractor's Excise Tax	57,909,510	60,069,801	2,160,291	3.73
Alcohol Beverage Tax	8,048,740	7,771,124	(277,616)	(3.45)
Alcohol Beverage 2% Wholesale Tax	799,281	841,279	41,998	5.25
Cigarette Tax	26,831,170	27,856,181	1,025,011	3.82
Bank Franchise Tax	32,451,712	33,662,620	1,210,908	3.73
Insurance Company Tax	50,293,092	53,591,463	3,298,371	6.56
Inheritance Tax	2,000,000	7,090,000	5,090,000	254.50
Licenses, Permits, and Fees	30,694,863	31,716,950	1,022,087	3.33
Investment Income and Interest	11,931,500	11,097,207	(834,293)	(6.99)
Charges for Goods and Services	8,280,868	8,283,687	2,819	0.03
Net Transfers In	13,957,024	23,028,883	9,071,859	65.00
Cement Plant Annual Transfer	12,000,000	12,000,000	0	0.00
Mineral Extraction Tax	600,194	407,371	(192,823)	(32.13)
Energy Mineral Severance Tax	695,504	697,759	2,255	0.32
Unexpended Carryover	0	0	0	0.00
South Dakota Lottery	4,400,000	4,430,000	30,000	0.68
Property Tax Reduction Fund	110,292,990	110,227,042	(65,948)	(0.06)
Sale-Leaseback	12,478,191	12,478,191	0	0.00
CRP Program	1,152,786	1,152,786	0	0.00
SUBTOTAL (CONTINUING RECEIPTS)	<u>\$876,682,272</u>	<u>\$910,090,788</u>	<u>\$ 33,408,516</u>	<u>3.81</u>
ONE-TIME RECEIPTS				
Acceleration of Interest Earnings	11,820,618	12,155,704	335,086	2.83
Transfer from Petroleum Release Fund	15,000,000	15,000,000	0	0.00
Securities Global Settlement	0	0	0	0.00
Transfer from Video Lottery Fund	3,000,000	0	(3,000,000)	(100.00)
Transfer from Budget Reserves	0	0	0	0.00
Transfer from Property Tax Reserves	0	0	0	0.00
Obligated Cash Carried Forward	0	1,355,714	1,355,714	100.00
SUBTOTAL (ONE-TIME RECEIPTS)	<u>\$ 29,820,618</u>	<u>\$ 28,511,418</u>	<u>(\$ 1,309,200)</u>	<u>(4.39)</u>
GRAND TOTAL	<u>\$906,502,890</u>	<u>\$938,602,206</u>	<u>\$ 32,099,316</u>	<u>3.54</u>

COMPARISON BETWEEN FY2003 AND FY2004 REVENUE COLLECTIONS

	<u>ACTUAL FY2003</u>	<u>REVISED FY2004</u>	<u>DOLLAR CHANGE</u>	<u>PERCENT CHANGE</u>
CONTINUING RECEIPTS				
Sales and Use Tax	\$475,956,210	\$503,688,444	\$ 27,732,234	5.83
Contractor's Excise Tax	56,136,750	60,069,801	3,933,051	7.01
Alcohol Beverage Tax	7,606,230	7,771,124	164,894	2.17
Alcohol Beverage 2% Wholesale Tax	792,354	841,279	48,925	6.17
Cigarette Tax	21,660,817	27,856,181	6,195,364	28.60
Bank Franchise Tax	33,196,009	33,662,620	466,611	1.41
Insurance Company Tax	49,838,203	53,591,463	3,753,260	7.53
Inheritance Tax	24,502,910	7,090,000	(17,412,910)	(71.06)
Licenses, Permits, and Fees	29,855,195	31,716,950	1,861,755	6.24
Investment Income and Interest	14,954,285	11,097,207	(3,857,078)	(25.79)
Charges for Goods and Services	8,570,862	8,283,687	(287,175)	(3.35)
Net Transfers In	12,296,414	23,028,883	10,732,469	87.28
Cement Plant Annual Transfer	12,000,000	12,000,000	0	0.00
Mineral Extraction Tax	1,310,055	407,371	(902,684)	(68.90)
Energy Mineral Severance Tax	722,404	697,759	(24,645)	(3.41)
Unexpended Carryover	1,925,731	0	(1,925,731)	(100.00)
South Dakota Lottery	4,004,199	4,430,000	425,801	10.63
Property Tax Reduction Fund	104,890,557	110,227,042	5,336,485	5.09
Sale-Leaseback	13,100,000	12,478,191	(621,809)	(4.75)
CRP Program	1,325,291	1,152,786	(172,505)	(13.02)
SUBTOTAL (CONTINUING RECEIPTS)	<u>\$874,644,477</u>	<u>\$910,090,788</u>	<u>\$ 35,446,311</u>	<u>4.05</u>
ONE-TIME RECEIPTS				
Acceleration of Interest Earnings	0	12,155,704	12,155,704	100.00
Transfer from Petroleum Release Fund	0	15,000,000	15,000,000	100.00
Securities Global Settlement	0	0	0	0.00
Transfer from Video Lottery Fund	0	0	0	0.00
Transfer from Budget Reserves	0	0	0	0.00
Transfer from Property Tax Reserves	10,474,011	0	(10,474,011)	(100.00)
Obligated Cash Carried Forward	6,178,570	1,355,714	(4,822,856)	(78.06)
SUBTOTAL (ONE-TIME RECEIPTS)	<u>\$ 16,652,581</u>	<u>\$ 28,511,418</u>	<u>\$ 11,858,837</u>	<u>71.21</u>
 GRAND TOTAL	 <u>\$891,297,058</u>	 <u>\$938,602,206</u>	 <u>\$ 47,305,148</u>	 <u>5.31</u>

COMPARISON BETWEEN FY2004 AND FY2005 REVENUE COLLECTIONS

	REVISED FY2004	PROJECTED FY2005	DOLLAR CHANGE	PERCENT CHANGE
CONTINUING RECEIPTS				
Sales and Use Tax	\$503,688,444	\$534,957,957	\$ 31,269,513	6.21
Contractor's Excise Tax	60,069,801	64,024,350	3,954,549	6.58
Alcohol Beverage Tax	7,771,124	7,864,504	93,380	1.20
Alcohol Beverage 2% Wholesale Tax	841,279	879,882	38,603	4.59
Cigarette Tax	27,856,181	27,087,174	(769,007)	(2.76)
Bank Franchise Tax	33,662,620	34,275,428	612,808	1.82
Insurance Company Tax	53,591,463	57,328,530	3,737,067	6.97
Inheritance Tax	7,090,000	3,450,000	(3,640,000)	(51.34)
Licenses, Permits, and Fees	31,716,950	32,748,680	1,031,730	3.25
Investment Income and Interest	11,097,207	13,907,886	2,810,679	25.33
Charges for Goods and Services	8,283,687	8,350,598	66,911	0.81
Net Transfers In	23,028,883	23,982,039	953,156	4.14
Cement Plant Annual Transfer	12,000,000	12,000,000	0	0.00
Mineral Extraction Tax	407,371	176,139	(231,232)	(56.76)
Energy Mineral Severance Tax	697,759	621,397	(76,362)	(10.94)
Unexpended Carryover	0	0	0	0.00
South Dakota Lottery	4,430,000	4,430,000	0	0.00
Property Tax Reduction Fund	110,227,042	112,397,859	2,170,817	1.97
Sale-Leaseback	12,478,191	11,835,491	(642,700)	(5.15)
CRP Program	<u>1,152,786</u>	<u>1,156,755</u>	<u>3,969</u>	<u>0.34</u>
SUBTOTAL (CONTINUING RECEIPTS)	<u>\$910,090,788</u>	<u>\$951,474,669</u>	<u>\$ 41,383,881</u>	<u>4.55</u>
ONE-TIME RECEIPTS				
Acceleration of Interest Earnings	12,155,704	0	(12,155,704)	(100.00)
Transfer from Petroleum Release Fund	15,000,000	0	(15,000,000)	(100.00)
Securities Global Settlement	0	4,625,000	4,625,000	100.00
Transfer from Video Lottery Fund	0	3,000,000	3,000,000	100.00
Transfer from Budget Reserves	0	0	0	0.00
Transfer from Property Tax Reserves	0	16,566,998	16,566,998	100.00
Obligated Cash Carried Forward	<u>1,355,714</u>	<u>0</u>	<u>(1,355,714)</u>	<u>(100.00)</u>
SUBTOTAL (ONE-TIME RECEIPTS)	<u>\$ 28,511,418</u>	<u>\$ 24,191,998</u>	<u>(\$ 4,319,420)</u>	<u>(15.15)</u>
GRAND TOTAL	<u>\$938,602,206</u>	<u>\$975,666,667</u>	<u>\$ 37,064,461</u>	<u>3.95</u>

GENERAL FUND RECEIPTS

	ACTUAL FY2002	ACTUAL FY2003	REVISED FY2004	PROJECTED FY2005
CONTINUING RECEIPTS				
Sales and Use Tax	\$457,950,970	\$475,956,210	\$503,688,444	\$534,957,957
Contractor's Excise Tax	52,737,997	56,136,750	60,069,801	64,024,350
Alcohol Beverage Tax	7,700,582	7,606,230	7,771,124	7,864,504
Alcohol Beverage 2% Wholesale Tax	736,916	792,354	841,279	879,882
Cigarette Tax	18,713,254	21,660,817	27,856,181	27,087,174
Bank Franchise Tax	31,274,044	33,196,009	33,662,620	34,275,428
Insurance Company Tax	46,239,092	49,838,203	53,591,463	57,328,530
Inheritance Tax	21,118,943	24,502,910	7,090,000	3,450,000
Licenses, Permits, and Fees	29,743,160	29,855,195	31,716,950	32,748,680
Investment Income and Interest	18,029,170	14,954,285	11,097,207	13,907,886
Charges for Goods and Services	8,367,050	8,570,862	8,283,687	8,350,598
Net Transfers In	10,345,028	12,296,414	23,028,883	23,982,039
Cement Plant Annual Transfer	12,000,000	12,000,000	12,000,000	12,000,000
Mineral Extraction Tax	951,888	1,310,055	407,371	176,139
Energy Mineral Severance Tax	624,052	722,404	697,759	621,397
Unexpended Carryover	4,837,728	1,925,731	0	0
South Dakota Lottery	4,478,037	4,004,199	4,430,000	4,430,000
Property Tax Reduction Fund	101,787,076	104,890,557	110,227,042	112,397,859
Sale-Leaseback	13,702,390	13,100,000	12,478,191	11,835,491
CRP Program	1,355,956	1,325,291	1,152,786	1,156,755
SUBTOTAL (CONTINUING RECEIPTS)	<u>\$842,693,334</u>	<u>\$874,644,477</u>	<u>\$910,090,788</u>	<u>\$951,474,669</u>
ONE-TIME RECEIPTS				
Acceleration of Interest Earnings	\$ 0	\$ 0	\$ 12,155,704	\$ 0
Transfer from Petroleum Release Fund	0	0	15,000,000	0
Securities Global Settlement	0	0	0	4,625,000
Transfer from Video Lottery Fund	0	0	0	3,000,000
Transfer from Budget Reserves	6,641,700	0	0	0
Transfer from Property Tax Reserves	6,641,700	10,474,011	0	16,566,998
Obligated Cash Carried Forward	11,037,698	6,178,570	1,355,714	0
SUBTOTAL (ONE-TIME RECEIPTS)	<u>\$ 24,321,098</u>	<u>\$ 16,652,581</u>	<u>\$ 28,511,418</u>	<u>\$ 24,191,998</u>
GRAND TOTAL	<u>\$867,014,432</u>	<u>\$891,297,058</u>	<u>\$938,602,206</u>	<u>\$975,666,667</u>

RECOMMENDED EXPENDITURES

OVERVIEW

Governor Rounds' FY2005 budget reflects a continuing emphasis on education, services to children and the less fortunate, public safety, and economic development. The Governor is proposing additional funding for state aid to local schools by recommending a 2.2% adjustment in funding per student for inflation for both general and special education. In addition, due to declining enrollments, the Governor is recommending an additional \$3,280,393 in general funds be added to state aid to be distributed through the formula. The Governor is also recommending that additional trust fund earnings projected in FY2005 be allocated to Education Enhancement. This money (\$3,105,120 in the base) is available for the entire education community and the legislature will be asked to allocate it out each year based on need.

In addition, to continue to honor the commitment to K-12 education made last year, for FY2005 the Governor is recommending to continue the one-time distribution of \$7,307,896 back to schools on a per ADM basis similar to what was done last year through HB1191.

The Departments of Social Services, Human Services, and Health are responsible for the majority of the programs that deal with children, the less fortunate, the elderly, and medical services. The combined budget increase for these three agencies is \$79.4 million, of which \$28.7 million are general funds. The recommended provider inflation policy will cost \$15.0 million for the Departments of Social Services and Human Services. Due to decreases in personal income in South Dakota (less than the national average), the Federal Medical Assistance Percentage (FMAP) will decrease by 0.37% in FY2005. The savings from this flip is \$1.9 million in general funds. Social Services will also see an increase of \$15.5 million in general funds for Title XIX Medicaid funding. The Human Services' budget allocates funding for consumer expansion in developmental disabilities, including kids turning 21, mental health services, and assisted daily living services. For FY2005, the Human Services' budget also reflects increases in FTE for mental health and chemical dependency counselors for correctional facilities due to increases in inmate populations. The budget for the Department of Health is increasing due to various federal grants. The budget for the Department of

Health also includes an increase of \$3.7 million in other fund expenditure authority for the Correctional Health Care program.

To address public safety concerns, the Governor created the Department of Public Safety in FY2003. For FY2005, the overall budget is increasing by \$21.6 million, of which \$21.4 reflects increases in grants such as Homeland Security, the Emergency Management Performance Grants, and various smaller grants to purchase equipment. Public safety is also addressed in the Department of Corrections' budget and the Unified Judicial System's budget. The Department of Corrections overall budget is increasing by \$5.8 million in total funds, which reflects a \$6.3 million increase in general funds. Of the general funds, \$3.7 million is for the continuation of the Correctional Healthcare program. An additional \$0.8 million is due to loss of federal and other revenues. The overall budget for the Unified Judicial System is increasing by \$1.1 million in total funds including employee compensation. Excluding employee compensation, the overall Unified Judicial System budget is increasing by \$0.2 million.

As part of his commitment to economic development, the Governor has launched the 2010 Initiative. The 2010 Initiative outlines a series of specific goals for economic growth and visitor spending in the state by the year 2010. The Tourism and State Development budget and the Board of Regents budget are impacted by the 2010 Initiative. The Tourism and State Developments overall budget increase is \$7.7 million, or \$4.7 million in general funds. Of the general funds, \$3.5 million are for the newly created Division of Research Commerce which will work closely with the newly created Office of New Economy within the Board of Regents to increase research and development in the State of South Dakota. Funds from the Division of Research Commerce will flow directly to the Board of Regents to purchase faculty time, graduate assistants, and equipment support for new research projects. The Governor has also dedicated \$1.0 million dollars in general funds to jump start the Tourism Challenge Program, \$0.1 million in general funds as a resource pool for History, Arts, and Tourism, and expanded Tribal Relations by \$0.03 million. Economic development is also addressed in the Department of Agriculture's budget with an increase of \$0.3 million for Agricultural Marketing and Development.

Lastly, the Governor is recommending that state employees receive a 2.5% adjustment to job worth and a 3% salary policy. The cost of health care

benefits will increase by just 2% over FY2004. The total statewide allocation to employee compensation and health insurance is \$22.1 million.

<u>Description</u>	<u>Inc/(Dec)</u>	<u>FTE</u>
Executive Branch	\$132,746,476	71.5
UJS and Elected	2,646,272	3.3
State Aid	13,290,992	0.0
Technical Institutes	784,181	0.0
Specials/Contin. Approp.	(48,307,951)	0.0
Board of Regents	<u>45,375,797</u>	<u>137.1</u>
	\$146,535,767	211.9

The Executive Branch, which is under direct control of the Governor, has the following funding changes for FY2005

General Funds	40,112,966
Federal Funds	84,736,195
Other Funds	7,897,315
FTE	71.5

FY2005 RECOMMENDATION SUMMARY

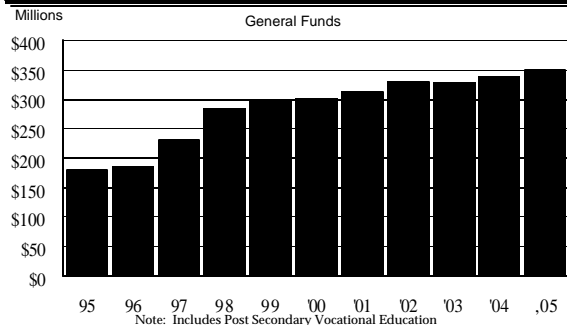
STATE AID, HIGHER EDUCATION, EDUCATION

The budgets included in this category include State Aid to Education, Higher Education, and the Department of Education. The portion of this budget comprises \$71.0 million of the \$146.5 million in total fund increases for FY2005. On the general fund side, education accounts for \$20.6 of the \$41.5 million increase. In terms of the total budget, the education category is 32.9% of the total funds and 52.1% of the general funds, which amounts to \$956.6 million in total funding for education.

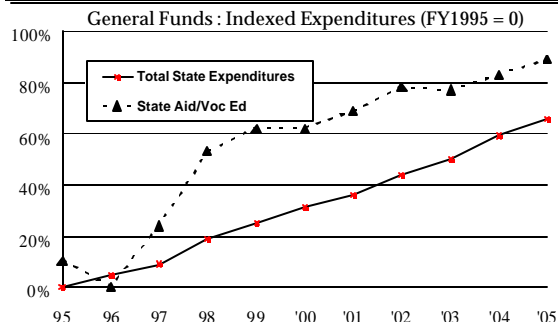
STATE AID

The Governor is recommending a total of \$350,399,902 in general funds for aid to schools for FY2005. This includes state aid to K-12 education, postsecondary vocational education institutes, National Board of Certified Teachers, and technology in the schools. For FY2005, the Governor is also recommending to begin carving out a budget for Education Enhancement Trust Fund Earnings.

State Aid to Schools



State Aid to Schools



For FY2005, the Governor is recommending a general fund increase of \$10,155,872 for state aid to K-12 education. Of this amount, a \$5,375,509 increase to state aid to general education is recommended, bringing the total to \$276,138,830. This is based on a budgeted adjusted average daily membership (ADM) figure for FY2005 of 127,183. The original estimate for adjusted ADM for FY2004 was 128,441. The adjusted ADM for FY2004 has been revised to 128,189, which brings the estimated state expenditure to \$266,560,545 of a budgeted \$270,763,321. According to state statute, the Governor is recommending a 2.2% inflationary increase in the per student allocation for state aid to general education and for state aid to special education. This brings the per-student allocation for state aid to general education to \$4,055.17 for FY2005, an increase of \$87.29 over the FY2004 base rate of \$3,967.88. In addition, due to declining enrollments, the Governor is recommending to add an additional \$3,280,393 in general funds be added to state aid to be distributed through the formula. This number is calculated by taking the difference between the revised adjusted ADM for FY2004 and the budgeted adjusted ADM for FY2005 and multiplying it by the FY2004 per pupil allocation and dividing the amount among the budgeted FY2005 adjusted ADM. The Governor is also recommending that additional trust fund earnings projected in FY2005 be allocated to Education Enhancement. This money (\$3,105,120 in the base) is available for the entire education community and the legislature will be asked to allocate it out each year based on need.

In addition, to continue to honor the commitment to K-12 education made last year, for FY2005 the Governor is recommending to continue the one-time distribution of \$7,307,896 back to schools on a per ADM basis similar to what was done last year through HB1191.

A \$1,500,000 increase in general funds is recommended in the special education formula for FY2005. This increase is due in part to SDCL 13-37-16.2, which requires that the special education levy be adjusted when valuations grow faster than local need. The budgeted amount will increase to \$42,606,875 for FY2005. The formula for FY2005 is based on an estimated ADM figure of 134,500, with an inflationary increase of 2.2% to the per student allocation. The ADM figure is not adjusted for any type of small school factor, but includes children who are in private and home schools.

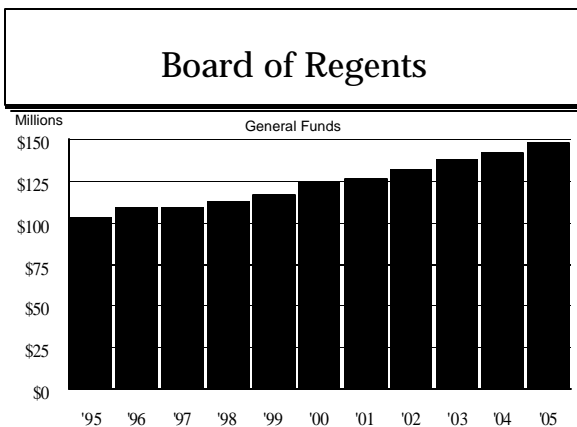
An increase of \$30,000 is recommended to provide stipends to National Board Certified Teachers and to reimburse the fees associated with taking the exam. The FY2005 total recommendation is \$90,000 in general funds.

No increase in general funds over the FY2004 budget is recommended for technology in the schools. The current level of funding of \$8,191,325 in general funds is used to support ongoing costs of the technology infrastructure.

The Governor is recommending an increase of \$784,181 for the postsecondary technical institutes. This increase is based on a 2.2% adjustment similar to the K-12 statutory increase. This brings the total level of funding to \$16,536,507 for FY2005.

BOARD OF REGENTS

The budget for the Board of Regents provides funding for the six state universities (Black Hills State University, Dakota State University, Northern State University, South Dakota School of Mines and Technology, South Dakota State University, and the University of South Dakota). The state's two special schools, South Dakota School for the Deaf, and South Dakota School for the Blind and Visually Impaired, are also included in the regental system.



Regents contains a net increase of \$45,375,797 over the FY2004 budget. The increase consists of

\$6,172,659 in general funds, \$17,809,420 in federal fund expenditure authority, \$21,393,718 in other fund expenditure authority, and 137.1 FTE. The total FY2005 recommended budget for the Board of Regents consists of \$148,052,098 in general funds, \$87,700,687 in federal fund expenditure authority, \$218,431,700 in other fund expenditure authority, for a total FY2005 budget of \$454,184,485, and 5,060.9 FTE.

The Governor's recommendation includes \$409,811 in general funds to permanently fund the Medical School Office of Medical Education, \$951,373 in general funds and 27.6 FTE to provide for base funding to permanently fund the Nursing Expansion Program, put in place by HB 1296 of the 2002 legislative session, \$75,000 in general funds for the SDCollegePrep Program, \$50,000 in general funds for the South Dakota School for the Deaf After School Program, \$120,597 in general funds and 1.5 FTE to create a central Teacher Education Program Assessment office, \$250,000 in general funds to provide a state match for the University Performance Funding Program, and \$1,503 in general funds for the Animal Disease Research and Diagnostic Lab lease payment.

As a part of the 2010 Initiative, the Governor is recommending 22.0 FTE, \$196,072 in general funds, and \$2,768,741 in other fund expenditure authority for Research and Development. Of this recommendation, 2.0 FTE and \$196,072 in general funds are to provide for the Office of New Economy to be located in the Board of Regents' Central Office. This office will work closely with the newly created Division of Research Commerce located in Tourism and State Development to fund new research projects within the regental system. The remaining 20.0 FTE and \$2,768,741 in other fund expenditure authority will purchase faculty research time for 20 faculty working half-time (10.0 FTE and \$1,375,001 in other fund expenditure authority), graduate assistants to support the faculty (10.0 FTE and \$493,740 in other fund expenditure authority), and equipment support/EPSCoR match (\$1,500,000 in other fund expenditure authority). General funds in the amount of \$3,368,741, which are located in the Division of Research Commerce within Tourism and State Development, will fund the projects.

The Board of Regents continues to grow in federal grant and contract activity. A total of 86.0 FTE, \$16,929,709 in federal fund expenditure authority, and \$13,697,533 in other fund expenditure authority added to the FY2005 budget are related to federal grant and contract activity. Of these FTE, two will be located in the board office to help provide technical support to state libraries for the South Dakota Library Network (SDLN). The remaining 84.0 FTE will be distributed among five campuses: BHSU (14.0 FTE), SDSM&T (22.0 FTE), SDSU

(15.0 FTE), AES (3.0 FTE), NSU (5.0 FTE), USD (10.0 FTE), and the USD School of Medicine (15.0 FTE). The growth in FTE is attributed to residential life staffing increases, growth in student credit hours, additional staffing for maintenance and repair projects, increased student employees on campuses, and other increases in grant and contract activity.

Another priority in the Governor's recommendation is the adjustment to job worth and salary policy. \$471,313 is being recommended for the movement to job worth, of which \$275,565 are general funds. The Governor is also recommending an increase of \$7,227,564 for a 3% salary increase, composed of \$3,640,061 in general funds, \$806,263 in federal fund expenditure authority, and \$2,781,240 in other fund expenditure authority. Increases totaling \$202,677 in general funds, \$52,173 in federal fund expenditure authority, and \$158,611 in other fund expenditure authority are also recommended for health insurance increases.

EDUCATION

GENERAL ADMINISTRATION

The recommendation for FY2005 consists of a \$13,332 increase in general funds, and a \$2,115 increase in federal fund expenditure authority. The recommended increase is to meet increasing travel requirements and increases in computer service billings and space billings.

STATE AID

The Governor is recommending a total of \$350,399,902 in general funds for aid to schools for FY2005. This includes state aid to K-12 education, postsecondary vocational education institutes, National Board of Certified Teachers, and technology in the schools. For FY2005, the Governor is also recommending to begin carving out a budget for Education Enhancement Trust Fund Earnings.

For FY2005, the Governor is recommending a general fund increase of \$10,155,872 for state aid to K-12 education. Of this amount, a \$5,375,509 increase to state aid to general education is recommended, bringing the total to \$276,138,830. This is based on a budgeted adjusted average daily membership (ADM) figure for FY2005 of 127,183. The original estimate for adjusted ADM for FY2004 was 128,441. The adjusted ADM for FY2004 has been revised to 128,189, which brings the estimated state expenditure to \$266,560,545 of a budgeted \$270,763,321. According to state statute, the Governor is recommending a 2.2% inflationary

increase in the per student allocation for state aid to general education and for state aid to special education. This brings the per-student allocation for state aid to general education to \$4,055.17 for FY2005, an increase of \$87.29 over the FY2004 base rate of \$3,967.88. In addition, due to declining enrollments, the Governor is recommending to add an additional \$3,280,393 in general funds be added to state aid to be distributed through the formula. This number is calculated by taking the difference between the revised adjusted ADM for FY2004 and the budgeted adjusted ADM for FY2005 and multiplying it by the FY2004 per pupil allocation and dividing the amount among the budgeted FY2005 adjusted ADM. The Governor is also recommending that additional trust fund earnings projected in FY2005 be allocated to Education Enhancement. This money (\$3,105,120 in the base) is available for the entire education community and the legislature will be asked to allocate it out each year based on need.

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A \$1,500,000 increase in general funds is recommended in the special education formula for FY2005. This increase is due in part to SDCL 13-37-16.2, which requires that the special education levy be adjusted when valuations grow faster than local need. The budgeted amount will increase to \$42,606,875 for FY2005. The formula for FY2005 is based on an estimated ADM figure of 134,500, with an inflationary increase of 2.2% to the per student allocation. The ADM figure is not adjusted for any type of small school factor, but includes children who are in private and home schools.

An increase of \$30,000 is recommended to provide stipends to National Board Certified Teachers and to reimburse the fees associated with taking the exam. The FY2005 total recommendation is \$90,000 in general funds.

No increase in general funds over the FY2004 budget is recommended for technology in the schools. The current level of funding of \$8,191,325 in general funds is used to support ongoing costs of the technology infrastructure.

The Governor is recommending an increase of \$784,181 for the postsecondary technical institutes. This increase is based on a 2.2% adjustment similar to the K-12 statutory increase. This brings the total level of funding to \$16,536,507 for FY2005.

CAREER AND TECHNICAL EDUCATION

The Governor's recommended budget for this program is an increase in general funds of \$789,946, in federal fund expenditure authority of \$3,649, and in other fund expenditure authority of \$4,275. This will bring the budgeted total to \$21,709,536 for FY2005. The Governor is recommending a general fund increase of \$784,181 to help fund the postsecondary technical institutes. The total recommended budget for the postsecondary technical institutes is \$16,536,507 for FY2005. The remaining \$5,765 in general funds and the recommended federal and other fund expenditure authority increases are due to increases in travel costs, computer service billings, and space billings.

EDUCATION SERVICES AND RESOURCES

The recommendation for this program includes an increase of \$114,945 in general funds, an increase of \$11,219,387 in federal fund expenditure authority, an increase of \$1,215 in other fund expenditure authority, and 4.0 FTE. A federal fund expenditure authority increase in the amount of \$2 million is recommended for the Reading First Grant received by the Department of Education. Increases for FTE are for a Science Curriculum Specialist, and Native American Education Curriculum Specialist, an Administrator for the SD Reads Program, which is being brought in-house, and a Food Service Inspection Coordinator for the Child and Adult Nutrition Services (CANS) Program.

STATE LIBRARY

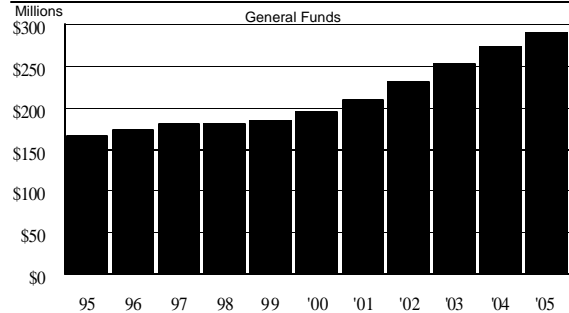
The recommendation for the State Library includes an increase of \$168,746 in general funds, a decrease of \$6,350 in federal fund expenditure authority, and 0.8 FTE. The 0.8 FTE and \$14,478 in general funds are recommended to bring two positions, which are currently part-time in the Reference and Research Program, to full time. Other increases include inflationary costs for subscriptions (\$86,683 in general funds and \$3,000 in federal fund expenditure authority), increase in materials and books (\$29,767 in general funds), and a switch from federal funding to general funding for computer services due to a Supreme Court ruling concerning the Children's Internet Protection Act (CIPA) (\$9,857 in general funds and a decrease of \$10,092 in federal fund expenditure authority).

HEALTH, HUMAN, AND SOCIAL SERVICES

This portion of the budget comprises \$74.4 million of the \$194.8 million in total fund increases for

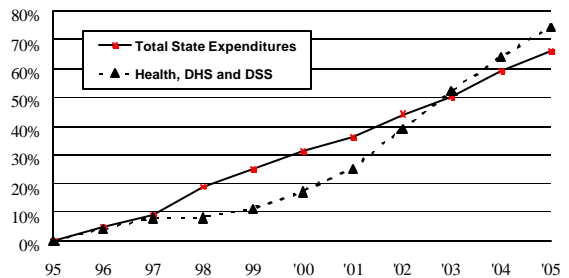
FY2005. On the general fund side, Health, Human, and Social Services account for \$23.6 million of the \$63.6 million increase. In terms of the total state budget, this category is 31.0% of the total funds and 29.4% of the general funds, which amounts to \$899.7 million in total funding.

Health, Human, and Social Services



Health, Human, and Social Services

General Funds : Indexed Expenditures (FY1995 = 0)



HEALTH

The FY2005 Governor's recommended budget for Health, including the informational budgets for boards and commissions, includes increases of \$414,400 in federal fund expenditure authority and of \$3,574,331 in other fund expenditure authority, for a total increase of \$3,988,731, and 5.0 FTE. The total FY2005 budget is \$7,907,764 in general funds, \$28,643,230 in federal fund expenditure authority, and \$21,336,134 in other fund expenditure authority, for a total of \$57,887,128, with 377.0 FTE.

ADMINISTRATION

The Governor is recommending a decrease of \$467,438 in other fund expenditure authority. This decrease directly correlates with the increase provided in FY2004 for the development of the electronic death records module of the Electronic

Vital Records System. This project has been completed. The total FY2005 budget for this division is \$1,338,558 in general funds, \$989,283 in federal fund expenditure authority, and \$813,701 in other fund expenditure authority, with 32.5 FTE.

FAMILY PRACTICE RESIDENCY

This program contains no change from FY2004. The budget consists of \$895,000 in general funds, which is equal to the estimated amount of savings given the discontinuance of the state's Medical Education Scholarship Program.

HEALTH SYSTEMS DEVELOPMENT AND REGULATION

The Governor recommends no change to this division. The total FY2005 budget for this division is \$1,804,657 in general funds, \$9,611,210 in federal fund expenditure authority, and \$45,555 in other fund expenditure authority, with 63.5 FTE.

HEALTH AND MEDICAL SERVICES

The Governor recommends an increase of \$294,354 in federal fund expenditure authority and 2.0 FTE. \$126,461 of the federal fund expenditure authority is for a Comprehensive Cancer Grant. \$95,491 and 1.0 FTE are for an additional Chronic Disease Epidemiologist for personal services and operating expenses. \$72,402 and 1.0 FTE are for an additional Disease Intervention Specialist for personal services and operating expenses. The total FY2005 budget for this division is \$3,869,549 in general funds, \$15,685,341 in federal fund expenditure authority, \$2,917,721 in other fund expenditure authority, with 181.0 FTE.

LABORATORY SERVICES

The Governor is recommending an increase of \$120,046 in federal fund expenditure authority and 2.0 FTE. The federal fund expenditure authority and FTE are for the development of a Chemical Terrorism Program. The FTE will provide expertise in both human and environmental chemical terrorism monitoring. The total FY2005 budget for this division is \$2,357,396 in federal fund expenditure authority, and \$2,635,258 in other fund expenditure authority, with 29.0 FTE.

CORRECTIONAL HEALTH

This program has a recommended increase of \$3,765,816 in other fund expenditure authority and 1.0 FTE. The other fund expenditure authority and FTE is for expansion due to an increasing inmate population, and to adjust the budget according to known high cost inmates.

PROFESSIONAL AND OCCUPATIONAL LICENSING

This division is comprised of the informational budgets of the professional and occupational licensing boards. There are ten boards, including Board of Chiropractic Examiners, Board of Dentistry, Board of Hearing Aid Dispensers, Board of Funeral Service, Board of Medical & Osteopathic Examiners, Board of Nursing, Board of Nursing Home Administrators, Board of Optometry, Board of Pharmacy, and Board of Podiatry Examiners, with a total recommended budget for FY2005 of \$1,955,022, which is a total increase of \$275,953. FTE for the boards are unbudgeted. These boards are self-supporting through their fee systems. Administrative support is provided by the Department of Health and reimbursed to the general fund by the boards.

HUMAN SERVICES

The Governor is recommending increases of \$2,831,459 in general funds, \$4,476,861 in federal fund expenditure authority, and \$425,859 in other fund expenditure authority, for a total increase of \$7,734,179. The Governor is also recommending an additional 10.0 FTE. The recommendation includes a decrease of \$380,622 in general funds and a corresponding increase in federal fund expenditure authority due to the change in the Federal Medicaid Assistance Percentage (FMAP) for Title XIX programs. For FY2005, a total budget of \$187,809,989 is recommended, consisting of \$80,333,454 in general funds, \$103,607,676 in federal fund expenditure authority, \$3,868,859 in other fund expenditure authority, with 1,233.9 FTE.

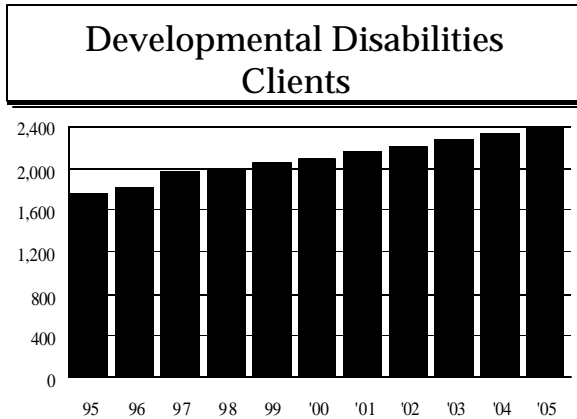
SECRETARIAT

The Governor's recommendation includes a decrease in general funds of \$362 and an increase of \$966 in federal fund expenditure authority, for a total increase of \$604.

DEVELOPMENTAL DISABILITIES

The recommendation for the Division of Developmental Disabilities is an increase in general funds of \$1,173,429 and an increase in federal fund expenditure authority of \$2,941,225, for a total increase of \$4,114,654. An increase of \$391,875 in general funds and \$719,863 in federal fund expenditure authority, for a total of \$1,111,738 is recommended for a 1.6% inflation policy. The Governor's recommendation also includes \$809,579 in general funds and \$1,567,340 in federal fund expenditure authority to address consumer expansion for individuals with developmental disabilities. In addition, an increase

of \$201,708 of general funds and \$390,504 of federal fund expenditure authority is being recommended for the rebase of the Home and Community Based Services.



SDDC--REDFIELD

The Governor's recommendation is for increases of \$18,865 in general funds, \$195,060 in federal fund expenditure authority, and a decrease of \$2,199 in other fund expenditure authority, for a total increase of \$211,726. The increases at SDDC are reflective of food service and utility increases.

ALCOHOL AND DRUG ABUSE

The Governor recommends an increase of \$446,279 in general funds, an increase of \$237,308 in federal fund expenditure authority, and an increase of \$110,990 in other fund expenditure authority, for a total increase of \$794,577 for the Division of Alcohol and Drug Abuse. The Governor is also recommending 7.0 additional FTE. There will be 6.0 CD Counselors and 1.0 clerical FTE recommended to provide services to the growing inmate population. An increase of \$120,575 in general funds is recommended for inpatient treatment services. The Governor is also recommending an increase of \$60,360 in general funds and \$181,080 of federal fund expenditure authority for a Methamphetamine Treatment Program. An increase of \$82,396 in general funds and \$42,693 in federal fund expenditure authority, for a total of \$125,089, is recommended for a 1.6% inflation policy.

REHABILITATION SERVICES

The Governor's recommended budget for Rehabilitation Services includes a \$75,115 increase in general funds, an increase of \$381,940 in federal fund expenditure authority, and an increase of \$120,824 in other fund expenditure authority, for a net increase of \$577,879. An increase of \$30,467 in general funds and \$58,983 in federal fund expenditure authority is recommended to address

the increasing case load within Assisted Daily Living Services (ADLS). An increase of \$22,592 in general funds, \$23,658 in federal fund expenditure authority, and \$8,231 in other fund expenditure authority, for a total of \$54,481 is recommended for a 1.6% inflation policy.

TELECOMMUNICATION DEVICES FOR THE DEAF

The Governor is recommending no change for Telecommunication Devices for the Deaf. The total FY2005 budget is \$1,251,680 of other fund expenditure authority.

BOARD OF COUNSELOR EXAMINERS - INFORMATIONAL

The Governor is recommending a decrease of \$3,718 of other fund expenditure authority. The total FY2005 budget will be \$63,037 of other fund expenditure authority.

BOARD OF PSYCHOLOGY EXAMINERS - INFORMATIONAL

The Governor is recommending no change for the Board of Psychology Examiners. The total FY2005 budget will be \$55,444 of other fund expenditure authority.

BOARD OF SOCIAL WORK EXAMINERS - INFORMATIONAL

The Governor is recommending an increase of \$12,903 in other fund expenditure authority. The total FY2005 budget will be \$56,590 of other fund expenditure authority.

SERVICES FOR THE BLIND AND VISUALLY IMPAIRED

The Governor is recommending an increase of \$4,504 in general funds, a decrease of \$9,083 in federal fund expenditure authority, and an increase of \$16,457 in other fund expenditure authority, for a total increase of \$11,878 in the Division of Services for the Blind and Visually Impaired.

HUMAN SERVICES CENTER

The Governor recommends an increase of \$653,687 in general funds, an increase of \$319,068 in federal fund expenditure authority, and an increase of \$32,542 in other fund expenditure authority for the Human Services Center, for a total increase of \$1,005,297, and 1.0 FTE. An increase of \$141,874 is recommended for inflationary increases for prescription drugs. The FTE will be a Mental Health Aide in the Geriatric Unit to help address increased behavior and medical acuity

needs. Other increases in this division are related to food services, utilities, and personal services.

COMMUNITY MENTAL HEALTH

The Governor's recommendation for Community Mental Health reflects an increase of \$459,942 in general funds, an increase of \$410,377 in federal fund expenditure authority, and an increase of \$138,060 in other fund expenditure authority, for a net increase of \$1,008,379, and 2.0 FTE. Additional funding is recommended for Mental Health waiting lists, at a total cost of \$265,062 in general funds and \$104,165 in federal fund expenditure authority. The 2.0 FTE will be mental health professionals to provide services to the growing inmate population. An increase of \$156,891 in general funds and \$118,605 in federal fund expenditure authority, for a total of \$275,496, is recommended for a 1.6% inflation policy.

SOCIAL SERVICES

The Governor's recommended budget for the Department of Social Services is \$195,696,199 in general funds, \$449,897,364 in federal fund expenditure authority, and \$8,499,475 in other fund expenditure authority, for a total FY2005 budget of \$654,093,038 and 966.5 FTE. This recommendation includes an increase of \$20,827,270 in general funds, \$42,199,316 in federal fund expenditure authority and a \$314,617 decrease in other fund expenditure authority.

SECRETARIAT

The Secretariat's budget is recommended to increase \$137,039 in general funds, decrease by \$3,328,121 in federal fund expenditure authority, and decrease by \$25,792 in other fund expenditure authority, for a total decrease of \$3,216,874. The major adjustment to this budget includes a decrease of federal authority used to meet the mandatory requirements of the federal Health Insurance Portability and Accountability Act (HIPAA).

PROGRAM MANAGEMENT

The Governor's recommendation for this program is an increase of \$41,515 in general funds and \$31,852 in federal fund expenditure authority, and \$39,716 in other fund expenditure authority, for a total increase of \$113,083.

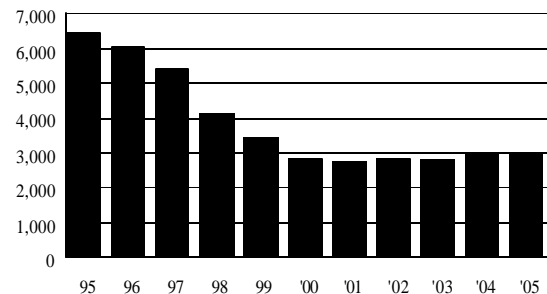
ENERGY ASSISTANCE AND WEATHERIZATION

The Governor recommends a \$317,012 increase in federal fund expenditure authority, primarily due to higher energy costs and increased case load.

ECONOMIC ASSISTANCE

The Governor's recommended budget for Economic Assistance includes a decrease of \$371,373 in general funds and a \$776,806 increase in federal fund expenditure authority, for a total increase of \$405,433. A major change in this budget; in addition to the increased case loads in Auxiliary Placement, is the increased utilization of federal funding.

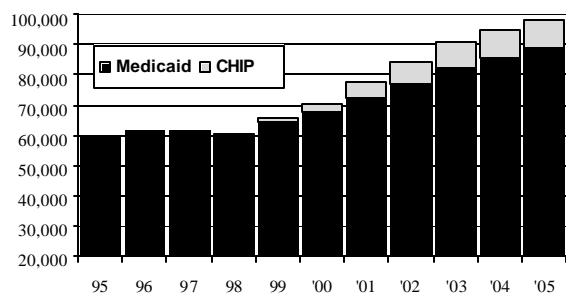
TANF Case Load in South Dakota



MEDICAL SERVICES

The recommended budget for Medical Services includes increases of \$16,944,033 in general funds and \$37,256,502 in federal fund expenditure authority, for a total increase of \$54,200,535. The FY2005 recommended budget is \$101,084,715 in general funds, \$248,501,727 in federal fund expenditure authority, and \$800,000 in other fund expenditure authority, for a total budget of \$350,386,442, and 33.0 FTE. There are three major components driving the recommendation in this budget: 1) this budget is impacted by the Federal Medical Assistance Percentage (FMAP), which decreased general funding in this program by \$936,782, with an offsetting increase in federal fund expenditure authority; 2) the provider inflation policy includes 1.6% increases of \$2,471,722 in general funds and \$4,935,007 in federal fund expenditure authority; 3) an increase of \$14,180,268 in general funds and \$28,483,147 in federal fund expenditure authority is recommended, due to increased cost of medical coverage for an estimated 88,795 individuals who are anticipated to be eligible for medical coverage through the Medicaid Program. Approximately \$35.1 million is due to a deficit in the FY2004 budget base.

Medical Assistance Case Loads in South Dakota



OFFICE OF CHILD SUPPORT ENFORCEMENT

The Governor's recommended budget includes increases of \$13,525 in general funds, \$103,392 in federal fund expenditure authority, and \$54,497 in other fund expenditure authority, for a total increase of \$171,414. The major change in this program includes an increase of \$109,705 in federal fund expenditure authority and \$60,709 in other fund expenditure authority, and 3.0 additional FTE for the creation of a centralized customer service unit.

ADULT SERVICES AND AGING

A total increase of \$5,806,524 is recommended by the Governor for FY2005, consisting of an increase of \$2,899,022 in general funds and \$3,011,054 in federal fund expenditure authority, and a decrease of \$103,552 in other fund expenditure authority. The total FY2005 budget for this division is \$160,974,883, and 100.5 FTE. This budget includes an increase of \$19,952 in general funds and \$38,626 for expanding the number of clients served by assisted living. The recommendation also includes an increase of \$659,929 in general funds and \$1,082,471 in federal fund expenditure authority, for an increase in the personal needs allowance for assisted living and nursing home clients. The budget was also impacted by the Federal Medical Assistance Percentage (FMAP), which decreased general funding in this program by \$503,586, with an offsetting increase in federal fund expenditure authority. Finally, the recommendation includes increases of \$1,708,081 in general funds and \$3,335,921 in federal fund expenditure authority for 1.6% provider inflation policy and limited cost updates.

CHILD PROTECTION SERVICES

The recommendation by the Governor includes increases of \$1,053,387 in general funds and of \$2,992,901 in federal fund expenditure authority, as well as a decrease of \$33,625 in other fund expenditure authority. The recommendation includes an increase of \$126,725 in general funds,

and \$220,467 in federal fund expenditure authority, for an increase of nine social service aides to provide services to families with children at risk of abuse and neglect. This budget also includes an increase in the number of children being served in out of home placements providing treatment, such as psychiatric facilities, group and residential treatment and specialized treatment foster care. The total recommended increase is \$410,814 in general funds, \$793,411 in federal fund expenditure authority, and \$34,574 in other fund expenditure authority. The recommendation also includes an increase of \$375,572 in general funds, and increases of \$640,443 in federal fund expenditure authority and \$1,018 in other fund expenditure authority for increased costs and number of adoptions and guardianships with subsidies.

CHILD CARE SERVICES

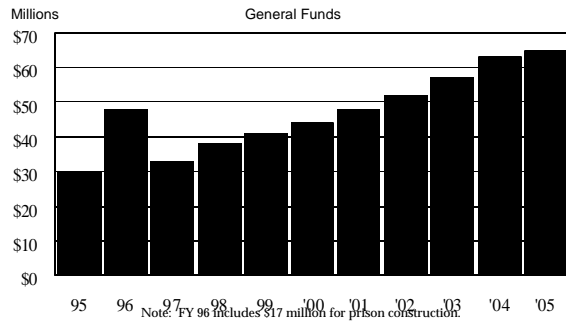
The recommended budget for Child Care Services includes increases of \$110,122 in general funds, \$1,037,918 in federal fund expenditure authority, and a decrease of \$245,861 in other fund expenditure authority, for a total increase of \$902,179. The major adjustment includes a recommendation for an increase of \$114,287 in general funds and \$1,266,277 in federal fund expenditure authority, for an increase of 329 child care assistance cases. The budget also includes a decrease of \$245,851 in other fund expenditure authority due to an anticipated lower grant award.

CORRECTIONS

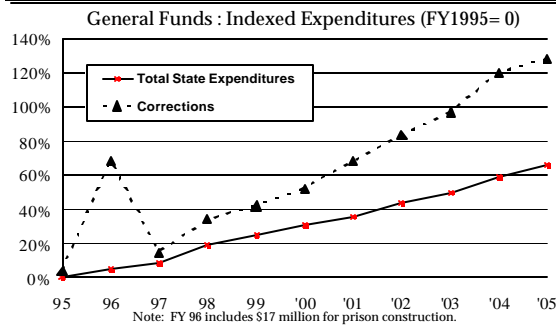
The Governor's recommendation for the Department of Corrections includes an increase of \$6,300,026 in general funds, a decrease of \$602,046 in federal fund expenditure authority, and an increase of \$116,777 in other fund expenditure authority, for a net increase of \$5,814,757. The Governor is also recommending an increase of 16.5 FTE, for a total FTE count of 830.5.

The Average Daily Count (ADC) of adult inmates is projected to reach 3,348 in FY2005. This represents an increase of 394 inmates over the actual FY2003 ADC of 2,954 inmates, or an 8.8% increase over two years. The average daily population of juveniles in institutional settings within the Department of Corrections is projected at 220 for FY2005. This is an increase from the actual count of 205 in FY2003.

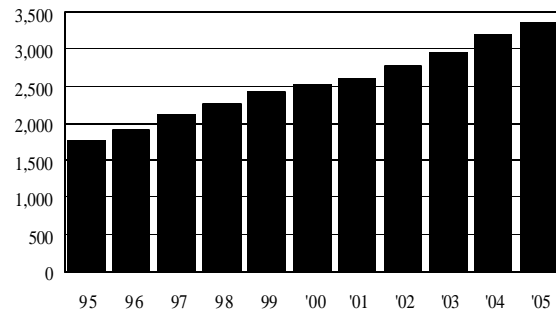
Corrections



Corrections



Average Daily Population of Adult Inmates



ADMINISTRATION

The Governor is recommending a general fund increase of \$4,170,305, most of which is funding for increased costs of the Inmate Medical and Mental Health Services agreement with the Department of Health and the Department of Human Services. This increase is due to an increase in ADC of inmates, along with increased costs of outsourced services. The total recommended budget in Administration includes \$15,288,416 in general funds, \$1,868,125 in federal fund expenditure authority, and \$40,000 in other fund expenditure authority, with 27.5 FTE.

MIKE DURFEE STATE PRISON

The recommendation for the Mike Durfee State Prison (MDSP) includes increases of \$306,509 in general funds, \$16,500 in federal fund expenditure authority, and \$209,984 in other fund expenditure authority, for a total increase of \$532,993. The number of employees will increase by 4.0 FTE, who will be correctional officers. These FTE are needed for security due to the rising numbers in the average daily counts for adult inmates. Personal services account for a \$138,605 increase in general funds. Operating expenses include increases of \$167,904 in general funds, \$16,500 in federal fund expenditure authority, and \$211,061 in other fund expenditure authority. The increases in general funds for operating expenses are for additional clothing services, travel, and miscellaneous contractual services increases.

STATE PENITENTIARY

The recommendation for the South Dakota State Penitentiary includes increases of \$348,297 in general funds, \$13,136 in federal fund expenditure authority, and \$4,528 in other fund expenditure authority, for a total increase of \$365,961. The number of employees will increase by 5.0 FTE, all of whom will be correctional officers. Personal services account for a \$232,679 increase in general funds, a \$1,883 increase in federal fund expenditure authority, and a \$43,068 decrease in other fund expenditure authority. The increase in personal services is mainly due to the increase in FTE. Operating expenses will increase by \$115,618 in general funds, \$11,253 in federal fund expenditure authority, and \$47,596 in other fund expenditure authority.

WOMEN'S PRISON

The budget for the Women's Prison is recommended to increase by \$545,660 in general funds, decrease by \$388,199 in federal fund expenditure authority, and decrease by \$12,369 in other fund expenditure authority, for a total increase of \$145,092. The main increase in general funds is directly related to the number of federal borders that the Women's Prison can house.

PHEASANTLAND INDUSTRIES

The recommendation for Pheasantland Industries is a decrease of \$73,890 in other fund expenditure authority and a decrease of 2.0 FTE. This will bring the total budget to \$2,872,622 in other fund expenditure authority, and 14.0 FTE.

COMMUNITY SERVICE

Community Service is recommended to decrease by \$160,750 in general funds, increase by \$19,097

in federal fund expenditure authority, and increase by \$114,570 in other fund expenditure authority. Included in this decrease is \$160,750 in contractual services due to the need for fewer private work release beds.

PAROLE SERVICES

The recommendation for Parole Services is an increase of \$385,663 in general funds and a decrease of \$347,068 in federal fund expenditure authority, along with an increase of 6.0 FTE. Three will be parole agents, and 3.0 FTE will be related to the Forward Life Skills Program (1.0 will be a program manager, and 2.0 will be field agents). The increases are for funding the additional FTE, additional travel costs, and some miscellaneous contractual services. The decrease is reflective of the department no longer receiving the Forward Life Skills Grant funding.

JUVENILE COMMUNITY CORRECTIONS

Juvenile Community Corrections is recommended to increase by \$657,469 in general funds, \$245,524 in federal fund expenditure authority, and decrease by \$141,046 in other fund expenditure authority, for a total increase of \$761,947. Operating expenses will increase by \$567,620 in general funds, \$335,373 in federal fund expenditure authority, and decrease by \$141,046 in other fund expenditure authority. A portion of the increase is due to the increase in the average daily count of juveniles in private group and residential services, both in- and out-of-state to adequately meet the needs of the juveniles under the Department of Corrections' care.

STATE TRAINING SCHOOL

The Governor recommends no change at the State Training School. The total recommended budget is \$101,740 in other fund expenditure authority.

YOUTH CHALLENGE CENTER/LIVING CENTER

The Youth Challenge Center/Living Center is recommended to increase by \$99,430 in general funds, and decrease by \$7,221 in federal fund expenditure authority. The increases are reflective of meeting existing payroll at the facility and decentralizing services.

PATRICK HENRY BRADY ACADEMY

The Patrick Henry Brady Academy is recommended to decrease by \$75,285 in general funds. This decrease is reflective of the need to meet existing payroll. The total budget for the Patrick Henry Brady Academy is \$1,862,340 in general funds and \$14,280 in other fund expenditure authority.

STATE TREATMENT AND REHABILITATION (STAR) ACADEMY

The State Treatment and Rehab (STAR) Academy contains the budget for food service, physical plant, medical, education, and administration for the Custer juvenile programs. The budget for FY2005 is recommended to decrease by \$9,686 in general funds, and increase by \$16,488 in federal fund expenditure authority, for a total increase of \$6,802.

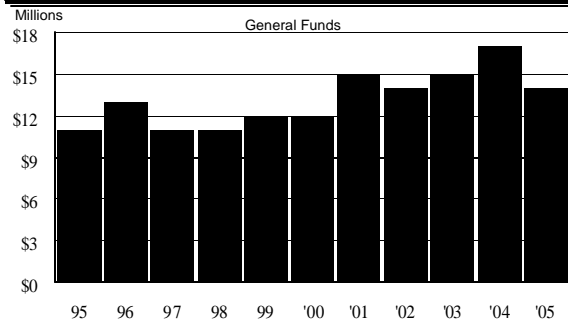
QUEST/EXCEL

The recommended budget for Quest/ExCel is an increase of \$32,414 in general funds and an increase of \$43,697 in federal fund expenditure authority, for a total FY2005 increase of \$76,111. The increases are reflective of the funding needed to meet existing payroll.

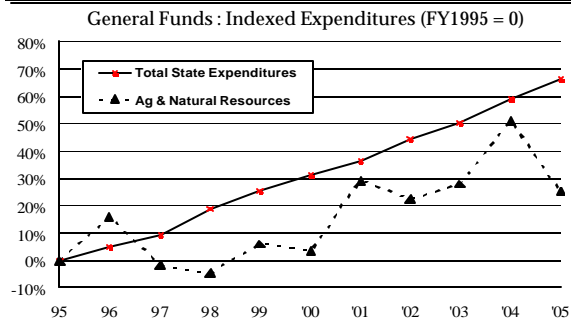
AGRICULTURE; ENVIRONMENT AND NATURAL RESOURCES; AND, GAME, FISH, AND PARKS

This portion of the budget comprises an increase of \$4,263,090 of the \$194,843,718 in total fund increases for FY2005. The total general funds appropriated to Agriculture; Natural Resources; and, Game, Fish, and Parks are recommended to increase by \$317,986, federal and other fund expenditure authority are recommended to increase by a total of \$3,945,104. In comparison to the total state budget, this category is 2.2% of the total funds and 5% of the general funds, which amounts to \$93.6 million in total funding.

Agriculture, Natural Resources and Game, Fish, and Parks



Agriculture, Natural Resources and Game, Fish, and Parks



AGRICULTURE

The Governor's FY2005 recommended budget for the Department of Agriculture is \$23,357,182, consisting of \$5,066,523 in general funds, \$5,161,666 in federal fund expenditure authority, and \$13,128,993 in other fund expenditure authority, with a total of 193.3 FTE. This constitutes a \$1,677,753 increase in Agriculture's overall budget, and a 15.0 increase in FTE.

OFFICE OF THE SECRETARY

The Governor is recommending a general fund decrease of \$26,162, a decrease of \$48,097 in other fund expenditure authority, and a 1.5 FTE decrease in the Office of the Secretary. The funding and FTE reduction in the Secretary's budget will correspond to an increase in the budget for the Division of Fire Suppression. The Office of the Secretary's total budget is \$651,624, and consists of \$571,949 in general funds, \$46,322 in federal fund expenditure authority, \$33,353 in other fund expenditure authority, with 7.5 FTE.

AGRICULTURAL SERVICES

The recommended budget for Agricultural Services in FY2005 is \$3,436,490. This reflects an increase of \$12,531 in general funds, an increase of \$5,463 in federal fund expenditure authority, and an increase of \$53,250 in other fund expenditure authority. \$12,471 of the general fund increase is reflected in the Dairy, Egg, and Plant Protection Program. \$53,239 of the other fund expenditure authority increase will be reflected in the Agronomy and Pesticides Programs. There are 35.0 FTE budgeted in this division.

AGRICULTURAL DEVELOPMENT

The Governor is recommending a \$280,782 increase in the Division of Agricultural Development. The recommended increase

includes \$65,376 of general funds, \$210,680 of federal fund expenditure authority, \$4,726 of other fund expenditure authority, and 1.0 FTE. The increase in funding and FTE will assist in the marketing of value added products and livestock development activities as part of the 2010 Initiative. The total recommended FY2005 budget of \$1,297,245 consists of \$134,022 in general funds, \$294,715 in federal fund expenditure authority, \$868,508 in other fund expenditure authority, and 9.0 FTE.

RESOURCE CONSERVATION AND FORESTRY

The recommended budget for the Division of Resource Conservation and Forestry includes a decrease of \$11,979 in general funds, an increase of \$710,023 in federal fund expenditure authority, and a decrease of \$23,566 in other fund expenditure authority. A majority of the recommended increase, \$643,341, will be reflected in grants and subsidies. The total recommended budget for the Division of Resource Conservation and Forestry is \$2,883,142, and 19.0 FTE.

FIRE SUPPRESSION

The recommended budget for the Division of Fire Suppression includes an increase of \$212,478 in general funds, \$48,097 in federal fund expenditure authority, \$35,643 in other fund expenditure authority, and an increase of 14.5 FTE. A majority of the increase, \$168,542 of general funds and 13.0 FTE, will be used for the Black Hat Crew. An increase of \$26,648 in general funds, \$48,097 in federal fund expenditure authority, and 1.5 FTE reflects a corresponding reduction in the Secretary's budget. The total recommended budget for the Division of Fire Suppression is \$2,685,601, and 42.9 FTE.

STATE FAIR

The recommended budget for the State Fair is \$1,790,325. The State Fair's budget is comprised of \$574,325 of other fund expenditure authority in personal services, \$1,216,000 of other fund expenditure authority in operating expenses, and 25.0 FTE. The State Fair's budget is funded with 100% other fund expenditure authority.

ANIMAL INDUSTRY BOARD

The recommended budget for the Animal Industry Board includes an increase of \$51,773 in general funds, a decrease of \$166,928 in federal fund expenditure authority, an increase of \$32,887 in other fund expenditure authority, and an increase of 1.0 FTE. An increase of \$18,603 in general funds, \$18,602 of federal fund expenditure authority, and 1.0 FTE is recommended for an additional Meat

Inspector. The total budget for the Animal Industry Board is \$2,994,813, and 41.9 FTE.

GAME, FISH, AND PARKS

The FY2005 recommended budget for the Department of Game, Fish, and Parks totals \$54,362,238, including \$4,673,242 in general funds, \$12,419,051 in federal fund expenditure authority, \$37,269,945 in other fund expenditure authority, and a total of 561.4 FTE. This budget reflects an overall increase of \$2,585,337, and 0.9 FTE.

CONSERVATION RESERVE ENHANCEMENT PROGRAM

The Governor is recommending an increase of \$3,969 in general funds in the Conservation Reserve Enhancement budget. The recommended total for FY2005 is \$1,156,755 in general funds. These funds retire bonds issued to lease land from farmers and ranchers in the Conservation Reserve Program.

ADMINISTRATION

The Governor recommends an increase of \$1,000 in general funds and a decrease in other fund expenditure authority in the amount of \$8,763. The overall budget for this program consists of \$348,955 in general funds and \$3,249,785 in other fund expenditure authority, with 27.1 FTE.

WILDLIFE - INFORMATIONAL

The recommendation for the Division of Wildlife includes an increase of \$42,151 in federal fund expenditure authority, an increase of \$687,990 in other fund expenditure authority, and an increase of 1.9 FTE. Included in the recommendation is a \$140,000 increase in other fund expenditure authority for fencing, roads, chemical storage and cold storage buildings at Chamberlain, and a cold storage building at the fisheries center. An increase of \$100,000 in other fund expenditure authority is recommended for enhancement of grassland habitat in Conservation Reserve Program (CRP) fields. The total recommended budget for the Division of Wildlife is \$28,410,437, and 282.0 FTE.

The Development and Improvement Program is recommended to increase by \$309,000, with a total budget of \$255,000 in federal fund expenditure authority and \$550,000 in other fund expenditure authority.

STATE PARKS AND RECREATION

The Division of State Parks and Recreation represents the reorganization that consolidates the Division of Parks and Recreation and the Division of Custer State Park. The Governor recommends an increase of \$9,000 in general funds, an increase of \$243,896 in federal fund expenditure authority, an increase of \$12,105 in other fund expenditure authority, and a decrease of 1.0 FTE. Included in the recommendation is a \$65,530 other fund expenditure authority decrease and a 2.0 FTE decrease to reflect the efficiencies realized in the consolidation of the Parks and Recreation Division and the Custer State Park Division. A federal fund expenditure authority increase of \$33,323 and a 1.0 FTE increase is recommended for a Conservation Technician to perform maintenance at the Belle Fourche Reservoir. The total recommended budget for the operation and maintenance of the division is \$2,965,357 of general funds, \$1,660,022 of federal fund expenditure authority, \$8,881,129 of other fund expenditure authority, and 241.9 FTE.

The Division of State Parks and Recreation's Development and Improvement Program has a recommended increase of \$775,253 in federal fund expenditure authority and an increase of \$382,201 in other fund expenditure authority. Included within this recommendation is an increase of \$537,000 of other fund expenditure authority for preventative maintenance and land improvements at Custer State Park. A federal fund expenditure authority increase of \$707,025 and a decrease of \$237,225 in other fund expenditure authority is recommended to reflect the funding from the Bureau of Reclamation for campground improvements at the Belle Fourche Reservoir.

SNOWMOBILE TRAILS - INFORMATIONAL

Recommended changes within the Snowmobile Program include a decrease of \$54,000 in federal fund expenditure authority and an increase of \$181,535 in other fund expenditure authority. The total recommended budget is \$66,000 of federal fund expenditure authority, \$995,562 of other fund expenditure authority, and 9.1 FTE.

ENVIRONMENT AND NATURAL RESOURCES

The Governor recommends no change for FY2005. The Governor's recommended budget for the Department of Environment and Natural Resources totals \$15,916,571, and consists of \$5,667,695 in general funds, \$5,069,772 in federal fund expenditure authority, \$5,179,104 in other fund expenditure authority, and 174.5 FTE.

FINANCIAL AND TECHNICAL ASSISTANCE

The Governor recommends no change in Financial and Technical Assistance. The budget consists of \$4,270,287 in total funds, and 58.0 FTE.

ENVIRONMENTAL SERVICES

The Governor recommends no change in Environmental Services. The budget consists of \$9,131,284 in total funds, and 116.5 FTE.

**REGULATED RESPONSE FUND –
INFORMATIONAL**

The Governor is recommending no change in the Regulated Response Fund budget. This budget is informational and continuously appropriated with \$1,750,000 in other fund expenditure authority.

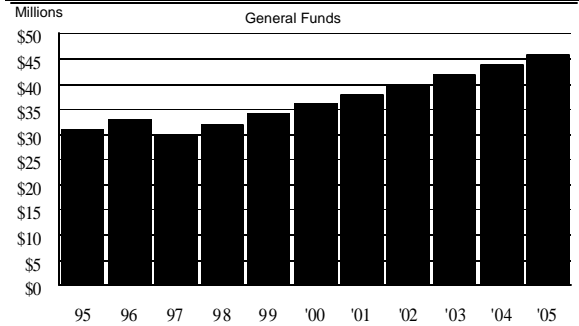
**LIVESTOCK CLEANUP FUND –
INFORMATIONAL**

The Governor is recommending no change in the Livestock Cleanup Fund budget. This budget is informational and continuously appropriated with \$765,000 in other fund expenditure authority.

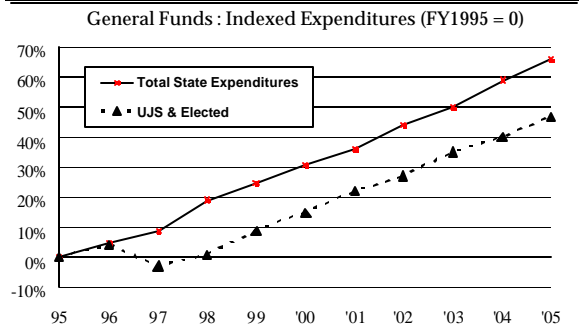
**LEGISLATURE, UNIFIED JUDICIAL
SYSTEM, PUBLIC UTILITIES
COMMISSION, AND ELECTED
OFFICIALS**

The Governor’s recommendation for the FY2005 budget for this sector (excluding special appropriations) totals \$71,670,689, of which \$46,848,293 is general funds, \$6,358,112 is federal fund authority, and \$18,464,284 is other fund expenditure authority. This reflects an increase of \$3,257,488 in general funds, a decrease of \$544,586 in federal fund authority, and a decrease of \$66,630 in other fund expenditure authority, for a total of \$2,325,726, which is 2.5% of the total FY2005 budget. The recommendation also includes an increase of 3.3 FTE, for a total of 818.8 FTE.

**UJS, Legislature and
Elected Officials**



**UJS, Legislature and
Elected Officials**



LEGISLATURE

The FY2005 recommended budget for the South Dakota Legislature is \$7,082,598 in general funds, \$35,000 in other fund expenditure authority, and 71.2 FTE. Changes to the budget include an increase of \$68,760 for travel due to a 40-day session, an increase of \$36,496 in personal services due to 40-day session. The Governor is also recommending an increase of \$10,751 due to health insurance, and an increase of \$9,500 to provide hiring flexibility. Additionally, salary policy adds \$114,792 in general funds for employee compensation and \$5,463 in general funds for health insurance. The net change for the South Dakota Legislature is an increase of \$245,148 in general funds.

SCHOOL AND PUBLIC LANDS

The Governor’s recommendation for the FY2005 School and Public Lands’ budget is \$486,032 in general funds and \$225,000 in other fund expenditure authority, for a total budget of \$711,032, with 7.0 FTE. This budget includes an increase of \$2,000 in general funds for capital outlay to continue the replacement policy.

SECRETARY OF STATE

The Governor's recommendation for the Secretary of State's FY2005 budget is \$885,311 in general funds, \$200,193 in federal fund expenditure authority, and \$270,435 in other fund expenditure authority, with 15.3 FTE. This budget recommendation includes a \$750 decrease in general funds, and a \$212,868 decrease in federal fund expenditure authority. The Secretary of State's office has worked hard to find efficiencies and right size their budget.

UNIFIED JUDICIAL SYSTEM

The Governor's FY2005 recommendation for the Unified Judicial System includes an increase of \$1,040,087 in general funds, an increase of \$2,532 in federal fund expenditure authority, and an increase of \$88,807 in other fund expenditure authority, for a total increase of \$1,131,426. This recommendation contains 3.0 additional FTE for two court service officers and one help desk support specialist. Expansion in personal services amounts to \$1,038,630, of which \$130,254 is for the 3.0 new FTE. Movement to job worth accounts for \$192,010; health insurance accounts for \$46,195; and, salary policy adds another \$657,311. The total FY2005 recommended budget totals \$32,237,790 and consists of \$27,543,026 in general funds, \$486,103 in federal fund expenditure authority, \$4,208,661 in other fund expenditure authority, and 478.8 FTE.

The operating side of the Unified Judicial System's budget is increasing by \$67,870 in general funds, and by \$24,926 in other fund expenditure authority. Increases include \$33,076 in general funds to cover increases in community-based services due to rate increases at mental health centers. Computer services account for an increase of \$55,106 in other fund expenditure authority due to increases in the use of the enterprise server and equipment service/maintenance. Capital assets, such as computer hardware and office equipment account for a decrease of \$11,455 in other fund expenditure authority. Judicial training has experienced a decrease in the number of employees receiving in- and out-of-state training, which has resulted in a \$28,825 decrease in other fund expenditure authority.

STATE TREASURER

The Governor's recommended budget includes an increase of \$728,354 in other fund expenditure

authority. The FY2005 recommended budget consists of \$462,621 in general funds, \$7,979,495 in other fund expenditure authority, and 34.5 FTE.

TREASURY MANAGEMENT

The Governor recommends no change in Treasury Management. The recommended FY2005 budget consists of \$462,621 in general funds, and 5.5 FTE.

UNCLAIMED PROPERTY

The Governor's recommendation for this informational budget is an increase of \$500,000 in other fund expenditure authority, for a total FY2005 budget of \$2,360,017 in other fund expenditure authority and 3.0 FTE. The recommended increase brings the budget in line with expected unclaimed property payments that will be made in FY2005.

INVESTMENT COUNCIL

This budget is recommended for an increase of \$228,354 in other fund expenditure authority, for a total FY2005 budget of \$5,619,478 in other fund expenditure authority and 26.0 FTE. The recommendation includes an increase of \$114,357 in personal services. Also included in the recommended increase is \$100,000 to allow the Investment Council flexibility in purchasing investment research services.

STATE AUDITOR

The Governor's recommended budget includes an increase of \$8,696 in general funds for personal services. The FY2005 recommended budget consists of \$938,735 in general funds and 17.3 FTE.

PUBLIC UTILITIES COMMISSION

The Governor recommends an increase of \$292,181 in general funds and a decrease of \$279,462 in other fund expenditure authority for the Public Utilities Commission. The total FY2005 recommended budget is \$537,244 in general funds, \$78,081 in federal fund expenditure authority, and \$2,737,786 in other fund expenditure authority, with 28.7 FTE.

ATTORNEY GENERAL

The Governor's recommendation for the Office of the Attorney General is an overall budget increase

of \$411,001. The FY2005 budget recommendation consists of an increase of \$999,580 in general funds, a \$15,750 increase in federal fund expenditure authority and a decrease of \$604,329 in other fund expenditure authority. The Governor is also recommending that the number of employees increase by 1.0 FTE. The total recommended FY2005 budget for the Office of the Attorney General is \$6,147,479 in general funds, \$5,359,352 in federal fund expenditure authority and \$3,002,889 in other fund expenditure authority, for a total budget of \$14,509,720, with 140.0 FTE.

LEGAL SERVICES

The recommended budget for the Legal Services Program is \$6,903,835. This represents an increase of \$15,750 in federal fund expenditure authority and an increase of \$8,750 in other fund expenditure authority. The recommended increase within this division is for capital asset purchases.

CRIMINAL INVESTIGATION

The overall recommended budget for the Division of Criminal Investigation is \$6,267,998. This includes an increase of \$999,580 in general funds and a decrease of \$638,616 in other fund expenditure authority. The recommended increase in general funds in this division is to make up for the shortfall of funding provided by the Law Enforcement Officer Training fund.

LAW ENFORCEMENT TRAINING

The Governor's recommendation for the Division of Law Enforcement Training is an increase of \$4,500 in other fund expenditure authority. This brings the total recommended budget for this division to \$1,154,673 in other fund expenditure authority, with 8.0 FTE. Other fund expenditure authority has been recommended for the purchase of supplies.

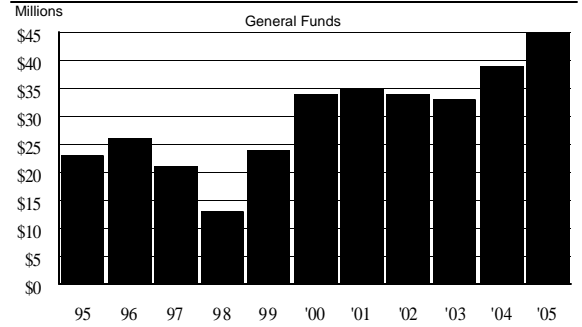
911 TRAINING

The Governor is recommending a total budget of \$183,214, and 2.0 FTE for the 911 Training Division. This includes an increase of \$21,037 in other fund expenditure authority for the Emergency Medical Dispatch Program.

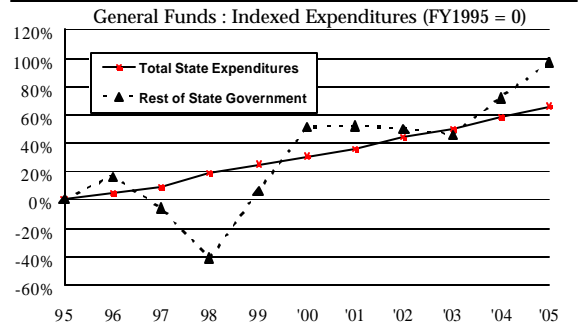
REMAINDER OF STATE GOVERNMENT

The budgets included in this category include the Departments of Executive Management, Military and Veterans' Affairs, Revenue and Regulation, Tourism and State Development, Transportation, Labor, and Public Safety. This portion of the budget comprises \$37.0 million of the \$194.8 million in total fund increases for FY2005. On the general fund side, this category accounts for \$9.5 million of the \$63.6 million increase. In terms of the total state budget, this group has 27.3% of the total funds and 4.9% of the general funds, which amounts to \$791.8 million in total funding.

Remainder of State Government



Remainder of State Government



PUBLIC SAFETY

The Department of Public Safety has a total budget of \$52,973,934, including \$3,405,151 in general funds, \$28,474,568 in federal fund expenditure authority, \$21,094,215 in other fund expenditure authority, and 402.5 FTE.

ADMINISTRATION

The Governor is recommending a decrease of \$672 in other fund expenditure authority for the Administration budget. Administration's budget is \$545,563, including \$38,266 in general funds, \$507,297 in other fund expenditure authority, and 7.0 FTE.

ENFORCEMENT

This Division of Enforcement includes the Highway Patrol, Accident Records, Highway Safety, and State Radio. Approximately 68% of the total FY2005 recommended budget of \$20,307,383 is for salary and benefits. The total FY2005 recommendation consists of \$1,580,708 in general funds, \$2,873,980 in federal fund expenditure authority, and \$15,852,695 in other fund expenditure authority, with 276.0 FTE.

The recommended budget includes a general fund increase of \$70,873, a \$337,892 increase in federal fund expenditure authority, and a \$202,086 increase in other fund expenditure authority. The entire recommended general fund increase is reflected in the State Radio budget.

EMERGENCY SERVICES

The Division of Emergency Services includes Emergency Management, Emergency Medical Services, and the State Fire Marshal. The recommendation for the Emergency Services Division includes an increase of \$21,028,828 in federal fund expenditure authority, and a decrease of \$30,630 in other fund expenditure authority. The federal fund expenditure authority increase includes \$20,116,358 from the State Homeland Security Grant Program, formerly Department of Justice (DOJ), to provide funding to enhance the capacity of state and local jurisdictions to respond to, and mitigate incidents of domestic terrorism. The total recommended budget for the Emergency Services Division is \$27,163,789, including \$1,338,658 in general funds, \$25,600,588 in federal fund expenditure authority, \$224,543 in other fund expenditure authority, and 31.5 FTE.

INSPECTION AND LICENSING

This division includes Weights and Measures, Driver Licensing, and Inspections. The recommendation includes an increase of \$31,493 in other fund expenditure authority. The total FY2005 budget is \$447,519 in general funds, \$4,509,680 in other fund expenditure authority, and 88.0 FTE.

EXECUTIVE MANAGEMENT

The Governor's recommendation for the Department of Executive Management includes an increase of \$5,307,908 in general funds, \$3,245,540 in other fund expenditure authority and a decrease of \$1,443,371 in federal fund expenditure authority, for a net increase of \$7,110,007. The Governor is also recommending an increase of 4.3 FTE, for a total FTE count of 662.3. The total FY2005 budget includes \$29,925,354 in general funds, \$7,146,377 in federal fund expenditure authority, \$84,603,474 in other fund expenditure authority, for a total of \$121,675,205, with 662.3 FTE.

The recommended increases within Executive Management reflect \$1,000,000 in general funds within the Bureau of Administration for the statewide Maintenance and Repair Program, and \$670,546 in general funds for the Homestake Conversion Laboratory Project. The Governor's state employee compensation package accounts for a bulk of the remaining increase within the executive branch. The compensation package is loaded into a pool of funds within the Bureau of Personnel. The Executive Branch then distributes the pool to each agency after session when the salary policy amount is finalized. For the FY2005 budget, the recommended increase for a 3% across-the-board salary package is \$3,152,633 in general funds, \$2,651,341 in federal fund expenditure authority, and \$3,874,040 in other fund expenditure authority. The recommended increase for 2.5% movement to job worth is \$886,706 in general funds, \$807,248 in federal fund expenditure authority, and \$922,033 in other fund expenditure authority. The recommended increases for health insurance for the executive branch include \$238,620 in general funds, \$205,878 in federal fund expenditure authority, \$266,629 in other fund expenditure authority. The net increase for the compensation package, including health insurance, is \$12,924,796.

GUBERNATORIAL DIVISION

The Governor recommends a general fund increase of \$670,546, a \$350,000 federal fund expenditure authority decrease, and a decrease of 0.7 FTE. This recommendation is attributable to the Homestake Conversion Laboratory Project that began in FY2004. The totals for the Governor's recommended budget for the Gubernatorial Division are \$2,765,247 in general funds, \$234,383 in federal fund expenditure authority, and \$5,000 in other fund expenditure authority, for a total FY2005 recommended budget of \$3,004,630, and 26.0 FTE.

BUREAU OF FINANCE AND MANAGEMENT

The Governor recommends a general fund decrease of \$597,708 attributable to the original Bureau of Finance and Management (BFM) sale/leaseback agreement schedule. The total recommended FY2005 budget for BFM is \$11,802,556 in general funds, and \$5,135,793 in other fund expenditure authority, for a total FY2005 recommended budget of \$16,938,349, and 26.5 FTE.

BUREAU OF ADMINISTRATION

The Governor recommends an increase of \$957,111 in general funds and a decrease of \$6,000 in other fund expenditure authority. The major adjustment within this division is a general fund increase of \$1,000,000 to restore the Statewide Maintenance and Repair budget. The total recommended budget for this division is \$5,140,801 in general funds, \$500,000 in federal fund expenditure authority, and \$28,764,852 in other fund expenditure authority, for a total FY2005 budget of \$34,405,653, and 182.5 FTE.

BUREAU OF INFORMATION AND TELECOMMUNICATIONS

The recommendation of the Governor is a decrease of \$52,500 in federal fund expenditure authority, a decrease of \$6,436,168 in other fund expenditure authority, and an increase of 6.0 FTE. The major adjustment in this division is a decrease of \$4,000,000 in other fund expenditure authority that was needed to provide services to the Department of Social Services in order to meet federal Health Information Portability and Accountability Act (HIPAA) requirements. This project has been completed. Consultant contracts have also been reduced, this resulted in a savings of \$637,428 by hiring 6.0 additional FTE within the Bureau of Information and Telecommunications to complete the tasks in house. The total recommended FY2005 budget for the Bureau of Information and Telecommunications is \$5,053,800 in general funds, \$2,247,527 in federal fund expenditure authority, and \$35,174,028 in other fund expenditure authority, for a total FY2005 recommended budget of \$42,475,355, and 358.8 FTE.

BUREAU OF PERSONNEL

The Governor's recommendation for the Bureau of Personnel includes a decrease of \$16,427 in federal fund expenditure authority, a decrease of \$63,905 in other fund expenditure authority, and a decrease of 1.0 FTE, for a total decrease of \$80,332. In FY2003, the special legislative session created the risk pool, this budget includes \$500,000

in general funds, \$500,000 in federal fund expenditure authority, \$5,516,355 in other fund expenditure authority, and 1.0 FTE, with an additional \$1,500,000 of other fund expenditure authority in the South Dakota Risk Pool Reserve. The Governor is recommending a reduction of 1.0 FTE in the Risk Pool because the Bureau of Personnel is able to complete the tasks required for the Risk Pool with existing FTE. The total FY2005 budget consists of \$884,991 in general funds, \$500,000 in federal fund expenditure authority, and \$10,461,099 in other fund expenditure authority, for a total of \$11,846,090, and 68.5 FTE. The remainder of the FY2005 recommendation for the Bureau of Personnel reflects the reduction in funds and authority remaining after the FY2004 employee compensation packages were distributed.

MILITARY AND VETERANS' AFFAIRS

The Governor's recommendation for the Department of Military and Veterans' Affairs contains an overall budget increase of \$1,200,704. The FY2005 budget consists of an increase of \$183,086 in general funds, an increase of \$774,737 in federal fund expenditure authority, an increase of \$242,881 in other fund expenditure authority, and an increase of 1.0 FTE. The total recommended FY2005 budget for MVA is \$4,846,701 in general funds, \$36,178,182 in federal fund expenditure authority, and \$3,313,215 in other fund expenditure authority, for a total of \$44,338,098, with 184.9 FTE.

OFFICE OF THE ADJUTANT GENERAL

The Governor recommends no change to this division. The total FY2005 budget for this division is \$467,946 in general funds, \$11,300 in federal fund expenditure authority, and \$23,216 in other fund expenditure authority, with 4.3 FTE.

ARMY AND AIR GUARD

The Governor's recommendation for the Guard is an increase of \$50,866 in general funds, and an increase of \$774,737 in federal fund expenditure authority. The recommendation for the Army Guard includes an increase in general funds of \$38,366, and an increase of \$696,178 in federal fund expenditure authority. The recommendation includes a \$38,872 increase in general funds to change the Assistant Adjutant General to a full-time state employee. The federal fund increase is for M&R for all National Guard Armories, the National Guard Bureau rewrites the Master Cooperative Agreement every fiscal year and adds funding to areas of need. The total recommended budget for the Army Guard is \$34,152,396, and 48.6 FTE.

The recommendation for the Air Guard includes increases of \$12,500 in general funds, and \$78,559 in federal fund expenditure authority. The general funds and \$37,500 of the federal fund authority are for utility costs at the Air Guard. \$41,059 in federal fund expenditure authority is for the Starbase Program. The total FY2005 recommended budget for the Air Guard is \$3,635,247, and 41.0 FTE.

VETERANS' BENEFITS AND SERVICES

The Governor's recommendation for this division includes an increase of \$49,480 in general funds and 1.0 FTE. The 1.0 FTE and \$37,120 in general funds are for a Veteran's Service Officer. These officers serve all veterans throughout South Dakota. With over 3,000 soldiers becoming veterans, the Division of Veterans' Affairs is tasked with providing services to these individuals. The division's total FY2005 budget is \$984,844 in general funds, and \$208,707 in federal fund expenditure authority, for a total of \$1,193,551, and 18.0 FTE.

STATE VETERANS' HOME

The Governor's recommendation for the State Veterans' Home includes an increase of \$82,740 in general funds and an increase of \$242,881 in other fund expenditure authority. The total recommended FY2005 budget is \$1,564,612 in general funds and \$3,289,830 in other fund expenditure authority, with 73.0 FTE. Some of the key recommended increases in the State Veterans' Home are for food services, nursing personal services, medical supplies, medical service contracts, and the Resident Activities Program.

REVENUE AND REGULATION

The Governor's recommended budget for the Department of Revenue and Regulation totals \$52,629,665, consisting of \$859,510 in general funds, \$11,998 in federal fund expenditure authority, \$51,758,157 in other fund expenditure authority, and 310.6 FTE. The Governor is recommending no change in general funds, a decrease of \$35,002 in federal fund expenditure authority, and a decrease of \$2,286,854 in other fund expenditure authority. There is also a reduction of 2.5 FTE recommended by the Governor.

SECRETARIAT

The Governor's recommendation includes an increase of \$146,426 in other fund expenditure authority. Included in the increase is \$121,919 in other fund expenditure authority to reflect the centralization of office rent and various utility

charges in the Division of the Secretariat. The increase for rent and utility charges in the Division of the Secretariat is offset by decreases in other divisions. The remainder of the Governor's recommended increase is from BIT charges, travel in the Legal Division to determine the residency of vehicle owners in motor vehicle investigations, and personal services for the continuation of the longevity program.

BUSINESS TAX

The Governor's recommendation includes an increase of \$22,294 in other fund expenditure authority for travel related to the Streamlined Sales Tax Project, rising BIT charges, and the continuation of the longevity program.

MOTOR VEHICLES

The Governor's recommendation includes a decrease of \$35,002 in federal fund expenditure authority and an increase of \$236,767 in other fund expenditure authority. The reduction to federal fund expenditure authority reflects the decrease of federal funds available to the Division of Motor Vehicles. Included in the other fund expenditure authority increase is \$200,000 to replace the dumb terminals and printers the counties are using for on-line registration and title-processing.

PROPERTY AND SPECIAL TAXES

The Governor is recommending no change in Property and Special Taxes. The recommended FY2005 budget consists of \$711,448 in general funds and 11.0 FTE.

AUDITS

The Governor is recommending an increase of \$6,551 in other fund expenditure authority in the Division of Audits. The recommended increase is for personal services and to cover an increase in BIT charges.

BANKING

The Governor's recommendation is a net decrease of \$11,283 in other fund expenditure authority. Included in the recommendation is an increase of \$24,423 in personal services and a decrease to contractual services from the movement of rent and various utility charges to the Division of the Secretariat.

SECURITIES

The Governor's recommendation is for a decrease of \$10,954 in other fund expenditure authority. The

decrease reflects the movement of rent to the Division of the Secretariat.

INSURANCE

The Governor's recommendation is a net decrease of \$43,346 in other fund expenditure authority. Major items in the recommendation include a reduction in travel authority to accurately reflect anticipated travel expenditures and a decrease due to the movement of rent to the Division of the Secretariat.

INSURANCE FRAUD UNIT

The Governor's recommendation for this informational budget includes a decrease of \$7,039 in other fund expenditure authority. The reduction reflects the movement of rent to the Division of the Secretariat.

PETROLEUM RELEASE COMPENSATION

The Governor is recommending a decrease of \$20,426 in other fund expenditure authority. Included in this recommendation is the movement of rent to the Division of the Secretariat. The Governor is also recommending a reduction of \$1,500,000 in other fund expenditure authority for the informational portion of this budget.

LOTTERY

The Governor is recommending a decrease of \$1,059,718 in other fund expenditure authority and a reduction of 1.0 FTE in the informational portion of this budget. The \$1,000,000 reduction in lottery prize authority is to accurately reflect anticipated expenditures, and it has been determined it is no longer necessary to fill the FTE position.

REVENUE BOARDS AND COMMISSIONS

This includes the informational budgets of the Real Estate Commission, the Abstracters Board of Examiners, and the Commission on Gaming. The Governor is recommending an increase of \$148 in other fund expenditure authority for personal services in the Real Estate Commission's budget and no change in the Abstracters Board of Examiners' budget. For the Commission on Gaming, the Governor is recommending a decrease of \$46,274 in other fund expenditure authority and a reduction of 1.5 FTE to accurately reflect the staffing needs of the Commission on Gaming.

TOURISM AND STATE DEVELOPMENT

The FY2005 recommended budget for Tourism and State Development, including the informational budget for South Dakota Housing Development Authority, is \$10,101,691 of general funds, \$13,654,870 of federal fund expenditure authority, and \$29,662,895 of other fund expenditure authority. The total recommended budget is \$53,419,456, and 179.6 FTE.

ECONOMIC DEVELOPMENT

The Governor recommends a general fund increase of \$1,100,000 and a \$3,250,000 other fund expenditure authority increase. The Office of Economic Development includes the Administrative Division for the new Department of Tourism and State Development. \$100,000 of the general fund recommended increase is for the promotion of the many divisions within the new department. \$1,000,000 of the general fund increase is for the Governor's 2010 Initiative, Tourism Challenge Program. The \$3,250,000 in other fund expenditure authority is to provide sufficient authority for the Future Fund. The total recommended budget for Economic Development consists of \$3,305,445 in general funds, \$10,442,753 in federal fund expenditure authority, and \$13,154,158 of other fund expenditure authority, for a total budget of \$26,902,356 and 43.8 FTE.

TOURISM

The Tourism budget is funded by revenues generated from Deadwood Gaming, a 1% gross receipts tax on hotel rooms and other tourist activities, and the Co-op Revolving Fund. For FY2005, the Governor is recommending a \$640,000 increase in other fund expenditure authority based on a 5.65% growth in revenues. The FY2005 recommended budget consists of \$7,346,483 in other fund expenditure authority, and 24.8 FTE.

RESEARCH COMMERCE

As a part of the 2010 Initiative, the Governor created the Division of Research Commerce located in Tourism and State Development. The recommended budget includes an increase of \$3,519,790 in general funds and an increase of 2.0 FTE. Of this recommendation, 2.0 FTE and \$151,048 in general funds are for personal services and operating expenses within the Division of Research Commerce. This office will work closely with the Office of New Economy located in the Board of Regents' Central Office to fund new research projects within the regental system. The remaining \$3,368,742 in general funds are for

funding the projects located in the Board of Regents, (\$1,375,002 for faculty research time, \$493,740 for research assistants, and \$1,500,000 for EPSCoR match/equipment support). The total recommended FY2005 budget for the Division of Research Commerce is \$3,519,790 in general funds, and 2.0 FTE.

TRIBAL GOVERNMENT RELATIONS

The Governor's recommended budget for Tribal Government Relations includes an increase of \$30,923 in general funds. The increase is due to a change within the division, the administrative assistant FTE will be changed to a deputy FTE. This person will assist the director of this division with reaching out to the tribes within South Dakota. This change reflects additional funding in personal services and travel. The total recommended FY2005 budget for the Division of Tribal Government Relations is \$159,861 in general funds, and 2.0 FTE.

CULTURAL AFFAIRS

The total recommended budget consists of an increase of \$4,803 in general funds, a decrease of \$31,395 in federal fund expenditure authority and an increase of \$2,809 in other fund expenditure authority. The general fund increase is to cover the Bureau of Administration's space maintenance billings for the Cultural Heritage Center and longevity. The recommended decrease in federal fund expenditure authority is due to the end of a consultant contract for Preserve South Dakota and bringing this work in house using existing FTE. The total recommended FY2005 budget for Cultural Affairs is \$3,116,595 in general funds, \$1,376,612 in federal fund expenditure authority, and \$1,403,449 in other fund expenditure authority, for a total FY2005 recommended budget of \$5,896,656, and 44.0 FTE.

SOUTH DAKOTA HOUSING DEVELOPMENT AUTHORITY

The Governor is recommending the authority's informational budget request as submitted, with increases of \$37,356 in federal fund expenditure authority, and \$195,324 in other fund expenditure authority, for a total increase of \$232,680. The recommended budget includes personal services increases of \$15,146 in federal fund expenditure authority and \$28,129 in other fund expenditure authority. Operating expenses are to increase \$22,210 in federal fund expenditure authority and \$167,195 in other fund expenditure authority. The total FY2005 recommended budget is \$9,594,310 including \$1,835,505 in federal fund expenditure authority, \$7,758,805 in other fund expenditure authority, and 63.0 FTE.

TRANSPORTATION

Highway construction contracts make up 70% of the Department of Transportation's \$428,527,519 budget. The \$300,531,961 Highway Construction Contract budget is informational.

The Department of Transportation's FY2005 budget contains \$475,979 in general funds, \$258,383,432 in federal fund expenditure authority, \$169,668,108 in other fund expenditure authority, and 1,077.3 FTE. The FY2005 budget reflects a decrease of \$414,065 in federal fund expenditure authority, and an increase of \$782,423 in other fund expenditure authority, for a total budget increase of \$368,358. The Governor's FY2005 recommendation for General Operations includes increases of \$1,364,242 in federal fund expenditure authority, \$1,552,964 in other fund expenditure authority, and 3.0 FTE. The overall recommended increase is \$2,917,206. The Governor's FY2005 recommendation for Construction Contracts includes a decrease of \$1,778,307 in federal fund expenditure authority and a decrease of \$770,541 in other fund expenditure authority, for an overall decrease of \$2,548,848.

LABOR

The Governor's recommendation for the Department of Labor is \$1,310,872 in general funds, \$34,789,200 in federal fund expenditure authority, \$8,553,331 in other fund expenditure authority, for a total FY2005 budget of \$44,653,403 and 425.2 FTE. The primary mission of the department is to provide job training, administer unemployment insurance and workers' compensation for South Dakota employers, and to administer the South Dakota Retirement System. For reporting purposes, the budget for six professional and occupational licensing boards and the Public Utilities Commission are included in this department.

Excluding the professional and occupational licensing boards, South Dakota Retirement System and the Public Utilities Commission, the Governor is recommending a decrease of \$13,400 in general funds, a decrease of \$209,413 in federal fund expenditure authority, and an increase of \$1,632 in other fund expenditure authority for the Department of Labor. Efficiencies were found in the department to account for savings in general funds and federal fund authority.

PROFESSIONAL AND OCCUPATIONAL LICENSING

This division is comprised of the informational budgets of the professional and occupational licensing boards. There are six boards, with a total recommended budget for FY2005 of \$2,396,561 which is a total increase of \$240,730 in other fund expenditure authority. These boards are self-supporting through their fee systems. The boards include: Board of Accountancy, Board of Barber Examiners, Board of Cosmetology, Plumbing Commission, Board of Technical Professions, and the Electrical Commission.

SOUTH DAKOTA RETIREMENT SYSTEM

The recommended budget for the South Dakota Retirement System is \$3,020,539 of other fund expenditure authority, and 31.0 FTE. The recommendation includes an increase of \$260,233 in other fund expenditure authority, and 2.8 FTE.

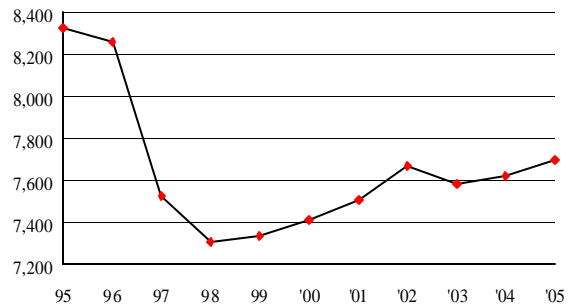
PUBLIC UTILITIES

The Governor recommends an increase of \$292,181 in general funds and a decrease of \$279,462 in other fund expenditure authority for the Public Utilities Commission. The total FY2005 recommended budget is \$537,244 in general funds, \$78,081 in federal fund expenditure authority, and \$2,737,786 in other fund expenditure authority, with 28.7 FTE.

FTE CHANGE

Total appropriated FTE decreased from 13,981.9 in FY1995 to a proposed level of 13,549.5 for FY2005. This is a difference of 432.4 FTE over a ten-year period. For offices outside the control of the Governor, total appropriated FTE grew from 5,654.9 in FY1995 to a recommended 5,853.7 for FY2005, or an increase of 198.8 FTE. The agencies under direct control of the Governor had total appropriated FTE of 8,327.0 in FY1995. The FY2005 budget proposal brings the FTE to a level of 7,695.8, for a reduction of 631.2 FTE during the decade. The following charts show the FTE change between FY1995 and FY2005.

FTE History for Offices Under Control of Governor

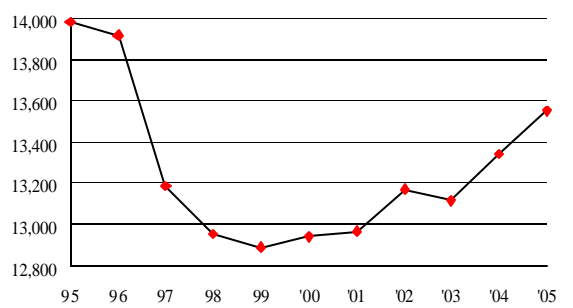


FTE History for Offices Outside Control of Governor



In 1991 when Governor Rounds entered the Senate, the FTE level for agencies under the direct control of the Governor was 7,838.2 compared to a proposed level of 7,695.8 FTE for FY2005. This is a decrease of 142.4 FTE. While the scope of government has expanded, the FTE have decreased. The challenge has been for state employees to do more with less. For FY2005, the Governor recommends a total appropriated FTE level of 7,695.8 for offices under his control and 5,353.7 for offices outside of his control, for a total appropriated FTE of 13,549.5. The recommended FTE level for FY2005 is an increase of 211.9 FTE from the previous fiscal year, of which 140.4 are for offices outside of his control.

FTE History All of State Government



SUMMARY OF RECOMMENDED REORGANIZATIONS

GAME, FISH, AND PARKS

The Governor recommends reorganization within the Department of Game, Fish, and Parks. The recommended reorganization will consolidate the Division of Parks and Recreation and the Division of Custer State Park into one statewide parks system. The newly created Division of State Parks and Recreation will operate under two budget units, down from four units before the consolidation. The first budget unit will include the consolidated operation and maintenance budgets from Parks and Recreation

and Custer State Park. The second budget unit will include the combined development and improvement budgets of Parks and Recreation and Custer State Park. The reorganization into one consolidated state parks system will allow the new division to maximize funding opportunities, realize operating efficiencies, and efficiently utilize staff.

SPECIAL APPROPRIATION RECOMMENDATIONS

<u>FY 2005 SPECIAL APPROPRIATIONS</u>	<u>GENERAL FUNDS</u>	<u>FEDERAL FUNDS</u>	<u>OTHER FUNDS</u>	<u>TOTAL FUNDS</u>
School District Consolidation Incentives	\$ 309,418	\$ 0	\$ 0	\$ 309,418
Physician Tuition Reimbursement Program	87,738	0	0	87,738
Tax Refunds for the Elderly and Disabled	1,000,000	0	0	1,000,000
Soil and Water Conservation Grants	0	0	600,000	600,000
Food Stamp Enhancement Program	5,000,000	0	0	5,000,000
TOTAL FY 2005 SPECIAL APPROPRIATIONS	<u>\$ 6,397,156</u>	<u>\$ 0</u>	<u>\$ 600,000</u>	<u>\$ 6,997,156</u>

NOTE: FY 2005 special appropriations become available for expenditure on July 1, 2004 and are included in the FY 2005 column of the General Fund Condition Statement.

The Governor is recommending a total special appropriation of \$6,397,156 in general funds, and \$600,000 in other fund expenditure authority. The following paragraphs highlight each recommended special appropriation.

- **School District Consolidation Incentives:** The Governor is recommending \$309,418 of general funds to reimburse certain school districts for consolidation incentives per SDCL 13:6:92.
- **Physician Tuition Reimbursement Program:** The Governor is recommending \$87,738 of general funds to reimburse three participants who have complied with the requirements of the South Dakota Physician Tuition Reimbursement Program per SDCL 1:16A:71.1.
- **Tax Refunds for the Elderly and Disabled:** The Governor is recommending \$1,000,000 in general funds for tax refunds for elderly and disabled individuals who meet income guidelines.
- **Soil and Water Conservation Grants:** The Governor is recommending \$600,000 in other fund expenditure authority to be used to fund the conservation districts and address soil and water conservation in South Dakota.
- **Food Stamp Enhancement Program:** The Governor is recommending \$5,000,000 in general funds to implement a food stamp enhancement program to expand the current federal program, pay for it at the state level, and really focus the efforts of sales taxes on food to the working poor.

<u>FY 2004 EMERGENCY SPECIAL APPROPRIATIONS</u>	<u>GENERAL FUNDS</u>	<u>FEDERAL FUNDS</u>	<u>OTHER FUNDS</u>	<u>TOTAL FUNDS</u>
Medical School Office of Medical Education	\$ 332,433	\$ 0	\$ 0	\$ 332,433
Department of Corrections' Prison Expansion Match	1,650,486	0	0	1,650,486
Public Utilities Commission Commissioners' Salaries	292,181	0	0	292,181
Fire Suppression Fund	2,124,322	0	0	2,124,322
PEPL Fund	1,200,000	0	0	1,200,000
Medicaid Shortfall	10,989,679	24,098,695	0	35,088,374
Veterans' Bonus	4,206,607	0	0	4,206,607
Education Enhancement	2,845,271	0	0	2,845,271
State Fair	1,164,599	0	0	1,164,599
Correctional Health Care	2,413,330	0	2,413,330	4,826,660
TOTAL FY 2004 EMERGENCY SPECIAL APPROPRIATIONS	<u>\$27,218,908</u>	<u>\$24,098,695</u>	<u>\$ 2,413,330</u>	<u>\$53,730,933</u>

- **Medical School Office of Medical Education:** The Governor is recommending \$332,433 in general funds for the balance of the one-time funds needed to fund the operation of the School of Medicine's Office of Medical Education in FY2004.
- **Department of Corrections' Prison Expansion Match:** The Governor is recommending \$1,650,486 in general funds to complete the construction plan as laid out during the 2003 legislative session by HB 1280.
- **Public Utilities Commission Commissioners' Salaries:** The Governor is recommending \$292,181 in general funds for salaries and benefits for the commissioners.
- **Fire Suppression Fund:** The Governor is recommending \$2,124,322 in general funds to be deposited into the Fire Suppression Fund for costs related to the suppression of wildfires in South Dakota.
- **PEPL Fund:** The Governor is recommending \$1,200,000 to pay Non-PEPL fund related costs incurred since January 7, 2003. This will allow our PEPL fund to pass the scrutiny of state and federal auditors in the future.

- **Medicaid Shortfall:** The Governor is recommending \$10,989,679 in general funds and \$24,098,695 million in federal fund expenditure authority to cover the increased average cost per Medicaid eligible.
- **Veterans' Bonus:** The Governor is recommending \$4,206,607 in general funds to award a bonus to all South Dakota Military Service Veterans who served on active duty in hostile areas from January 1, 1993 to present and in non-hostile areas from September 11, 2001 until present.
- **Education Enhancement:** FY2003 earnings to the Education Enhancement Trust Fund distributed in FY2004 rebounded in the last quarter of FY2003. The result of the increased earnings performance resulted in an amount of \$14.1 million of interest earnings that were transferred to the general fund on August 1, 2003. Since the Education Enhancement Trust Fund was ratified, there have been a total of \$11.3 million of education enhancement expenditures authorized by the legislature. Today, the general fund has \$2.8 million of revenues that have not been allocated to education enhancement. The Governor is recommending that the legislature appropriate \$2,845,271 in the FY2004 budget for education enhancement.
- **State Fair:** The Governor is recommending \$1,164,599 in general funds to cover the funding shortfall in the State Fair Fund.
- **Correctional Health Care:** The Governor is recommending \$2,413,330 in general funds and \$2,413,330 in other fund expenditure authority for Correctional Health to supplement the estimated shortfall due to rising health care costs. In FY2004, the program is incurring unexpected costs for inmates with renal failure, Hepatitis C, HIV/AIDS, and cancer. Outsourced inpatient hospital, outpatient hospital, and prescription drug services are the major areas being impacted by these unbudgeted medical conditions.

GOVERNOR ROUNDS' RECOMMENDATION FOR STATE EMPLOYEE COMPENSATION

	<u>GENERAL FUNDS</u>	<u>FEDERAL FUNDS</u>	<u>OTHER FUNDS</u>	<u>TOTAL FUNDS</u>
<p><i>PACE ADJUSTMENT TO JOB WORTH:</i> The Governor is recommending that the Performance and Compensation Equity (PACE) system established in FY1990 be continued and include 2.5% adjustments to employees who are paid under the job-worth of their pay range.</p>	\$ 1,348,248	\$ 829,065	\$ 1,101,997	\$ 3,279,310
<p><i>ACROSS-THE-BOARD INCREASE:</i> The Governor is recommending that all permanent state employees receive a 3% pay increase:</p> <p>Executive Branch</p> <p>Board of Regents</p> <p>Legislative Branch</p> <p>Judicial Branch</p> <p>Subtotal</p>	<p>\$ 3,152,633</p> <p>3,640,061</p> <p>114,792</p> <p>636,655</p> <p><u>\$ 7,544,141</u></p>	<p>\$ 2,651,341</p> <p>806,263</p> <p>0</p> <p>1,858</p> <p><u>\$ 3,459,462</u></p>	<p>\$ 3,874,040</p> <p>2,781,240</p> <p>0</p> <p>18,798</p> <p><u>\$ 6,674,078</u></p>	<p>\$ 9,678,014</p> <p>7,227,564</p> <p>114,792</p> <p>657,311</p> <p><u>\$17,677,681</u></p>
<p><i>HEALTH INSURANCE ADJUSTMENT:</i> The costs associated with the employer-paid portion of the state employee's health insurance plan for FY2005 is projected to increase by 2%.</p>	\$ 491,503	\$ 258,182	\$ 426,561	\$ 1,176,246
<p><i>GRAND TOTAL INCREASE FOR STATE EMPLOYEE COMPENSATION</i></p>	<u>\$ 9,383,892</u>	<u>\$ 4,546,709</u>	<u>\$ 8,202,636</u>	<u>\$22,133,237</u>

GOVERNOR'S FY 2005 GENERAL FUND RECOMMENDATIONS

	<u>FTE EXPANSION/ (REDUCTION)</u>	<u>GENERAL FUND EXPANSION/ (REDUCTION)</u>	<u>TOTAL GENERAL FUND RECOMMENDATION</u>
<i>GENERAL BILL</i>			
Administration (Excluding Sale-Leaseback)	0.0	\$ 1,000,000	\$ 3,690,378
Agriculture	15.0	304,017	5,066,523
Attorney General	1.0	999,580	6,147,479
Corrections	16.5	6,300,026	65,452,292
Education (Excluding State Aid and Postsecondary Education)	4.8	302,788	9,660,447
State Aid to Education	0.0	13,290,992	333,862,513
Postsecondary Vocational Education	0.0	784,181	16,536,507
Environment and Natural Resources	0.0	0	5,667,695
Finance and Management (Excluding Sale-Leaseback)	0.0	0	776,631
Game, Fish, and Parks (Excluding CRP)	0.9	10,000	3,516,487
Gubernatorial Division	(0.7)	670,546	2,765,247
Health	5.0	0	7,907,764
Human Services	10.0	2,831,459	80,333,454
Information and Telecommunications	6.0	0	5,053,800
Labor and Regulation (Includes SD Retirement System)	(1.2)	(13,400)	773,628
Legislature (Includes Health Insurance)	0.0	245,148	7,082,598
Military and Veteran's Affairs	1.0	183,086	4,846,701
Personnel (Excludes Health Insurance and Salary Policy)	(1.0)	0	884,991
Public Safety	0.0	70,873	3,405,151
Public Utilities Commission	0.0	292,181	537,244
Regents (Includes Health Insurance)	137.1	6,172,659	148,052,098
Revenue	(2.5)	0	859,510
School and Public Lands	0.0	2,000	486,032
Secretary of State	0.0	(750)	885,311
Social Services	12.0	20,827,270	195,696,199
State Auditor	0.0	8,696	938,735
State Treasurer (Including Investment Council)	0.0	0	462,621
Tourism & State Development	2.0	4,655,516	10,101,691
Transportation	3.0	0	475,979
Unified Judicial System (Includes Health Insurance)	3.0	1,040,087	27,543,026
Sale-Leaseback	0.0	(640,597)	12,476,348
Conservation Reserve Program	0.0	3,969	1,156,755
Executive Branch Health Insurance	0.0	238,620	238,620
Executive Branch Salary Policy	<u>0.0</u>	<u>4,039,339</u>	<u>4,039,339</u>
TOTAL FY2005 GENERAL BILL RECOMMENDATIONS	<u>211.9</u>	<u>\$ 63,618,286</u>	<u>\$967,379,794</u>
<i>BREAKDOWN</i>			
Executive Branch	71.5	\$ 40,112,966	\$422,080,383
Unified Judicial System and Other Constitutional Offices	3.3	3,257,488	46,848,293
State Aid	0.0	13,290,992	333,862,513
Postsecondary Vocational Education	0.0	784,181	16,536,507
Board of Regents	<u>137.1</u>	<u>6,172,659</u>	<u>148,052,098</u>
TOTAL FY2005 GENERAL BILL RECOMMENDATIONS	<u>211.9</u>	<u>\$ 63,618,286</u>	<u>\$967,379,794</u>

GENERAL FUND CONDITION STATEMENT

	ACTUAL FY2002	ACTUAL FY2003	REVISED FY2004	PROJECTED FY2005
Sales and Use Tax	\$457,950,970	\$475,956,210	\$503,688,444	\$534,957,957
Contractor's Excise Tax	52,737,997	56,136,750	60,069,801	64,024,350
Property Tax Reduction Fund	101,787,076	104,890,557	110,227,042	112,397,859
Bank Franchise Tax	31,274,044	33,196,009	33,662,620	34,275,428
Insurance Company Tax	46,239,092	49,838,203	53,591,463	57,328,530
Inheritance Tax	21,118,943	24,502,910	7,090,000	3,450,000
Other	131,585,212	130,123,837	141,761,418	145,040,545
One-Time Receipts	0	0	27,155,704	7,625,000
Transfer from Budget Reserves	6,641,700	0	0	0
Transfer from Property Tax Reserves	6,641,700	10,474,011	0	16,566,998
Obligated Cash Carried Forward	<u>11,037,698</u>	<u>6,178,570</u>	<u>1,355,714</u>	<u>0</u>
TOTAL RECEIPTS	<u>\$867,014,432</u>	<u>\$891,297,058</u>	<u>\$938,602,206</u>	<u>\$975,666,667</u>
General Bill Excluding State				
Aid to Education	\$534,195,417	\$555,506,920	\$583,189,987	\$633,517,281
State Aid to Education	313,749,129	312,619,482	320,571,521	333,862,513
Special Appropriations	282,187	1,145,162	1,442,093	6,397,156
Emergency Special Appropriations	85,000	12,837,883	27,218,908	0
Continuing Appropriations	<u>1,486,431</u>	<u>1,653,327</u>	<u>1,771,799</u>	<u>1,889,717</u>
TOTAL EXPENDITURES	<u>\$849,798,164</u>	<u>\$883,762,774</u>	<u>\$934,194,307</u>	<u>\$975,666,667</u>
TRANSFERS				
Budget Reserve	\$ 1,561,487	\$ 6,178,570	\$ 1,355,714	\$ 0
Property Tax Reduction Fund	9,476,211	0	0	0
TOTAL TRANSFERS	<u>\$ 11,037,698</u>	<u>\$ 6,178,570</u>	<u>\$ 1,355,714</u>	<u>\$ 0</u>
Beginning Unobligated Cash Balance	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
NET (Revenues Less Expenditures/ Transfers)	<u>6,178,570</u>	<u>1,355,714</u>	<u>3,052,185</u>	<u>0</u>
OBLIGATIONS AGAINST CASH				
Budget Reserve Fund	(6,178,570)	(1,355,714)	0	0
Property Tax Reduction Fund	0	0	0	0
Total Obligations Against Cash	<u>(6,178,570)</u>	<u>(1,355,714)</u>	<u>0</u>	<u>0</u>
ENDING UNOBLIGATED CASH BALANCE	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,052,185</u>	<u>\$ 0</u>

SOURCE: State of South Dakota Bureau of Finance and Management

NOTE: This document was prepared on a cash basis for budgeting purposes and reflects obligations against cash.