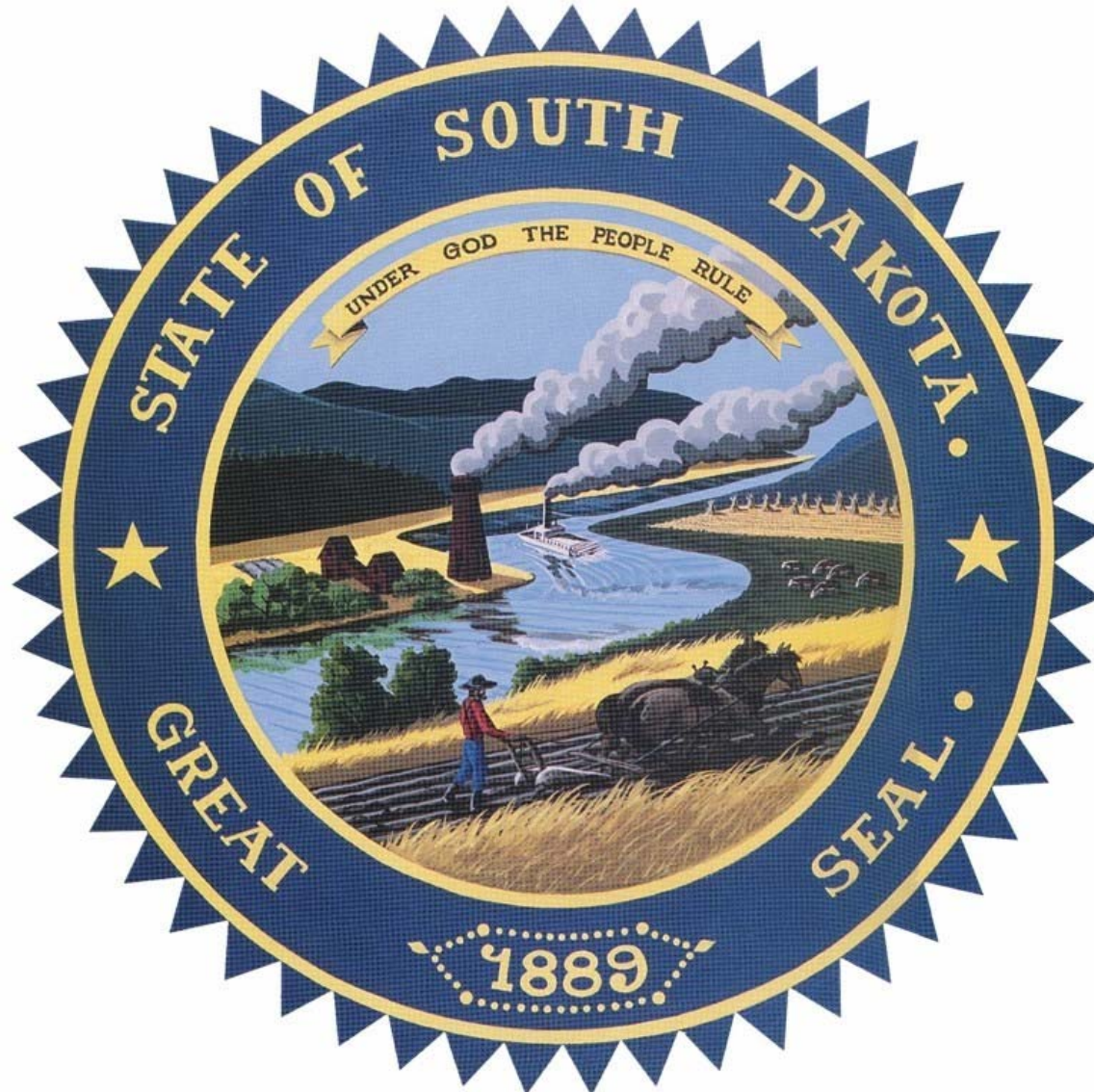


# Governor Mike Rounds' FY2007 Budget Address



# Budget Highlights

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

# An Improving Economy

---

## Why??

- ✓ **Healthy Consumer Demand**
- ✓ **Strong Employment Growth**
- ✓ **Stability in Ag. Sector**
- ✓ **Investments in Research and Economic Development are starting to pay dividends (2010 Initiative)**
- ✓ **Continued Stability of Tax Base**

**Risks: Energy Costs, Interest Rates, Next Farm Bill, Weather...**

# 2010 Initiative Results so far

---

- ✓ In 16 months, the state's \$2.8M investment in 4 Research Centers has had a \$21.4M economic impact.
- ✓ Halfway to Goal #2 of \$10 billion. From 2001 to 2004 GSP increased \$5.3 billion.
- ✓ Visitor spending = a record high \$752.2 million last year, an increase of \$54.2 million
  - ✓ 2004 growth = 7.8%. This was 1% higher than avg. growth rate since 1997.

# Where Do We Get the Money?

## FY2006 & FY2007 Receipts & Forecasts *(in millions)*

	<u>FY2006</u>	<u>FY2007</u>	<u>Change</u>
Sales and Use Tax	\$568.5	\$600.3	+ \$31.7
Video Lottery/Telecom Tax	116.7	119.2	+ 2.5
Contractor's Excise Tax	71.7	75.9	+ 4.2
Insurance Company Tax	59.9	64.6	+ 4.7
Bank Franchise Tax	44.8	41.1	- 3.7
Other Continuing Receipts	<u>154.0</u>	<u>158.2</u>	<u>+ 4.2</u>
Total Continuing Receipts (+4.3%)	1,015.6	1,059.3	+ 43.7
One-Time Receipts	3.1	0	- 3.1
Total Receipts	<u>1,018.8</u>	<u>1,059.3</u>	<u>+ 40.6</u>
Transfer from Reserves	<u>26.2</u>	<u>5.3</u>	<u>- 20.9</u>
Total General Fund Revenues	1,044.9	1,064.6	+ 19.7

# Bottom Line for FY2007

(in millions)

## Revenues

Sales and Use Tax--	\$600.3
Video Lottery & Telecom. Tax--	\$119.2
Contractor's Excise Tax--	\$75.9
Insurance Company Tax--	\$64.6
Other Continuing Receipts--	<u>\$199.3</u>
Total Receipts--	<b>\$1,059.3</b>

## Expenses

Educating Children--	\$525.4
Taking Care of People--	\$344.1
Protecting the Public--	\$112.6
Rest of State Government--	\$ 58.8
Sale/Leaseback, CRP, Bonds--	\$ 16.8
Special/Contin. Appropriations--	<u>\$ 6.9</u>
Total Expenses--	<b>\$1,064.6</b>

**\$1,059.3**  
**- \$1,064.6**  
**- \$5.3**

# Reserves (as of Dec. 6)

---

## Today's Starting Point:

Budget Reserve Fund	\$42,682,740
Property Tax Reduction Fund	<u>\$91,577,110</u>
	\$134,259,850

## Reserves Uses:

Reserves needed in FY2006	- \$26,157,064
Reserves needed in FY2007	- <u>\$5,302,735</u>
	- \$31,459,799

**Projected Remaining (06/30/07) → \$102,800,051**

# Our Use of Reserves vs. Raising Taxes

(in millions)

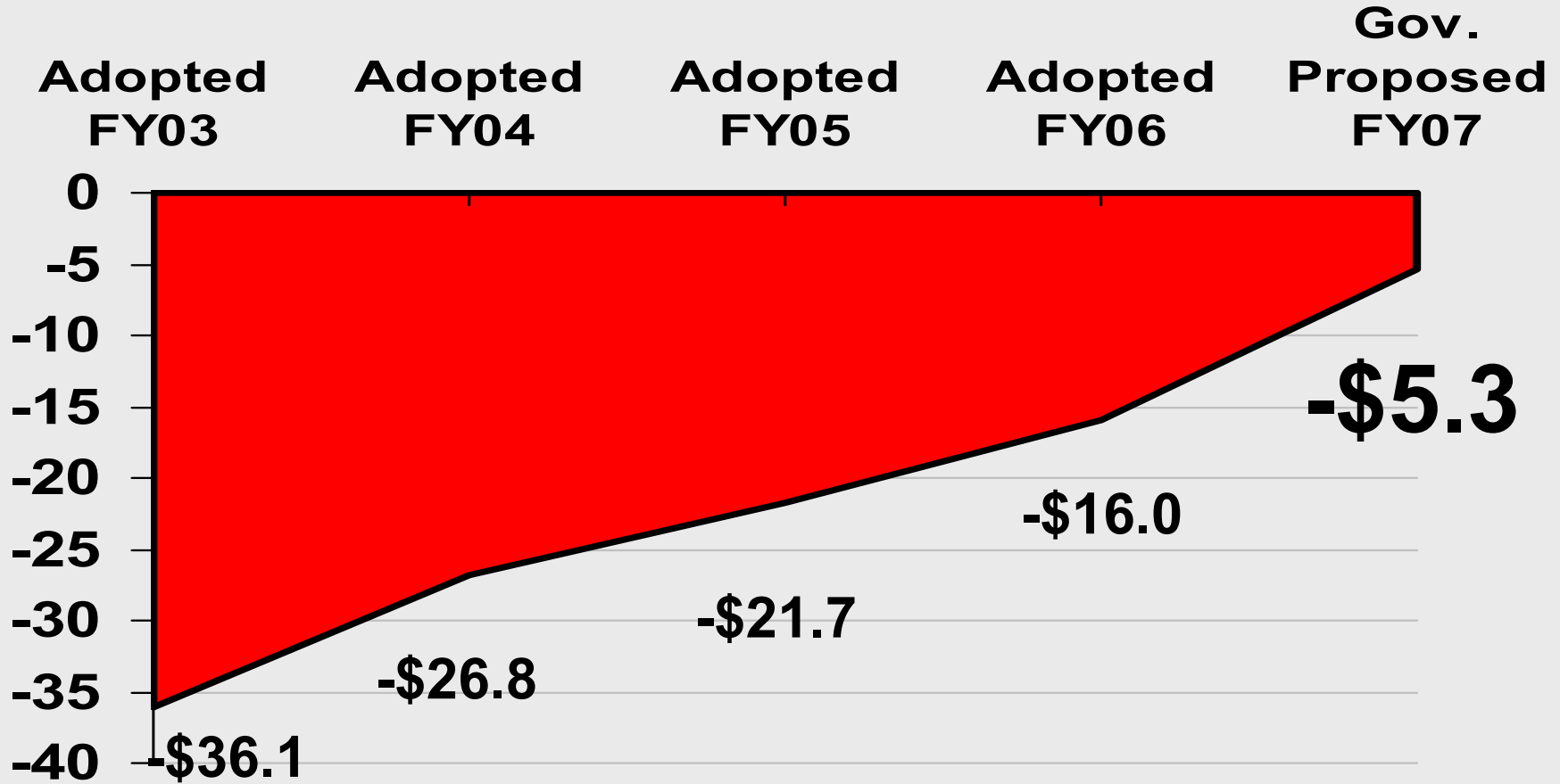
	<u>FY04</u>	<u>FY05</u>	<u>FY06</u>	<u>FY07</u>
Beginning Reserves	106.5	158.0	134.3	108.1
Transfer from Reserves	-14.8	-23.8	-26.2*	-5.3
Addition to Reserves	66.3	0.0	0.0	0.0
Year-end Reserves	158.0	134.3	108.1	102.8

\*(Includes Homestake Special)

The reserve fund balance is nearly the same as it was 4 years ago



# Our Goal to Eliminate the Structural Deficit (in millions)



**We are still on track to manage our way out of the structural deficit by Fiscal Year 2008**

# General Funds Major Spending Changes For FY 2007

---

<b>Taking Care of People</b>	<b>+ \$27,502,829</b>
<b>Protecting Society</b>	<b>+ \$ 7,680,369</b>
<b>Education</b>	<b>+ \$18,758,443</b>
<b>Rest of State Government</b>	<b>+ \$ 1,182,036</b>
<b>FY06 Education Carryover</b>	<b>- \$ 6,115,376</b>
	<hr/>
<b>Total Changes</b>	<b>+\$49,008,301</b>

# General Funds Major Spending Changes For FY2007

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	<hr/>
<b>Total Changes</b>	<b>+\$49,008,301</b>

# Spending Increases for FY2007

## Taking Care of People

---

	<u>General Funds</u>
Federal Match Rate Decrease (FMAP) +	\$ 11,114,572
Cost of Provider Inflation @ 3% +	\$10,751,720
Medicaid Growth & Utilization + CHIP +	\$ 3,322,793
Care of Kids, Disabled, and Elderly +	\$ 1,727,450
All the Rest +	<u>\$ 586,294</u>
<b>TOTAL INCREASES--</b> +	<b>\$27,502,829</b>

# Federal Medical Assistance Percentage (FMAP)

## Current Match Rate (FY06):

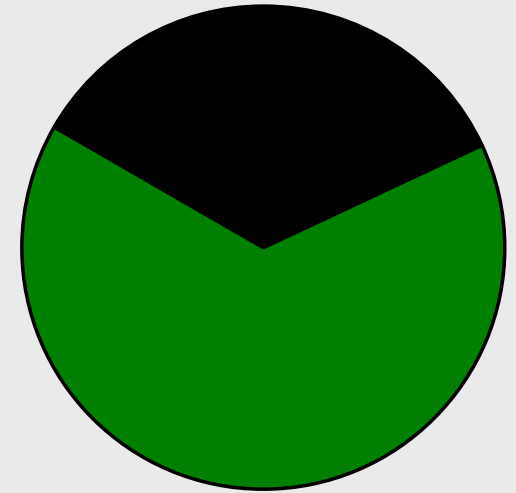
**34.69% State Share**

**65.31% Federal Share**

## Next Year's Match Rate (FY07):

**36.54% State Share**

**63.46% Federal Share**



**36.54% -- 34.69% = 1.85% Increase in Total State Costs**

**Difference: State bears 1.85% increase & Feds  
enjoy 1.85% decrease in total medicaid costs  
= \$11,114,572 in general funds.**

# Provider Inflation

(increases for rates of care paid by the state)

---

- **Current Forecast for inflation = 1.6%**
- **Funding for inflation in this budget = 3.0%**
- **Total 3% Cost = \$10,751,720 General Funds**  
**\$27,860,607 Total Funds**

## What will this do?

- **Preserve access to health care, especially in rural areas**
- **Avoid cost shifts to private pay individuals**
- **Helps to maintain critical Medicaid providers**

# General Funds Major Spending Changes For FY2007

---

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<b>Protecting Society</b>	<b>+ \$ 7,680,369</b>
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	<hr/>
<b>Total Changes</b>	<b>+\$49,008,301</b>

# Spending Increases for FY2007

## Protecting Society

---

	<u>General Funds</u>
Lost Federal Funding (Byrne) +	\$ 1,043,998
New DCI building (bond pmt & space) +	\$ 1,018,016
Correctional Health Care +	\$ 1,008,900
Unit D staffing requirements +	\$ 917,320
UJS budget increases +	\$ 570,217
UJS, ATG, DOC, & DPS Empl. Comp. +	\$ 2,949,981
Rest of Increases +	<u>\$ 171,937</u>
<b>TOTAL INCREASES--</b>	<b>\$ 7,680,369</b>



# General Funds Major Spending Changes For FY2007

---

Taking Care of People	+ \$27,502,829
Protecting Society	+ \$ 7,680,369
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	<hr/>
<b>Total Changes</b>	<b>+\$49,008,301</b>

# Spending Increases for FY2007

## Education

---

	<u>General Funds</u>
K-12 Formula Funding	+ \$ 6,115,376
Other K-12 Ongoing Funding	+ \$ 3,683,577
Technical Schools	+ \$ 1,116,103
Higher Education Research	+ \$ 2,813,060
BOR Employee Compensation	+ \$ 4,627,268
Rest of Increases	+ \$ 403,059
<b>TOTAL INCREASES--</b>	<b>+ \$18,758,443</b>

# K-12 Education Funding For FY07

Ongoing 3.0% Formula Increase--	+	\$6.1 Million
Ongoing 2010E School Efficiencies Program--	+	\$3.5 Million
Other Ongoing K-12 Education Funding--	+	\$0.2 Million
<b>Ongoing K-12 Total</b>	<b>=</b>	<b>\$9.8 Million</b>

One-Time 2010E Technology Initiative--	+	\$13.0 Million
One-Time K-12 Schools Energy Relief--	+	\$2.0 Million
<b>One-Time K-12 Total</b>	<b>=</b>	<b>15.0 Million</b>

***Grand Total = + \$ 24.8 Million***

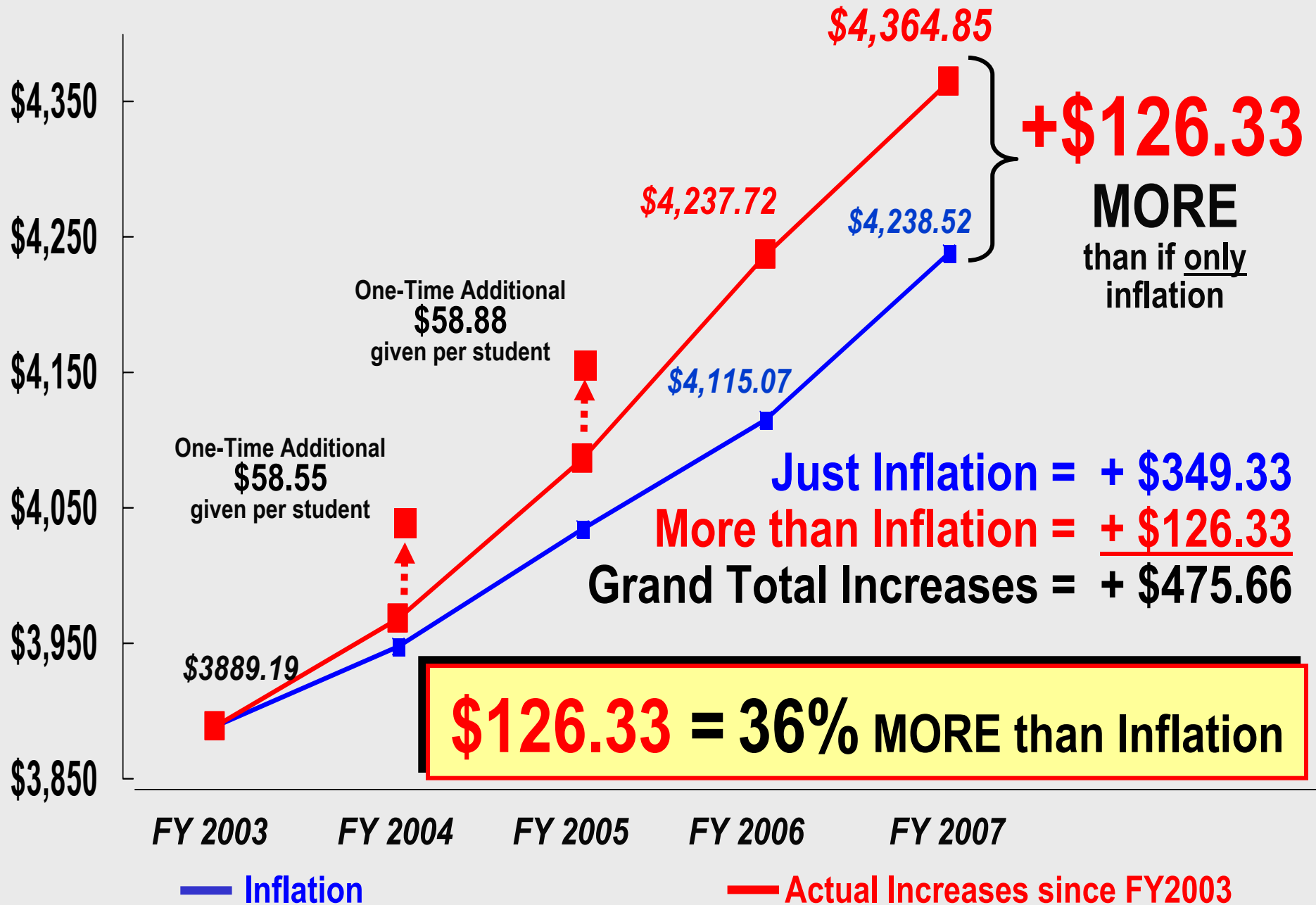
# K-12 Education Per Student Allocation Increases

	<u>FY2004</u>	<u>FY2005</u>	<u>FY2006</u>	<u>FY2007</u>
<i>Base Per Student Allocation</i>	\$3,889.19	\$3,967.88	\$4,086.56	\$4,237.72
+ Statutory Formula Increase	+ 58.34	+87.29	+81.73	+127.13
<i>Per Student Allocation</i>	\$3,947.53	\$4,055.17	\$4,168.29	\$4,364.85
+ Declining Enrollment	+ 20.35	+31.39	+23.01	+0.00
<i>Per Student Allocation</i>	\$3,967.88	\$4,086.56	\$4,191.30	\$4,364.85
Additional NEW Ongoing Allocation	+0.00	+0.00	+46.42	+0.00
<i>Total Ongoing Per Student Allocation</i>	\$3,967.88	\$4,086.56	\$4,237.72	\$4,364.85
<i>Increase from Previous Year---</i>	<b>+\$78.69</b>	<b>+\$118.68</b>	<b>+\$151.16</b>	<b>+\$127.13</b>
Previous One-Time Funds No Longer Available (\$7,307,896)	+58.55	+58.88	+0.00	+0.00
<b>Total Funding per student</b>	<b>\$4,026.43</b>	<b>\$4,145.44</b>	<b>\$4,237.72</b>	<b>\$4,364.85</b>

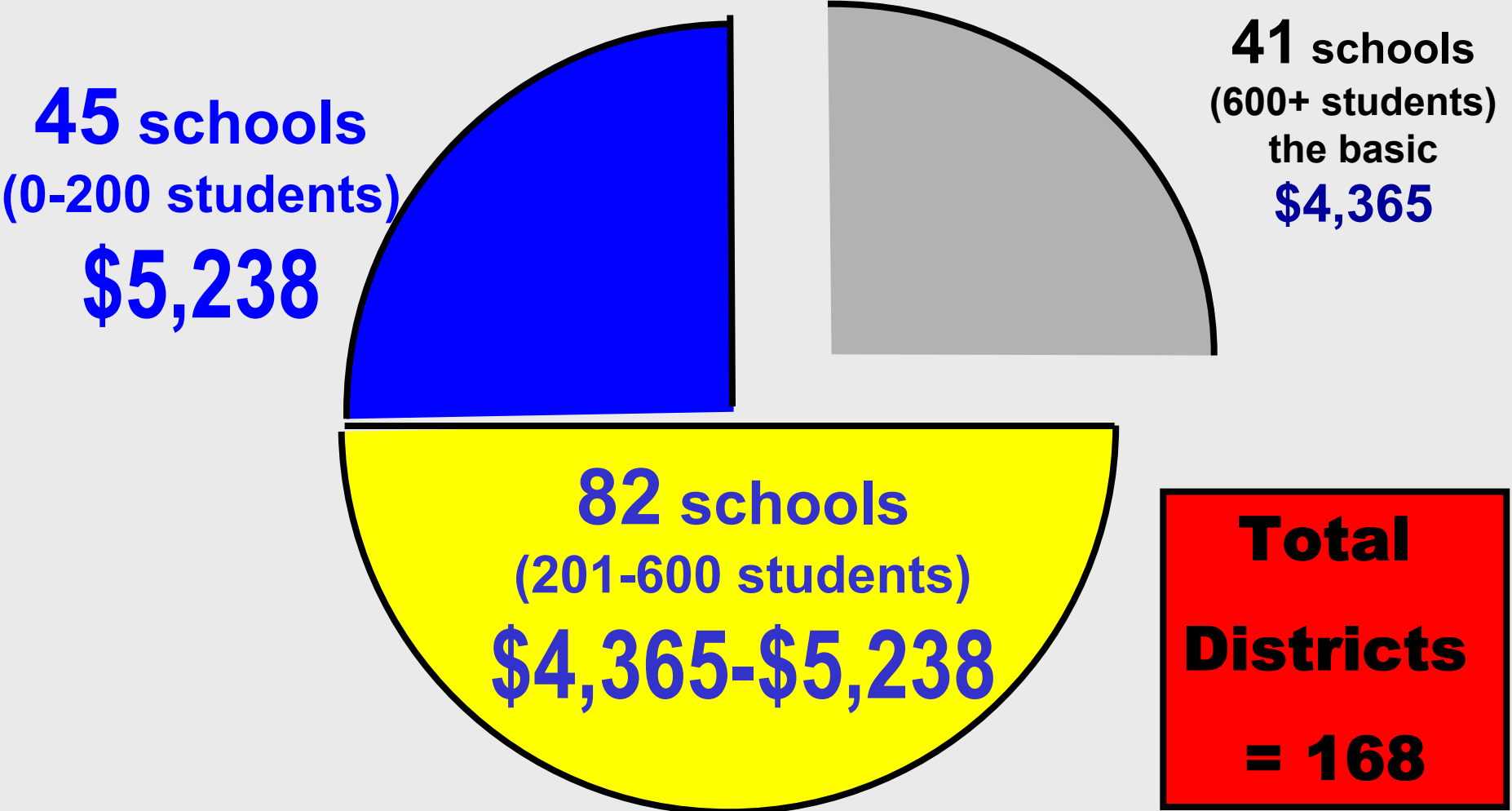
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# Per Student Increases in State Aid to Local Schools



# 127 Districts (76%) will get MORE than the basic \$4,365 per student.



# Projected Levies Decreases

(Based on most recent data)

## Current Levies:

<u>Ag</u>	<u>Non-Ag Z</u>	<u>OO</u>	<u>Commercial</u>
\$3.19	\$4.19	\$5.13	\$11.00

## Next Year's Proposed Levies:

<u>Ag</u>	<u>Non-Ag Z</u>	<u>OO</u>	<u>Commercial</u>
\$2.95	\$3.95	\$4.75	\$10.18

## Proposed Changes:

<u>Ag</u>	<u>Non-Ag Z</u>	<u>OO</u>	<u>Commercial</u>
- \$0.24	- \$0.24	- \$0.38	- \$0.82



# Spending Increases for FY2007

## Education

---

	<u>General Funds</u>
K-12 Formula Funding	+ \$ 6,115,376
Other K-12 Ongoing Funding	+ \$ 3,683,577
Technical Schools	+ \$ 1,116,103
Higher Education Research	+ \$ 2,813,060
BOR Employee Compensation	+ \$ 4,627,268
Rest of Changes	+ \$ 403,059
<b>TOTAL INCREASES--</b>	<b>+ \$18,758,443</b>

# New funding for Higher Education and Technical Institutes

---

Expanding PHD programs (3 additional)--	+ \$1.8 Million
Technical schools funding (3%)--	+ \$1.1 Million
Additional 2010 Research Center Grants--	+ \$1.0 Million
BOR Utilities Increases--	+ \$0.9 Million
Opportunity Scholarship Funding--	+ \$0.7 Million
BOR/SETI Articulation Agreement--	+ \$0.5 Million
BOR Employee Compensation--	+ \$4.6 Million
Rest of Changes in Higher Education--	+ \$0.5 Million
<b><i>Total</i></b> →	<b><i>+ \$11.1 Million</i></b>

# Expanding our Investments in Research


---

Expanding PHD programs (3 additional)-- + \$1.8 Million

Additional 2010 Research Center Grants-- + \$1.0 Million

CEO Centers for Entrepreneurship-- + \$0.3 Million

---

*Total*  + \$ 3.1 Million

**Research + Better Education = Better Jobs!!**

# General Funds Major Spending Changes For FY2007

---

Taking Care of People	+ \$27,502,829
Protecting Society	+ \$ 7,680,369
Education	+ \$18,758,443
Rest of State Government	+ \$ 1,182,036
FY06 Education Carryover	- \$ <u>6,115,376</u>
<b>Total Changes</b>	<b>+ \$49,008,301</b>

# All the rest of State Government

	<u>Total</u>
<b>Game, Fish, &amp; Parks</b> (\$795,614 offset for bond pmt)	+ \$912,432
<b>Tourism &amp; State Development</b>	+ \$390,706
<b>Military &amp; Veterans' Affairs</b>	+ \$199,309
<b>Agriculture</b>	+ \$193,239
<b>Environment and Natural Resources</b>	+ \$169,907
<b>Revenue</b>	+ \$119,993
<b>Labor</b>	+ \$ 40,338
<b>Transportation</b>	+ \$ 7,727
<b>Elected Officials</b>	- \$205,831
<b>Executive Management</b>	- \$645,784
<b>Total</b>	<u>+\$1,182,036</u>

**This represents only 2% of our total budget increase**  
*(includes employee compensation for this group)*

# Lost Federal and Other Revenues

(excludes FMAP)

**State / Federal share programs where federal participation is being capped or reduced**

Agency	General	Federal	Other	Total Reductions
Attorney General	839,440	(864,347)	24,907	-
Human Services	719,352	(526,164)	(377,693)	(184,505)
Agriculture		(320,000)	320,000	-
Corrections	292,800	(268,748)	(86,000)	(61,948)
Social Services	416,747	(586,311)	(878,028)	(1,047,592)
Game, Fish, & Parks		(498,261)	437,252	(61,009)
Grand Total	2,268,339	(3,063,831)	(559,562)	(1,355,054)

**\$3.6 million is Gone; We're replacing only \$2.3 million  
So, Total Reductions = \$1.4 million**

# What your tax dollar pays for - 07



**50¢**

## Education

- K-12
- Higher Ed.
- Tech Schools

**33¢**

## Social/Human Svcs Programs

- Medical Costs
- State Hospital
- TANF

**11¢**

## Protecting the Public

- DOC
- UJS
- HP
- ATG

**6¢**

## The rest of State Govt

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

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

# What your Tax Dollar Pays For

---

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<b>Taking Care of People:</b> Medical Costs, State Hospital, TANF	<b>29%</b>	<b>30%</b>	<b>32%</b>	<b>33%</b>
<b>Education:</b> K-12, Higher Ed, Tech Schools	<b>54%</b>	<b>53%</b>	<b>51%</b>	<b>50%</b>
<b>Protecting the Public:</b> DOC, UJS, HP, ATG	<b>10%</b>	<b>10%</b>	<b>10%</b>	<b>11%</b>
<b>Rest of State Gov't:</b> 9 Depts, 4 Bureaus, Legis., Gov.	<b>7%</b>	<b>7%</b>	<b>7%</b>	<b>6%</b>



# Education Dollars

(General funds)

**2004 = 54% = \$487,102,150**

**2005 = 53% = \$507,649,885**

**2006 = 51% = \$517,847,807**

**2007 = 50% = \$530,553,385**

**3 Year growth = \$43.5 million  
Smaller %, but more \$\$\$**

# FY2007 Proposed FTE Increases

**Outside the Control  
of Governor-- 152.3**

**Under the Control  
of Governor-- 39.8**

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**Total-- 192.1**

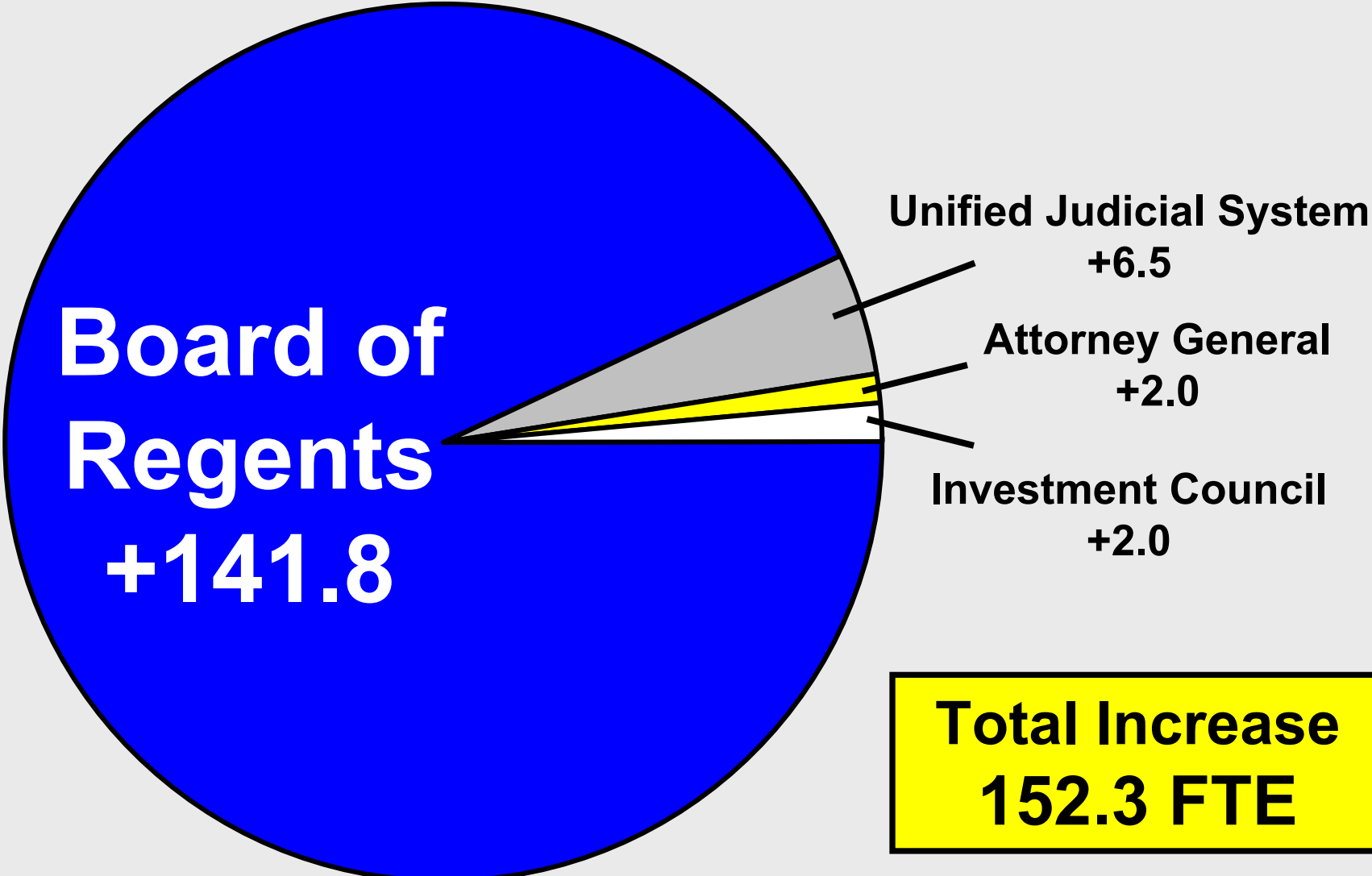
**3 Year average outside control of Governor = 3.1% growth  
3 Year average under control of Governor = 1.1% growth**

# FTE's Under Governor's Control

---

	<u>Growth</u>
Corrections	34.7
Tourism & State Development ( <i>Homestake</i> )	9.3
Bureau of Administration	4.5
Agriculture	1.3
Education	(1.0)
Human Services	(2.0)
Revenue & Regulation	(2.0)
Health	(5.0)
7 Agencies, 3 bureaus, Governor's office	0.0
<b>Total</b>	<b>+ 39.8</b>

# FY2007 FTE Increases – Outside of the Governor’s Control



# Why Are Full Time Equivalent's Increasing?

---

## Board of Regents Examples:

- 24.5 FTE for PHD programs (17 GA's, 34 people)
- 10.0 FTE for Research Center Grants
- 10.4 FTE for SETI/BOR agreement
- 59.8 FTE for increases in federal grants & contracts

## Department of Corrections:

- 24.7 of the 34.7 FTE increase is for the final phase of the 3 additional units that were approved 3 years ago
- 7.0 FTE increase for Parole Agents to cover the increasing number of parolees in the state

## Department of Tourism & State Development:

- 9.3 FTE increase to begin the process of creating the underground laboratory at the former Homestake Mine

# FY2006 Emergency Special Appropriations

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## General Funds:

One Time K-12 Schools Energy Relief	\$2,000,000
Cement Trust Earnings for Opportunity Scholarships	\$1,208,296
State Fair	\$994,000
Fire Suppression Fund	\$756,270
Sex Offender Registry	\$10,000
<i>Total General Funds Emergency Special Appropriations--</i>	<hr/> <i>\$4,968,566</i>

# FY2007 Special Appropriations

---

## General Funds:

Sales Tax on Food Refund Program <i>(+\$3 million carryover funds)</i>	<b>\$3,000,000</b>
Tax Refunds for the Elderly & Disabled	<b>\$1,000,000</b>
School District Consolidation Incentives	<b>\$ 552,209</b>
Physician Tuition Reimbursements	<b>\$ 105,228</b>
	<hr/>
<b><i>Total General Funds</i></b>	
<b><i>Special Appropriations:</i></b>	<b><i>\$4,657,437</i></b>

# State Employee Compensation

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- **3% Salary Policy**
- **2.5% Movement to Job Worth**
- **6.3% Increase for employer paid health insurance costs**



# Controlling Rising Health Insurance Costs

---

The “Shared” Approach distributes cost increase burdens among the stakeholders.

## State Budget Share

- Increase of \$3.9 million.

## State Employees Share

- Will pay a greater share through dependent contribution increases, higher deductibles and co-pays, and increased costs for tobacco users.
- There will also be an increased emphasis on disease management.

## Providers Share

- Through negotiation, costs will be held down wherever and whenever possible.

# Government Efficiency Examples

---

## ✓ Correctional Health

- By rebidding the pharmacy contract, the state saved 5.0 FTE and \$554,851 in general funds

## ✓ DSS cost containment strategies

- Initiatives in Medicaid will save \$3,527,789 in general funds and over \$9.4 million in total funds in FY06 and FY07.

## ✓ BIT Tower Maintenance

- Identified Homeland Security dollars to fund rather than general funds will save \$113,289 in general funds

## ✓ BOP

- Billing out administrative functions will save \$168,013 in general funds

# The Budget

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## FY2007

**General Funds**

**\$1,064.6 million**

**Federal Funds**

**\$1,325.1 million**

**Other Funds**

**\$ 806.3 million**

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**Total Budget =**

**\$ 3.2 Billion**

# The Ongoing Budget Changes

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## FY2007

**General Funds**                      \$    49.0 million

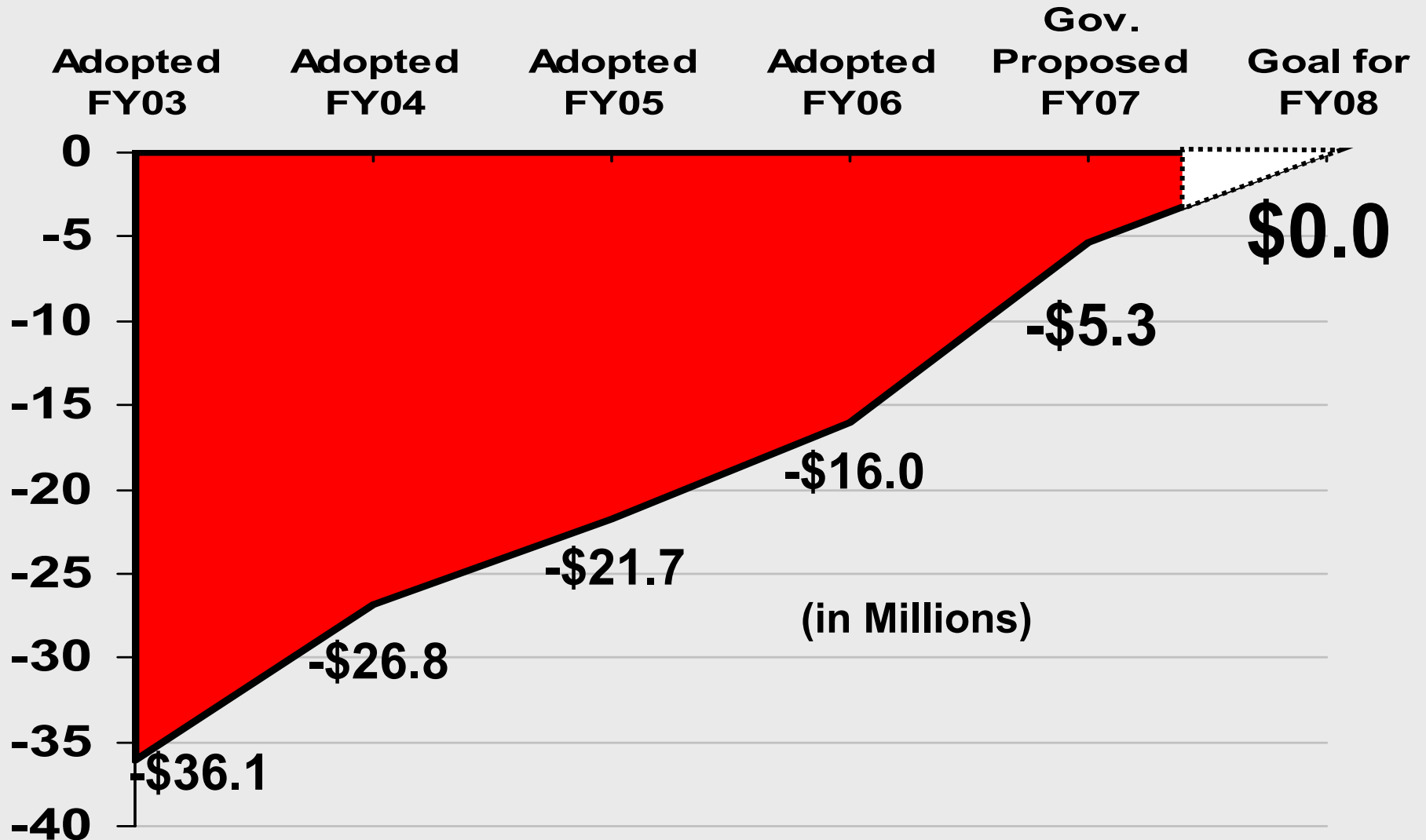
**Federal Funds**                     \$    25.1 million

**Other Funds**                        \$    55.7 million

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**Total =**                                \$ **129.8 million**

# On Track for Eliminating Structural Deficit



# Budget Highlights

---

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

***“Working together,  
we’ll make***

***South Dakota even  
better!”***