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SUMMARY OVERVIEW

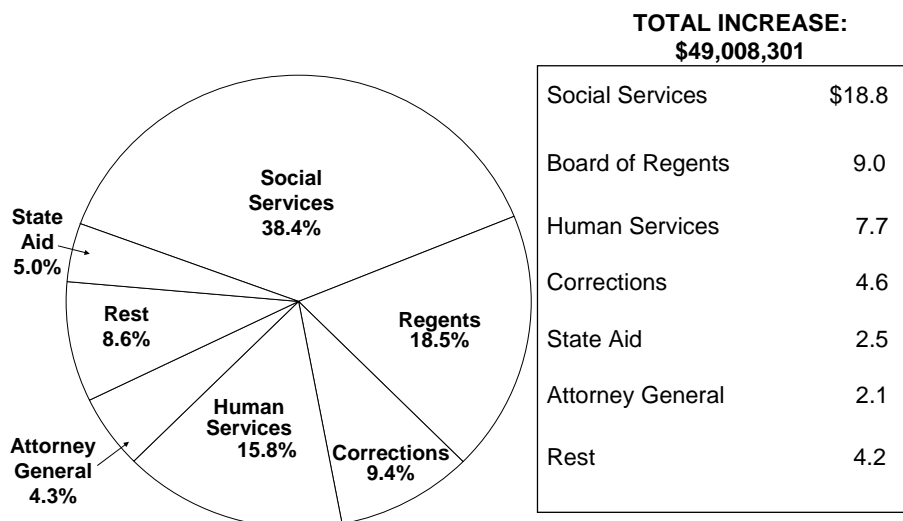
Governor Rounds is recommending a budget (including special appropriations) for FY2007 totaling \$3,196,045,035, and 14,118.7 FTE. This represents an overall decrease of \$1,711,893 in total funds and an increase 192.2 FTE over FY2006. For FY2007, the Governor is proposing a general fund budget of \$1,064,636,323, which is an increase of \$20.5 million over the FY2006 budget. The proposed FY2007 general fund budget (excluding Sale Leaseback and CRP Programs) is distributed as follows:

- \$355.9 million, or 33.8% for Aid to Schools;
- \$348.6 million, or 33.1% for Health, Human and Social Services;
- \$163.2 million, or 15.5% for Higher Education;
- \$ 74.4 million, or 7.1% for Corrections;
- \$ 52.7 million, or 5.0% for the Legislature, Unified Judicial System, Public Utilities Commission, and Elected Officials;
- \$ 16.7 million, or 1.6% for Agriculture; Environment and Natural Resources; and Game, Fish, and Parks; and,
- \$ 41.5 million or 3.9% for the Remainder of State Government.

The graph below depicts the FY2007 recommended general fund increases, excluding special appropriations, and including salary policy.

FY2007 General Fund Increases

Excluding Special Appropriations and Including Salary Policy



U.S. AND SOUTH DAKOTA ECONOMIC FORECASTS

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. economy has had to deal with blows from major hurricanes recently. The latest estimates show Hurricanes Katrina and Rita resulted in \$76 billion in damage to the stock of private capital, which is equivalent to 0.7% of GDP. The damage from Hurricane Wilma in October is assumed to be another \$10 billion. Despite these damages and hurricane-related disruptions to employment and output, underlying momentum in the U.S. economy remains strong. Recent data shows the economy is resilient and is coping well with the hurricane shocks.

After growing 3.8% in the first quarter and 3.3% in the second quarter, GDP grew a strong 3.8% in the third quarter of this year, despite the drag on the economy from the hurricanes. The third-quarter growth was led by a robust 3.9% increase in consumer spending, which was concentrated in durable goods (particularly autos). Nonresidential and residential fixed investment spending supported growth in the third quarter as well, and federal government spending increased dramatically in response to the hurricanes.

Energy prices have declined from the high prices caused by Hurricanes Katrina and Rita in the Gulf Coast. The average U.S. retail price for regular gasoline has retreated to its pre-hurricane level, falling almost \$0.70/gallon since Katrina. West Texas Intermediate (WTI) prices are projected to average \$61-62/barrel by the end of 2005, and gasoline prices are projected to end the year around \$2.25/gallon. However, due to strained supplies, consumer natural gas prices are expected to remain high through the winter months. This will result in home heating bills costing almost 50% more than last winter, and if the weather is colder than normal this year, natural gas prices could be even higher than anticipated. Despite the high natural gas prices, the U.S. economy is expected to continue to grow since recent economic indicators point towards further strengthening in the economy.

- The unemployment rate fell 0.1% between September and October to 5.0%. The October rate was 0.5% below the unemployment rate recorded in October 2004.
- The Institute of Supply Management's (ISM) purchasing managers' index for manufacturing remained a strong 59 in October. This was the 29th consecutive month the index has been above 50. A reading below 50 usually indicates the manufacturing sector is contracting, and a reading above 50 usually indicates it is expanding.
- The ISM nonmanufacturing business activity index rose from 53.3 in September to 60.0 in October. The large increase in the index was consistent with other reports that point toward stronger economic activity in October compared to September's hurricane-depressed levels.
- Nonfarm productivity grew 2.1% in the second quarter and increased 4.1% in the third quarter. The robust third-quarter growth was due to a 4.2% increase in output and a 0.1% increase in hours.
- In the third quarter, compensation for private-sector civilian workers increased a modest 0.8%. Benefit costs outpaced wage gains, as benefit costs increased 1.3% and wages and salaries only grew 0.6%.
- In the first three quarters of 2005, personal income increased at an annual rate of 2.0%, 6.0%, and 2.8%. Personal income grew 1.8% in 2002, 3.2% in 2003, and 5.9% in 2004.
- Consumer spending increased 0.5% in September. The saving rate improved from August, but remained negative for the fourth straight month.
- After increasing 0.6% in August, construction spending rose 0.5% in September. Private residential construction grew 1.0%, while private nonresidential construction fell 0.3% and public construction was unchanged.
- Housing starts were 1.710 million units in 2002, 1.854 million units in 2003, and 1.950 million units in 2004. At an annual rate, in the first three quarters of 2005, housing starts were 2.083 million units, 2.044 million units, and 2.069 million units.

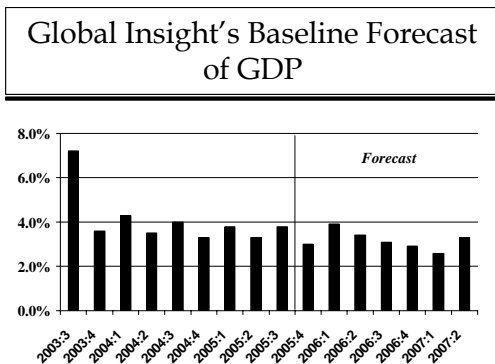
- The Federal Reserve has raised the federal funds target rate by 25 basis points seven times this year. The rate is now at 4.0%.

NATIONAL FORECAST HIGHLIGHTS

This section summarizes Global Insight's forecast as of November 2005 for various categories of the U.S. economy.

GDP: Despite the recent blows from the hurricanes, strong underlying momentum in the U.S. economy has enabled the economy to continue to grow. GDP grew at a solid pace in the third quarter of 2005, but high energy prices due to the storms are expected to dampen growth in the fourth quarter. In 2006, reconstruction activity is projected to spur growth in the economy. However, the underlying trend remains for slower economic growth in the future due to the projected cooling in the housing market and easing consumer spending growth.

In the first three quarters of this year, GDP grew 3.8%, 3.3%, and 3.8%. In the fourth quarter, GDP growth is forecasted to slow to 3.0%. In the four quarters in 2006, Global Insight is projecting GDP growth of 3.9%, 3.4%, 3.1%, and 2.9%. In 2007, GDP is forecasted to increase 2.6% in the first quarter and 3.3% in the second quarter.



On an annual basis, GDP grew 3.7% in 2000, 0.8% in 2001, 1.6% in 2002, 2.7% in 2003, and 4.2% in 2004. Global Insight's latest forecast shows GDP increasing 3.6% in 2005, 3.4% in 2006, and 3.1% in 2007.

CONSUMERS: Consumers continue to play a key role in supporting economic growth. Real consumer spending rose 4.7% in 2000, 2.5% in 2001, 2.7% in 2002, 2.9% in 2003, and 3.9% in 2004. So far in 2005, real consumption has increased 3.5%, 3.4%, and 3.9% in each of the three quarters. Growth in real consumer spending is anticipated to stall in the fourth quarter due to a sharp drop-off in light vehicle sales. The projected fourth-quarter growth rate is a mere 0.1%, which would make it the worst performance since a decline of 0.3% in late 1991.

Excluding light vehicles, real consumer spending is expected to increase at an annual rate of 2.7% in the fourth quarter, which is only slightly below the 3.1% rate of the third quarter. Falling gasoline prices, rising employment, and higher consumer confidence should translate into reasonably good holiday sales. Global Insight is projecting this year's fourth quarter consumer spending, excluding autos and energy, to increase 5.4%. This is more than a percentage point below the 6.7% rate recorded last year, but roughly in line with 2003 and above the 2001 and 2002 growth rates of approximately 3.0%. On an annual basis, real consumption is projected to grow 3.5% this year and then slow to 3.0% in 2006 due to rising interest rates and a cooling housing market. Global Insight is then projecting the rate of growth to pick up again in 2007 to 3.3%.

The saving rate dropped to -1.1% in the third quarter of 2005. This was only the second time since World War II that the personal saving rate has fallen below zero. The drop in the saving rate indicates that some rebuilding of savings is likely. The saving rate is projected to be -0.1% in 2005 and increase to 0.8% in both 2006 and 2007. In the last three years, the saving rate has been 2.4%, 2.1%, and 1.7%.

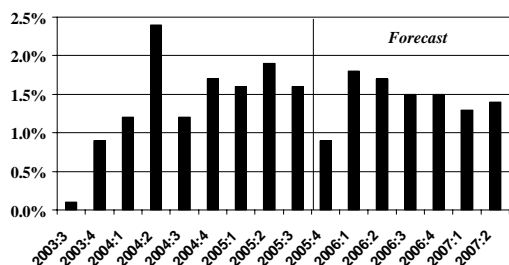
EMPLOYMENT: The latest employment report showed only 56,000 jobs were added to the U.S. economy in October. However, it is believed that this weak employment report understates the strength of the labor market and that the average monthly gains in employment will be 185,000 jobs over the next twelve months. This is partly because many of the categories that showed job losses or weaker-than-normal performances in October appeared to be linked to the hurricanes. The hurricanes probably also boosted the third quarter productivity number. Even without the effects from the hurricanes, productivity growth has been relatively good this year. In the first three quarters of 2005, productivity grew at an annual rate of 3.0%, 2.4%, and 3.9%. For the year, productivity is expected to increase 2.7%. In 2006 and 2007, productivity is projected to slow to 2.3% and 1.9%. In the last three years, productivity increased 4.0%, 3.8%, and 3.4%.

The unemployment rate in October was 5.0%, which was 0.5% below the unemployment rate reported last year at this time. On an annual basis, the unemployment rate was 5.8% in 2002, 6.0% in 2003, and 5.5% in 2004. In 2005 and 2006, the unemployment rate is projected to fall to 5.1% and 4.8%, respectively. In 2007, the unemployment rate is projected to rise 0.1% to 4.9%.

After growing 1.6%, 1.9%, and 1.6% in the first three quarters of 2005, payroll employment is projected to grow 0.9% in the fourth quarter and 1.8%, 1.7%, 1.5%, and 1.5% in the four quarters of 2006. In the

first two quarters of 2007, payroll employment is projected to grow 1.3% and 1.4%.

Global Insight's Baseline Forecast of Payroll Employment



On an annual basis, payroll employment in the U.S. grew 2.2% in 2000, 0.0% in 2001, -1.1% in 2002, -0.3% in 2003, and 1.1% in 2004. Payroll employment is forecasted to grow 1.6% in 2005, 1.6% in 2006, and 1.4% in 2007.

HOUSING: Although housing indicators have been mixed overall recently, some housing figures posted extremely robust numbers in September. For example, total housing starts broke an annual rate of 2.1 million units for only the third time ever, single-family housing starts reached their second-best level ever, and single-family permits set a new record. For the year, single-family starts are projected to reach a record 1.71 million. Single-family starts were 1.51 million in 2003 and 1.60 million in 2004. Global Insight is projecting starts to slow to 1.56 million and 1.47 million in 2006 and 2007, respectively, on the basis that the construction boom will slow at nearly the same rate at which it formed. Overall housing starts are projected to be 2.061 million units in 2005, and then soften to 1.873 million units in 2006 and 1.838 million units in 2007. In 2002, 2003, and 2004, housing starts were 1.710, 1.854, and 1.950 million units, respectively.

A major reason why the housing market continues to remain so strong is because of attractive mortgage rates. In October, the mortgage rate was 6.07%, which was up from October 2004's rate of 5.72%. It is Global Insight's view that mortgage rates are unlikely to relapse, but will continue to rise and dampen the housing market. Global Insight's forecast shows the 30-year fixed mortgage rate increasing from 5.86% in 2005 to 6.79% in 2006 and 6.91% in 2007. In the last three years, the mortgage rate has been 6.54%, 5.82%, and 5.84%.

INFLATION: Although natural gas prices remain high, crude oil and gasoline prices have fallen recently. This, along with strong third-quarter labor productivity growth and a decline in unit labor costs, has reduced some of the short-term inflation

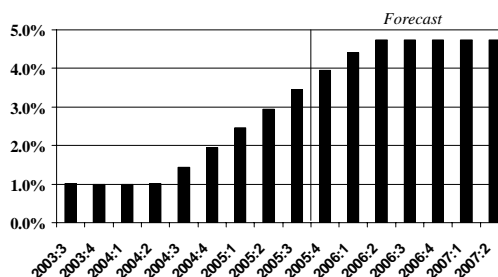
pressures in the economy. The long-term inflation environment remains favorable for low core inflation rates since the Federal Reserve is anticipated to continue on its monetary tightening course.

The CPI increased 1.6% in 2002, 2.3% in 2003, and 2.7% in 2004. The CPI is forecasted to increase 3.4% in 2005, and then fall back to 2.6% in 2006 and 1.5% in 2007. The core CPI increased 2.3% in 2002, 1.5% in 2003, and 1.8% in 2004. It is projected to increase 2.2% in 2005, 2.4% in 2006, and 2.5% in 2007. The producer price index for finished goods fell 1.3% in 2002 and rose 3.2% and 3.6% in 2003 and 2004, respectively. It is expected to rise 5.3% in 2005 and 3.3% in 2006. In 2007, it is projected to fall 1.5%.

MONETARY AND FISCAL POLICY: Monetary policy was very aggressive during the economic downturn, as the Federal Reserve cut the federal funds target rate down to 1.0%. In June of 2004, the Federal Reserve shifted gears and raised the rate by 25 basis points. Since then, the Federal Reserve has raised the rate eleven more times by the same amount. These actions have taken the federal funds target rate up to 4.0%. It is Global Insight's view that the Federal Reserve will continue with its measured approach of raising the interest rate until it reaches 4.75% by the second quarter of 2006. Global Insight then expects the Federal Reserve to pause with their rate adjustments for the remainder of 2006 and through 2007.

Ben Bernanke will succeed Alan Greenspan as Federal Reserve chairman on February 1, 2006, and he has vowed to continue Greenspan's legacy of policy pragmatism and gradualism. However, it appears Bernanke will press for greater transparency in terms of the long-term Federal Reserve inflation targets.

Global Insight's Baseline Forecast of the Federal Funds Rate



Global Insight's projection of the federal deficit for fiscal year 2006 is \$365 billion, as the hurricanes appear to have brought a temporary end to improvements in the government's finances. After growing 7.0% in 2002, 6.9% in 2003, and 5.2% in 2004, real federal government purchases are

expected to increase 2.9% in both 2005 and 2006 and 0.6% in 2007.

INTERNATIONAL: The U.S. trade deficit increased from \$59.3 billion in August to a record \$66.1 billion in September. It is Global Insight's perspective that monthly shortfalls of more than \$60 billion are likely to continue. Foreign trade is projected to be a drag on GDP growth for the next year since rising imports of consumer goods, capital goods, and materials are expected to outweigh slow-but-steady gains in exports.

The dollar has appreciated this year due to a rising interest-rate differential in favor of U.S. assets. However, Global Insight's forecast assumes that the dollar will weaken in the future due to the large and still-widening trade gap.

The world economy has retained its momentum, showing its resiliency to the recent shocks and setbacks. Fears that hurricanes in the U.S. will hurt the U.S. economy and diminish world growth have receded. The U.S. and China remain the main drivers of global activity, due to strong demand in the U.S. and strong Chinese production. World GDP growth is expected to maintain an above-trend pace through at least the next few quarters. After growing 4.0% in 2004, world GDP is projected to increase 3.3% in 2005 and 3.2% in 2006.

RISKS TO THE FORECAST

Global Insight's baseline forecast assumes that the U.S. expansion is on firm ground and that the economy will continue to grow. There is a 20% probability that growth will be more robust than what is projected in the baseline forecast. In Global Insight's optimistic scenario, GDP is projected to grow 3.6% in 2005, 4.3% in 2006, and 4.0% in 2007. There are a few key differences between the optimistic scenario and the baseline scenario. First, the optimistic forecast assumes that the information-driven technology boom continues, so total factor productivity is stronger than in the baseline forecast. The second key assumption in the optimistic scenario is that foreign economic growth is stronger, which would strengthen U.S. manufacturing and boost exports. Other key assumptions in the optimistic scenario are that business investment and housing starts are stronger than in the baseline forecast and the federal government budget deficit and energy prices are lower. These different assumptions would all boost economic growth in the U.S. and provide for a scenario that resembles the late 1990s.

Global Insight's pessimistic scenario has a 25% probability of occurring, and projects slower growth than what is in the baseline forecast. It is based on the assumptions of higher inflation, a weaker dollar,

a bursting housing bubble, persistently high energy prices, and higher interest rates than what is projected in the baseline forecast. Although the economy is not projected to fall into a recession in the pessimistic scenario, it does fail to perform at its potential and resembles the economic times of the late 1970s. In the pessimistic scenario, GDP is forecasted to grow 3.5% in 2005, 2.8% in 2006, and 1.3% in 2007.

SOUTH DAKOTA ECONOMY

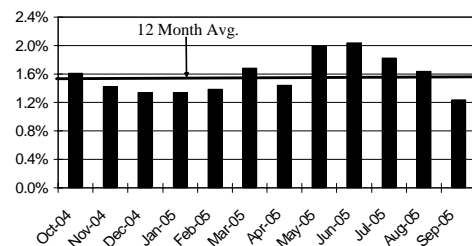
RECENT ECONOMIC ACTIVITY

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, as it is considered by most economists as the most timely and comprehensive measure of the performance of a state's economy.

The South Dakota economy was affected by the national recession that occurred from March 2001 to November 2001. However, in terms of growth in nonfarm employment, the South Dakota economy performed better than the national economy during the recession and has continued to do so since then. U.S. nonfarm employment was flat in 2001, fell 1.1% and 0.3% in 2002 and 2003, respectively, and grew 1.1% in 2004. Nonfarm employment growth in South Dakota was 0.2% in 2001, -0.3% in 2002, 0.2% in 2003, and 1.3% in 2004.

After adding 900 jobs in 2003 and 5,100 jobs in 2004, jobs continue to be added in South Dakota in 2005. For the first nine months of the year, nonfarm employment has grown 1.6%, or 6,200 jobs, over the first nine months of 2004. In the last twelve months (October 2004 to September 2005), nonfarm employment in South Dakota has grown 1.6%, or 6,000 jobs, over the same period a year ago.

Recent Growth in Nonfarm Employment



- Sectors that experienced strong growth in the last twelve months were construction (4.4%); leisure and hospitality (2.5%); financial activities

(2.4%); and, trade, transportation, and utilities (1.9%). The manufacturing sector, which was hit especially hard by the national recession, has grown 3.1% in the last twelve months.

- In the last twelve months, the average weekly earnings of manufacturing production workers grew 1.6% over the same period the year before. Average hourly earnings were down 0.1% over the last twelve months, while average weekly hours rose 1.7% over the same time period.
- In the third quarter of 2005, nonfarm employment in South Dakota grew 1.6% over the same quarter in 2004. Major sectors that had strong growth during this time period were construction (5.9%); finance and insurance (2.8%); wholesale trade (2.4%); retail trade (2.1%); and, manufacturing (2.0%).
- Personal income in South Dakota grew 2.6% in the first quarter of 2005, which was significantly higher than the national growth rate during this time period (0.6%). In the second quarter of 2005, personal income in South Dakota grew 1.0%. The growth rate for the U.S. was 1.5% in the second quarter.
- The unemployment rate in South Dakota was tied for the ninth lowest in the U.S. in September, at 3.9%. This was 1.2% below the national rate and 0.4% above the unemployment rate at this time last year.
- During the latest twelve-month period (October 2004 through September 2005), the number of titles issued for new noncommercial vehicles was 41,341, which was an increase of 3,127 (8.2%) vehicles titled over the prior twelve-month period.
- The total number of residential building permits issued during the past twelve months was 3,838, which was down 38 (-1.0%) from the prior twelve-month period. The value of building permits issued was \$541.0 million for the past twelve months. This was an increase of \$10.48 million (2.0%) from the prior twelve-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: Visitor spending in the state totaled \$752.2 million in 2004. This was \$54.2 million more than visitor spending in 2003, and the highest level of spending ever achieved in South Dakota. The Glacial Lakes and Prairies Region experienced the largest increase in visitor spending in 2004 over 2003, at 10.6%. Spending in the Black Hills, Badlands, Lakes Region and the Southeast Region increased 8.9% and 4.9%, respectively. Visitor spending in the Great Lakes Region grew 2.1%. It is believed that the low level of the Missouri River dampened visitor spending in this area of the state. Visitation at Mount Rushmore National Memorial was down in 2004 compared to 2003 (2,754,057 versus 2,957,099), while visitation at the Badlands was up last year compared to 2003 (954,893 versus 877,493).

Tourism in the state has remained strong so far this year, and is projected to remain robust in the next few years based on steps laid out in the Governor's 2010 Initiative to grow the South Dakota visitor industry. Tourism should also see strong growth in the next few years due to rising incomes, continued demand for travel, lower gas prices, and a growing retiree population.

AGRICULTURE: In 2004, the agricultural economy in South Dakota produced receipts of \$5.3 billion, which was an increase of \$0.5 billion from 2003. Crops generated \$2.5 billion, or 46.5% of total receipts, and livestock generated \$2.4 billion, or 45.9% of receipts. Government payments totaled \$398.5 million, which represented 7.6% of total receipts in 2004.

Last year was a good year for agricultural production. In 2004, corn for grain production totaled a record-high 539.5 million bushels. Soybean production was also strong, as it was up 21% from 2003 at 140.1 million bushels. The 2004 calf crop totaled 1.74 million head, which was up 0.6% from the prior year, and the pig crop last year was 2.6 million head, which was up 4% from 2003.

Production levels look good for South Dakota in 2005, although some are not as strong as last year. According to the National Agricultural Statistics Service, corn production is projected to be 466.1 million bushels, which is down 14% from last year's record production. Corn yield is forecasted at 118 bushels per acre, which is down 12 bushels from last year's record. Soybean production is expected to be down 1% from last year, at 138.6 million bushels. Soybean yields are projected to be 36 bushels per acre, which is 2.0 more bushels per acre than last year. On the livestock side, September commercial red meat production in South Dakota was up 1% from last year, at 87.3 million pounds. September pork production was up 1.3% from 2004, with 423,000 head slaughtered.

The Council's outlook for the agricultural economy is cautiously optimistic. Relatively good production levels should give a boost to the agricultural economy, but rising input costs, higher land values, and soft prices will dampen the effects of the good production.

WAGE RATES: The unemployment rate in South Dakota in September was 3.9%. This was 1.2% below the U.S. unemployment rate, and tied for the ninth lowest rate in the nation. A low unemployment rate is a sign of a tight labor market, which puts pressure on businesses to increase wage rates to keep and gain employees. In addition, it is expected that productivity will remain strong in the state. This should translate into wage gains for workers as they get compensated for their increased productivity. Continued job growth in the state should also put pressure on wage rates to rise. Therefore, the Council is anticipating wages to continue to increase in South Dakota, and the gains in wage rates should contribute to economic growth in the state.

CONSTRUCTION: Construction activity was robust in South Dakota in 2004. Much of the strength in the construction sector was attributable to the housing market. The total number of building permits issued for family buildings in South Dakota was 4,876 in 2004, which was up 551 over the total number of permits issued in 2003. The value of permits issued for family buildings continued to remain strong as well, up \$103.0 million in 2004 from 2003.

Construction activity has remained strong so far in 2005, but the housing market has started to soften compared to 2004. From January to September of this year, the total number of building permits issued for family buildings in South Dakota was 2,918, which was 191 fewer than the total number of permits issued during the same time period in 2004. The value of permits issued for family buildings during the first nine months of 2005 compared to 2004 was down \$19.0 million.

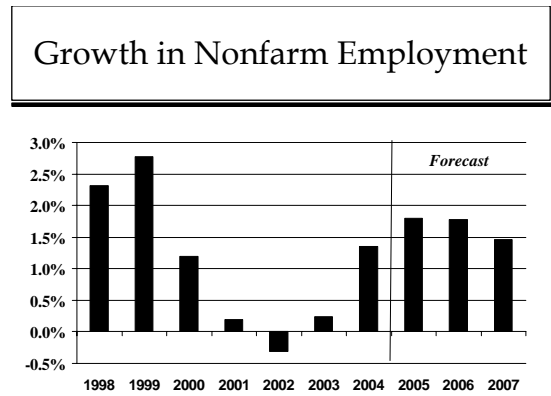
It is the Council's view that the housing market will continue to post relatively strong numbers due to attractive mortgage rates, strong demand for homes, and the growing economy. In addition, commercial and contract road construction is expected to be strong, which will give construction activity a boost in the next few years.

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.

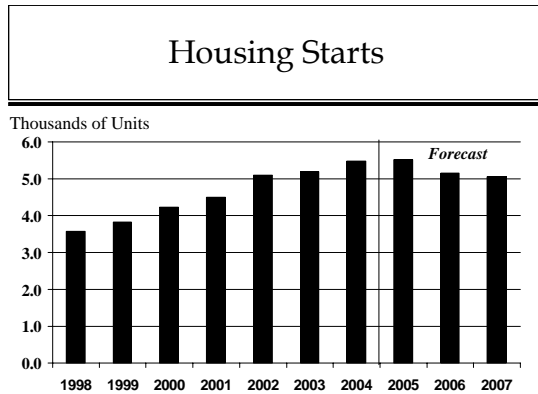
EMPLOYMENT: South Dakota has several advantages over other states that account for its ability to post strong gains in employment. Some of these advantages include a pro-business environment, a central geographic location, an advanced technology base, a low cost of doing business, and a high quality 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 time period. The majority of additional jobs in South Dakota during this 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 0.2% due to the recession. Nonfarm employment fell 0.3% in 2002 and rose 0.2% in 2003 and 1.3% in 2004. For 2005, 2006, and 2007, nonfarm employment is projected to continue to strengthen, growing 1.8%, 1.8%, and 1.5%, respectively. Sectors in service-providing industries, particularly health services, leisure and hospitality, and retail trade, are expected to see strong job gains in the future.

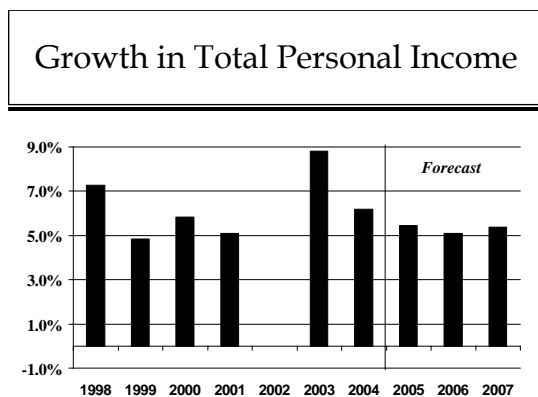


HOUSING: Favorable interest rates and changing demographics in the state have contributed to a strong housing sector in recent years. Since 1998, the number of housing starts in South Dakota has increased each year. Considering the softness of the economy during some of the past few years, the strong number of housing starts has been a positive anomaly. Housing starts have continued to remain strong in 2005 and are expected to be slightly higher this year than last year. However, housing starts are projected to soften in 2006 and 2007 due to rising mortgage rates. Mortgage rates are expected to still remain attractive, though. This, together with demand and a growing job market, should keep the

housing market relatively strong. Housing starts were 5,492 in 2004 and are projected to be 5,516 in 2005, 5,156 in 2006, and 5,049 in 2007.



INCOME: Between 1990 and 2000, the average annual growth rate in total personal income in South Dakota was the same as the U.S. average during the same time period (5.6%). However, due to the recession and decline in nonfarm employment, income growth slowed both in South Dakota and in the U.S. Total personal income in South Dakota grew 5.1% in 2001 and was flat in 2002. The zero growth in personal income in 2002 was not only due to the fall in nonfarm employment, but also from the negative impact the drought had on farm income. In 2003, total personal income rebounded significantly, growing 8.8% due to rising nonfarm employment, disaster payments to farmers, and higher crop and livestock prices. In 2004, total personal income grew 6.2%, and personal income is projected to remain relatively strong for the next few years. Growth is forecasted to be 5.4% in 2005, 5.1% in 2006, and 5.4% in 2007. The strong gains in income are expected due to rising employment, a tight labor market, and employers compensating employees for increased productivity.



Nonfarm personal income rose 6.8% in 1998, 5.6% in 1999, 6.6% in 2000, 6.8% in 2001, 3.8% in 2002, 3.5% in 2003, and 5.4% in 2004. Growth rates for 2005, 2006, and 2007 are projected to be 6.1%, 6.2%, and 6.1%, respectively.

RISKS TO THE FORECAST

The current forecast assumes that the South Dakota economy is going to continue to grow. The Council of Economic Advisors sees a couple of key risks to this forecast. First, growth in the South Dakota economy will likely be hampered if the national economy does not perform as strong as it is projected to. Another key risk the Council sees to the continued strengthening of the South Dakota economy is residential construction. If the housing market were to slow dramatically, it would dampen economic growth in the state. In addition, like the national economy, a key driver of the South Dakota economy in recent years has been the consumer. If consumers were to cut back on spending significantly, it would have a negative impact on the performance of the South Dakota economy.

If any of the above perceived risks were to occur, they would likely soften expected nonfarm employment growth. And, if nonfarm employment were to rise less than projected, it would likely have a negative impact on income growth, consumer confidence, and projected consumer spending in the economy.

REVENUE ESTIMATES

SUMMARY

Total general fund receipts for FY2006 are forecasted at \$1,044.9 million. Ongoing revenues comprise \$1,015.6 million of the total, and one-time revenues compose \$29.3 million of the total. The ongoing estimate for FY2006 is an increase of \$57.6 million from actual FY2005 ongoing receipts. The majority of the forecasted increase is from the sales and use tax (+\$34.3M). Other projected significant sources of growth between FY2005 and FY2006 are the bank franchise tax (+\$8.4M), the contractor's excise tax (+\$6.3M), the insurance company tax (+\$4.5M), the Property Tax Reduction Fund (+\$2.5M), and net transfers in (+\$2.3M). The revenue source that is expected to see the most significant decrease in collections between FY2005 and FY2006 is the inheritance and estate tax (-\$3.0M).

The revised ongoing estimate for FY2006 is \$13.8 million more than the estimate adopted during the 2005 legislative session. Major revisions upward are from the bank franchise tax (+\$7.0M), the contractor's excise tax (+\$4.6M), the sales and use tax (+\$3.3M), and the insurance company tax (+\$2.3M). The most significant downward revisions are from investment income and interest (-\$3.9M) and the inheritance and estate tax (-\$2.0M).

Total general fund receipts for FY2007 are projected to be \$1,064.6 million. Ongoing revenues are forecasted to be \$1,059.3 million, and one-time receipts are expected to be \$5.3 million. The forecast for ongoing receipts in FY2007 is an increase of \$43.7 million from the revised FY2006 projection of ongoing receipts. The most significant source of growth between the revised FY2006 estimate and the FY2007 forecast is expected to be from the sales and use tax (+\$31.7M). Other projected significant sources of ongoing revenue growth are from the insurance company tax (+\$4.7M), the contractor's excise tax (+\$4.2M), lottery (+\$3.2M), and the Property Tax Reduction Fund (+\$2.5M). The source that is expected to see the most significant decrease in collections between FY2006 and FY2007 is the bank franchise tax (-\$3.7M).

CURRENT REVENUE FORECAST (Dollars in Millions)

	<u>FY2006</u>	<u>FY2007</u>
Sales and Use Tax	568.5	600.3
Contractor's Excise Tax	71.7	75.9
Bank Franchise Tax	44.8	41.1
Insurance Company Tax	59.9	64.6
Property Tax Reduction Fund	116.7	119.2
Other Ongoing Revenues	154.0	158.2
One-Time Receipts	2.3	0.0
Property Tax Reserves	26.2	5.3
Obligated Cash Carried Forward	<u>0.8</u>	<u>0.0</u>
Total Revenue	<u>1,044.9</u>	<u>1,064.6</u>

SALES AND USE TAX

The sales and use tax is the single-largest revenue source for the state's general fund and accounts for approximately 56% of ongoing general fund revenues. Between FY1980 and FY2005, the sales and use tax grew from \$140.6 million to \$534.2 million, which was an average annual increase of 5.48%. In FY2002 and FY2003, the growth of sales and use tax collections was soft (1.24% and 3.93%, respectively) due to the recession and the slow recovery of nonfarm employment from the recession. In FY2004, growth in the sales and use tax was strong (6.78%) due to the strengthening economy and pent-up demand. Last year, growth in the sales and use tax remained relatively strong (5.11%) due to continued economic growth.

Collections from the sales and use tax in FY2005 were \$534.2 million, which was an increase of \$26.0 million, or 5.11%, over FY2004. Through the first four months of FY2006, sales and use tax collections were \$200.8 million, which was an increase of 7.18% from the first four months of FY2005. For the revised FY2006 estimate, the sales and use tax is forecasted at \$568.5 million, which is an increase of \$34.3 million, or 6.42%, over FY2005. For FY2007, the sales and use tax is forecasted at \$600.3 million, which is an increase of \$31.7 million, or 5.58%, over the revised FY2006 estimate.

CONTRACTOR'S EXCISE TAX

Collections from the contractor's excise tax account for approximately 7% of ongoing general fund revenues. Healthy growth in construction activity has had a direct impact on the growth in contractor's excise tax collections. Between CY1988 and CY2004, the number of housing starts in South Dakota increased from 1,979 units to 5,492 units. This expansion in activity contributed to the increase in contractor's excise tax collections from \$16.2 million in FY1988 to \$65.4 million in FY2005.

Last year, collections from the contractor's excise tax grew \$6.0 million, or 10.15%, from FY2004. Through the first four months of FY2006, contractor's excise tax collections were \$28.4 million, which was an increase of 15.56% from the first four months of FY2005. Contractor's excise tax collections for FY2006 are forecasted at \$71.7 million, which is an increase of \$6.3 million, or 9.56%, over FY2005 collections. FY2007 collections are forecasted at \$75.9 million, which is an increase of \$4.2 million, or 5.93%, over the revised FY2006 estimate.

BANK FRANCHISE TAX

Collections from the bank franchise tax account for approximately 4% of ongoing general fund revenues. 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 the bank franchise tax collections deposited in the general fund are generated by bank card institutions. During the late 1980's, collections grew as the national economy experienced strong growth and 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, as the economy gained momentum and credit card usage and consumer debt increased, bank franchise tax collections increased. Collections decreased in the early part of this decade due to the national recession, but have increased the last three fiscal years because of the strengthening economy.

Collections from the bank franchise tax were \$36.4 million in FY2005, which was an increase of \$1.1 million, or 3.14%, from FY2004. Through the first four months of FY2006, collections were \$17.4 million, which was an increase of 3.89% over the same period last year. FY2006 collections are projected to be \$44.8 million, which is an increase of \$8.4 million, or 23.16%, over FY2005 collections. Collections are expected to be \$41.1 million in FY2007, which is \$3.7 million, or 8.28%, less than the revised FY2006 estimate.

INSURANCE COMPANY TAX

Collections from the insurance company tax account for approximately 6% of ongoing general fund revenues. Between FY1985 and FY2005, insurance company tax collections grew from \$17.2 million to \$55.5 million, which was an average annual increase of 6.03%.

In FY2005, insurance company tax collections were \$55.5 million, which was an increase of \$4.1 million, or 7.91%, over FY2004 collections. During the first four months of FY2006, insurance company tax collections were \$22.4 million, which was an increase of 23.69% over the same period in FY2005. For FY2006, insurance company tax collections are forecasted at \$59.9 million, which is an increase of \$4.5 million, or 8.08%, over FY2005 collections. For FY2007, insurance company tax collections are forecasted to grow \$4.7 million, or 7.84%, over the revised FY2006 estimate to \$64.6 million.

PROPERTY TAX REDUCTION FUND

The Property Tax Reduction Fund (PTRF) has traditionally been the source from which the state has funded property tax relief, and transfers to the general fund from the PTRF account for approximately 11% of ongoing general fund revenues. In 1996, the legislature directed that receipts from video lottery be transferred into the PTRF 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 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 PTRF 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 a fiscal year be transferred back to the PTRF, after the transfer to the Budget Reserve Fund has been made. HB 1104, passed by the 2003 legislature, imposed a tax of 4% on the gross receipts of telecommunication services. Sixty percent of the revenue collected from this tax is deposited in the PTRF.

Transfers from the PTRF to the general fund from ongoing revenue sources were \$114.2 million in FY2005. In FY2006 and FY2007, it is estimated that there will be \$116.7 million and \$119.2 million, respectively, in ongoing receipts from the PTRF transferred to the general fund. Included in the FY2006 and FY2007 PTRF estimates are \$5.2 million and \$5.5 million, respectively, from the telecommunications tax. Video lottery receipts to the PTRF in FY2006 and FY2007 are projected to be \$111.5 million and \$113.7 million, respectively.

OTHER ONGOING REVENUES

Collections from other ongoing revenues account for approximately 15% of total ongoing general fund revenues. Receipts included in this category come from the alcohol beverage tax; the alcohol beverage 2% wholesale tax; the cigarette tax; the inheritance

and estate tax; licenses, permits, and fees; investment income and interest; charges for goods and services; net transfers in; transfers from the Dakota Cement, Education Enhancement, and Health Care Trust Funds; severance taxes; lottery; the sale-leaseback; and, the Conservation Reserve Program. For FY2006, collections from other ongoing revenues are projected to be \$154.0 million. For FY2007, collections are forecasted to increase \$4.2 million to \$158.2 million.

ONE-TIME RECEIPTS

In FY2006, collections from one-time receipts are projected to be \$2.3 million. Included in this estimate is \$0.9 million from refunding gains due to refinancing bonds, \$0.9 million from a settlement for incorrect food services charges, and \$0.5 million from part of South Dakota's share of a global settlement with various large brokerage firms that settled securities violations. There are no projected one-time receipts for FY2007.

PROPERTY TAX RESERVES

SB 225, passed during the 1996 legislative session, gave the Commissioner of the Bureau of Finance and Management the authority to transfer monies available from the Property Tax Reduction Fund to the general fund to provide property tax relief through state aid to education. In FY2006 and FY2007, it is projected that \$26.2 million and \$5.3 million, respectively, will need to be transferred from the Property Tax Reserves to the general fund to balance the budgets.

OBLIGATED CASH CARRIED FORWARD

This is the amount of prior year cash carried forward to meet obligations that existed at the end of the previous year. Included in the FY2006 estimate is \$0.8 million that was carried forward from FY2005 and transferred to the Budget Reserve Fund.

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. 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 FY2007 does not assume that surplus funds will be available. To the extent there is a surplus in FY2006, the ending balance in the Budget Reserve Fund will be adjusted accordingly.

BUDGET RESERVE FUND CONDITION STATEMENT

	<u>Actual FY2004</u>	<u>Actual FY2005</u>	<u>Estimated FY2006</u>	<u>Estimated FY2007</u>
Beginning Balance	\$ 39,324,961	\$ 40,680,675	\$ 41,862,883	\$ 42,682,740
Calculations for Maximum Balance in the Fund:				
General Bill Appropriation for Prior Year	\$ 875,000,575	\$ 851,277,150	\$ 971,660,743	\$ 1,008,771,731
Budget Reserve Fund Percentage	10%	10%	10%	10%
Maximum Amount in the Fund	<u>\$ 87,500,058</u>	<u>\$ 85,127,715</u>	<u>\$ 97,166,074</u>	<u>\$ 100,877,173</u>
Maximum Transferable Amount	<u>\$ 48,175,097</u>	<u>\$ 44,447,040</u>	<u>\$ 55,303,191</u>	<u>\$ 58,194,433</u>
Amount of General Funds Available				
End of Prior Year	\$ 1,355,714	\$ 1,182,209	\$ 819,857	\$ 0
Transferred in from General Fund	<u>\$ 1,355,714</u>	<u>\$ 1,182,209</u>	<u>\$ 819,857</u>	<u>\$ 0</u>
Ending Balance	<u>\$ 40,680,675</u>	<u>\$ 41,862,883</u>	<u>\$ 42,682,740</u>	<u>\$ 42,682,740</u>

**COMPARISON BETWEEN LEGISLATIVE AND
REVISED ESTIMATE FOR FY2006**

	LEGISLATIVE ADOPTED	REVISED FY2006	DOLLAR CHANGE	PERCENT CHANGE
CONTINUING RECEIPTS				
Sales and Use Tax	\$ 565,193,178	\$ 568,514,437	\$ 3,321,259	0.59
Contractor's Excise Tax	67,104,285	71,659,704	4,555,419	6.79
Alcohol Beverage Tax	8,581,413	8,715,414	134,001	1.56
Alcohol Beverage 2% Wholesale Tax	992,115	983,460	(8,655)	(0.87)
Cigarette Tax	26,788,840	27,555,227	766,387	2.86
Bank Franchise Tax	37,773,778	44,784,381	7,010,603	18.56
Insurance Company Tax	57,683,470	59,943,819	2,260,349	3.92
Inheritance and Estate Tax	3,000,000	1,000,000	(2,000,000)	(66.67)
Licenses, Permits, and Fees	33,826,803	34,890,961	1,064,158	3.15
Investment Income and Interest	13,310,000	9,434,697	(3,875,303)	(29.12)
Charges for Goods and Services	9,560,939	10,633,430	1,072,491	11.22
Net Transfers In	11,267,340	9,345,657	(1,921,683)	(17.06)
Trust Funds	31,217,113	32,009,283	792,170	2.54
Severance Taxes	1,013,267	1,973,711	960,444	94.79
Unexpended Carryovers	0	0	0	0.00
Lottery	4,932,025	5,204,927	272,902	5.53
Property Tax Reduction Fund	117,199,102	116,687,502	(511,600)	(0.44)
Sale-Leaseback	11,175,075	11,175,075	0	0.00
CRP Program	1,179,058	1,115,656	(63,402)	(5.38)
SUBTOTAL (CONTINUING RECEIPTS)	\$1,001,797,801	\$1,015,627,341	\$ 13,829,540	1.38
ONE-TIME RECEIPTS				
Refinancing Gains	\$ 0	\$ 945,289	\$ 945,289	100.00
Food Services Settlement	0	872,408	872,408	100.00
Securities Global Settlement	0	504,000	504,000	100.00
Transfer from Property Tax Reserves	17,450,416	26,157,064	8,706,648	49.89
Obligated Cash Carried Forward	0	819,857	819,857	100.00
SUBTOTAL (ONE-TIME RECEIPTS)	\$ 17,450,416	\$ 29,298,619	\$ 11,848,203	67.90
GRAND TOTAL	\$1,019,248,217	\$1,044,925,960	\$ 25,677,743	2.52

**COMPARISON BETWEEN FY2005 AND FY2006
REVENUE COLLECTIONS**

	ACTUAL FY2005	REVISED FY2006	DOLLAR CHANGE	PERCENT CHANGE
CONTINUING RECEIPTS				
Sales and Use Tax	\$ 534,196,029	\$ 568,514,437	\$ 34,318,408	6.42
Contractor's Excise Tax	65,404,711	71,659,704	6,254,993	9.56
Alcohol Beverage Tax	8,507,013	8,715,414	208,401	2.45
Alcohol Beverage 2% Wholesale Tax	938,212	983,460	45,248	4.82
Cigarette Tax	27,663,802	27,555,227	(108,575)	(0.39)
Bank Franchise Tax	36,362,714	44,784,381	8,421,667	23.16
Insurance Company Tax	55,461,545	59,943,819	4,482,274	8.08
Inheritance and Estate Tax	3,992,862	1,000,000	(2,992,862)	(74.96)
Licenses, Permits, and Fees	33,198,427	34,890,961	1,692,534	5.10
Investment Income and Interest	9,273,336	9,434,697	161,361	1.74
Charges for Goods and Services	10,594,603	10,633,430	38,827	0.37
Net Transfers In	7,026,274	9,345,657	2,319,383	33.01
Trust Funds	30,453,750	32,009,283	1,555,533	5.11
Severance Taxes	1,616,393	1,973,711	357,318	22.11
Unexpended Carryovers	1,240,905	0	(1,240,905)	(100.00)
Lottery	4,863,115	5,204,927	341,812	7.03
Property Tax Reduction Fund	114,206,290	116,687,502	2,481,212	2.17
Sale-Leaseback	11,835,491	11,175,075	(660,416)	(5.58)
CRP Program	1,156,654	1,115,656	(40,998)	(3.54)
SUBTOTAL (CONTINUING RECEIPTS)	\$ 957,992,124	\$1,015,627,341	\$ 57,635,217	6.02
ONE-TIME RECEIPTS				
Refinancing Gains	\$ 0	\$ 945,289	\$ 945,289	100.00
Food Services Settlement	0	872,408	872,408	100.00
Securities Global Settlement	4,375,000	504,000	(3,871,000)	(88.48)
Transfer from Video Lottery Fund	3,000,000	0	(3,000,000)	(100.00)
Transfer from Property Tax Reserves	24,578,419	26,157,064	1,578,646	6.42
Obligated Cash Carried Forward	1,182,209	819,857	(362,352)	(30.65)
SUBTOTAL (ONE-TIME RECEIPTS)	\$ 33,135,627	\$ 29,298,619	\$ (3,837,008)	(11.58)
GRAND TOTAL	\$ 991,127,751	\$1,044,925,960	\$ 53,798,209	5.43

**COMPARISON BETWEEN FY2006 AND FY2007
REVENUE COLLECTIONS**

	REVISED FY2006	PROJECTED FY2007	DOLLAR CHANGE	PERCENT CHANGE
CONTINUING RECEIPTS				
Sales and Use Tax	\$ 568,514,437	\$ 600,257,858	\$ 31,743,421	5.58
Contractor's Excise Tax	71,659,704	75,907,730	4,248,026	5.93
Alcohol Beverage Tax	8,715,414	8,814,476	99,062	1.14
Alcohol Beverage 2% Wholesale Tax	983,460	1,033,061	49,601	5.04
Cigarette Tax	27,555,227	26,958,742	(596,485)	(2.16)
Bank Franchise Tax	44,784,381	41,078,381	(3,706,000)	(8.28)
Insurance Company Tax	59,943,819	64,643,440	4,699,621	7.84
Inheritance and Estate Tax	1,000,000	500,000	(500,000)	(50.00)
Licenses, Permits, and Fees	34,890,961	36,938,536	2,047,575	5.87
Investment Income and Interest	9,434,697	10,685,080	1,250,383	13.25
Charges for Goods and Services	10,633,430	11,557,253	923,823	8.69
Net Transfers In	9,345,657	8,706,654	(639,003)	(6.84)
Trust Funds	32,009,283	31,305,080	(704,203)	(2.20)
Severance Taxes	1,973,711	1,684,585	(289,126)	(14.65)
Unexpended Carryovers	0	0	0	0.00
Lottery	5,204,927	8,425,249	3,220,322	61.87
Property Tax Reduction Fund	116,687,502	119,230,163	2,542,661	2.18
Sale-Leaseback	11,175,075	10,498,875	(676,200)	(6.05)
CRP Program	1,115,656	1,108,425	(7,231)	(0.65)
SUBTOTAL (CONTINUING RECEIPTS)	\$1,015,627,341	\$1,059,333,588	\$ 43,706,247	4.30
ONE-TIME RECEIPTS				
Refinancing Gains	\$ 945,289	\$ 0	\$ (945,289)	(100.00)
Food Services Settlement	872,408	0	(872,408)	(100.00)
Securities Global Settlement	504,000	0	(504,000)	(100.00)
Transfer from Property Tax Reserves	26,157,064	5,302,735	(20,854,329)	(79.73)
Obligated Cash Carried Forward	819,857	0	(819,857)	(100.00)
SUBTOTAL (ONE-TIME RECEIPTS)	\$ 29,298,619	\$ 5,302,735	\$ (23,995,884)	(81.90)
GRAND TOTAL	\$1,044,925,960	\$1,064,636,323	\$ 19,710,363	1.89

GENERAL FUND RECEIPTS

	ACTUAL FY2004	ACTUAL FY2005	REVISED FY2006	PROJECTED FY2007
CONTINUING RECEIPTS				
Sales and Use Tax	\$ 508,241,448	\$ 534,196,029	\$ 568,514,437	\$ 600,257,858
Contractor's Excise Tax	59,378,041	65,404,711	71,659,704	75,907,730
Alcohol Beverage Tax	8,489,478	8,507,013	8,715,414	8,814,476
Alcohol Beverage 2% Wholesale Tax	949,263	938,212	983,460	1,033,061
Cigarette Tax	27,633,238	27,663,802	27,555,227	26,958,742
Bank Franchise Tax	35,255,228	36,362,714	44,784,381	41,078,381
Insurance Company Tax	51,397,593	55,461,545	59,943,819	64,643,440
Inheritance and Estate Tax	8,386,341	3,992,862	1,000,000	500,000
Licenses, Permits, and Fees	30,519,626	33,198,427	34,890,961	36,938,536
Investment Income and Interest	11,066,377	9,273,336	9,434,697	10,685,080
Charges for Goods and Services	10,487,849	10,594,603	10,633,430	11,557,253
Net Transfers In	5,838,590	7,026,274	9,345,657	8,706,654
Trust Funds	29,605,523	30,453,750	32,009,283	31,305,080
Severance Taxes	1,182,749	1,616,393	1,973,711	1,684,585
Unexpended Carryovers	403,142	1,240,905	0	0
Lottery	4,756,834	4,863,115	5,204,927	8,425,249
Property Tax Reduction Fund	44,311,001	114,206,290	116,687,502	119,230,163
Sale-Leaseback	12,478,191	11,835,491	11,175,075	10,498,875
CRP Program	1,152,786	1,156,654	1,115,656	1,108,425
SUBTOTAL (CONTINUING RECEIPTS)	\$ 851,533,297	\$ 957,992,124	\$ 1,015,627,341	\$ 1,059,333,588
ONE-TIME RECEIPTS				
Acceleration of Interest Earnings	\$ 7,837,373	\$ 0	\$ 0	\$ 0
Transfer from Petroleum Release Fund	15,000,000	0	0	0
Refinancing Gains	0	0	945,289	0
Food Services Settlement	0	0	872,408	0
Securities Global Settlement	0	4,375,000	504,000	0
Transfer from Video Lottery Fund	0	3,000,000	0	0
Transfer from Property Tax Reserves	15,974,511	24,578,419	26,157,064	5,302,735
Obligated Cash Carried Forward	1,355,714	1,182,209	819,857	0
SUBTOTAL (ONE-TIME RECEIPTS)	\$ 40,167,598	\$ 33,135,627	\$ 29,298,619	\$ 5,302,735
GRAND TOTAL	\$ 891,700,895	\$ 991,127,751	\$ 1,044,925,960	\$ 1,064,636,323

RECOMMENDED EXPENDITURES

OVERVIEW

Governor Rounds' FY2007 budget reflects a continuing commitment to three key segments: helping those who can not take care of themselves, the very young and the very old; protecting society from those who would do us harm; and providing a quality education for our children.

The Governor is recommending a 3.0% 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 \$4,364.85 for FY2007, an increase of \$127.13 over the FY2006 base rate of \$4,237.72. In addition, the Governor is recommending \$3,460,070 in general funds to be set aside to fund a teacher salary competitiveness program.

The Departments of Social Services, Human Services, and Health are responsible for the majority of the programs that deal with helping those who can not take care of themselves, the very young and the very old. The combined increase for these three agencies is \$25.4 million, which includes a general fund increase of \$26.7 million and a federal fund expenditure authority decrease of \$1.7 million. This increase accounts for 54.5% of the total general fund increase of \$49.0 million. The money paid to Medical & Adult Services in South Dakota is budgeted to decrease by \$1.8 million from the FY2006 levels. Due to increases in personal income in South Dakota, the Federal Medical Assistance Percentage (FMAP) rate will increase by 5.3% in FY2007. An increase of \$11.1 million will be needed to cover this rate increase.

Social Services will see an increase of \$18.8 million in general funds and a decrease of \$9.6 million in federal fund expenditure authority. A \$16.5 million general fund increase is recommended in Medical & Adult Services. Four major components driving this budget are: 1) the FMAP rate, which will increase this program's general fund budget by \$8.2 million; 2) the provider inflation policy (3.0%) which is creating an increase of \$8.2 million in general funds and a federal fund increase of \$14.3 million; 3) increasing costs of medical coverage for those eligible for the Medicaid Program (90,839 individuals estimated in FY2007) which will cost an additional \$3.3 million of general funds; and 4) rising caseloads.

The Human Services budget is increasing by \$7.7 million in general funds and \$4.7 million in federal fund expenditure authority. An increase of \$2,231,868 in general funds is needed to reflect the FMAP change.

The budget for the Department of Health is increasing due to federal grants. Recommended in the FY2007 budget is a general fund increase of \$136,013, an increase of \$3,238,147 in federal fund expenditure authority and an increase of \$1,181,109 in other fund expenditure authority. An increase of \$859,186 in other fund expenditure authority is included for the Department's Correctional Health Program.

To address the safety of our State's citizens, a corrections system is required to incarcerate people convicted of crimes. The FY2007 budget specifically addresses the Department of Corrections and the state's increasing prison population. The budget for Corrections will increase by \$4.6 million in general funds and 34.7 FTE. 24.7 FTE are recommended to cover the needs of new facilities opening in FY2007.

To address one of our state's greatest obligations, keeping our citizens safe, the Governor created the Department of Public Safety in FY2003. The FY2007 budget for Public Safety will include \$3.7 million in general funds, \$28.0 million in federal fund expenditure authority, and \$23.8 million in other fund expenditure authority.

The safety of South Dakota's citizens is also addressed within the budget for the Unified Judicial System. This budget is increasing by \$1.7 million which includes an increase of \$1,637,985 in general funds, a decrease of \$53,110 in federal fund expenditure authority, an increase of \$134,327 in other fund expenditure authority, and an increase of 6.5 FTE.

The Governor is recommending the continuation of the PACE program started by former Governor George S. Mickelson. This will include a 2.5% adjustment to job worth and a 3% salary policy for state employees.

<u>Description</u>	<u>Inc/(Dec)</u>	<u>FTE</u>
Executive Branch	\$ 87,563,656	39.8
Board of Regents	36,234,644	141.8
State Aid	3,460,070	
UJS and Elected	1,420,524	10.5
Technical Institutes	1,116,103	
Special/Contin. Approp.	8,706,291	
	<u>\$138,501,288</u>	<u>192.1</u>

The Executive Branch, which is under direct control of the Governor, has the following funding changes for FY2007:

General Funds	\$32,831,597
Federal Funds	\$19,125,277
Other Funds	\$36,217,578
FTE	39.8

SUMMARY OF RECOMMENDED BUDGET ADJUSTMENTS

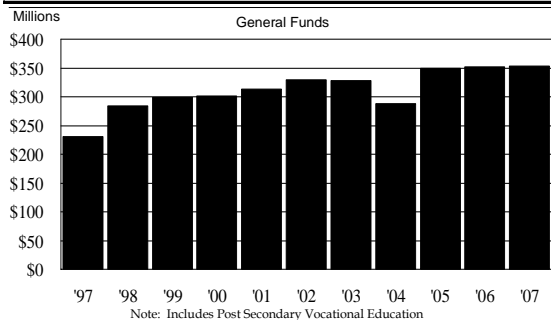
STATE AID, HIGHER EDUCATION, EDUCATION

The budgets included in this category include State Aid to Education, Higher Education, and the Department of Education. This budget comprises \$45.8 million of the \$129.8 million in total fund increases for FY2007. On the general fund side, this category accounts for \$11.6 million of the \$49.0 million increase. In terms of the total budget, the education category is 32.9% of the total funds and 49.6% of the general funds, which amounts to \$1.05 billion in total funding for education.

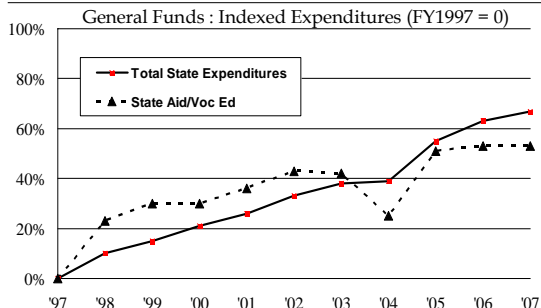
STATE AID

This category includes state aid to K-12 education, postsecondary vocational education institutes, funding of stipends for National Board of Certified Teachers (NBCT), and technology in the schools. This also includes \$3,460,070 in general funds that the Governor is recommending be set aside to fund a school efficiencies program.

State Aid to Schools



State Aid to Schools



In accordance with state statute, the Governor is recommending a 3.0% inflationary increase in the per student allocation for state aid to general education and for state aid to special education for FY2007. This brings the per-student allocation for state aid to general education to \$4,364.85 for FY2007, an increase of \$127.13 over the FY2006 base rate of \$4,237.72. This is based on a budgeted adjusted average daily membership (ADM) figure for FY2007 of 124,297. The Governor is again recommending that part of the obligation be offset by carrying over left over FY2006 state aid to general education dollars in the amount of \$6,115,376. The Governor is also recommending that \$3,460,070 in general funds be allocated to fund a school efficiencies program.

The budgeted amount for state aid to special education will remain at \$43,106,875 in general funds for FY2007. The formula for FY2007 is based on an estimated ADM figure of 131,800 with an inflationary increase of 3.0% 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.

The FY2007 recommendation for funding to provide stipends to National Board Certified Teachers and to reimburse the fees associated with taking the exam will remain at \$90,000 in general funds.

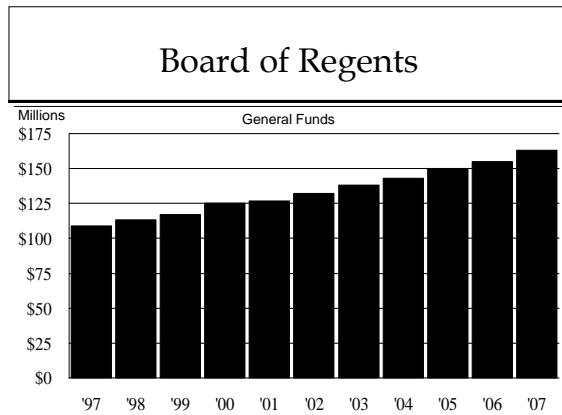
A decrease of \$1,000,000 in general funds is recommended for technology in the schools. Revenues from the E-rate program will be used to replace these dollars. The current funding level of \$6,191,325 in general funds and \$2,000,000 in other fund expenditure authority is used to support ongoing costs of the technology infrastructure.

The Governor is recommending an increase of \$1,116,103 over the FY2006 Governor's recommended budget for the postsecondary technical institutes. This increase is based on a 3.0% adjustment similar to the K-12 statutory increase. This brings the total level of funding to \$18,076,536 for FY2007.

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.



The budget for the Board of Regents contains a net increase of \$36,234,644 in total funds and 141.8 FTE over the FY2006 budget. The increase consists of \$9,043,387 in general funds, \$9,650,798 in federal fund expenditure authority, and \$17,540,459 in other fund expenditure authority. The total FY2007 recommended budget for the Board of Regents consists of \$163,203,900 in general funds, \$105,531,941 in federal fund expenditure authority, and \$259,802,735 in other fund expenditure authority, for a total FY2007 budget of \$528,538,576 and 5,424.2 FTE.

In continuation of the 2010 Initiative, the Governor is recommending 24.5 FTE and \$1,813,060 in general funds for the addition of three new Ph.D. programs. The programs being funded are DSU Doctor of Science in Information Systems, SDSM&T and USD Ph.D. in Biomedical Engineering, and SDSU Ph.D. in Energy Engineering. The Governor is also recommending 10.0 FTE and \$1,000,000 in other fund expenditure authority for funding of new research centers. The Governor's 2010 Research and Commercialization Council will review and choose the proposal(s) with the greatest potential for commercial return for South Dakota.

The South Dakota Opportunity Scholarship continues to grow and is projected to have 2,463 students receiving scholarship funds in FY2007. The amount needed to fund the scholarships in FY2007 is \$2,463,000. There will be a projected carryover of \$426,500 available to use in FY2007, along with the \$113,875 that is currently in the base. The Governor is recommending that \$714,329 in general funds, along with \$1,208,296 in available cement plant trust fund money be used to fund this scholarship.

The FY2007 recommendation includes the addition of \$538,399 in general funds and 10.4 FTE associated with the agreement between the Board of Regents and South East Technical Institute (SETI) for the delivery of courses at SETI, \$850,609

in general funds to cover the rising costs of utilities on the campuses, and \$500,000 in general funds for operating expenses.

The Board of Regents continues to grow in federal grant and contract activity. The recommended budget includes the addition of 96.9 FTE, \$8,397,537 in federal fund expenditure authority, and \$12,596,902 in other fund expenditure authority related to federal grant and contract activity. The FTE will be distributed among four campuses and the Board of Regents Central Office: BHSU (29.5 FTE), DSU (6.5 FTE), SDSU (38.0 FTE), USD (11.0 FTE), USD School of Medicine (8.9 FTE), and the Central Office (3.0 FTE). The growth in FTE is attributed to residential life and student support staffing increases, growth in student support credit hours, staffing for Vo Tech agreements, and other increases in grant and contract activity.

EDUCATION

The Governor's recommendation for the Department of Education, including the State Aid to Education formula, reflects an increase of \$2,599,680 in general funds, \$5,648,201 in federal fund expenditure authority, \$1,303,974 in other fund expenditure authority, and a decrease of 1.0 FTE. The recommended increase for state aid is \$2,460,070 in general funds and \$1,000,000 in other fund expenditure authority. The increase for Postsecondary Vocational Education is \$1,116,103 in general funds. The total recommended budget for FY2007 is \$361,694,819 in general funds, \$153,430,792 in federal fund expenditure authority, \$4,686,880 in other fund expenditure authority, and 144.0 FTE.

GENERAL ADMINISTRATION

The total recommended FY2007 budget for this division is \$1,429,816 in general funds, \$3,992,147 in federal fund expenditure authority, \$13,674 in other fund expenditure authority, and 33.0 FTE. No major changes are recommended for this division.

CAREER AND TECHNICAL EDUCATION

The total recommended FY2007 budget for this division is \$447,331 in general funds, \$4,557,192 in federal fund expenditure authority, \$154,275 in other fund expenditure authority, and 11.5 FTE. No major changes are recommended for this division.

EDUCATION SERVICES AND RESOURCES

This division includes the Office of Curriculum, Technology, and Assessment; the Office of Accreditation and Teacher Quality; the Office of School Enhancement; the Office of Education Services and Support; and the budget for the

Education Service Agencies. The recommendation for this program includes a decrease of \$1,088,929 in general funds, an increase of \$5,492,190 in federal fund expenditure authority, an increase of \$203,974 in other fund expenditure authority, and a decrease of 1.0 FTE. An increase in federal fund expenditure authority in the amount of \$5,400,000 is recommended for No Child Left Behind (NCLB), Individuals with Disabilities Education Act (IDEA), and Child and Adult Nutrition Services (CANS). Also in CANS, \$22,600 in general funds is recommended to cover the increase in monitoring required by the Child Nutrition and WIC Reauthorization Act of 2004. An additional \$40,346 in general funds is recommended in CANS to cover the increase in the required state revenue match.

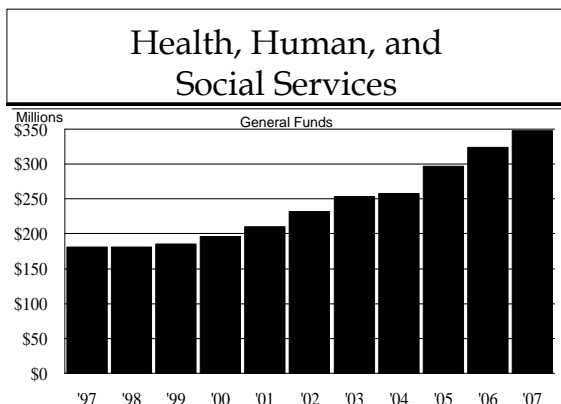
A decrease of \$1,200,000 in general funds and 1.0 FTE is recommended due to the conclusion of the SDREADS program.

STATE LIBRARY

The FY2007 recommended budget for the State Library consists of \$2,318,653 in general funds, \$1,162,978 in federal fund expenditure authority, \$186,083 in other fund expenditure authority, and 36.5 FTE. This recommendation includes an increase of \$100,000 in federal fund expenditure authority due to anticipated increases in federal grant awards and \$100,000 in other fund expenditure authority due to an increase in the Bill and Melinda Gate's Foundation Grant.

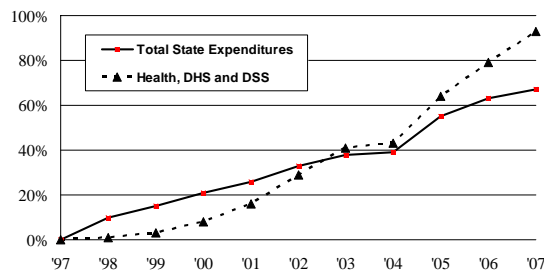
HEALTH, HUMAN, AND SOCIAL SERVICES

This portion of the budget comprises \$25.4 million of the \$129.8 million in total fund increases for FY2007. On the general fund side, Health, Human, and Social Services account for \$26.7 million of the \$49.0 million increase. In terms of the total state budget, this category is 31.8% of the total funds and 32.4% of the general funds, which amounts to \$1.0 billion in total funding.



Health, Human, and Social Services

General Funds : Indexed Expenditures (FY1997 = 0)



HEALTH

The FY2007 Governor's recommended budget for Health, including the informational budgets for boards and commissions, includes increases of \$136,013 in general funds, \$3,238,147 in federal fund expenditure authority, and \$1,181,109 in other fund expenditure authority, for a total increase of \$4,555,269, and a decrease of 5.0 FTE. The total FY2007 budget is \$8,251,167 in general funds, \$33,305,598 in federal fund expenditure authority, and \$23,718,016 in other fund expenditure authority, for a total of \$65,274,781, with 396.0 FTE.

ADMINISTRATION

The total FY2007 recommended budget for Administration is \$1,332,252 in general funds, \$1,018,198 in federal fund expenditure authority, and \$876,030 in other fund expenditure authority, with 32.5 FTE.

FAMILY PRACTICE RESIDENCY

This program contains no change from FY2006. The total FY2007 budget consists of \$895,000 in general funds.

HEALTH SYSTEMS DEVELOPMENT AND REGULATION

The Governor recommends a net increase of \$1,487,761. Of this increase, \$1,000,000 is in federal fund expenditure authority for the Bio-terrorism grant. This grant will be used for the creation of a National Electronic Disease Surveillance System. The total FY2007 budget is \$2,094,047 in general funds, \$11,187,912 in federal fund expenditure authority, and \$45,555 in other fund expenditure authority, with 63.5 FTE.

HEALTH AND MEDICAL SERVICES

The Governor recommends a net increase of \$2,015,769. Of this increase, \$612,000 in federal

fund expenditure authority is a grant for Maternal and Child Health programs. An increase of \$883,000 in federal fund expenditure authority and \$75,000 in other fund expenditure authority is for Chronic Disease Prevention and Control, which is for programs that are eligible to move to the implementation phase for chronic disease prevention. The total FY2007 budget for this division is \$3,221,985 in general funds, \$18,060,847 in federal fund expenditure authority, \$2,528,277 in other fund expenditure authority, and 179.0 FTE.

LABORATORY SERVICES

The total FY2007 budget for this division is \$1,945,301 in federal fund expenditure authority, \$3,203,437 in other fund expenditure authority, and 29.0 FTE.

CORRECTIONAL HEALTH

This program has a recommended increase of \$859,186 in other fund expenditure authority and a reduction of 5.0 FTE. This reduction is due to the efficiencies gained through a new pharmacy contract and will save the Correctional Health program a total of \$554,851 in other fund expenditure authority. An increase of \$688,625 in other fund expenditure authority is needed due to higher costs for outsourced medical services and an increased number of inmates. The total FY2007 budget for this division is \$14,476,374 in other fund expenditure authority and 71.0 FTE.

TOBACCO PREVENTION

The total FY2007 budget for this division is \$707,883 in general funds, \$1,093,340 in federal fund expenditure authority and 2.0 FTE.

PROFESSIONAL AND OCCUPATIONAL LICENSING - INFORMATIONAL

This division is comprised of the informational budgets of the professional and occupational licensing boards. There are eleven boards, including the 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, Board of Podiatry Examiners, and Board of Massage Therapy. The total recommended budget for FY2007 for the Boards is \$2,588,343. This increase represents a total increase of \$62,066 in other fund expenditure authority.

HUMAN SERVICES

The Governor is recommending increases of \$7,738,475 in general funds, \$4,662,030 in federal

fund expenditure authority, and a decrease of \$103,313 in other fund expenditure authority, for a total increase of \$12,297,192. The Governor is also recommending a decrease of 2.0 FTE. The recommendation includes an increase of \$2,231,568 in general funds and a corresponding decrease in federal fund expenditure authority due to the change in the Federal Medical Assistance Percentage (FMAP) for Title XIX programs. For FY2007, a total budget of \$217,093,451 is recommended, consisting of \$95,468,465 in general funds, \$117,379,812 in federal fund expenditure authority, and \$4,245,174 in other fund expenditure authority, with 1,230.7 FTE.

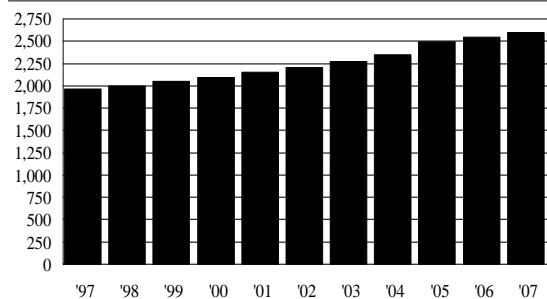
SECRETARIAT

The Governor's recommendation includes an increase in general funds of \$37,425 and an increase of \$24,594 in federal fund expenditure authority, for a total increase of \$62,019. An increase of \$4,224 in general funds is recommended for a 3.0% inflation policy.

DEVELOPMENTAL DISABILITIES

The recommendation for the Division of Developmental Disabilities is an increase in general funds of \$2,930,713 and an increase in federal fund expenditure authority of \$1,999,050, for a total increase of \$4,929,763. An increase of \$862,697 in general funds and \$1,478,581 in federal fund expenditure authority, for a total of \$2,341,278 is recommended for a 3.0% inflation policy. The Governor's recommendation also includes \$709,276 in general funds and \$1,231,819 in federal fund expenditure authority to address consumer expansion for individuals with developmental disabilities.

Developmental Disabilities Clients



SDDC--REDFIELD

The Governor's recommendation includes increases of \$753,231 in general funds and \$239,255 in federal fund expenditure authority for a total increase of \$992,486. The increases at SDDC are reflective of food services, utility increases, and personal services.

ALCOHOL AND DRUG ABUSE

The Governor recommends an increase of \$1,502,670 in general funds, \$413,639 in federal fund expenditure authority, and a decrease of \$373,699 in other fund expenditure authority, for a total increase of \$1,542,610 in this division. An increase of \$314,665 in general funds, \$69,063 in federal fund expenditure authority, and \$3,852 in other fund authority, for a total of \$387,580 is recommended for a 3.0% inflation policy.

REHABILITATION SERVICES

The Governor's recommended budget for Rehabilitation Services includes an increase of \$37,996 in general funds, an increase of \$836,900 in federal fund expenditure authority, and an increase of \$104,656 in other fund expenditure authority, for a net increase of \$979,552. An increase of \$57,398 in general funds, \$46,816 in federal fund expenditure authority, and \$6,683 in other fund expenditure authority, for a total of \$110,897 is recommended for a 3.0% inflation policy.

TELECOMMUNICATION DEVICES FOR THE DEAF

The Governor is recommending no change for Telecommunication Devices for the Deaf. The total FY2007 budget is \$1,251,680 in other fund expenditure authority.

BOARD OF COUNSELOR EXAMINERS - INFORMATIONAL

The Governor is recommending an increase of \$4,419 in other fund expenditure authority. The total FY2007 budget is \$70,686 in other fund expenditure authority.

BOARD OF PSYCHOLOGY EXAMINERS - INFORMATIONAL

The Governor is recommending an increase of \$3,097 in other fund expenditure authority. The total FY2007 budget is \$71,010 in other fund expenditure authority.

BOARD OF SOCIAL WORK EXAMINERS - INFORMATIONAL

The Governor is recommending an increase of \$74 in other fund expenditure authority. The total FY2007 budget is \$87,885 in other fund expenditure authority.

CERTIFICATION BOARD FOR ALCOHOL & DRUG PROFESSIONALS - INFORMATIONAL

The Governor is recommending an increase of \$29,056 in other fund expenditure authority. The total FY2007 budget is \$121,614 in other fund expenditure authority and 1.3 FTE.

SERVICES TO THE BLIND AND VISUALLY IMPAIRED

The Governor is recommending an increase of \$9,798 in general funds, an increase of \$112,722 in federal fund expenditure authority, and an increase of \$5,295 in other fund expenditure authority, for a total increase of \$127,815 in the Division of Services to the Blind and Visually Impaired. The Governor is also recommending a decrease of 1.0 FTE.

HUMAN SERVICES CENTER

The Governor recommends increases of \$1,578,473 in general funds, \$273,215 in federal fund expenditure authority, and \$10,248 in other fund expenditure authority for a total increase of \$1,861,936. Miscellaneous 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 \$888,169 in general funds, an increase of \$762,655 in federal fund expenditure authority, and an increase of \$113,541 in other fund expenditure authority, for a net increase of \$1,764,365. Additional funding is recommended for Mental Health waiting lists, at a total cost of \$228,060 in general funds and \$123,113 in federal fund expenditure authority. An increase of \$338,760 in general funds, \$242,493 in federal fund expenditure authority, and \$7,204 in other fund expenditure authority, for a total increase of \$588,457 is recommended for a 3.0% inflation policy.

SOCIAL SERVICES

The Governor's recommended budget for the Department of Social Services is \$238,882,258 in general funds, \$486,210,105 in federal fund expenditure authority, \$6,905,613 in other fund expenditure authority, for a total FY2007 budget of \$731,997,976 and 990.5 FTE. This recommendation includes an increase of \$18,834,368 in general funds, a decrease of \$9,587,681 in federal fund expenditure authority, and a decrease of \$735,543 in other fund expenditure authority.

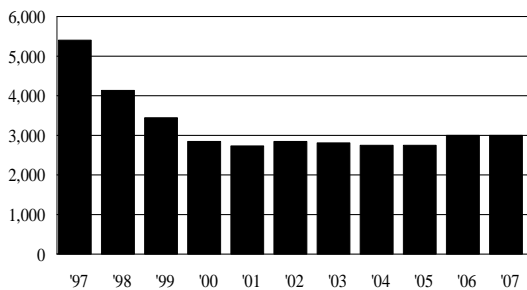
ADMINISTRATION

The recommended budget for Administration includes an increase of \$48,014 in general funds, \$8,262,546 in federal fund expenditure authority, and a decrease of \$24,589 in other fund expenditure authority, for a total increase of \$8,285,971. The major adjustment to this budget includes an increase in federal fund expenditure authority for the implementation of phase two of the Medicaid Management Information System (MMIS).

ECONOMIC ASSISTANCE

The Governor's recommended budget for Economic Assistance includes an increase of \$366,011 in general funds, and \$507,037 in federal fund expenditure authority, for a total increase of \$873,048. The major adjustments to this budget include inflationary increases for Auxiliary Placement and the availability of federal funds.

TANF Case Load in South Dakota

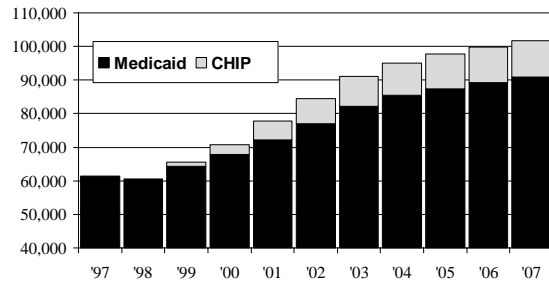


MEDICAL AND ADULT SERVICES

The recommended budget for Medical and Adult Services includes an increase of \$16,544,185 in general funds, a decrease of \$17,956,058 in federal fund expenditure authority, and a decrease of \$388,794 in other fund expenditure authority, for a total decrease of \$1,800,667. The FY2007 recommended budget is \$193,054,713 in general funds, \$370,991,150 in federal fund expenditure authority, and \$2,830,649 in other fund expenditure authority, for a total budget of \$566,876,512, and 134.5 FTE. The major adjustment to this budget is an increase over the FY2006 base budget of \$8,209,949 in general funds and an equivalent offsetting decrease in federal fund expenditure authority due to the change in the Federal Medical Assistance Percentage (FMAP). Other adjustments include: 1) an inflationary increase based on the 3.0% provider inflation policy of \$8,188,356 in general funds and \$14,332,391 in federal fund expenditure authority; 2) an increase of \$3,263,083 in general funds and \$5,689,088 in federal fund expenditure authority due to the growth in the number of Medicaid clients and the increased

utilization of Medical Services; 3) a reduction of \$25,845,520 in federal fund expenditure authority due to the implementation of Medicare Part D; and 4) a projected budget savings of \$3,527,789 in general funds and \$5,891,589 in federal fund expenditure authority due to reduced costs and the implementation of cost containment initiatives, including SB 58 from the 2005 Legislative Session, which increases data matching capabilities with private insurers.

Medical Assistance Case Loads in South Dakota



CHILDREN'S SERVICES

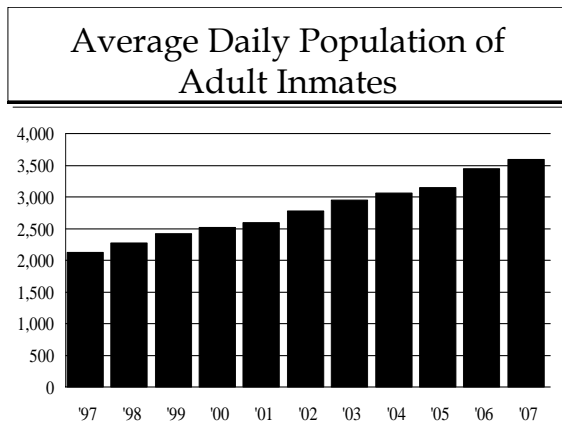
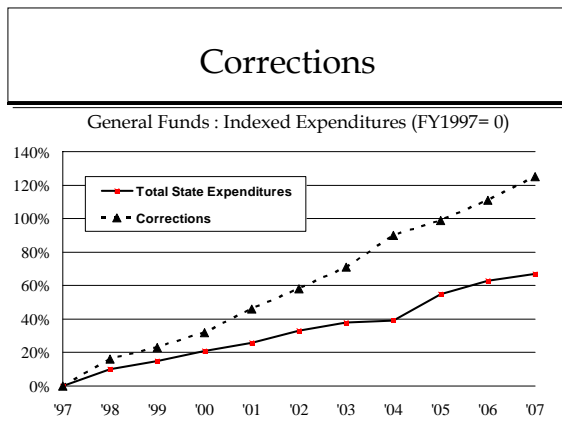
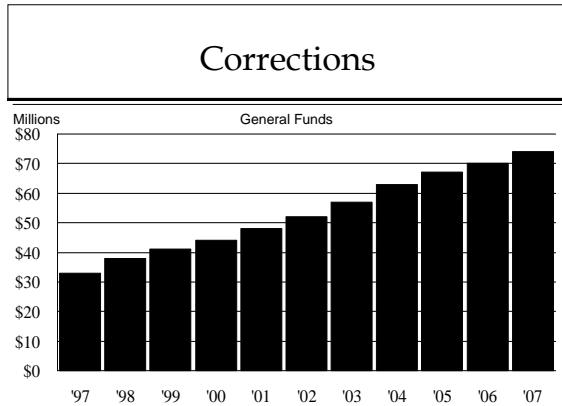
The Governor's recommended FY2007 budget for Children's Services includes an increase of \$1,876,158 in general funds, a decrease of \$401,206 in federal fund expenditure authority, and a decrease of \$322,160 in other fund expenditure authority, for a total increase of \$1,152,792. The major adjustment to this budget is due to lost federal funding that is being offset by general funds. The lost federal funding includes a reduction in child support incentive awards for the Division of Child Support due to federal formula changes at the national level and a reduction of food stamp incentive awards to be used for Child Care Services.

CORRECTIONS

The Governor's recommendation for the Department of Corrections includes an increase of \$4,625,456 in general funds, a decrease of \$761,385 in federal fund expenditure authority, and an increase of \$439,351 in other fund expenditure authority, for a net increase of \$4,303,422. The Governor is also recommending an increase of 34.7 FTE, for a total FTE count of 905.5.

The Average Daily Count (ADC) of adult inmates is projected to reach 3,587 in FY2007. This represents an increase of 443 inmates over the actual FY2005 ADC of 3,144 inmates, or a 12.4% increase over two years. The average daily population of juveniles in institutional settings within the Department of

Corrections is projected at 189 for FY2007, which is the same as the actual count in FY2005.



ADMINISTRATION

The Governor is recommending an increase in general fund of \$1,286,593, an increase of \$437 in federal fund expenditure authority, and an increase of \$42,743 in other fund expenditure authority. The majority of the general fund increases are tied to the Sex Offender program and for increased costs of the Inmate Medical and Mental Health Services agreement with the Department of Health and the Department of Human Services. The total recommended budget in Administration includes \$16,936,556 in general funds, \$1,831,822 in federal

fund expenditure authority, and \$172,743 in other fund expenditure authority, with 28.0 FTE.

MIKE DURFEE STATE PRISON

The recommendation for the Mike Durfee State Prison (MDSP) includes an increase of \$555,812 in general funds, a decrease of \$4,954 in federal fund expenditure authority, and an increase of \$3,734 in other fund expenditure authority, for a total increase of \$554,592. Major impacts to this division are food services, clothing, and utilities increases. The overall budget for MDSP is \$11,705,759 in general funds, \$86,145 in federal fund expenditure authority, \$311,986 in other fund expenditure authority, and 183.0 FTE.

STATE PENITENTIARY

The recommendation for the South Dakota State Penitentiary (SDSP) includes an increase of \$1,678,884 in general funds, a decrease of \$19,932 in federal fund expenditure authority, and an increase of \$2,891 in other fund expenditure authority for a total increase of \$1,661,843. The number of employees will increase by 24.7 FTE due to the construction of Unit D. The overall budget for SDSP is \$17,268,733 in general funds, \$421,676 in federal fund expenditure authority, \$413,038 in other fund expenditure authority, and 293.0 FTE.

WOMEN'S PRISON

The budget for the Women's Prison (SDWP) is recommended to increase by \$158,739 in general funds. The overall budget for SDWP is \$2,906,427 in general funds, \$374,818 in federal fund expenditure authority, \$76,814 in other fund expenditure authority, and 50.0 FTE.

PHEASANTLAND INDUSTRIES

The recommendation for Pheasantland Industries is an increase of \$63,951 in other fund expenditure authority and an increase of 1.0 FTE, which will be a Prison Shop Foreman. This will bring the total budget to \$2,936,590 in other fund expenditure authority and 14.0 FTE.

COMMUNITY SERVICES

Community Services is recommended to increase by \$190,028 in general funds, decrease by \$118,126 in federal fund expenditure authority, and increase by \$297,271 in other fund expenditure authority. The Governor also recommends an increase of 1.0 FTE. Miscellaneous increases are due to food services and community service placements.

PAROLE SERVICES

The recommendation for Parole Services is an increase of \$471,873 in general funds, a decrease of \$27,000 in federal fund expenditure authority, an increase of \$4,091 in other fund expenditure authority, and an increase of 8.0 FTE. The FTE increase will consist of 7.0 Parole Agents and 1.0 for a Transition Case Manager.

JUVENILE COMMUNITY CORRECTIONS

Juvenile Community Corrections is recommended to increase by \$366,533 in general funds, decrease by \$668,820 in federal fund expenditure authority, and increase by \$24,670 in other fund expenditure authority for a total decrease of \$277,617. An \$800,000 reduction in federal fund authority is due to the Re-entry grant being fully utilized. Other adjustments reflect adding ten group and residential beds along with a reduction of ten West Farm beds.

YOUTH CHALLENGE CENTER/LIVING CENTER

The Governor recommends increases of \$57,364 in general funds and \$8,241 in federal fund expenditure authority at the Youth Challenge Center/Living Center (YCC/LC). The total budget for YCC/LC is \$1,729,076 in general funds, \$236,618 in federal fund expenditure authority, \$14,942 in other fund expenditure authority, and 41.0 FTE.

PATRICK HENRY BRADY ACADEMY

The Governor recommends an increase of \$64,283 in general funds. The total budget for the Patrick Henry Brady Academy is \$1,908,277 in general funds, \$14,280 in other fund expenditure authority, and 36.0 FTE.

STATE TREATMENT AND REHABILITATION (STAR) ACADEMY

The State Treatment and Rehabilitation (STAR) Academy contains the budget for food service, physical plant, medical, education, and administration for the Custer juvenile programs. The budget for FY2007 is recommended to increase by \$28,445 in general funds and by \$28,614 in federal fund expenditure authority for a total increase of \$57,059.

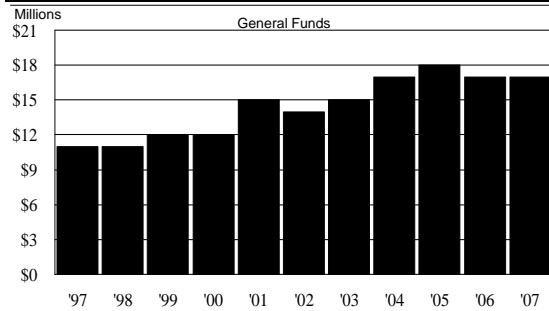
QUEST/EXCEL

The Governor recommends an increase of \$5,402 in general funds and an increase of \$40,155 in federal fund expenditure authority at Quest/ExCel. The total budget for Quest/ExCel is \$289,701 in general funds, \$1,105,080 in federal fund expenditure authority, \$12,650 in other fund expenditure authority, and 27.0 FTE.

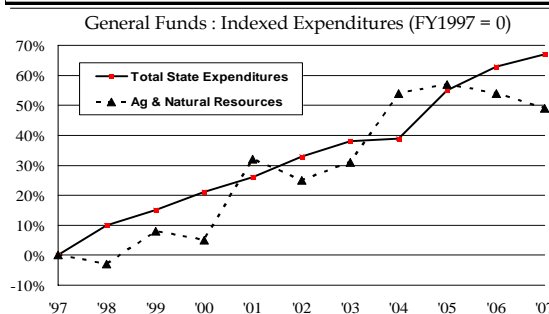
AGRICULTURE; ENVIRONMENT AND NATURAL RESOURCES; AND, GAME, FISH, AND PARKS

This portion of the budget represents \$5.7 million of the recommended \$129.8 million in total fund increases for FY2007. The total general funds appropriated to Agriculture; Environment & Natural Resources; and, Game, Fish, & Parks are recommended to increase by \$1.3 million. Federal and other fund expenditure authority are recommended to increase by \$4.4 million. In comparison to the total state budget, this category represents 4.4% of the total recommended FY2007 increase and 2.6% of the recommended general fund increase.

Agriculture, Natural Resources and Game, Fish, and Parks



Agriculture, Natural Resources and Game, Fish, and Parks



AGRICULTURE

The Governor's FY2007 recommended budget for the Department of Agriculture is \$29,382,313; consisting of \$5,998,112 in general funds, \$6,772,398 in federal fund expenditure authority, \$16,611,803 in other fund expenditure authority, and a total of 197.8 FTE. This represents a \$3,361,719 increase in the Department of Agriculture's overall budget, and an increase of 1.3 FTE.

OFFICE OF THE SECRETARY

The Governor is recommending an increase of \$19,506 for the Office of the Secretary. The Secretary's total budget is \$698,356 and consists of \$614,182 in general funds, \$49,895 in federal fund expenditure authority, and \$34,279 in other fund expenditure authority, with 7.5 FTE.

AGRICULTURAL SERVICES & ASSISTANCE

The recommended FY2007 budget for Agricultural Services & Assistance includes \$2,216,209 in general funds, \$2,635,347 in federal fund expenditure authority, and \$2,558,676 in other fund expenditure authority for a total budget of \$7,410,232, with 84.9 FTE. This recommendation reflects a total increase of \$540,706. Included in the recommendation is a \$60,682 reduction for Agriculture Services and a \$601,338 increase for Fire Suppression.

The recommended budget for Agriculture Services is \$3,846,707 and 34.0 FTE.

The total recommended budget for Fire Suppression includes \$3,563,525 and 50.9 FTE. Included in the FY2007 budget is an increase of \$405,012 in federal fund expenditure authority for the two fire fighting hand crews based in the Black Hills.

AGRICULTURAL DEVELOPMENT & PROMOTION

The Governor is recommending a total increase of \$218,275 for Agriculture Development & Promotion. The total recommended FY2007 budget of \$6,652,208 consists of \$1,421,338 in general funds, \$1,964,946 in federal fund expenditure authority, \$3,265,924 in other fund expenditure authority, and 48.5 FTE. The recommended budget for Agriculture Development & Promotion includes a total fund increase of \$150,186 for Agriculture Development, \$44,827 for Resource Conservation & Forestry, and \$23,262 for the State Fair.

The total FY2007 recommended budget for Agriculture Development is \$1,480,021 and 9.0 FTE. Included in the recommendation is an increase of \$128,100 in other fund expenditure authority for the management of the Certified Beef Program.

The total recommended budget for Resource Conservation & Forestry is \$3,052,646 and 20.0 FTE.

The recommended budget for the State Fair is \$2,119,541. The State Fair's budget is comprised of \$260,000 in general funds, \$1,859,541 in other fund expenditure authority, and 19.5 FTE.

ANIMAL INDUSTRY BOARD

The recommended budget for the Animal Industry Board includes an increase of \$92,839 in general funds, an increase of \$318,287 in federal fund expenditure authority, and an increase of 1.0 FTE. An increase of \$260,000 in federal fund expenditure authority will provide for tracking of animals through livestock auction markets, video auction, order buyers, feedlots, and in public grazing land where livestock are commingled. The total budget for the Animal Industry Board is \$3,995,233 and 43.9 FTE.

ENVIRONMENT AND NATURAL RESOURCES

The Governor's recommended budget for the Department of Environment and Natural Resources totals \$16,804,791, and consists of \$6,083,124 in general funds, \$5,640,034 in federal fund expenditure authority, \$5,081,633 in other fund expenditure authority, and 173.5 FTE.

FINANCIAL AND TECHNICAL ASSISTANCE

The Financial and Technical Assistance budget consists of \$4,568,922 in total funds and 58.0 FTE.

ENVIRONMENTAL SERVICES

The Governor recommends a total FY2007 budget for Environmental Services of \$9,720,869 and 115.5 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.

GAME, FISH, AND PARKS

The FY2007 recommended budget for the Department of Game, Fish, and Parks totals \$60,458,750, including \$5,770,213 in general funds, \$14,319,300 in federal fund expenditure authority, \$40,369,237 in other fund expenditure authority, and 560.3 FTE. This budget reflects an overall increase of \$1,973,440.

CONSERVATION RESERVE ENHANCEMENT PROGRAM

The Governor is recommending a decrease of \$5,620 in general funds for the Conservation Reserve Enhancement Program. The total recommended budget for FY2007 is \$1,173,438 in general funds. These funds are dedicated for the retirement of bonds issued to lease land from farmers and ranchers in the Conservation Reserve Program.

ADMINISTRATION

The Governor recommends a total budget of \$4,225,760 and 27.1 FTE for the Division of Administration. Included in the recommendation is a general fund increase of \$795,614 for the bond payment relating to the Department's fish hatchery upgrades.

WILDLIFE – INFORMATIONAL

The recommendation for the Division of Wildlife includes an increase of \$298,062 in federal fund expenditure authority and an increase of \$407,336 in other fund expenditure authority. Included in the recommendation is a \$267,263 increase in federal fund expenditure authority for hunter safety grants and expansion of Title VI efforts along the Missouri River. The total recommended budget for the Division of Wildlife is \$31,952,920 and 281.0 FTE.

The Development and Improvement Program is recommended to increase by \$21,500, with a total budget of \$262,000 in federal fund expenditure authority and \$510,000 in other fund expenditure authority.

STATE PARKS AND RECREATION

The Division of State Parks and Recreation's recommended FY2007 budget includes \$3,242,686 in general funds, \$1,759,947 in federal fund expenditure authority, and \$9,810,947 in other fund expenditure authority for a total budget of \$14,813,580 and 241.8 FTE. Included in the recommendation is a \$6,546 general fund increase to reflect the change in the Custer State Park bond payment.

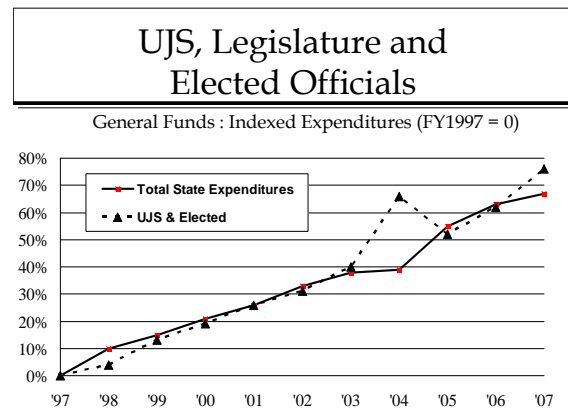
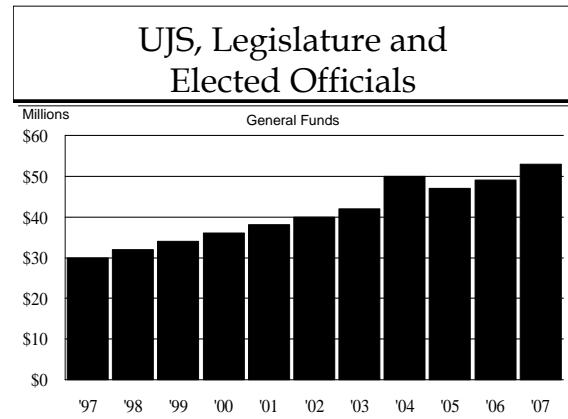
The Division of State Parks and Recreation's Development and Improvement Program has a recommended decrease of \$39,391. Included in the recommendation is a reduction of \$684,416 in federal fund expenditure authority and an increase of \$645,025 in other fund expenditure authority. The total recommended budget for the Development and Improvement Program includes \$202,175 in general funds, \$3,403,677 in federal fund expenditure authority, \$2,893,725 in other fund expenditure authority, and 1.3 FTE.

SNOWMOBILE TRAILS – INFORMATIONAL

Recommended changes within the Snowmobile Trails Program include a decrease of \$26,800 in federal fund expenditure authority and an increase of \$38,710 in other fund expenditure authority. The total recommended budget for the Snowmobile Trails Program is \$104,000 in federal fund expenditure authority, \$887,475 in other fund expenditure authority, and 9.1 FTE.

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

The Governor's recommendation for the FY2007 budget for this sector (excluding special appropriations) totals \$82,377,780, of which \$52,721,456 is general funds, \$8,153,799 is federal fund authority, and \$21,502,525 is other fund expenditure authority. This reflects an increase of \$3,557,144 in general funds, a decrease of \$3,649,332 in federal fund authority, and an increase of \$901,916 in other fund expenditure authority, for a total increase of \$1,420,524 which is 1.1% of the total increases and 7.3% of the general fund increases in the FY2007 budget. The recommendation also includes an increase of 10.5 FTE, for a total of 843.9 FTE.



LEGISLATURE

The total FY2007 recommended budget for the South Dakota Legislature is \$7,434,903 in general funds, \$35,000 in other fund expenditure authority, and 69.3 FTE. Changes to the budget for the Legislative Research Council include an increase of \$69,919 in travel due to a 40-day session and an increase of \$40,261 in personal services due to a 40-day session. The Governor is also recommending an increase of \$37,223 in personal services and \$32,125 in operating expenses for Legislative Audit. In addition to these increases, salary policy adds \$140,827 in general funds for employee compensation. The net change for the South Dakota Legislature is an increase of \$318,817 in general funds.

UNIFIED JUDICIAL SYSTEM

The Governor's FY2007 recommendation for the Unified Judicial System includes an increase of \$1,637,985 in general funds, a decrease of \$53,110 in federal fund expenditure authority, and an increase of \$134,327 in other fund expenditure authority, for a total increase of \$1,719,202. This recommendation also contains 6.5 additional FTE. Expansion in personal services amounts to \$1,388,030, of which \$258,860 is for the new FTE. The total FY2007 recommended budget totals \$36,105,294 and consists of \$30,224,004 in general funds, \$492,633 in federal fund expenditure authority, \$5,388,657 in other fund expenditure authority, and 498.8 FTE.

The operating side of the Unified Judicial System's budget is increasing by \$303,406 in general funds and by \$27,766 in other fund expenditure authority. Operating expenses such as travel, contractual services, and supplies account for a portion of the increase along with an increase in Community Based services.

PUBLIC UTILITIES COMMISSION

The Governor recommends increases of \$19,333 in general funds, \$2,493 in federal fund expenditure authority, and \$62,092 in other fund expenditure authority for the Public Utilities Commission. The total FY2007 recommended budget is \$586,374 in general funds, \$348,558 in federal fund expenditure authority, and \$2,988,687 in other fund expenditure authority, with 30.7 FTE.

ATTORNEY GENERAL

The Governor's recommendation for the Office of the Attorney General is an overall budget increase of \$652,674. The FY2007 budget recommendation

consists of an increase of \$2,105,657 in general funds, a decrease of \$1,617,615 in federal fund expenditure authority, and an increase of \$164,632 in other fund expenditure authority with an additional 2.0 FTE. The total recommended FY2007 budget for the Office of the Attorney General is \$9,161,862 in general funds, \$3,827,366 in federal fund expenditure authority, and \$3,705,984 in other fund expenditure authority, for a total budget of \$16,695,212, with 146.0 FTE.

LEGAL SERVICES

The recommended budget for the Legal Services Program is \$6,715,984. This represents an increase of \$1,032,294 in general funds, a decrease of \$1,714,185 in federal fund expenditure authority, and an increase of \$41,690 in other fund expenditure authority. The main change within this program is the replacement of Edward Byrne funding.

CRIMINAL INVESTIGATION

The overall recommended budget for the Division of Criminal Investigation is \$8,131,553. This includes an increase of \$689,035 in general funds, an increase of \$96,570 in federal fund expenditure authority, an increase of \$31,769 in other fund expenditure authority, and an increase of 2.0 FTE. The recommended increases in general funds in this division are to cover the bond payment and operating expenses.

LAW ENFORCEMENT TRAINING

The Governor's recommendation for Law Enforcement Training is an increase of \$384,328 in general funds and an increase of \$87,015 in other fund expenditure authority. The total budget for this division is \$384,328 in general funds and \$1,270,464 in other fund expenditure authority. The increases within this division are to cover shortfalls in personal services and space billing as a result of moving into the new facility.

911 TRAINING

The Governor is recommending an increase of \$4,158 in other fund expenditure authority. The total budget for this division is \$192,883 in other fund expenditure authority.

SECRETARY OF STATE

The Governor's recommendation for the Secretary of State's FY2007 budget is \$934,291 in general funds, \$3,234,321 in federal fund expenditure authority, and \$261,595 in other fund expenditure authority, with 15.3 FTE. This budget recommendation includes a \$1,987,212 decrease in

federal fund expenditure authority. The large decrease in federal funds is due to the electronic voting machines being purchased in FY2006 for the Help America Vote Act.

SCHOOL AND PUBLIC LANDS

The Governor's recommendation for the FY2007 School and Public Lands' budget is \$524,350 in general funds and \$225,000 in other fund expenditure authority, for a total budget of \$749,350, with 7.0 FTE.

STATE AUDITOR

The Governor's recommended budget is an increase of \$45,440 in general funds. The increase includes \$38,921 for personal services to cover a budget shortfall and employee retirement payouts, and a decrease of \$29,920 due to completion of the scanning project. The total FY2007 recommended budget is \$1,125,291 in general funds and 17.3 FTE.

STATE TREASURER

The Governor's recommended budget includes an increase of \$8,412 in general funds, \$559,080 in other fund expenditure authority, and 2.0 FTE. The total FY2007 recommended budget consists of \$486,866 in general funds, \$8,897,602 in other fund expenditure authority, and 36.5 FTE.

TREASURY MANAGEMENT

The Governor's recommended FY2007 budget consists of \$486,866 in general funds and 5.5 FTE.

UNCLAIMED PROPERTY - INFORMATIONAL

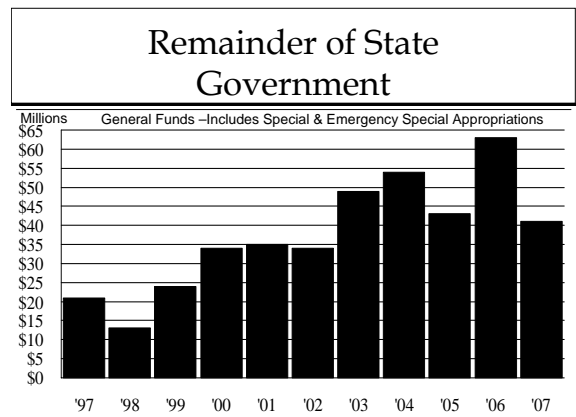
The recommended FY2007 budget consists of \$2,364,622 in other fund expenditure authority and 3.0 FTE.

INVESTMENT COUNCIL

The Governor recommends an increase of \$558,111 in other fund expenditure authority and 2.0 FTE for the Investment Council. Included in the increase is \$524,757 for personal services and 2.0 FTE to increase coverage of the high yield investment category. The Investment Council's salary budget is slated to increase 7.0%. Also included in the Governor's recommendation is an increase of \$33,354 for operating expenses. The total recommended FY2007 budget is \$6,532,980 in other fund expenditure authority and 28.0 FTE.

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 \$47.2 million of the \$129.8 million in total fund increases for FY2007. On the general fund side, this category accounts for \$1.2 million of the \$49.0 million increase. In terms of the total state budget, this group has 26.4% of the total funds and 4.3% of the general funds, which amounts to \$840.9 million in total funding.



EXECUTIVE MANAGEMENT

The Governor's recommendation for the Department of Executive Management includes a reduction of \$1,257,692 in general funds, an increase of \$111,486 in federal fund expenditure authority, and an increase of \$1,636,893 in other fund expenditure authority, for a net increase of \$490,687. The Governor is also recommending an increase of 4.5 FTE to fully staff the new DCI building. The total FY2007 budget includes \$24,032,502 in general funds, \$3,611,737 in federal fund expenditure authority, and \$82,991,374 in other fund expenditure authority, for a total of \$110,635,613, with 659.3 FTE.

GUBERNATORIAL DIVISION

The Governor is recommending a reduction in the FY2007 Gubernatorial Division budget of \$610,796 in total funds. This reduction is in conjunction with the special appropriation for the creation of an underground laboratory at the old Homestake Gold Mine. The FY2007 recommended budget is \$2,243,515 in general funds and \$250,921 in federal fund expenditure authority, for a total budget of \$2,494,436, and 23.0 FTE.

BUREAU OF FINANCE AND MANAGEMENT

The Governor recommends a general fund decrease of \$600,024 attributable to the original Bureau of Finance and Management (BFM) sale/leaseback agreement schedule. The total recommended FY2007 budget for BFM is \$10,610,100 in general funds and \$5,150,839 in other fund expenditure authority, for a total FY2007 recommended budget of \$15,760,939, and 25.0 FTE.

BUREAU OF ADMINISTRATION

The Governor recommends a decrease of \$6,251 in general funds and an increase of \$602,397 in other fund expenditure authority. This budget recommendation includes an increase of 4.5 FTE to staff the new DCI building for a full year. The total FY2007 recommended budget for this division is \$5,132,173 in general funds, \$500,000 in federal fund expenditure authority, and \$29,597,847 in other fund expenditure authority, for a total FY2007 budget of \$35,230,020, and 177.5 FTE.

BUREAU OF INFORMATION AND TELECOMMUNICATIONS

The Governor's total recommended FY2007 budget for the Bureau of Information and Telecommunications is \$5,298,151 in general funds, \$2,360,816 in federal fund expenditure authority, and \$37,254,368 in other fund expenditure authority, for a total FY2007 recommended budget of \$44,913,335, and 364.3 FTE.

BUREAU OF PERSONNEL

The Governor's recommendation for the Bureau of Personnel includes a decrease of \$160,724 in general funds, a decrease of \$7,915 in federal fund expenditure authority, and an increase of \$291,280 in other fund expenditure authority for a total increase of \$122,641. The total FY2007 budget consists of \$748,563 in general funds, \$500,000 in federal fund expenditure authority, and \$10,988,320 in other fund expenditure authority, for a total of \$12,236,883, and 69.5 FTE.

MILITARY AND VETERANS' AFFAIRS

The Governor's recommendation for the Department of Military and Veterans' Affairs (MVA) includes increases of \$199,309 in general funds, \$4,853,775 in federal fund expenditure authority, and \$94,425 in other fund expenditure authority. The total recommended FY2007 budget for MVA is \$5,661,999 in general funds, \$20,483,089 in federal fund expenditure authority, and \$4,271,706 in other

fund expenditure authority, for a total of \$30,416,794, with 193.6 FTE.

OFFICE OF THE ADJUTANT GENERAL

The Governor's FY2007 total budget recommendation for the Office of the Adjutant General is \$648,385 in general funds, \$11,300 in federal fund expenditure authority, and \$24,808 in other fund expenditure authority, with 4.3 FTE.

ARMY AND AIR GUARD

The Governor's recommendation for the Guard is an increase of \$85,037 in general funds, \$4,845,816 in federal fund expenditure authority, and a decrease of \$50,192 in other fund expenditure authority. The increase in general funds is mainly due to increased utility costs. The total FY2007 recommended budget for the Army Guard is \$16,310,838, and 48.6 FTE. The total FY2007 recommendation for the Air Guard is \$5,546,678, and 41.0 FTE.

VETERANS' BENEFITS AND SERVICES

The total recommended FY2007 budget for Veterans' Benefits and Services is \$1,063,995 in general funds and \$228,386 in federal fund expenditure authority, for a total of \$1,292,381 and 18.0 FTE.

STATE VETERANS' HOME

The Governor's recommendation for the State Veterans' Home includes an increase of \$70,489 in general funds and an increase of \$143,999 in other fund expenditure authority. The majority of the increases are due to inflationary increases in medical services and supplies. The total recommended FY2007 budget is \$1,848,006 in general funds, \$487,500 in federal fund expenditure authority, and \$4,246,898 in other fund expenditure authority, for a total budget of \$6,582,404, and 81.7 FTE.

REVENUE AND REGULATION

The Governor's recommended budget for the Department of Revenue and Regulation totals \$55,270,598, and consists of \$1,021,480 in general funds, \$54,249,118 in other fund expenditure authority, and 311.1 FTE. The Governor is recommending an increase of \$119,993 in general funds, a decrease of \$11,998 in federal fund expenditure authority, and a reduction of \$1,803,935 in other fund expenditure authority. The Governor is also recommending a decrease of 2.0 FTE.

SECRETARIAT

The recommended budget consists of \$159,983 in general funds and \$3,393,972 in other fund expenditure authority, for a total budget of \$3,553,955 and 39.0 FTE.

BUSINESS TAX

The Governor is recommending an increase of \$75,000 in other fund expenditure authority for membership dues for the Streamlined Sales Tax. The FY2007 recommended budget consists of \$3,364,903 in other fund expenditure authority and 50.0 FTE.

MOTOR VEHICLES

The Governor's recommendation includes a reduction of \$11,998 in federal fund expenditure authority to reflect the completion of a federal grant with the Federal Highway Administration for motor fuel tax evasion. The Governor's recommendation also includes a decrease of \$2,350,000 in other fund expenditure authority due to the completion of the 2006 license plate production. The total FY2007 recommended budget consists of \$6,457,042 in other fund expenditure authority and 47.1 FTE.

PROPERTY AND SPECIAL TAXES

The Governor is recommending an increase of \$115,651 in general funds and 2.0 additional FTE to work with the Attorney General's Office to assure compliance with the Tobacco Master Settlement Agreement (MSA). Included in the general fund increase is funding to cover the personal services of the additional FTE and operating expenses associated with enforcing the MSA provisions. The recommended FY2007 budget consists of \$861,497 in general funds and 13.0 FTE.

AUDITS

The recommended FY2007 budget consists of \$3,168,730 in other fund expenditure authority and 52.0 FTE.

BANKING

The Governor's recommendation is an increase of \$67,595 in other fund expenditure authority. Included in the increase is \$21,611 for the bank examiner career enhancement program and \$7,489 for membership dues, registration fees, and training resources. The recommended FY2007 budget is \$1,260,608 in other fund expenditure authority and 15.5 FTE.

SECURITIES

The FY2007 recommended budget consists of \$368,000 in other fund expenditure authority and 5.0 FTE.

INSURANCE

The recommended FY2007 budget consists of \$1,770,124 in other fund expenditure authority and 28.5 FTE.

INSURANCE FRAUD UNIT - INFORMATIONAL

The Governor's recommended FY2007 budget is \$305,193 in other fund expenditure authority and 4.0 FTE.

PETROLEUM RELEASE COMPENSATION

The Governor is recommending a decrease of \$110,109 in other fund expenditure authority in personal services and a reduction of 2.0 FTE due to the decreased workload of the program. The Governor is recommending no change in the informational part of this budget. The total recommended FY2007 budget for Petroleum Release Compensation is \$4,027,682 in other fund expenditure authority and 5.0 FTE.

LOTTERY

The Governor is recommending a decrease of \$5,412 in other fund expenditure authority and a reduction of 2.0 FTE. The total recommended FY2007 budget for Lottery is \$28,385,311 in other fund expenditure authority and 31.0 FTE.

REVENUE BOARDS AND COMMISSIONS – INFORMATIONAL

This includes the informational budgets of the Real Estate Commission, the Abstracters Board of Examiners, and the Commission on Gaming. The total FY2007 recommended budget for the Boards and Commissions is \$1,747,553 in other fund expenditure authority and 21.0 FTE.

TOURISM AND STATE DEVELOPMENT

The Governor's recommended budget for the Department of Tourism and State Development totals \$76,430,484, and consists of \$11,732,926 in general funds, \$13,631,760 in federal fund expenditure authority, \$51,065,798 in other fund expenditure authority, and 193.9 FTE. The Governor is recommending an increase of \$1,390,706 in general funds, \$56,253 in federal fund expenditure authority, and \$18,570,351 in other fund expenditure authority. The Governor is also recommending an increase of 9.3 FTE.

ECONOMIC DEVELOPMENT

The recommended budget for Economic Development consists of \$3,400,442 in general funds, \$10,404,997 in federal fund expenditure authority, and \$13,055,727 in other fund expenditure authority, for a total budget of \$26,861,166 and 40.8 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 FY2007, the Governor is recommending an increase of \$472,029 in other fund expenditure authority for additional advertising and promotions based on a projected 5.75% growth in revenues. The total FY2007 recommended budget consists of \$8,719,489 in other fund expenditure authority and 24.8 FTE.

RESEARCH COMMERCE

The Governor is recommending an increase of \$1,284,712 in general funds for the Division of Research Commerce. Included in the increase is \$1,000,000 to fund research centers in the Board of Regents and \$280,000 for Creating Entrepreneurial Opportunities Centers. The total recommended FY2007 budget is \$4,811,772 in general funds and 2.0 FTE.

TRIBAL GOVERNMENT RELATIONS

The Governor is recommending a total increase of \$8,679 in general funds, of which \$3,000 is for travel due to increased state, regional, and national involvement. The total recommended FY2007 budget is \$212,502 in general funds and 3.0 FTE.

CULTURAL AFFAIRS

The Governor is recommending an increase of \$46,550 in general funds, \$9,486 in federal fund expenditure authority, and \$70,014 in other fund expenditure authority for Cultural Affairs. The total recommended FY2007 budget consists of \$3,308,210 in general funds, \$1,489,005 in federal fund expenditure authority, and \$1,635,136 in other fund expenditure authority, for a total budget of \$6,432,351 and 47.0 FTE.

SOUTH DAKOTA HOUSING DEVELOPMENT AUTHORITY - INFORMATIONAL

The total FY2007 recommended budget is \$10,210,621, and consists of \$1,737,758 in federal fund expenditure authority, \$8,472,863 in other fund expenditure authority, and 64.0 FTE.

SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY - INFORMATIONAL

The Governor is recommending an increase of \$17,884,031 in other fund expenditure authority and 9.3 FTE to begin the process of constructing the underground laboratory at the former Homestake Mine. The total FY2007 recommended budget consists of \$19,182,583 in other fund expenditure authority and 12.3 FTE.

TRANSPORTATION

Construction contracts make up 68% of the Department of Transportation's \$471.7 million budget. The \$320.6 million budgeted for Construction Contracts is informational.

The Department of Transportation's recommended FY2007 budget contains \$501,366 in general funds, \$280,098,341 in federal fund expenditure authority, \$191,123,481 in other fund expenditure authority, and 1,075.3 FTE. The FY2007 budget reflects an increase of \$7,727 in general funds, an increase of \$11,071,617 in federal fund expenditure authority, and an increase of \$11,303,291 in other fund expenditure authority.

The Governor's FY2007 recommendation for General Operations includes increases of \$7,727 in general funds, \$2,932,148 in federal fund expenditure authority, and \$9,303,136 in other fund expenditure authority.

The recommended budget for Construction Contracts includes an increase of \$8,139,469 in federal fund expenditure authority and an increase of \$2,000,155 in other fund expenditure authority.

LABOR

The Governor's recommendation for the Department of Labor is \$1,411,667 in general funds, \$36,593,455 in federal fund expenditure authority, and \$9,319,534 in other fund expenditure authority, for a total FY2007 budget of \$47,324,656 and 465.2 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.

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 FY2007 of \$2,627,708, which is a total increase of \$48,942 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 \$3,287,095 in other fund expenditure authority and 31.0 FTE. The recommendation includes an increase of \$216,996 in other fund expenditure authority.

PUBLIC UTILITIES COMMISSION

See LEGISLATURE, UNIFIED JUDICIAL SYSTEM, PUBLIC UTILITIES COMMISSION, AND ELECTED OFFICIALS section.

PUBLIC SAFETY

The Department of Public Safety has a total FY2007 recommended budget of \$55,549,116, including \$3,736,994 in general funds, \$28,014,242 in federal fund expenditure authority, \$23,797,880 in other fund expenditure authority, and 407.5 FTE.

ADMINISTRATION

Administration's total recommended budget is \$589,409, including \$41,051 in general funds, \$548,358 in other fund expenditure authority, and 6.0 FTE.

ENFORCEMENT

The Division of Enforcement includes the Highway Patrol, Accident Records, Highway Safety, and State Radio. Approximately 67% of the total FY2007 recommended budget of \$23,083,696 is for salaries and benefits. The total FY2007 recommendation consists of \$1,747,393 in general funds, \$3,177,236 in federal fund expenditure authority, and \$18,159,067 in other fund expenditure authority, with 281.0 FTE.

EMERGENCY SERVICES

The Division of Emergency Services includes Emergency Management, Emergency Medical Services, and the State Fire Marshal. The total

recommended budget for the Emergency Services Division is \$5,492,096, including \$1,438,103 in general funds, \$3,823,447 in federal fund expenditure authority, \$230,546 in other fund expenditure authority, and 29.5 FTE.

INSPECTION AND LICENSING

This division includes Weights and Measures, Driver Licensing, and Inspections. The total recommended FY2007 budget includes \$510,447 in general funds, \$300,000 in federal fund expenditure authority, \$4,859,909 in other fund expenditure authority, and 88.0 FTE.

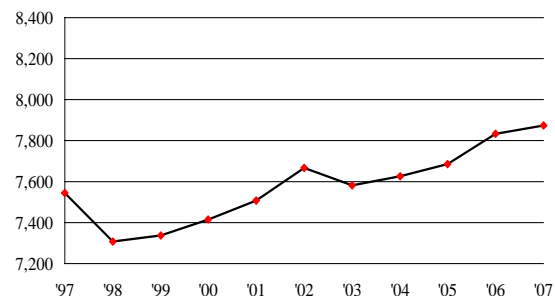
HOMELAND SECURITY

The Governor's recommendation for the Office of Homeland Security is a reduction of \$1,983,556 in federal fund expenditure authority due to the availability of federal funds. The total FY2007 budget for Homeland Security is \$20,713,559 in federal fund expenditure authority and 3.0 FTE.

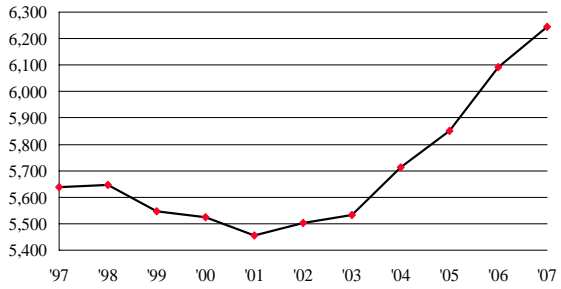
FTE CHANGE

Total appropriated FTE increased from 13,181.8 in FY1997 to a proposed level of 14,118.7 for FY2007. This is a difference of 936.9 FTE over a ten-year period. For offices outside the control of the Governor, total appropriated FTE grew from 5.638.0 in FY1997 to a recommended 6,245.1 for FY2007, or an increase of 607.1 FTE. The agencies under direct control of the Governor had total appropriated FTE of 7,543.8 in FY1997. The FY2007 budget proposal brings the FTE to a level of 7,873.6, for an increase of 329.8 FTE during the decade. The following charts show the FTE change between FY1997 and FY2007.

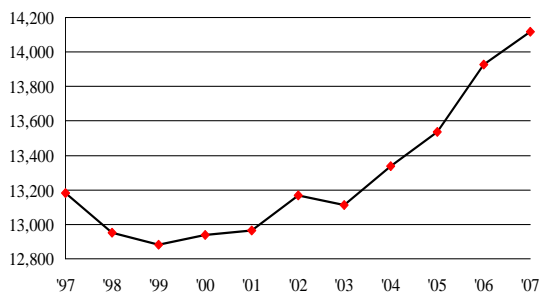
FTE History for Offices Under Control of Governor



FTE History for Offices Outside Control of Governor



FTE History All of State Government



SUMMARY OF REORGANIZATIONS

LABOR

A reorganization occurred in the Department of Labor. The Administrative Services Division has been combined within the Division of Secretariat Administration. With the fiscal staff moving from Aberdeen to Pierre it was deemed appropriate to combine the fiscal and purchasing sections in Labor into one Division.

SOCIAL SERVICES/HUMAN SERVICES

A reorganization occurred between the Department of Social Services (DSS) and the Department of Human Services (DHS). The Alcohol and Drug Treatment Services were transferred from DSS to DHS. Alcohol and Drug Treatment Services are a specific mission of the Department of Human Services within the Division of Alcohol and Drug Abuse. By transferring the budget authority previously used by the Department of Social Services to DHS, all services will be coordinated from a single agency and division. The transfer included dollars used for assessments as well as services for pregnant women and children needing services.

SOCIAL SERVICES

A reorganization occurred in the Department of Social Services. The key objective of the budget reorganization was to align the budget structure with the current organizational structure. Specifically, Program Management was eliminated and rolled into Administration to combine all departmental support functions into one budget. Within Administration, a new Division of Operations and Technology was created to address evolving operating and technology needs of the department. Energy Assistance was combined into Economic Assistance. Medical Services and Adult Services and Aging were combined into a new Medical and Adult Services. Child Support, Child Protection Services and Child Care were all combined into a new Children's Services.

UNIFIED JUDICIAL SYSTEM

A reorganization occurred in the Unified Judicial System. As the Information & Technology Program continues to grow it was an appropriate move to reorganize a portion of the Court Administrator's Office into the Information & Technology Program. This places those individuals working on technology issues into the program in which they belong.

AGRICULTURE

Recommended in the FY2007 budget is the reorganization of the Department of Agriculture. The key objective of the recommended budget reorganization is the realignment of the programs within the Department to emphasize two major functions, Services & Assistance and Development & Promotion. Agriculture Services & Assistance includes the divisions of Agriculture Services and Fire Suppression. Agriculture Development & Promotion includes the divisions of Agriculture Development, Resource Conservation & Forestry, and the State Fair. Also included within the Department are eight informational Boards & Commissions and the Animal Industry Board.

SPECIAL APPROPRIATION RECOMMENDATIONS

FY 2007 SPECIAL APPROPRIATIONS	GENERAL FUNDS	FEDERAL FUNDS	OTHER FUNDS	TOTAL FUNDS
Sales Tax on Food Refund Program	\$ 3,000,000	\$ 0	\$ 1,250,000	\$ 4,250,000
Tax Refunds for the Elderly and Disabled	1,000,000	0	0	1,000,000
School District Consolidation Incentives	552,209	0	0	552,209
Physician Tuition Reimbursement`	105,228	0	0	105,228
Soil and Water Conservation Grants	<u>0</u>	<u>0</u>	<u>600,000</u>	<u>600,000</u>
TOTAL FY 2007 SPECIAL APPROPRIATIONS	<u>\$ 4,657,437</u>	<u>\$ 0</u>	<u>\$ 1,850,000</u>	<u>\$ 6,507,437</u>

NOTE: FY 2007 special appropriations become available for expenditure on July 1, 2006 and are included in the FY 2007 column of the General Fund Condition Statement.

The Governor is recommending a total special appropriation of \$4,657,437 in general funds, and \$1,850,000 in other fund expenditure authority. The following paragraphs highlight each recommended special appropriation.

- **Sales Tax on Food Refund Program:** The Governor is recommending \$3,000,000 in general funds and \$1,250,000 in other fund expenditure authority to continue the refund program established by the 2004 legislature. This program provides refunds for sales tax on food paid by households with incomes at 150% of the poverty level and below.
- **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.
- **School District Consolidation Incentives:** The Governor is recommending \$552,209 of general funds to reimburse certain school districts for consolidation incentives per SDCL 13:6:92.
- **Physician Tuition Reimbursement Program:** The Governor is recommending \$105,228 of general funds to reimburse two participants who have complied with the requirements of the South Dakota Physician Tuition Reimbursement Program per SDCL 1:16A:71.1.
- **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.

FY 2006 EMERGENCY SPECIAL APPROPRIATIONS	GENERAL FUNDS	FEDERAL FUNDS	OTHER FUNDS	TOTAL FUNDS
K-12 Schools Energy Program	\$ 2,000,000	\$ 0	\$ 0	\$ 2,000,000
Cement Plant Earnings for Education Enhancement	1,208,296	0	0	1,208,296
State Fair	994,000	0	0	994,000
Fire Suppression Fund	756,270	0	0	756,270
Sex Offender Registry	<u>10,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL FY 2006 EMERGENCY SPECIAL APPROPRIATIONS	<u>\$ 4,968,566</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,958,566</u>

- **K-12 Schools Energy Program:** The Governor is recommending \$2,000,000 in general funds to provide relief to K-12 school districts for escalating energy costs. This is one-time money to help with unique problems during the 2005-2006 school year.
- **Cement Plant Earnings for Education Enhancement:** Due to the extra earnings from the Dakota Cement Trust fund, \$1,208,296 in earnings will be available to be spent for education enhancement. It is recommended that these funds be used to help in funding the SD Opportunity Scholarship.
- **State Fair:** The Governor is recommending \$994,000 in general funds to cover the operating loss and revenue shortfall of the 2005 South Dakota State Fair.
- **Fire Suppression Fund:** The Governor is recommending \$756,270 in general funds to be deposited into the Fire Suppression Fund for the costs related to the suppression of wildfires in South Dakota.
- **Sex Offender Registry:** The Governor is recommending \$10,000 in general funds to provide for a Web Services Interface so that the registry can be updated regularly on the internet.

GOVERNOR ROUNDS' RECOMMENDATION FOR STATE EMPLOYEE COMPENSATION

	GENERAL FUNDS	FEDERAL FUNDS	OTHER FUNDS	TOTAL FUNDS																									
<p>PACE ADJUSTMENT TO JOB WORTH: The Governor is recommending that the Performance and Compensation Equity (PACE) system established in FY1990 be continued to include 2.5% adjustments to employees who are paid under the job-worth of their pay range.</p>	\$ 1,475,369	\$ 1,014,576	\$ 1,182,674	\$ 3,672,619																									
<p>ACROSS-THE-BOARD INCREASE: The Governor is recommending that all permanent state employees receive a 3% pay increase.</p> <table style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <tr> <td style="width: 40%;">Executive Branch</td> <td style="text-align: right;">\$ 3,456,301</td> <td style="text-align: right;">\$ 2,811,085</td> <td style="text-align: right;">\$ 4,169,574</td> <td style="text-align: right;">\$ 10,436,960</td> </tr> <tr> <td>Board of Regents</td> <td style="text-align: right;">3,708,425</td> <td style="text-align: right;">1,017,508</td> <td style="text-align: right;">3,173,701</td> <td style="text-align: right;">7,899,634</td> </tr> <tr> <td>Legislative Branch</td> <td style="text-align: right;">123,221</td> <td style="text-align: right;">-</td> <td style="text-align: right;">-</td> <td style="text-align: right;">123,221</td> </tr> <tr> <td>Judicial Branch</td> <td style="text-align: right;">691,211</td> <td style="text-align: right;">1,934</td> <td style="text-align: right;">32,829</td> <td style="text-align: right;">725,974</td> </tr> <tr> <td>Subtotal</td> <td style="text-align: right; border-top: 1px solid black;">\$ 7,979,158</td> <td style="text-align: right; border-top: 1px solid black;">\$ 3,830,527</td> <td style="text-align: right; border-top: 1px solid black;">\$ 7,376,104</td> <td style="text-align: right; border-top: 1px solid black;">\$ 19,185,789</td> </tr> </table>	Executive Branch	\$ 3,456,301	\$ 2,811,085	\$ 4,169,574	\$ 10,436,960	Board of Regents	3,708,425	1,017,508	3,173,701	7,899,634	Legislative Branch	123,221	-	-	123,221	Judicial Branch	691,211	1,934	32,829	725,974	Subtotal	\$ 7,979,158	\$ 3,830,527	\$ 7,376,104	\$ 19,185,789	\$ 1,660,617	\$ 821,397	\$ 1,461,639	\$ 3,943,653
Executive Branch	\$ 3,456,301	\$ 2,811,085	\$ 4,169,574	\$ 10,436,960																									
Board of Regents	3,708,425	1,017,508	3,173,701	7,899,634																									
Legislative Branch	123,221	-	-	123,221																									
Judicial Branch	691,211	1,934	32,829	725,974																									
Subtotal	\$ 7,979,158	\$ 3,830,527	\$ 7,376,104	\$ 19,185,789																									
<p>GRAND TOTAL INCREASE FOR STATE EMPLOYEE COMPENSATION:</p>	\$ 11,115,144	\$ 5,666,500	\$ 10,020,417	\$ 26,802,061																									

GOVERNOR'S FY2007 GENERAL FUND RECOMMENDATIONS

GENERAL BILL	FTE EXPANSION/ (REDUCTION)	GENERAL FUND EXPANSION/ (REDUCTION)	TOTAL GENERAL FUND RECOMMENDATION
Administration (Excluding Sale-Leaseback)	4.5	16,157	3,763,400
Agriculture	1.3	193,239	5,998,112
Attorney General	2.0	2,105,657	9,161,862
Corrections	34.7	4,625,456	74,437,473
Education (Excluding State Aid and Postsecondary Education)	(1.0)	(976,493)	8,481,053
State Aid to Education		2,460,070	335,137,230
Postsecondary Vocational Education		1,116,103	18,076,536
Environment and Natural Resources	0.0	169,907	6,083,124
Finance and Management (Excluding Sale-Leaseback)	0.0	27,246	830,723
Game, Fish, and Parks (Excluding CRP)	0.0	918,052	4,596,775
Gubernatorial Division	0.0	(611,908)	2,243,515
Health	(5.0)	136,013	8,251,167
Human Services	(2.0)	7,738,475	95,468,465
Information and Telecommunications	0.0	121,215	5,298,151
Labor and Regulation (Includes SD Retirement System)	0.0	21,005	825,293
Legislature (Includes Employee Compensation)	0.0	318,817	7,434,903
Military and Veteran's Affairs	0.0	199,309	5,661,999
Personnel (does not include Employee Compensation)	0.0	(160,724)	748,563
Public Safety	0.0	105,244	3,736,994
Public Utilities Commission	0.0	19,333	586,374
Regents (Includes Employee Compensation)	141.8	9,043,387	163,203,900
Revenue	(2.0)	119,993	1,021,480
School and Public Lands	0.0	13,102	524,350
Secretary of State	0.0	20,306	934,291
Social Services	0.0	18,834,368	238,882,258
State Auditor	0.0	45,440	1,125,291
State Treasurer (Including Investment Council)	2.0	8,412	486,866
Tourism & State Development	9.3	1,390,706	11,732,926
Transportation	0.0	7,727	501,366
Unified Judicial System (Includes Employee Compensation)	6.5	1,637,985	30,224,004
Sale-Leaseback		(649,678)	11,148,151
Conservation Reserve Program		(5,620)	1,173,438
TOTAL FY2007 GENERAL BILL RECOMMENDATIONS	192.1	49,008,301	1,057,780,032
BREAKDOWN			
Executive Branch	39.8	32,831,597	488,640,910
Unified Judicial System, Legislature, and Constitutional Offices	10.5	3,557,144	52,721,456
State Aid	0.0	2,460,070	335,137,230
Postsecondary Vocational Education	0.0	1,116,103	18,076,536
Board of Regents	141.8	9,043,387	163,203,900
TOTAL FY2007 GENERAL BILL RECOMMENDATIONS	192.1	49,008,301	1,057,780,032

GENERAL FUND CONDITION STATEMENT

	<u>ACTUAL FY2004</u>	<u>ACTUAL FY2005</u>	<u>REVISED FY2006</u>	<u>PROJECTED FY2007</u>
RECEIPTS				
Sales and Use Tax	\$ 508,241,448	\$ 534,196,029	\$ 568,514,437	\$ 600,257,858
Contractor's Excise Tax	59,378,041	65,404,711	71,659,704	75,907,730
Property Tax Reduction Fund	44,311,001	114,206,290	116,687,502	119,230,163
Bank Franchise Tax	35,255,228	36,362,714	44,784,381	41,078,381
Insurance Company Tax	51,397,593	55,461,545	59,943,819	64,643,440
Other	152,949,986	152,360,836	154,037,498	158,216,016
One-Time Receipts	22,837,373	7,375,000	2,321,698	0
Transfer from Property Tax Reserves	15,974,511	24,578,419	26,157,064	5,302,735
Obligated Cash Carried Forward	1,355,714	1,182,209	819,857	0
TOTAL RECEIPTS	<u>\$ 891,700,895</u>	<u>\$ 991,127,751</u>	<u>\$ 1,044,925,960</u>	<u>\$ 1,064,636,323</u>
EXPENDITURES				
General Bill Excluding State Aid to Education	\$ 577,296,639	\$ 639,618,783	\$ 676,094,571	\$ 722,642,802
State Aid to Education	272,090,902	329,965,971	332,677,160	335,137,230
Special Appropriations	1,442,093	6,791,878	8,433,364	4,657,437
Emergency Special Appropriations	36,491,029	10,851,130	24,856,196	0
Continuing Appropriations	1,842,310	1,897,924	2,044,812	2,198,854
TOTAL EXPENDITURES	<u>\$ 889,162,973</u>	<u>\$ 989,125,686</u>	<u>\$ 1,044,106,103</u>	<u>\$ 1,064,636,323</u>
TRANSFERS				
Budget Reserve Fund	\$ 1,355,714	\$ 1,182,209	\$ 819,857	\$ 0
Property Tax Reduction Fund	0	0	0	0
TOTAL TRANSFERS	<u>\$ 1,355,714</u>	<u>\$ 1,182,209</u>	<u>\$ 819,857</u>	<u>\$ 0</u>
Beginning Unobligated Cash Balance	\$ 0	\$ 0	\$ 0	\$ 0
Net (Receipts less Expenditures/Transfers)	<u>1,182,209</u>	<u>819,857</u>	<u>0</u>	<u>0</u>
OBLIGATIONS AGAINST CASH				
Budget Reserve Fund	(1,182,209)	(819,857)	0	0
Property Tax Reduction Fund	0	0	0	0
TOTAL OBLIGATIONS AGAINST CASH	<u>(1,182,209)</u>	<u>(819,857)</u>	<u>0</u>	<u>0</u>
Ending Unobligated Cash Balance	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</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.

TOTAL STATE GOVERNMENT BUDGET (Excluding Information Budgets)

GENERAL APPROPRIATIONS BILL

	ACTUAL FY 2004	ACTUAL FY 2005	BUDGETED FY 2006	REQUESTED FY 2007	GOVERNOR'S RECOMMENDED FY 2007	RECOMMENDED INC/(DEC) FY 2007
FUNDING SOURCE:						
General Funds	\$ 849,387,541	\$ 969,584,750	\$ 1,008,771,731	\$ 1,062,272,803	\$ 1,057,780,032	\$ 49,008,301
Federal Funds	917,417,134	906,236,286	1,026,027,515	1,030,210,159	1,037,691,021	11,663,506
Other Funds	442,629,592	471,293,792	538,357,956	555,545,535	549,572,329	11,214,373
Total	<u>\$ 2,209,434,268</u>	<u>\$ 2,347,114,828</u>	<u>\$ 2,573,157,202</u>	<u>\$ 2,648,028,497</u>	<u>\$ 2,645,043,382</u>	<u>\$ 71,886,180</u>
EXPENDITURE DETAIL:						
Personal Services	\$ 551,460,510	\$ 578,762,278	\$ 635,604,546	\$ 648,237,118	\$ 670,062,162	\$ 34,457,616
Operating Expenses	1,657,973,758	1,768,352,550	1,937,552,656	1,999,791,379	1,974,981,220	37,428,564
Total	<u>\$ 2,209,434,268</u>	<u>\$ 2,347,114,828</u>	<u>\$ 2,573,157,202</u>	<u>\$ 2,648,028,497</u>	<u>\$ 2,645,043,382</u>	<u>\$ 71,886,180</u>
Staffing Level FTE:	11,959.9	12,237.4	12,708.3	12,909.9	12,879.6	171.3

SPECIAL APPROPRIATIONS AND GENERAL FUND CONTINUING APPROPRIATIONS

FUNDING SOURCE:	REVISED BUDGETED FY 2006	GOVERNOR'S RECOMMENDED FY 2007	RECOMMENDED INC/(DEC) FY 2007
General Funds	\$ 35,334,372	\$ 6,856,291	(\$ 28,478,081)
Federal Funds	4,000,000	0	(4,000,000)
Other Funds	100,878,809	1,850,000	(99,028,809)
Total	<u>\$ 140,213,181</u>	<u>\$ 8,706,291</u>	<u>(\$ 131,506,890)</u>

TOTAL STATE GOVERNMENT BUDGET

FUNDING SOURCE:	REVISED BUDGETED FY 2006	GOVERNOR'S RECOMMENDED FY 2007	RECOMMENDED INC/(DEC) FY 2007
General Funds	\$ 1,044,106,103	\$ 1,064,636,323	\$ 20,530,220
Federal Funds	1,030,027,515	1,037,691,021	7,663,506
Other Funds	639,236,765	551,422,329	(87,814,436)
Total	<u>\$ 2,713,370,383</u>	<u>\$ 2,653,749,673</u>	<u>(\$ 59,620,710)</u>
Staffing Level FTE:	12,708.3	12,879.6	171.3

INFORMATION BUDGETS CONTAINED IN THE GENERAL APPROPRIATIONS BILL

	ACTUAL FY 2004	ACTUAL FY 2005	BUDGETED FY 2006	REQUESTED FY 2007	GOVERNOR'S RECOMMENDED FY 2007	RECOMMENDED INC/(DEC) FY 2007
FUNDING SOURCE:						
General Funds	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Federal Funds	255,703,026	251,203,995	273,977,345	315,655,614	287,440,582	13,463,237
Other Funds	192,715,763	233,396,148	210,409,200	216,774,492	254,854,780	44,445,580
Total	\$ 448,418,789	\$ 484,600,143	\$ 484,386,545	\$ 532,430,106	\$ 542,295,362	\$ 57,908,817
EXPENDITURE DETAIL:						
Personal Services	\$ 63,347,709	\$ 67,350,255	\$ 73,552,456	\$ 73,800,353	\$ 77,632,817	\$ 4,080,361
Operating Expenses	385,071,080	417,249,889	410,834,089	458,629,753	464,662,545	53,828,456
Total	\$ 448,418,789	\$ 484,600,143	\$ 484,386,545	\$ 532,430,106	\$ 542,295,362	\$ 57,908,817
Staffing Level FTE:	1,170.4	1,191.7	1,218.3	1,222.5	1,239.1	20.8

INFORMATION BUDGETS

Public Entity Pool for Liability (PEPL)

Administration
 PEPL Fund Claims
 American Dairy Association
 Wheat Commission
 Oilseeds Council
 Soybean Research and Promotion
 Brand Board
 Corn Utilization Council
 Division of Wildlife
 Snowmobile Trails Program
 Lottery Instant and On-Line Operations
 Highway Construction Contracts
 Petroleum Release Fund Payments
 Commission on Gaming
 South Dakota Housing Development Authority
 Insurance Fraud Unit
 Abstractors Board of Examiners
 Board of Accountancy
 Board of Counselor Examiners
 Board of Barber Examiners
 Board of Chiropractic Examiners
 Cosmetology Commission
 Board of Dentistry
 Board of Technical Professions
 Electrical Commission
 SD Energy Infrastructure Authority
 SD Pulse Corps Council

Board of Hearing Aid Dispensers
 Board of Funeral Service
 Board of Medical and Osteopathic Examiners
 Board of Nursing
 Board of Nursing Home Administrators
 Board of Examiners in Optometry
 Board of Pharmacy
 Plumbing Commission
 Board of Podiatry Examiners
 Board of Psychology
 Real Estate Commission
 Board of Social Work Examiners
 Board of Veterinary Medical Examiners
 Certification Board for Alcohol and Drug Professionals
 Fixed Utilities
 PUC Rate Case/Utility Investigation Fund
 Pipeline Safety
 One-Call Notification Board
 Transportation Warehouse
 Science and Technology Authority
 Army/Air National Guard
 Tuition and Fee Fund
 Regulated Response Fund
 Livestock Cleanup
 State Bar Association
 Unclaimed Property Fund
 Petroleum Release Fund
 Board of Massage Therapy

TOTAL STATE GOVERNMENT BUDGET (Including Information Budgets)

GENERAL APPROPRIATIONS BILL

	ACTUAL FY 2004	ACTUAL FY 2005	BUDGETED FY 2006	REQUESTED FY 2007	GOVERNOR'S RECOMMENDED FY 2007	RECOMMENDED INC/(DEC) FY 2007
FUNDING SOURCE:						
General Funds	\$ 849,387,541	\$ 969,584,750	\$ 1,008,771,731	\$ 1,062,272,803	\$ 1,057,780,032	\$ 49,008,301
Federal Funds	1,173,120,160	1,157,440,281	1,300,004,860	1,345,865,773	1,325,131,603	25,126,743
Other Funds	635,345,356	704,689,940	748,767,156	772,320,027	804,427,109	55,659,953
Total	<u>\$ 2,657,853,057</u>	<u>\$ 2,831,714,971</u>	<u>\$ 3,057,543,747</u>	<u>\$ 3,180,458,603</u>	<u>\$ 3,187,338,744</u>	<u>\$ 129,794,997</u>
EXPENDITURE DETAIL:						
Personal Services	\$ 614,808,219	\$ 646,112,532	\$ 709,157,002	\$ 722,037,471	\$ 747,694,979	\$ 38,537,977
Operating Expenses	2,043,044,838	2,185,602,439	2,348,386,745	2,458,421,132	2,439,643,765	91,257,020
Total	<u>\$ 2,657,853,057</u>	<u>\$ 2,831,714,971</u>	<u>\$ 3,057,543,747</u>	<u>\$ 3,180,458,603</u>	<u>\$ 3,187,338,744</u>	<u>\$ 129,794,997</u>
Staffing Level FTE:	13,130.3	13,429.1	13,926.6	14,132.4	14,118.7	192.1

SPECIAL APPROPRIATIONS AND GENERAL FUND CONTINUING APPROPRIATIONS

FUNDING SOURCE:	REVISED BUDGETED FY 2006	GOVERNOR'S RECOMMENDED FY 2007	RECOMMENDED INC/(DEC) FY 2007
General Funds	\$ 35,334,372	\$ 6,856,291	(\$ 28,478,081)
Federal Funds	4,000,000	0	(4,000,000)
Other Funds	100,878,809	1,850,000	(99,028,809)
Total	<u>\$ 140,213,181</u>	<u>\$ 8,706,291</u>	<u>(\$ 131,506,890)</u>

TOTAL STATE GOVERNMENT BUDGET

FUNDING SOURCE:	REVISED BUDGETED FY 2006	GOVERNOR'S RECOMMENDED FY 2007	RECOMMENDED INC/(DEC) FY 2007
General Funds	\$ 1,044,106,103	\$ 1,064,636,323	\$ 20,530,220
Federal Funds	1,304,004,860	1,325,131,603	21,126,743
Other Funds	849,645,965	806,277,109	(43,368,856)
Total	<u>\$ 3,197,756,928</u>	<u>\$ 3,196,045,035</u>	<u>(\$ 1,711,893)</u>
Staffing Level FTE:	13,926.6	14,118.7	192.1