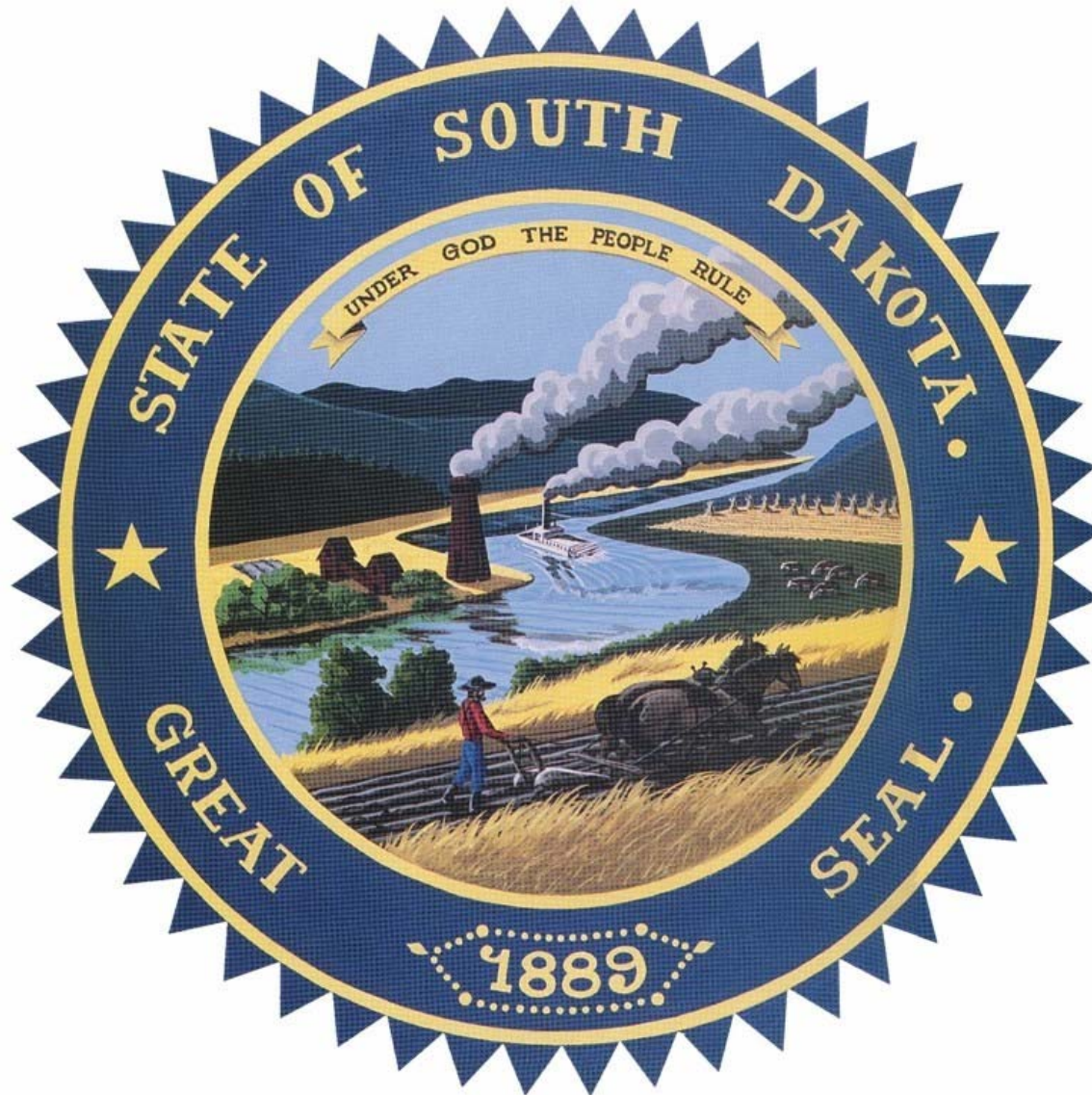


# Governor Mike Rounds' FY2008 Budget Address

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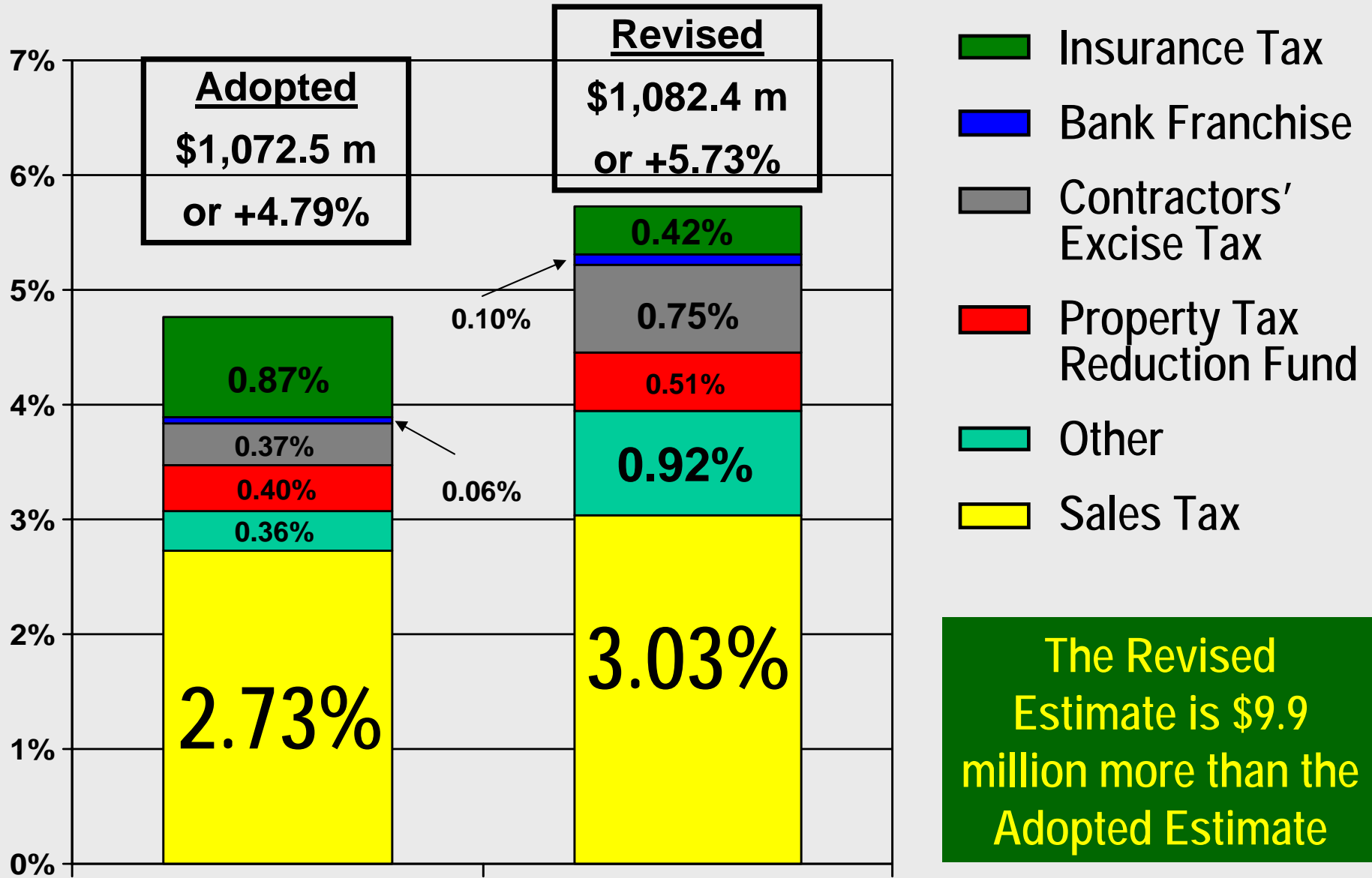


# Budget Highlights

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- **Continuing to Grow Our Economy**
- **Balancing our budget using our reserves wisely**
- **Meeting Our Basic Needs**
  - **Taking Care of People**
  - **Protecting Society**
  - **Educating our Children**
- **No New Taxes Requested**

# Revised FY07 General Fund Revenue Increases



# Why is the Revised Estimate higher?

The Revised Estimate contains the following revenue added to the forecast that was unanticipated & unknown last session:

✓ Initiated Measure 2 (Cigarette Tax)	\$7.3 m
✓ Unclaimed Property Remittance	\$4.7 m
✓ Transfer from the insurance operating fund	<u>\$2.0 m</u>
Total	\$14.0 m

**If not for the \$14.0 million, the revised estimate of +\$9.9 would be \$4.1 million SHORT of the Adopted estimate**

## Where Initiated Measure #2 Proceeds Will Go (Tobacco Tax Increases)

	Increase	
	<u>FY07</u>	<u>FY08</u>
General Fund	+\$ 2.4	+\$ 3.0
Tobacco Prev. & Reduction Trust Fund	+\$ 5.0	+\$ 5.0
Property Tax Reduction Fund	+\$ 4.9	+\$11.2
Education Enhancement Trust Fund	+\$ 4.9	+\$11.2
Health Care Trust Fund	<u>+\$ 5.0</u>	<u>+\$11.5</u>
<b>Total</b>	<b>\$22.2</b>	<b>\$41.9</b>

The combined increase to the General Fund and Property Tax Reduction Fund will be \$7.3 m in FY07 and \$14.2 m in FY08

This leaves \$14.9 m in FY07 and \$27.7 m in FY08 for the Trust Funds

# FY2007 & FY2008 Receipts & Forecasts

(in millions)

	<u>Rev FY2007</u>	<u>FY2008</u>	<u>Change</u>
Sales and Use Tax	\$607.7	\$642.4	+\$34.7
Property Tax Reduction Fund	119.9	126.6	+ 6.7
Contractor's Excise Tax	82.7	86.1	+ 3.4
Insurance Company Tax	60.0	64.1	+ 4.1
Bank Franchise Tax	41.4	46.4	+ 5.0
Other Continuing Receipts	163.8	164.3	+ 0.5
<b>One-Time Receipts</b>	<b><u>6.9</u></b>	<b><u>6.5</u></b>	<b><u>- 0.4</u></b>
<b>Total Receipts</b>	<b>1,082.4</b>	<b>1,136.4</b>	<b>+ 54.0</b>
<b>One-Time Reserves Transfer</b>	<b><u>0.0</u></b>	<b><u>6.4</u></b>	<b><u>+ 6.4</u></b>
<b>Total General Fund Revenues</b>	<b>1,082.4</b>	<b>1,142.8</b>	<b>+60.4</b>

# Bottom Line for FY2008

(General Funds in millions)

## Revenues

Sales and Use Tax--	\$642.4
Property Tax Reduction Fund--	\$126.6
Contractor's Excise Tax--	\$ 86.1
Insurance Company Tax--	\$ 64.1
Other Receipts--	<u>\$217.2</u>
Total Receipts--	<b>\$1,136.4</b>

## Expenses

Educating Children--	\$557.1
Taking Care of People--	\$376.8
Protecting the Public--	\$122.3
Rest of State Government--	\$ 61.0
Sale/Leaseback, CRP, Bonds--	\$ 16.7
Special/Contin. Appropriations--	<u>\$ 8.9</u>
Total Expenses--	<b>\$1,142.8</b>

**\$1,136.4**  
**- \$1,142.8**  
**- \$6.4**

# Reserves

---

## Dec. 5 Starting Point:

Budget Reserve Fund	\$43,000,275
Property Tax Reduction Fund	<u>\$94,189,480</u>
	\$137,189,755

## Projected Reserves Uses:

Reserves added to in FY2007	+	\$1,933,535
Reserves needed in FY2008	-	<u>\$6,359,668</u>
	-	\$4,426,133

**Projected Remaining (06/30/08) → \$132,763,622**



# Our Use of Reserves

(in millions)

	<u>FY04</u>	<u>FY05</u>	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>
Beginning Reserves	106.5	158.0	134.3	137.2	139.1
Transfer from Reserves	-14.8	-23.7	-35.1	-0.0	-6.4
Addition to Reserves	66.3	0.0	38.0	1.9	0.0
Year-end Reserves	158.0	134.3	137.2	139.1	132.7

# General Funds Major Spending Changes For FY 2008

## Mandatory Increases

+ \$56,310,438

State Aid (General and Special Ed.)	\$17.5 million
FMAP	\$16.9 million
Lost Medicaid for Juveniles	\$ 6.3 million
Provider Inflation	\$ 5.9 million
Growth in Services for those in need	\$ 5.8 million
Utilities	\$ 3.3 million
All Others	\$ 0.6 million

## Discretionary Increases

+ \$19,460,727

State Employee Compensation	\$10.4 million
Provider Inflation	\$ 7.4 million
K-12 Teacher Compensation	\$ 4.0 million
BOR Ph.D. Programs	\$ 1.8 million
K-12 Technology	\$ 1.4 million
Fighting Meth	\$ 1.4 million
All Others	- \$ 6.9 million

## Total Changes

---

+\$75,771,165

# General Funds Major Spending Changes For FY 2008

**Mandatory Increases** + \$56,310,438

## Some Examples:

State Aid (General and Special Ed.)	\$17.5 million
FMAP	\$16.9 million
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# General Funds Major Spending Changes For FY 2008

**Discretionary Increases + \$19,460,727**

## Some Examples:

State Employee Compensation	\$10.4 million
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Fighting Meth	\$ 1.4 million
All Others	- \$ 6.9 million

# General Funds Major Spending Changes For FY 2008

---

<b>Education</b>	<b>+ \$35,599,092</b>
<b>Taking Care of People</b>	<b>+ \$33,761,856</b>
<b>Protecting Society</b>	<b>+ \$ 4,955,372</b>
<b>Rest of State Government</b>	<b>+ \$ 1,454,846</b>
	<hr/>
<b>Total Changes</b>	<b>+\$75,771,165</b>

# General Funds Major Spending Changes

## Education

---

<b>Education</b>	<b>+ \$35,599,092</b>
<b>Taking Care of People</b>	<b>+ \$33,761,856</b>
<b>Protecting Society</b>	<b>+ \$ 4,955,372</b>
<b>Rest of State Government</b>	<b>+ \$ 1,454,846</b>
	<hr/>
<b>Total Changes</b>	<b>+\$75,771,165</b>

# Spending Increases for FY2008

## Education

### General Funds

K-12 State Aid Funding + \$17,460,194

BOR Employee Compensation + \$ 5,061,733

K-12 Teacher Compensation Program + \$ 4,000,000

Higher Education Ph.D.'s & Research + \$ 2,290,057

BOR Utilities + \$ 2,042,163

K-12 Technology + \$ 1,440,876

SD Opportunity Scholarships + \$ 1,438,411

K-12 Career & Technical Education Programs + \$ 1,000,000

All the Rest + \$ 865,658

**TOTAL INCREASES-- + \$35,599,092**

## K-12 Education Funding For FY08

---

3.0% Formula Increase-- + \$16.9 Million

Teacher Compensation Program-- + \$4.0 Million

K-12 Technology-- + \$1.4 Million

K-12 Career and Tech. Ed. Programs-- + \$1.0 Million

State Aid to Special Education-- + \$0.6 Million

All the Rest-- + \$0.4 Million

***Grand Total = + \$ 24.3 Million***

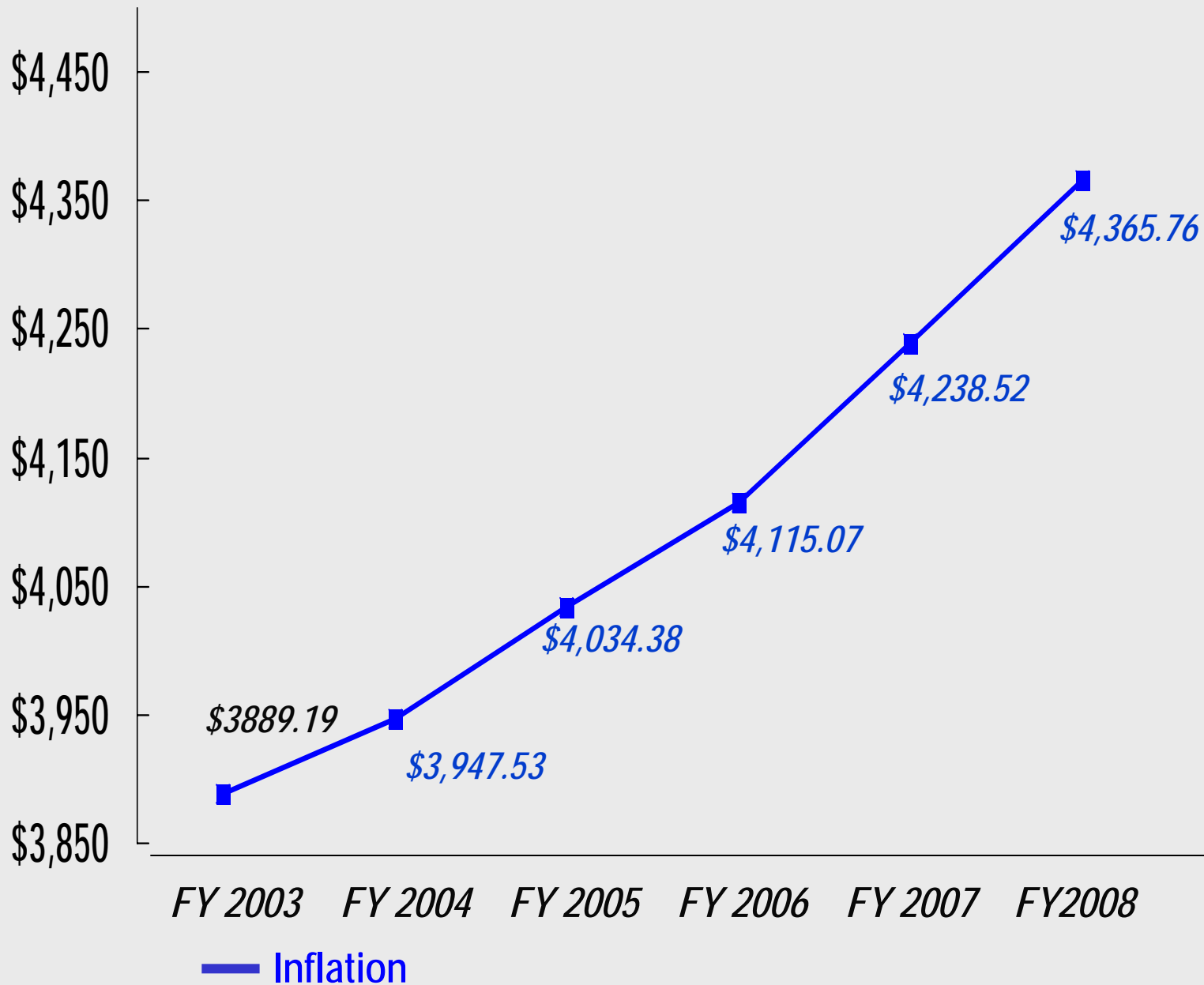


# Is State Aid Spent to Improve Education or Is It Put Into Local School Reserves?

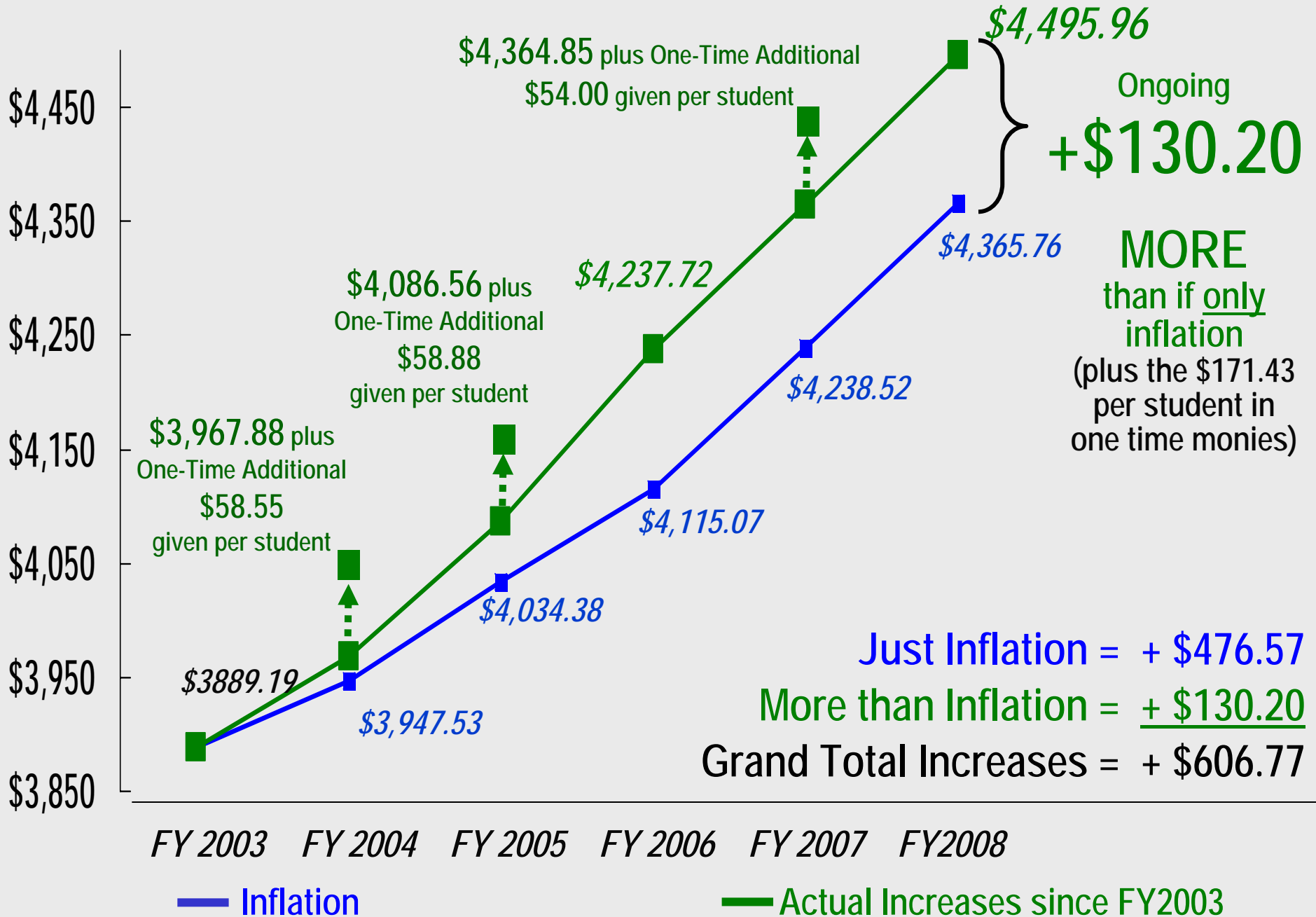
	<b>Total Spending Inc. For State Aid plus <u>One-Time Dollars</u></b>	<b>Local Schools General Funds <u>Ending Balance</u></b>	<b>Ending Balance + or – From <u>Previous Year</u></b>
<b>FY 2003</b>	<b>\$ 4,381,409</b>	<b>\$ 123,104,947</b>	<b>- \$ 4,462,351</b>
<b>FY 2004</b>	<b>\$14,564,446</b>	<b>\$ 124,626,400</b>	<b>+ \$1,521,462</b>
<b>FY 2005</b>	<b>\$ 9,654,176</b>	<b>\$ 138,576,584</b>	<b>+ 13,950,175</b>
<b>FY 2006*</b>	<b>\$ 5,727,878</b>	<b>\$ 154,587,407</b>	<b>+ 16,010,823</b>
<b>FY 2007*</b>	<b>\$12,818,029</b>	<b>Dec. 2007</b>	<b>Dec. 2007</b>
<b>Proposed FY 2008</b>	<b>\$14,474,636</b>	<b>Dec. 2008</b>	<b>Dec. 2008</b>

*\*Increases include carryover of left-over state aid from prior years*

# Per Student Increases in State Aid to Local Schools



# Per Student Increases in State Aid to Local Schools



# 125 Districts (74%) will get MORE than the basic \$4,496 per student.

43 Districts with 600+ students get only the basic

\$4,496 per student

48 Districts with 0-200 students get 20% More

\$5,395 per student

\$4,496 to \$5,395 per student

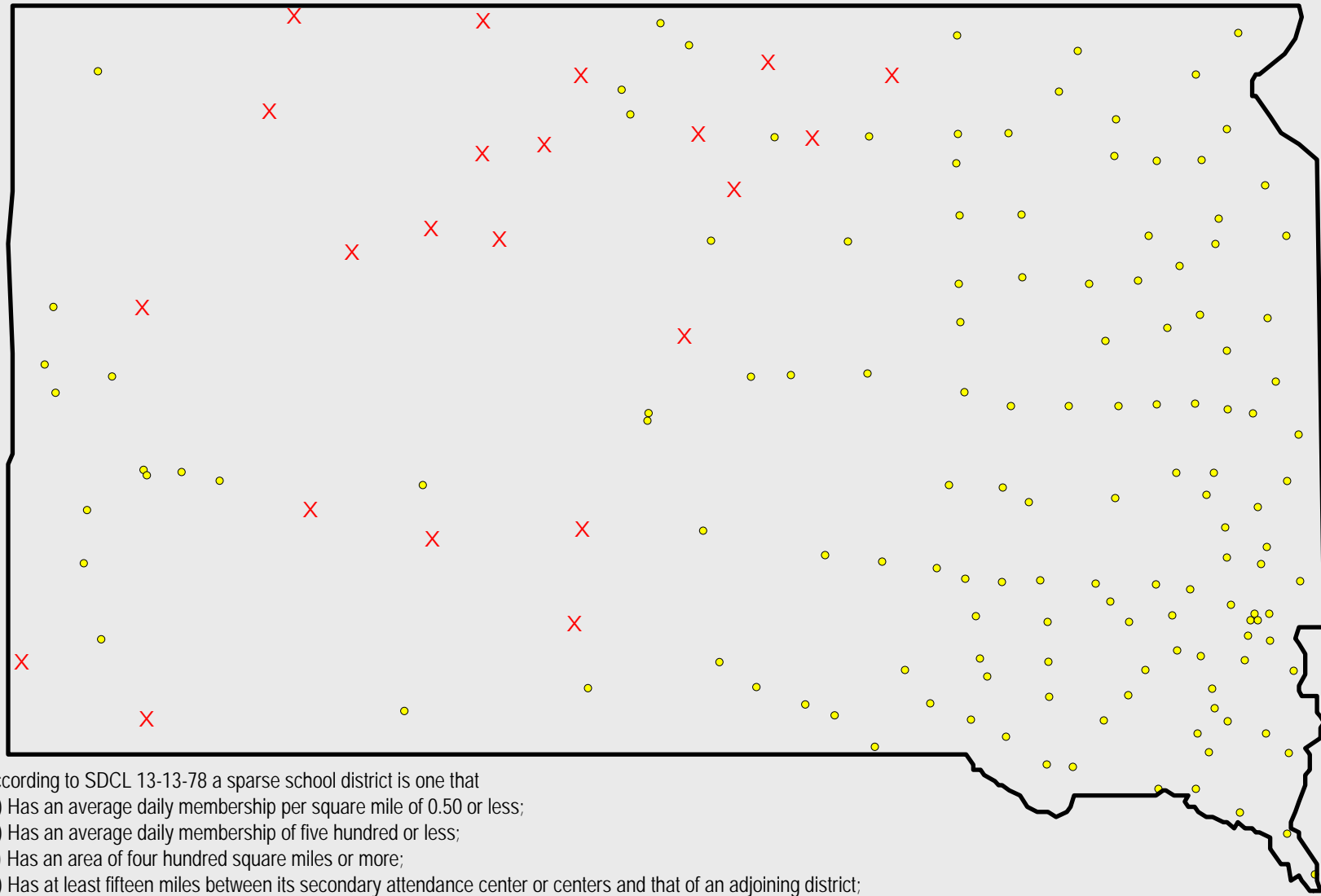
More \$\$ Per Student

77 Districts with 201-600 students get 0-20% More

# \$2.3 Million FY07 and \$2.4 Million FY08 for Sparse Districts

X = 22 public high schools in sparse school districts

● = All other public high schools



According to SDCL 13-13-78 a sparse school district is one that

- (a) Has an average daily membership per square mile of 0.50 or less;
- (b) Has an average daily membership of five hundred or less;
- (c) Has an area of four hundred square miles or more;
- (d) Has at least fifteen miles between its secondary attendance center or centers and that of an adjoining district;
- (e) Operates a secondary attendance center;
- (f) Levies ad valorem taxes at the maximum rates allowed pursuant to § 10-12-42 or more; and
- (g) Has a general fund balance percentage of thirty percent or less excluding revenue received from opting out of property tax limitations pursuant to chapter 10-12.


# Creating Research Opportunities

Expanding Ph.D. programs (3 additional)-- + \$1.8 Million

- ✓USD Ph.D. in Materials Chemistry
- ✓SDSU Ph.D. in Pharmaceutical Sciences
- ✓SDSM&T Ph.D. in Chemical and Biological Engineering

Individual Research Seed Grants-- + \$0.5 Million

SD Opportunity Scholarship Expansion-- + \$1.4 Million

**Total**  **+ \$ 3.7 Million**

Research + Better Education Opportunities  
= Better Jobs and more youth staying in SD!!

# General Funds Major Spending Changes

## Taking Care of People

---

Education	+ \$35,599,092
<b>Taking Care of People</b>	<b>+ \$33,761,856</b>
Protecting Society	+ \$ 4,955,372
Rest of State Government	+ \$ 1,454,846
	<hr/>
<b>Total Changes</b>	<b>+\$75,771,165</b>

# What is Medicaid?

---

- Title XIX or Medicaid is a Federal Entitlement program created in 1965 as part of the Social Security Act.
- It provides comprehensive healthcare to those in poverty such as the disabled, children, and the elderly.
- Medicaid is available for those with incomes at or below 133% of the federal poverty level. (92,190).
- The State Legislature in FY2000 authorized SCHIP which covers children in families with incomes at or below 200% of the federal poverty level. (12,145)
- DHS Consumers are Developmentally disabled and/or emotionally disturbed who receive Medicaid. (11,067)
- Safety net/funding source for individuals who have nowhere else to turn that have reached insurance limitations or those with a catastrophic illness such as cancer, hemophilia, premature babies, nursing home care. It is the largest payer of healthcare.



# Spending Increases for FY2008

## Taking Care of People

---

	<u>General Funds</u>
FMAP Rate Decrease (DSS&DHS)	+ \$16,649,220
Provider Inflation @ 3% (DSS&DHS)	+ \$12,946,193
Growth in Services for those in need	+ \$ 5,930,401
Lost Medicaid for Juveniles (DSS care)	+ \$ 3,944,069
All the Rest	<u>(\$ 5,708,027)</u>
<b>TOTAL INCREASES--</b>	<b>+ \$33,761,856</b>

# Federal Medical Assistance Percentage (FMAP)

## Current Match Rate (FY07):

**36.54% State Share**

**63.46% Federal Share**

## Next Year's Match Rate (FY08):

**39.25% State Share**

**60.75% Federal Share**



**39.25% -- 36.54% = 2.71% Increase in Total State Costs**

**Difference: State bears 2.71% increase & Feds  
enjoy 2.71% decrease in total Medicaid costs  
= \$16,934,700 in general funds**

# Provider Inflation

(increases for rates of care paid by the state)

---

- Current Forecast for inflation = 2.0%
- Funding for inflation in this budget = 3.0%

**Total 3% Cost = \$13,282,343 General Funds**  
**\$32,632,363 Total Funds**

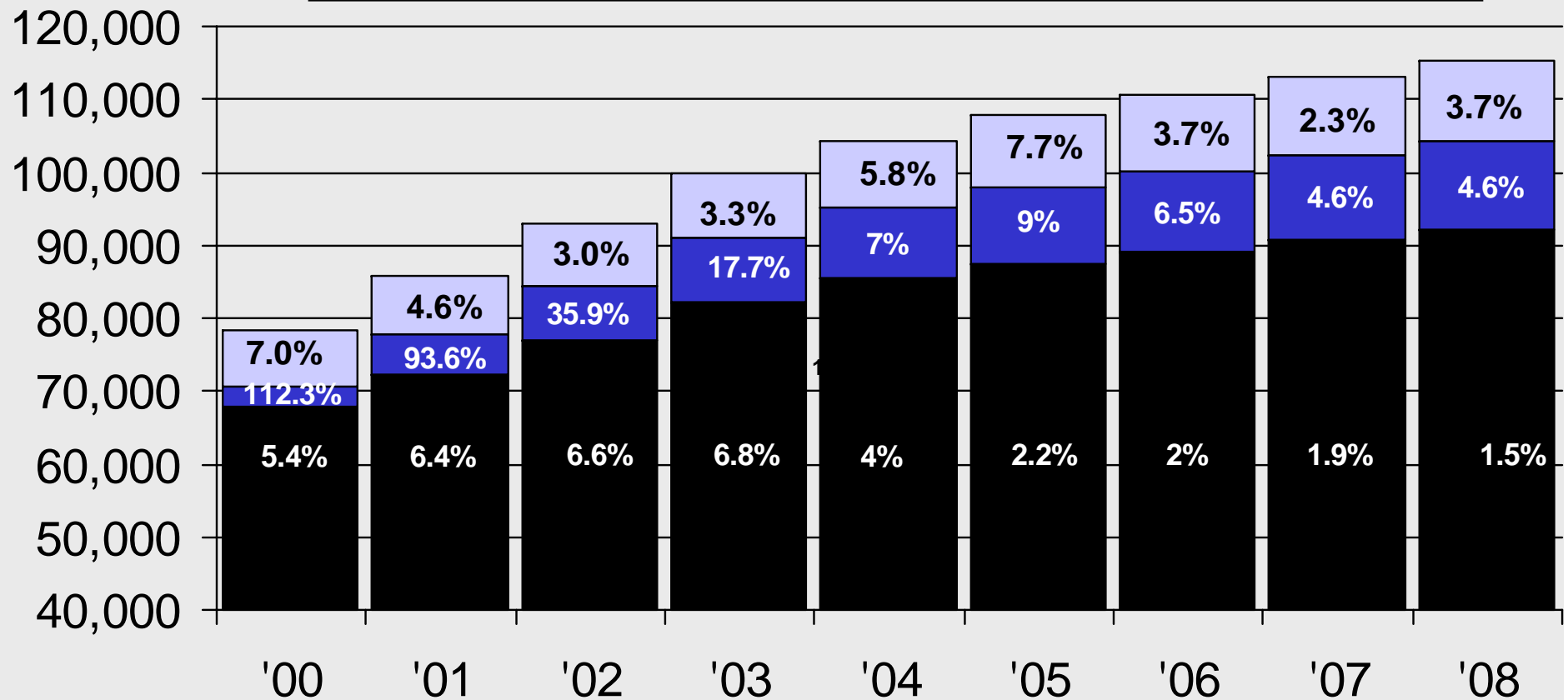
## What will this do?

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

# Growth of Health & Medical Services provided to South Dakotans

**8 Year Increase: 78,470 → 115,402**

Caseloads



■ Medicaid ■ CHIP ■ Human Services Consumers

# Loss of Medicaid for Juveniles

---

Changes in the interpretation by the Centers for Medicare & Medicaid Services (CMS) means Juveniles in non-psychiatric designated group and residential settings as of July 1, 2007 will lose their Medicaid eligibility.

## The Result For SD:

Movement of juveniles to more expensive psychiatric settings to gain Medicaid status = + \$ 1,679,299

State pays 100% of costs for Juveniles in non-psychiatric settings = + \$ 4,620,951

**TOTAL = + \$6,300,250**

# General Funds Major Spending Changes

## Protecting Society

---

Education	+ \$35,599,092
Taking Care of People	+ \$33,761,856
Protecting Society	+ \$ 4,955,372
Rest of State Government	+ \$ 1,454,846
	<hr/>
<b>Total Changes</b>	<b>+\$75,771,165</b>

# Spending Increases for FY2008

## Protecting Society

---

### General Funds

UJS, ATG, DOC, & DPS Empl. Comp.	+ \$ 3,093,221
Lost Medicaid for Juveniles (DOC care)	+ \$ 2,356,181
UJS budget increases	+ \$ 1,244,180
Correctional Health Care	+ \$ 762,366
Utilities	+ \$ 596,816
All the Rest	<u>(\$ 3,097,392)</u>
<b>TOTAL INCREASES--</b>	<b>\$ 4,955,372</b>

# General Funds Major Spending Changes

## Rest of State Government

---

Education	+ \$35,599,092
Taking Care of People	+ \$33,761,856
Protecting Society	+ \$ 4,955,372
Rest of State Government	+ \$ 1,454,846
	<hr/>
Total Changes	+\$75,771,165



# All the rest of State Government

	<u>Total</u>
Tourism & State Development	+ \$1,202,517
Agriculture/ Animal Industry Board	+ \$ 317,799
Military & Veterans' Affairs	+ \$ 252,447
Environment and Natural Resources	+ \$ 180,583
Legislature & other Elected Officials	+ \$ 112,292
Game, Fish, & Parks	+ \$ 96,533
Revenue and Regulation	+ \$ 85,764
Labor	+ \$ 22,155
Transportation	+ \$ 9,432
<b>Executive Management</b>	<b>- \$ 824,676</b>
<b>Total</b>	<b>+ \$1,454,846</b>

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

# Federal Cuts to our Budget

(excludes FMAP)

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

<b>Attorney General</b>	<b>(\$297,092)</b>
<b>Human Services</b>	<b>(\$694,400)</b>
<b>Corrections</b>	<b>(\$1,756,083)</b>
<b>Animal Industry Board</b>	<b>(\$127,000)</b>
<b>Education</b>	<b>(\$1,417,849)</b>
<b>Social Services</b>	<b>(\$4,774,460)</b>
<b>UJS</b>	<b>(\$312,298)</b>
<b>Grand Total</b>	<b>(\$9,379,182)</b>



# Fighting Meth to Prevent This



	<u>Cost</u>	<u>FTE</u>
New Unit H At Women's Prison	\$1,800,113	16.0
UJS Drug Court	\$206,504	3.0
DHS Meth Treatment	\$694,400	0.0
Meth Education Campaign	\$275,527	0.0
Totals	<u>\$2,976,544</u>	<u>19.0</u>

**Budget savings enabled some of these initiatives to be started immediately and also buy down next year's costs from \$3 million to \$1.4 million.**

# FY2008 Proposed FTE Increases

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**Outside the Control  
of Governor-- 110.3**

**Under the Control  
of Governor-- (0.8)**

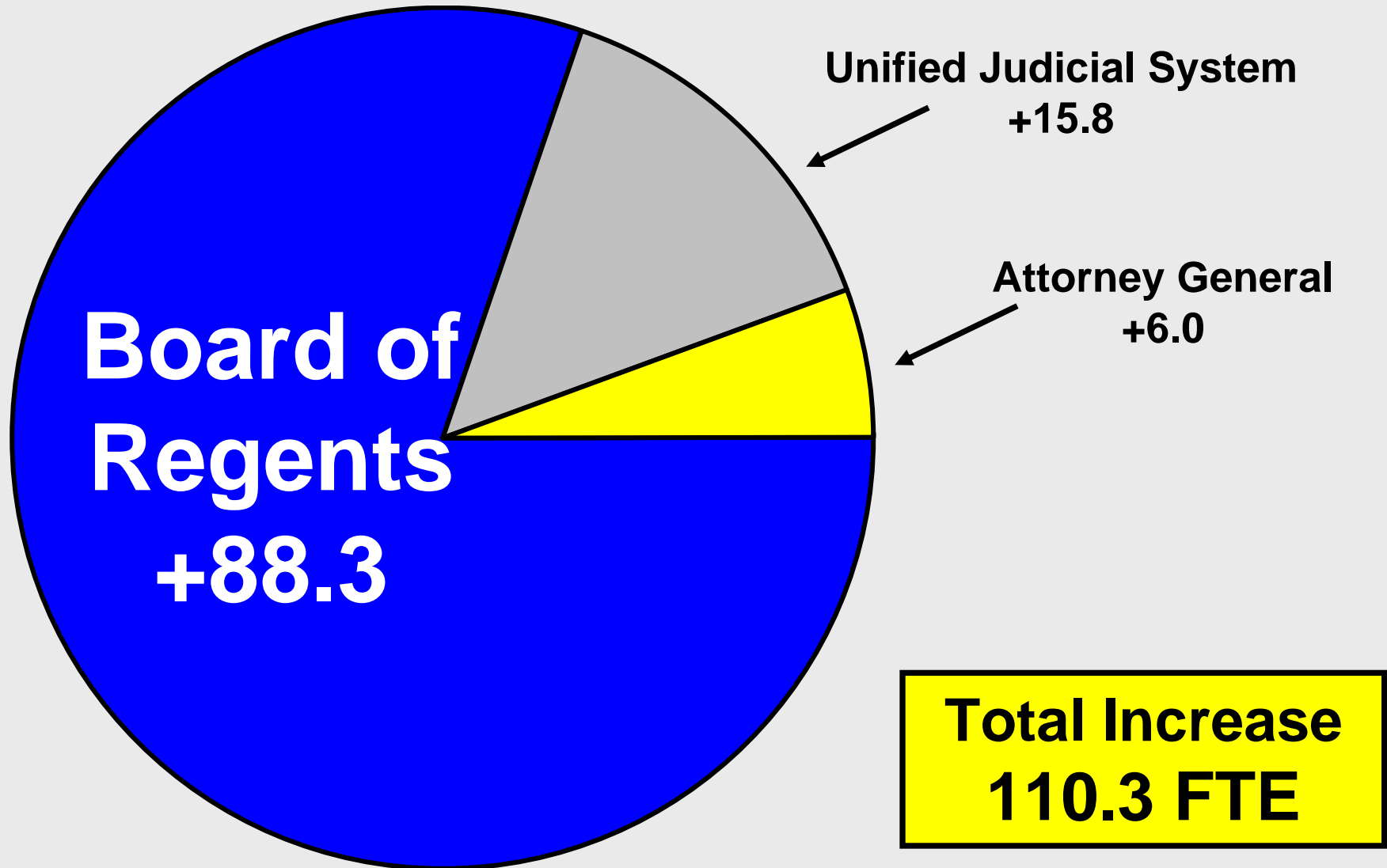
**Total-- 109.1**

# FTE's Under Governor's Control

---

	<u>Growth</u>
Revenue & Regulation	8.0
Health	5.2
BIT	4.0
Public Safety	3.0
DENR	3.0
Labor	(3.0)
Education	(4.0)
Transportation	(21.0)
7 Agencies, 3 bureaus, Governor's office	4.0
<b>Total</b>	<b><u>(0.8)</u></b>

# FY2008 FTE Increases – Outside of the Governor's Control



# FTE Increases Examples

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## **Board of Regents +88.3:**

- 51.8 FTE for Research Grant Personnel
- 19.0 FTE for Graduate Assistants (12 for Ph.D.'s)
- 10.5 FTE for Support Staff for Enrollment Increases
- 7.0 FTE for Ph.D.'s program Faculty

## **Unified Judicial System +15.8:**

- 10.8 FTE due to increases in caseloads
- 3.0 FTE for Drug Court
- 2.0 FTE for new circuit judge

## **Attorney General +6.0:**

- 2.5 FTE for DNA Examinations
- 1.5 FTE for DCI Instructors
- 1.0 FTE for Sex Offender Registry
- 1.0 FTE for Conference of Western Attorney Generals

# FY2007 Emergency Special Appropriations

---

## General Funds:

Drought Resistance Research Center	\$ 2,962,500
Emergency & Disaster Fund	\$ 1,503,029
Vet's Home Life Safety Improvement	\$ 1,082,783
K-12 Schools Sparsity Shortfall	\$ 818,762
Fire Suppression Fund	\$ 695,256
Cement Plant Earnings for Scholarships	\$ 571,385
Brookings Armory Upgrade	\$ 200,000
<b><i>Total General Funds Emergency Special Appropriations--</i></b>	<b><i>\$7,833,715</i></b>



# FY2008 Special Appropriations

---

## General Funds:

K-12 School District Sparsity	\$ 2,400,000
Capitol Lake Plaza Purchase	\$ 1,500,000
Tax Refunds for Elderly and Disabled	\$ 1,000,000
State Fair	\$ 750,000
Legislature Remodel of 4 <sup>th</sup> floor	\$ 408,100
School District Consolidation Incentives	\$ 251,276
Rural Health Tuition Reimbursement	\$ 250,315
Pine Beetle Suppression	\$ 175,000
Resident Dentist Externship Program	\$ 50,000

***Total General Funds***

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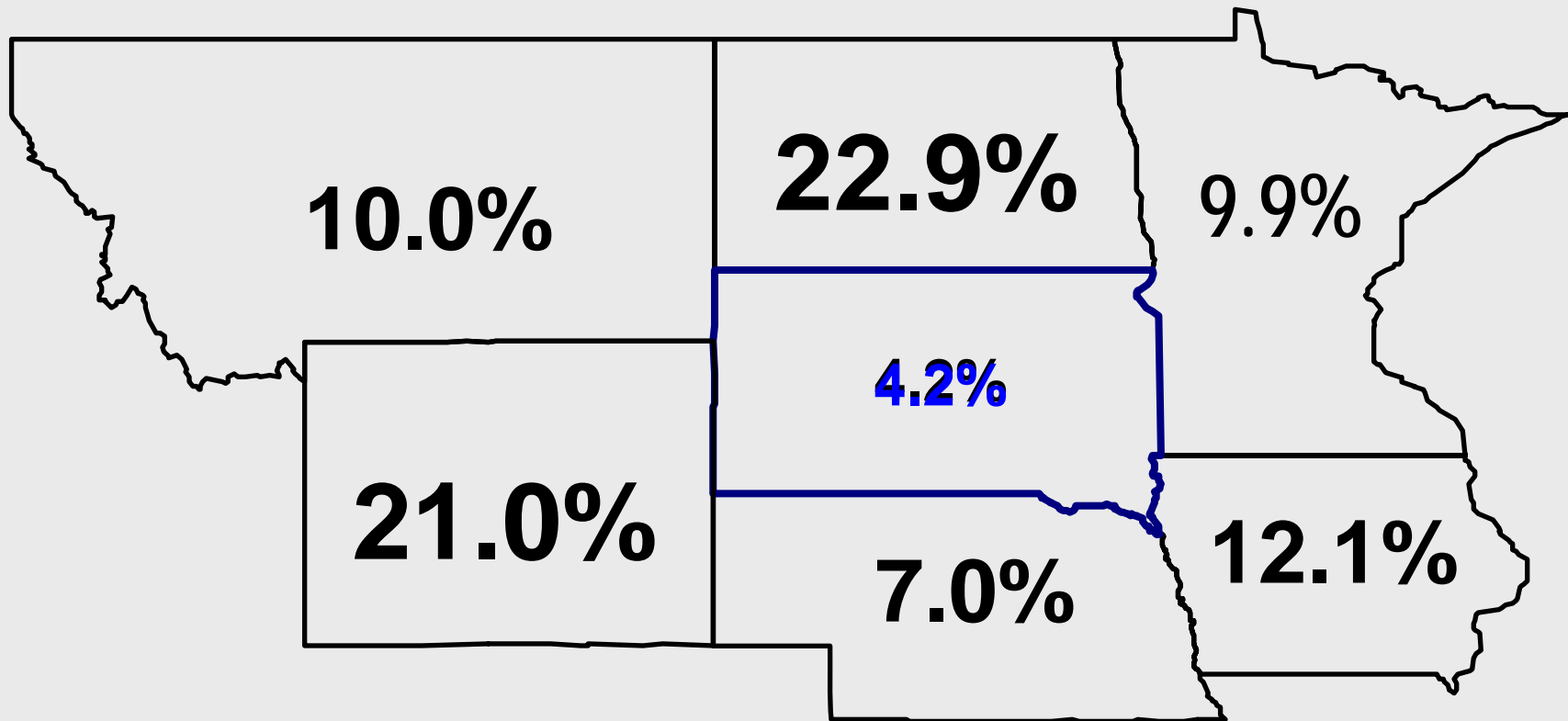
***Special Appropriations: \$4,657,437***

# State Employee Compensation

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- 3% Salary Policy
- 2.5% Movement to Job Worth
- Continuation of the Longevity Program
- 4.2% health insurance premium cost

# Surrounding State's Health Insurance Increases



# The Budget

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## FY2008

**General Funds**                      **\$1,142.8 million**

**Federal Funds**                      **\$1,346.1 million**

**Other Funds**                      **\$ 846.4 million**

---

**Total Budget =**                      **\$ 3.3 Billion**

# The Ongoing Budget Changes

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## FY2008

**General Funds**                    \$    **75.8 million**

**Federal Funds**                    \$    **20.3 million**

**Other Funds**                    \$    **40.5 million**

---

**Total =**                            **\$ 136.6 million**

# What your tax dollar pays for



50¢

## Education

- K-12
- Higher Ed.
- Tech Schools
- Dept of Ed.

33¢

## Taking Care of People

- Medicaid
- State Hospital
- TANF
- DSS/DHS/DOH

11¢

## Protecting the Public

- Corrections
- Courts
- Public Safety
- Attorney General

6¢

## Rest of State Govt

- 8 Depts
- 4 Bureaus
- Legislature
- Governor
- 5 Const. Offices
- Specials

***“Working together,  
we ARE making  
South Dakota even  
better!”***