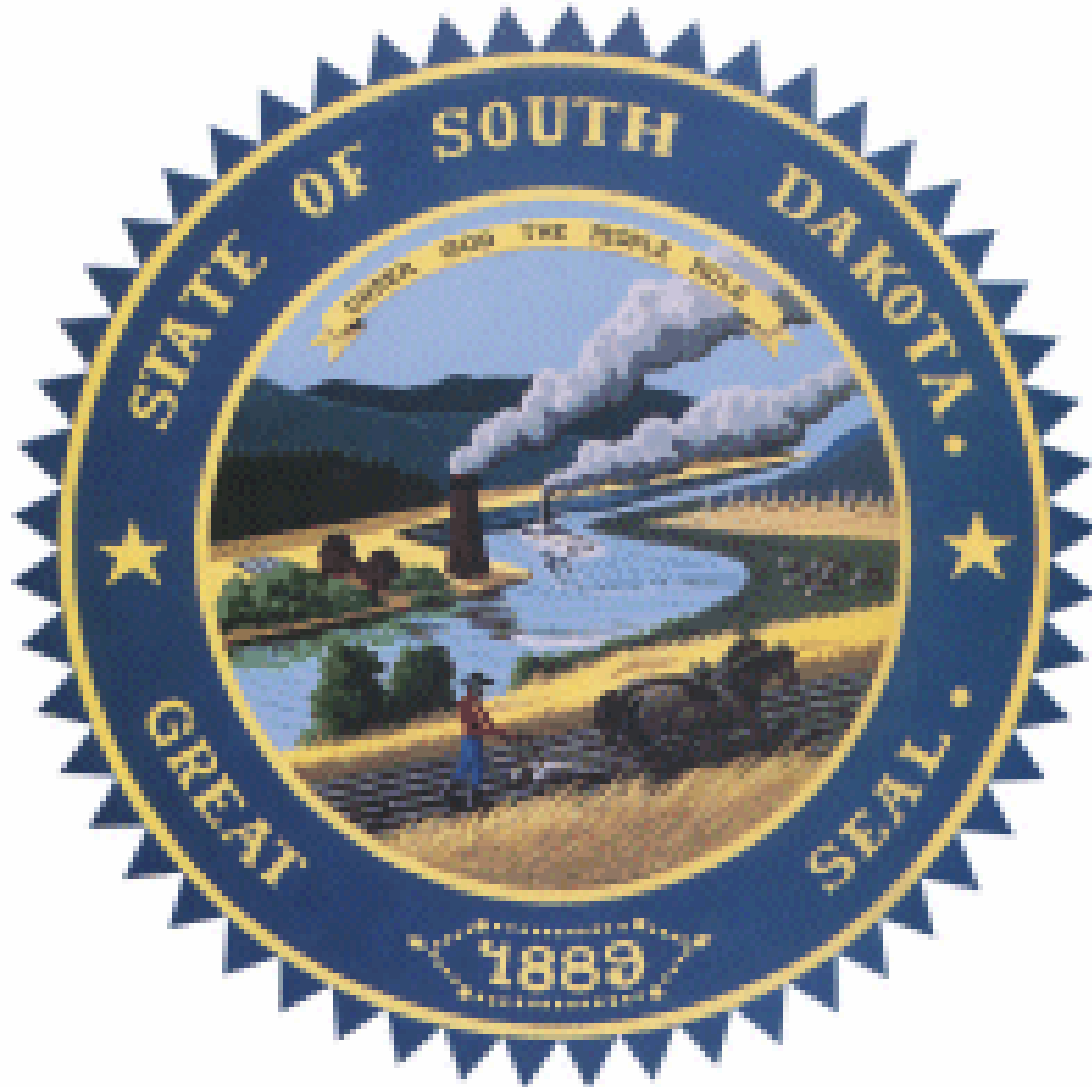


Governor Mike Rounds' FY2006 Budget Address



Budget Highlights

- **Basic Needs Budget**
 - **Educating our Children**
 - **Taking Care of People**
 - **Protecting Society**
- **No New Taxes**
- **Reducing Property Tax Levies**
- **Reducing the Structural Deficit**

Our Biggest Problem: Mandated Expenses

Where Do We Get the Money?

FY2005 & FY2006 Receipts & Forecasts *(in millions)*

	<u>FY2005</u>	<u>FY2006</u>	<u>Change</u>
Sales and Use Tax	\$536.3	\$567.8	+ \$31.5
Video Lottery/Telecom Tax	114.6	117.7	+ 3.1
Contractor's Excise Tax	62.9	66.8	+ 3.8
Insurance Company Tax	53.7	57.2	+ 3.6
Bank Franchise Tax	36.8	37.8	+ 1.0
Other Continuing Receipts	<u>150.9</u>	<u>152.5</u>	<u>+ 1.6</u>
Total Continuing Receipts (+4.7%)	955.2	999.8	+44.6
One-Time Receipts	8.8	0	- 8.8
Total Receipts	<u>964.0</u>	<u>999.8</u>	<u>+ 35.8</u>
Transfer from Reserves	<u>22.5</u>	<u>17.1</u>	<u>- 5.4</u>
Total General Fund Revenues	986.5	1,016.9	+ 30.4

Bottom Line for FY2006

(in millions)

Revenues

Sales and Use Tax--	\$567.8
Video Lottery & Telecom. Tax--	\$117.7
Contractor's Excise Tax--	\$66.8
Insurance Company Tax--	\$57.2
Other Continuing Receipts--	<u>\$190.2</u>
Total Receipts--	\$999.8

Expenses

Educating Children--	\$513.8
Taking Care of People--	\$309.1
Protecting the Public--	\$101.0
Rest of State Government--	\$ 67.0
Sale/Leaseback, CRP, Bonds--	\$ 17.4
Special/Contin. Appropriations--	<u>\$ 8.6</u>
Total Expenses--	\$1,016.9

\$999.8
- \$1,016.9
- \$17.1

Reserves (as of Dec. 7)

Today's Starting Point:

Budget Reserve Fund	\$41,862,883
Property Tax Reduction Fund	<u>\$116,155,529</u>
	\$158,018,412

Reserves Uses:

FY2005 Projected Shortfall	- \$22,547,536
FY2006 Projected Shortfall	- <u>\$17,142,629</u>
	- \$39,690,165
Projected Remaining (06/30/06)	\$118,328,247

Our Goal to Eliminate the Structural Deficit

	<u>FY05</u>	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>
Beginning Reserves	\$158.0	\$135.5	\$118.3	\$109.7
Structural Deficit	-\$22.5	-\$17.1	-\$8.6	\$0.0
Est. Year-end Reserves	\$135.5	\$118.3	\$109.7	\$109.7

General Funds Major Spending Changes For FY2006

Taking Care of People	+ \$25,208,149
Protecting Society	+ 4,895,294
Education	+ 11,374,517
Rest of State Government	+ 880,368
FY05 Education Carryover	- <u>5,053,144</u>
Total Changes	+\$37,305,184

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“Mandated” Spending Increases for FY2006

Taking care of People

	<u>General Funds</u>
Medicaid Growth & Utilization + CHIP	\$ 9,389,715
Cost of Medicaid Inflation	\$ 6,502,910
Federal Match Rate Decrease (FMAP)	\$ 3,634,139
Taking Care of Kids and Elderly	\$ 1,192,784
Remainder of Mandatory Increases	<u>\$ 2,285,910</u>
TOTAL MANDATED INCREASES--	\$23,005,458

These Mandates represent over 91% of the Taking Care of People increase

“Discretionary” Spending Increases

Taking care of People

	<u>General Funds</u>
DSS Inflation	\$1,935,490
DHS Inflation	\$ 605,910
Taking Care of People Sal. Policy	\$1,716,118
Taking Care of People Misc. Inc.	\$45,782
DSS Cost Containment	<u>-\$2,100,609</u>
TOTAL DISCRETIONARY INCREASES--	\$2,202,691
TOTAL MANDATED INCREASES--	<u>\$23,005,458</u>
TOTAL TAKING CARE OF PEOPLE--	\$25,208,149

What is Medicaid?

- **Title XIX is a Federal Entitlement program created in 1965 as part of the Social Security Act.**
- **It provides comprehensive healthcare to those in poverty such as the disabled, children, and the elderly.**
- **In FY2004, Medicaid and SCHIP covered 122,000 different South Dakotans, of which 80,000 were children.**
- **Safety net/funding source for individuals who have nowhere else to turn that have reached insurance limitations or those with a catastrophic illnesses such as cancer, hemophilia, premature babies, nursing home care. It is the largest payer of healthcare.**
- **1 of 8 South Dakotans and 50% of all children under one are on Medicaid (increasing \$21.9 million next year).**

Why Do Medicaid Expenses Go Up?

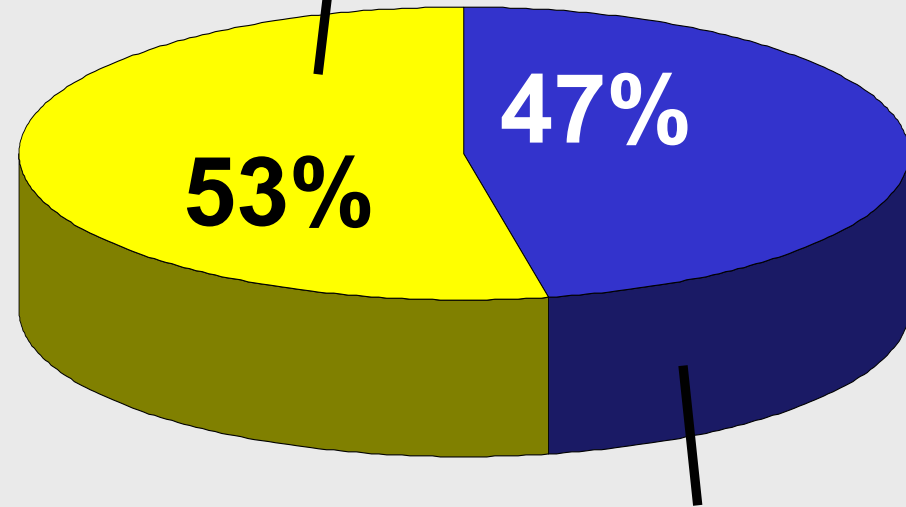
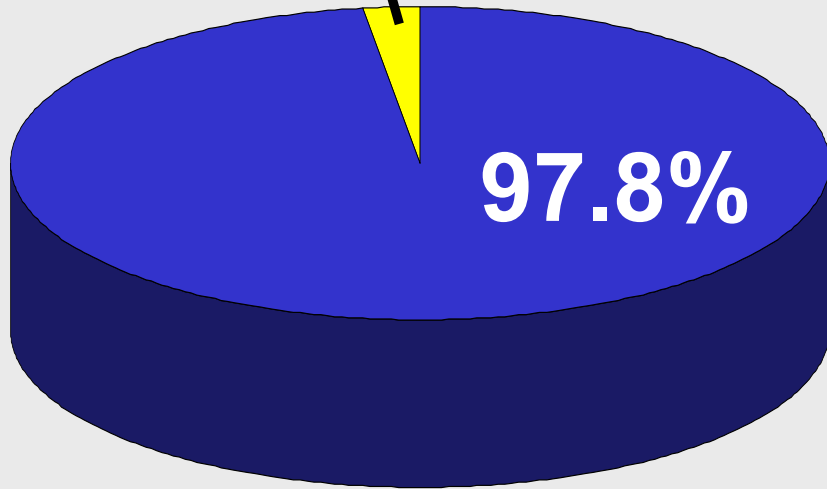
Inpatient Hospital Costs = \$80 million

..for Catastrophic Illnesses: Cancer patients, Premature babies, Hemophiliacs, and Accident Victims

**2.2% or
276 people**

=

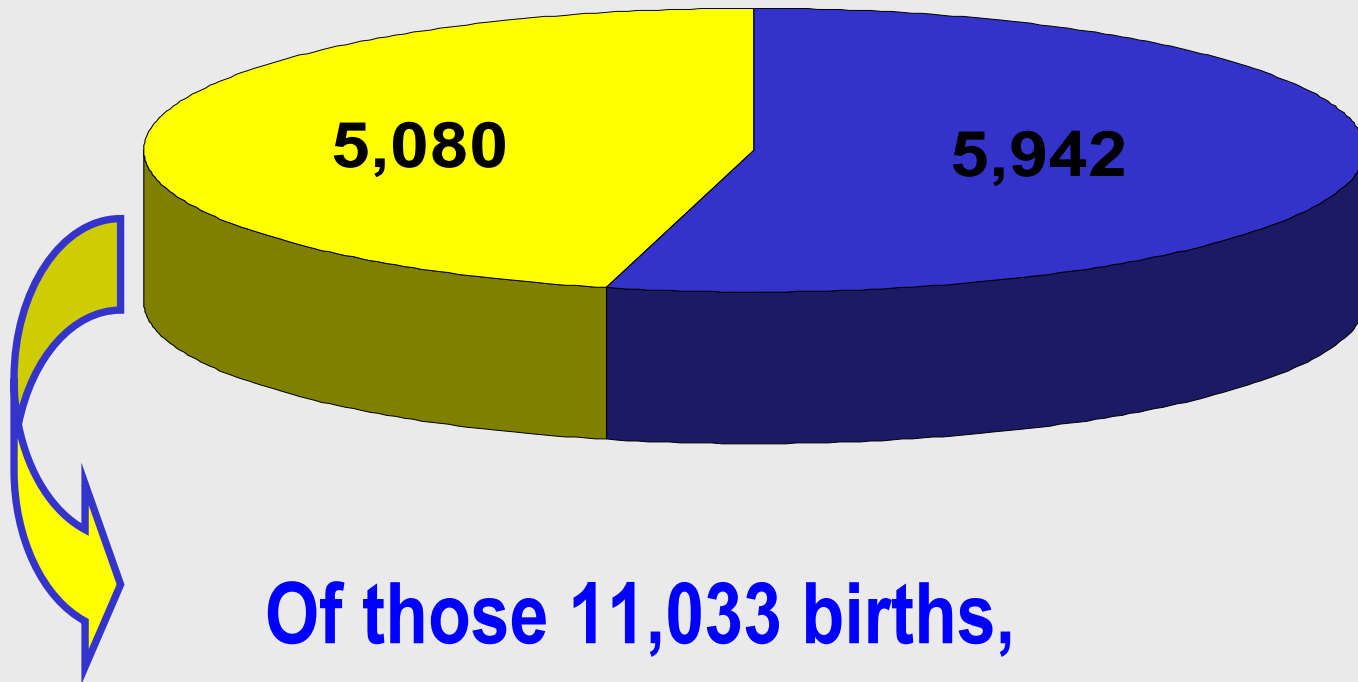
\$42 million



All the rest (12,290 people) = \$40 million

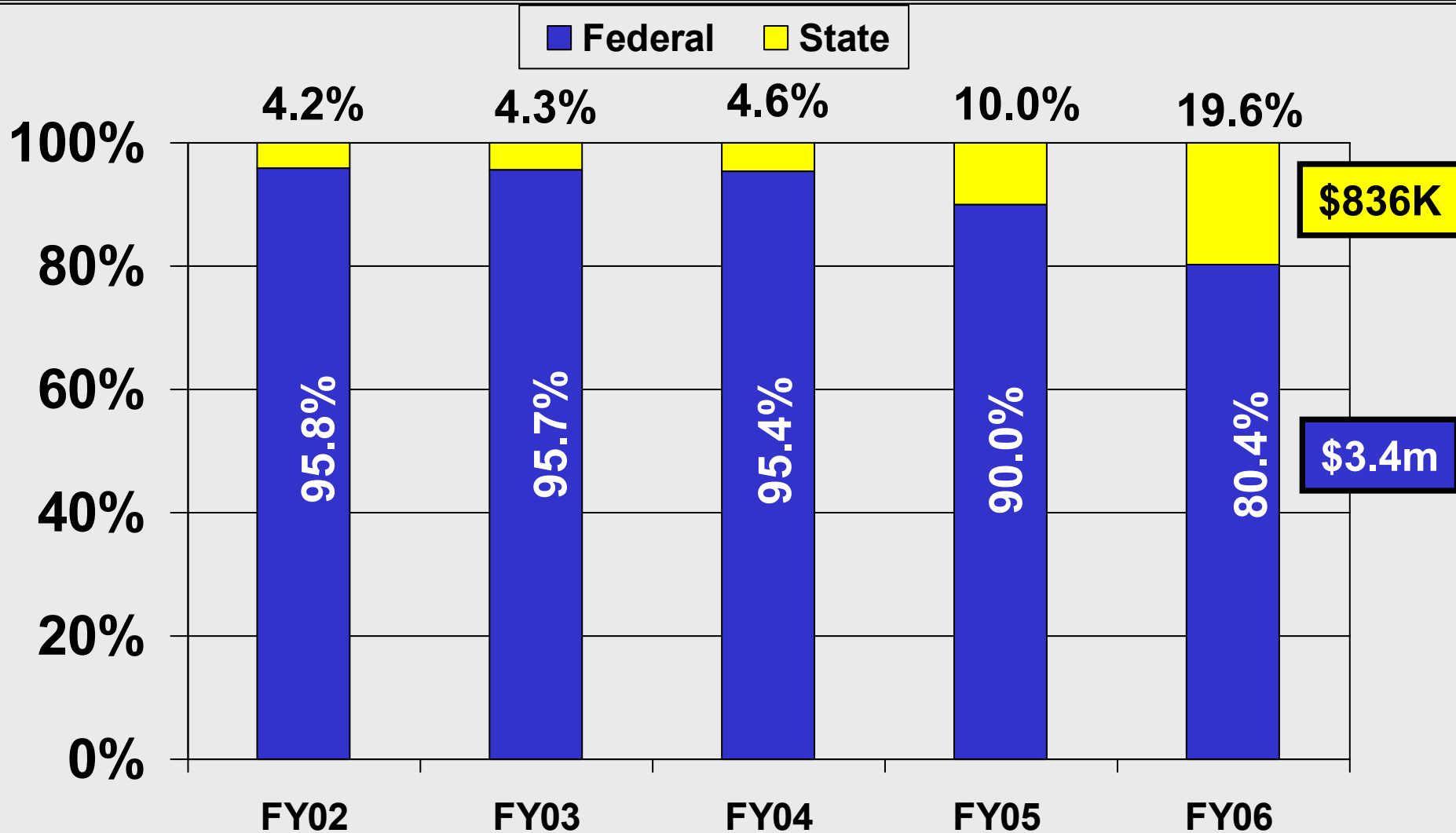
Why Do Our Medicaid Expenses Go Up?

Last year, we had 11,033 total births in South Dakota



Of those 11,033 births,
5,080 of them, or **46%**
were covered under Medicaid in their 1st year.

The Federal Government's Declining Role in Elderly Nutrition



Affects 1,522,846 meals served at 227 sites in 183 communities and over 4,000 homes in SD each year.

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“Mandated” Spending Increases for FY2006

Protecting Society

General Funds

Staffing of New DOC Units	\$ 1,589,163
UJS Budget Increase	\$ 485,487
Loss of JAIBG Grant	\$ 391,920
Correctional Health Care	\$ 381,851
Alternative Placements	\$ 296,755
Remainder of Mandatory Increases	<u>\$ 400,550</u>
TOTAL MANDATED INCREASES--	\$ 3,545,726

These Mandates represent over 72% of the Protecting Society increase

“Discretionary” Spending Increases

Protecting Society

	<u>General Funds</u>
Protecting Society Sal. Policy	\$1,377,064
UJS Sal. Policy	\$ 844,027
Attorney General Discretionary	\$ 395,377
DOC Cuts	<u>-\$1,266,900</u>
TOTAL DISCRETIONARY INCREASES--	\$ 1,349,568
TOTAL MANDATORY INCREASES--	<u>\$3,545,726</u>
TOTAL PROTECTING SOCIETY--	\$4,895,294

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“Mandated” Spending Increases for FY2006

Educating Our Children:

State Aid to General Education **\$1,964,535**
(Statutory 2% increase)

State Aid to Special Education **\$500,000**
(Statutory 2% increase)

TOTAL MANDATED INCREASES-- **\$2,464,535**

These Mandates represent only 22% of the Education increase

“Discretionary” Spending Increases

Educating Our Children:

BOR Salary Policy	\$4,089,714
Declining Enrollment	\$2,190,603
Additional Formula Funding	\$1,310,813
Postsecondary Institutes	\$ 423,926
Ph.D. Programs	\$1,685,240
Utility Inc. for Board of Regents	\$ 647,329

Miscellaneous -\$ 1,437,643

TOTAL DISCRETIONARY INCREASES-- \$ 8,909,982

TOTAL MANDATED INCREASES-- \$ 2,464,535

TOTAL EDUCATION INCREASES-- \$11,374,517

K-12 Education Formula Funding Increase

Statutory 2.0% Formula Increase-- + \$2.0 Million

(0.6%) Declining Enrollment-- + \$2.2 Million

(0.3%) Additional State Aid-- + \$1.3 Million

Special Ed. Formula Increase-- + \$0.5 Million

***Total Formula Base Funding Increase* → + \$ 6.0 Million**

Ongoing General Education Formula = +2.9%

Projected Levies Decreases

Current Levies

<u>Ag</u>	<u>Non-Ag Z</u>	<u>OO</u>	<u>Commercial</u>
\$3.32	\$4.32	\$5.34	\$11.45

Next Year's Levies

<u>Ag</u>	<u>Non-Ag Z</u>	<u>OO</u>	<u>Commercial</u>
\$3.16	\$4.16	\$5.09	\$10.90

Change

<u>Ag</u>	<u>Non-Ag Z</u>	<u>OO</u>	<u>Commercial</u>
-\$0.16	-\$0.16	-\$0.25	-\$0.55

K-12 Education Per Student Allocation Increases

	<u>FY2003</u>	<u>FY2004</u>	<u>FY2005</u>	<u>FY2006</u>
<i>Base Per Student Allocation</i>	\$3,802.30	\$3,889.19	\$3,967.88	\$4,086.56
+ Statutory Formula Increase	+86.89	+ 58.34	+87.29	+81.73
<i>Per Student Allocation</i>	\$3,889.19	\$3,947.53	\$4,055.17	\$4,168.29
+ Declining Enrollment	+0.00	+ 20.35	+31.39	+23.01
<i>Per Student Allocation</i>	\$3,889.19	\$3,967.88	\$4,086.56	\$4,191.30
Additional NEW Ongoing Allocation	+0.00	+0.00	+0.00	+13.96
<i>Total Ongoing Per Student Allocation</i>	\$3,889.19	\$3,967.88	\$4,086.56	\$4,205.26
<i>Increase from Previous Year--</i>	+\$86.89	+\$78.69	+\$118.68	+\$118.70
Previous One-Time Funds No Longer Available (\$7,307,896)	+0.00	+58.55	+58.88	+0.00
Total Funding per student	\$3,889.19	\$4,026.43	\$4,145.44	\$4,205.26

**Total Per Student Increase Proposed for FY2006 in
Ongoing Allocation is the Highest Ever**

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Education Enhancement Proposal

**FY2006 Education Enhancement
Trust Fund Earnings to distribute
\$3.0 Million
(ESA's are now funded in the base)**

**FY2005 One-Time
Dakota Cement
Trust Earnings
*\$0.6 Million***

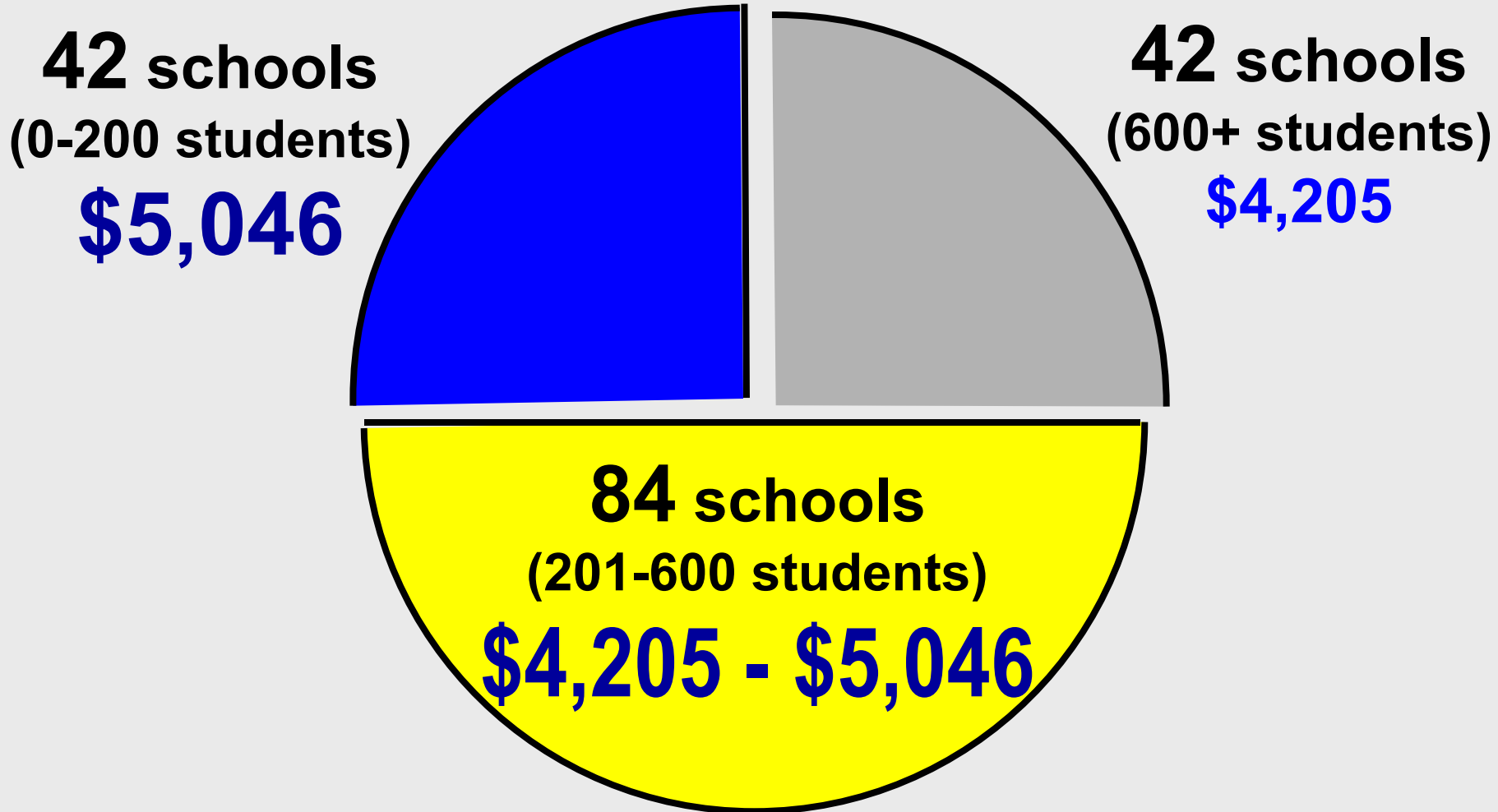
**FY2006 One-Time
Anticipated Dakota
Cement Trust Earnings
*\$0.5 Million***

Grand Total -- *\$4.1 Million*

State helps Schools Claim \$5 million in Medicaid Funds

- New initiative was implemented in the 2004-2005 school year.**
- State has set up a process which will allow administrative activities to qualify for medicaid. School districts will then be reimbursed for allowable administrative costs**
- To date 69 districts are participating, equating to about 70% of K-12 students in the state**
- Will result in an estimated \$5 million in additional on-going revenue for school districts.**

126 Districts (75%) will get MORE than the basic \$4,205 per student.



Our Priorities

	<u>Mandatory</u>	<u>Discretionary</u>	<u>Total</u>
Taking Care of People	\$23.0m	\$ 2.2m	\$ 25.2m
Protecting Society	\$ 3.5m	\$ 1.4m	\$ 4.9m
Education	<u>\$ 2.5 m</u>	<u>\$ 8.9m</u>	<u>\$ 11.4m</u>
Total	\$29.0 m	\$12.5m	\$41.5m

TOTAL Increases In Three Main Areas \$41.5 m
Total Budget Increase for FY2006 \$37.3 m

These three areas represent over 111% of our total budget increase

General Funds Major Spending Changes For FY2006

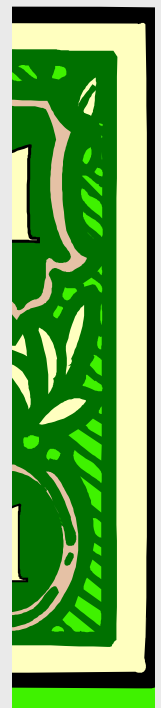
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All the rest of State Government

	<u>Total</u>
Military & Veterans' Affairs	\$402,813
Other Elected Officials	\$200,001
Environment and Natural Resources	\$148,732
Agriculture	\$142,872
Revenue	\$130,025
Tourism & State Development	\$127,911
Game, Fish, & Parks	\$104,267
Labor	\$ 33,872
Transportation	\$ 8,066
Executive Management	-\$418,191
Total	<u>\$880,368</u>

This represents only 2% of our total budget increase

What your tax dollar pays for



51¢

Education

- K-12
- Higher Ed.
- Tech Schools

31¢

Social/Human Svcs Programs

- Medicaid/care
- State Hospital
- TANF

11¢

Protecting the Public

- DOC
- UJS
- HP
- AG

7¢

The rest of State Govt

- 13 Dept's
- 4 Bureau's
- Legislature
- Governor

As student populations DECREASE and elderly populations who need medical care INCREASE, who will get the limited amount of tax dollars?

FY2006 FTE Increases

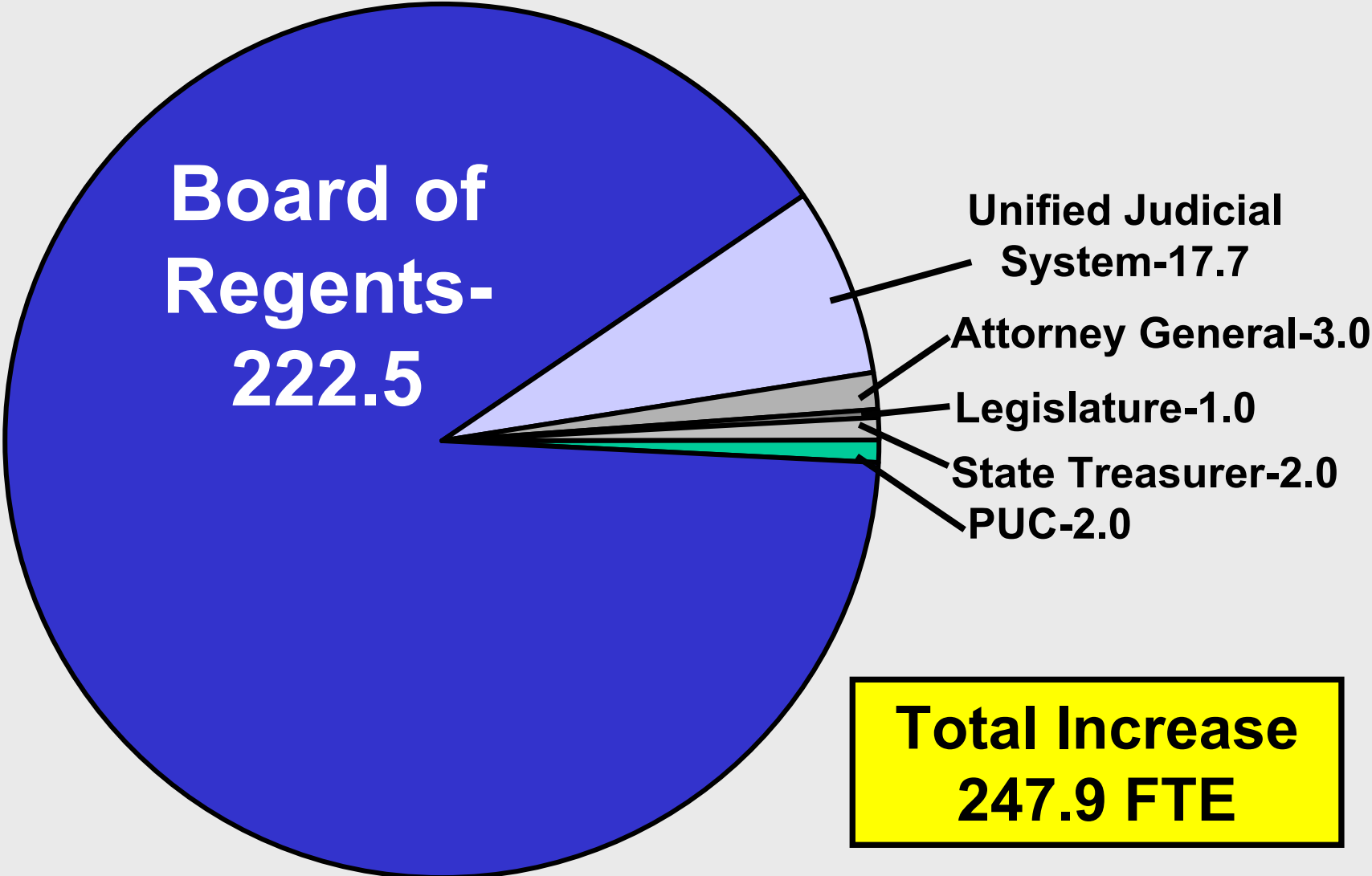
Outside Control of Governor--	247.9
Under Control of Governor--	111.3
Mandatory--	60.8
Discretionary--	50.5
	<hr/>
Total--	359.2

3 Year average under control of Governor = 0.9% growth

FTE's Under Governor's Control, Where are they?

	<u>Mandatory</u>	<u>Discretionary</u>
Corrections	43.3	(7.0)
Social Services	15.0	10.0
Game, Fish & Parks		12.3
Agriculture		10.0
Military & Vet		8.7
Health		5.0
Public Safety		5.0
Revenue & Reg		3.0
Human Services	2.5	
Education		2.0
Tourism & State Dev.		1.0
The Bureau's		0.5
Total	<u>60.8</u>	<u>50.5</u>

FY2006 FTE Increases – Outside of the Governor’s Control



Where Does It Make Sense to Add FTE?

Department of Health

- By increasing 5.0 FTE the Department is able to save \$109,833 of general funds

Department of Social Services

- By increasing 4.0 FTE, the Department is able to save \$111,182 of general funds (\$415,712 total funds)
- An additional \$300,000 of pass-through funding will be saved in the Food Stamp Program

Department of Human Services

- By increasing 2.5 FTE, the Department is able to save \$172,734 of total funds due to reduced over-time costs for HSC nurses

FY2005 Emergency Special Appropriations

General Funds:

Fire Suppression Fund \$2,118,491

BOA Litigation Fund \$1,280,000

School District Consolidation Incentives \$933,364

State Fair \$653,944

Cement Plant Trust Earnings for
Education Enhancement \$633,125

*Total General Funds Emergency
Special Appropriations-- \$5,618,924*

FY2006 Special Appropriations

General Funds:

Sales Tax on Food Refund Program	\$5,000,000
Tax Refunds for the Elderly & Disabled	\$1,000,000
Cement Plant Trust Earnings for Education Enhancement	<u>\$ 530,000</u>

Total General Funds

Special Appropriations: \$6,530,000

State Employee Compensation

- **3% Salary Policy**
- **2.5% Movement to Job Worth**
- **0% Increase for employer paid health insurance costs**

How have we been able to successfully manage health insurance costs?

- Plan Management

Implemented programs and design changes will have saved an estimated \$67 million cumulatively between FY00 and FY06

- Provider and Employee Participation

Members participating in Disease Management programs have avoided \$16 million in health care costs

- Cost Sharing

Members currently contribute a significant portion of their total plan costs through higher deductibles and copays
Employee premiums and share of claims amount to 37% of total plan costs

Government Efficiency Examples

✓ Correctional Health

- By reducing temporary nursing contracts and adding 5.0 FTE, the State saves \$109,833 in general funds

✓ State Aircraft

- More efficient utilization of State Aircraft has reduced employee travel time by 7,703 hours. Since January the decreased travel time equals savings of \$209,981 and the equivalent of 3.7 FTE

✓ Not opening the Permanent RCTU

- Inmate numbers do not warrant opening a permanent RCTU at this time. Cost avoidance to the State is \$180,648 in total funds and 6.0 FTE

✓ DSS cost containment strategies

- Initiatives in disease management, prescription drugs, outpatient services, and out-of-state providers will save \$1,821,225 in general funds and over \$5.25 million in total funds.

The Budget

FY2006

General Funds -	\$1,016.9 million
Federal Funds -	\$1,298.3 million
Other Funds -	\$ 750.0 million
<hr/>	
Total Budget -	\$ 3.1 Billion

Continuing The Goal

Reducing the Structural Deficit:

In FY2006, the Structural Deficit will be reduced from:

\$28.5 million in 04

to \$22.5 million in 05

to \$17.1 million in 06.

Budget Highlights

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Our Biggest Problem: Mandated Expenses

***“Working together,
we’ll make***

***South Dakota even
better!”***