

# TABLE OF CONTENTS

## **SUMMARY OVERVIEW**

<b>U.S. AND SOUTH DAKOTA ECONOMIC FORECAST .....</b>	<b>1</b>
<b>U.S. ECONOMY.....</b>	<b>1</b>
<b>SOUTH DAKOTA ECONOMY.....</b>	<b>4</b>
<b>REVENUE ESTIMATES.....</b>	<b>8</b>
<b>BUDGET RESERVE .....</b>	<b>11</b>
<b>COMPARISON BETWEEN LEGISLATIVE AND REVISED ESTIMATE FOR FY2007 .....</b>	<b>12</b>
<b>COMPARISON BETWEEN FY2006 AND FY2007 REVENUE COLLECTIONS.....</b>	<b>13</b>
<b>COMPARISON BETWEEN FY2007 AND FY2008 REVENUE COLLECTIONS.....</b>	<b>14</b>
<b>GENERAL FUND RECEIPTS.....</b>	<b>15</b>
<b>RECOMMENDED EXPENDITURES .....</b>	<b>16</b>
<b>SUMMARY OF RECOMMENDED BUDGET ADJUSTMENTS AND REORGANIZATIONS.....</b>	<b>18</b>
<b>SPECIAL APPROPRIATION RECOMMENDATIONS .....</b>	<b>36</b>
<b>GOVERNOR'S RECOMMENDATION FOR STATE EMPLOYEE COMPENSATION .....</b>	<b>38</b>
<b>GOVERNOR'S FY2008 GENERAL FUND RECOMMENDATIONS .....</b>	<b>39</b>
<b>GENERAL FUND CONDITION STATEMENT .....</b>	<b>40</b>
<b>TOTAL STATE GOVERNMENT BUDGET (EXCLUDING INFORMATION BUDGETS) .....</b>	<b>41</b>
<b>INFORMATION BUDGETS CONTAINED IN THE GENERAL APPROPRIATIONS BILL .....</b>	<b>42</b>
<b>TOTAL STATE GOVERNMENT BUDGET (INCLUDING INFORMATION BUDGETS) .....</b>	<b>43</b>

400 Copies printed by the Bureau of Finance and Management on recycled paper @ \$1.82 apiece at Central Duplicating Services.

## SUMMARY OVERVIEW

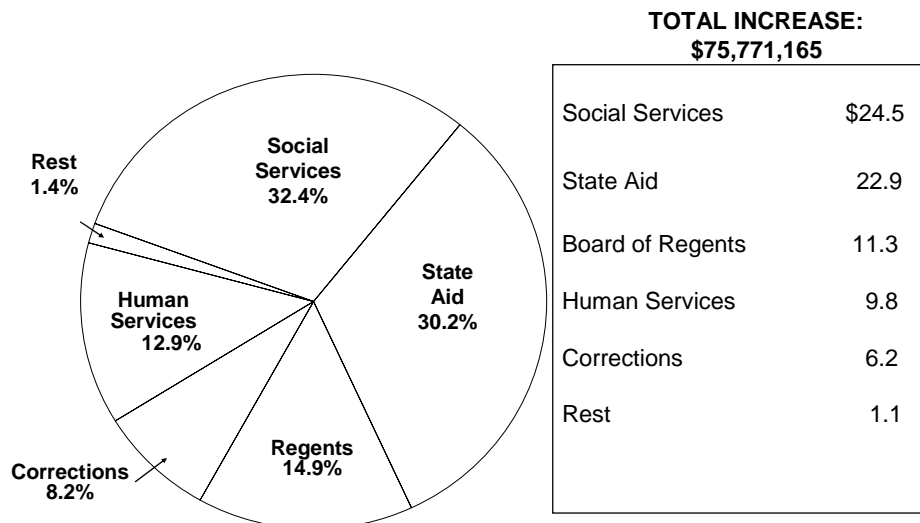
Governor Rounds is recommending a budget (including special appropriations) for FY2008 totaling \$3,335,268,033, and 14,234.0 FTE. This represents an overall increase of \$111,744,168 in total funds and an increase 109.5 FTE over FY2007. For FY2008, the Governor is proposing a general fund budget of \$1,142,808,465, which is an increase of \$62.6 million over the FY2007 budget. The proposed FY2008 general fund budget (excluding Sale Leaseback and CRP Programs) is distributed as follows:

- \$378.4 million, or 33.4% for Aid to Schools;
- \$377.7 million, or 33.4% for Health, Human and Social Services;
- \$174.2 million, or 15.4% for Higher Education;
- \$ 80.6 million, or 7.1% for Corrections;
- \$ 56.2 million, or 5.0% for the Legislature, Unified Judicial System, Public Utilities Commission, and Elected Officials;
- \$ 17.9 million, or 1.6% for Agriculture; Environment and Natural Resources; and Game, Fish, and Parks; and,
- \$ 46.8 million, or 4.1% for the Remainder of State Government.

The graph below depicts the FY2008 recommended general fund increases, excluding special appropriations, and including salary policy.

### FY2008 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 inflationary pressures and a slowing housing market over the past year. The Federal Reserve has increased the federal funds target rate 17 consecutive times in order to combat inflation. The rate is now at 5.25%. It is expected that the Federal Reserve will hold rates steady through the rest of 2006.

Even with recent declines in energy prices, the housing downturn is expected to drag the US economy into an extended period of below-trend growth in 2007. Rising unsold inventories of new homes are producing a response from builders, whose confidence has dropped to a 15 year low. Housing starts are expected to drop 11% and 14% in 2006 and 2007, respectively.

After growing a whopping 5.6% in the first quarter and 2.6% in the second quarter, GDP slowed to 1.6% growth in the third quarter of 2006 in response to the Federal Reserve's interest rate hikes and the declining housing market. The decline in the housing market took 1.1% off GDP in the third quarter through its effect on construction alone.

Gasoline prices have declined roughly \$0.80/gallon over the past two months putting \$96 billion back into consumer's pockets. This provides support to growth although the consumer continues to be cautious. West Texas Intermediate (WTI) prices are projected to average \$60.33 in the fourth quarter and firm to \$64.44 in 2007. Consumer natural gas prices are expected to rise over the winter due to rising seasonal demand.

The following are recent key national economic statistics:

- The unemployment rate fell 0.2% between September and October to 4.4%. The October rate was 0.5% below the unemployment rate recorded in October 2005.
- The Institute of Supply Management's (ISM) purchasing managers' index for manufacturing was 51.2 in October down from 52.9 in

September. This was the 41st consecutive month the index has been above 50, but is the lowest it has been in three years. A reading below 50 usually indicates the manufacturing sector is contracting, and a reading above 50 usually indicates it is expanding.

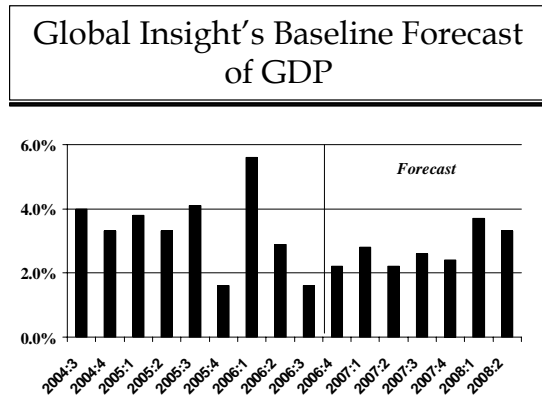
- The ISM nonmanufacturing business activity index rose from 52.9 in September to 57.1 in October. The increase in the index was attributed to new export orders and inventory change.
- Nonfarm productivity grew 1.2% in the second quarter and was flat at 0.0% growth in the third quarter. Unit labor costs rose 3.8% which led to the flat growth in the third quarter.
- In the third quarter, compensation for private-sector civilian workers increased a modest 0.9%. Benefit costs outpaced wage gains, as benefit costs increased 1.0% and wages and salaries only grew 0.8%.
- In the first three quarters of 2006, personal income increased at an annual rate of 9.4%, 6.9%, and 5.7%. Personal income grew 3.2% in 2003, 6.2% in 2004, and 5.2% in 2005.
- Real Personal Consumption increased 0.4% in September. The saving rate improved from August, but remained negative at -0.2%. The saving rate is expected to turn positive in the fourth quarter.
- Construction spending fell 0.3% in September. Private residential construction fell 1.1%, while nonresidential construction grew 0.1% and public construction grew 0.9%.
- Housing starts were 1.854 million units in 2003, 1.950 million units in 2004, and 2.073 million in 2005. At an annual rate, in the first three quarters of 2005, housing starts were 2.123 million units, 1.873 million units, and 1.735 million units.

## NATIONAL FORECAST HIGHLIGHTS

This section summarizes Global Insight's forecast as of November 2006 for various categories of the U.S. economy.

**GDP:** The US economy has slowed as revealed by the 1.6% advance of GDP in the third quarter. The key to the slowdown in the economy is the downturn in the housing market and a cautious consumer. Fortunately, oil prices have eased to \$60/barrel and will provide some support in the fourth quarter and into 2007. Capital spending and exports are expected to support growth, but will not offset the housing and consumer slowdown. The fallout from housing markets and autos is too limited to support recession scenarios. The view remains that a soft landing for the US economy is the most likely scenario. The underlying trend forecasts for slower economic growth (GDP below 3%) for 2007.

In the first three quarters of this year, GDP grew 5.6%, 2.6%, and 1.6%, respectively. In the fourth quarter, GDP growth is forecast to rebound to 2.2%. In the four quarters in 2007, Global Insight is projecting GDP growth of 2.8%, 2.2%, 2.6%, and 2.4%. In 2008, GDP is forecast to increase 3.7% in the first quarter and 3.3% in the second quarter.



On an annual basis, GDP grew 0.8% in 2001, 1.6% in 2002, 2.7% in 2003, 4.2% in 2004, and 3.2% in 2005. Global Insight's latest forecast shows GDP increasing 3.3% in 2006, 2.4% in 2007, and 3.1% in 2008.

**CONSUMERS:** Consumers continue to play a key role in supporting economic growth. Real consumer spending rose 2.5% in 2001, 2.7% in 2002, 2.9% in 2003, 3.9% in 2004, and 3.5% in 2005. So far in 2006, real consumption has increased 4.8%, 2.6%, and 3.1% in each of the three quarters. Growth in real consumer spending is anticipated to strengthen to 3.2% in the fourth quarter in response to lower gasoline prices. Falling gasoline prices and higher consumer confidence should translate into reasonably healthy holiday sales. The projected

fourth-quarter sale of goods, excluding vehicles and gasoline, is expected to increase 5.3% year-on-year compared to 6.9% in 2005. As inflation has moderated in the past few months, disposable income growth has accelerated to 3.7% growth in the third quarter, allowing opportunities for growth. However, early indicators for the fourth quarter point to a cautious consumer. Light vehicle sales retreated slightly in October leading to the conclusion that households are saving a portion of their disposable income. On an annual basis, real consumption is projected to grow 3.2% this year and then slow to 2.8% in 2007 due to a cautious consumer. Global Insight is projecting the rate of growth to be relatively flat again in 2008 at 2.9% growth.

The saving rate was -0.5% in the third quarter of 2006. The saving rate has been in negative territory for six consecutive quarters and is expected to turn positive in the fourth quarter and remain positive into 2007. The saving rate is projected to be -0.3% in 2006 and increase to 0.2% in 2007 and to 0.7% in 2008. In 2003, 2004 and 2005, the saving rate has been 1.4%, 1.7%, and -0.4%, respectively.

**EMPLOYMENT:** The latest employment report showed 92,000 jobs were added to the U.S. economy in October. However, a large upward revision of 139,000 jobs for the two prior months was encouraging. Based on current data, employment growth in 2006 is estimated at 1.78 million jobs and is expected to slow to a growth of 1.36 million in 2007. It is forecast that in 2008 and 2009 job gains will rebound above 2.0 million per year. The weakness projected in 2007 is due mainly to categories that showed job losses or weaker-than-normal performances including residential construction and automotive production.

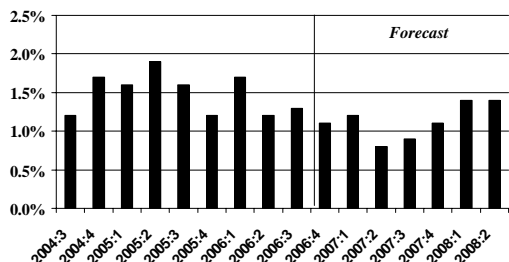
Productivity has slowed over the past three quarters. In the first three quarters of 2006, productivity grew at an annual rate of 4.3%, 1.2%, and 0.0%. For the year, productivity is expected to increase 2.0%. In 2007 and 2008, productivity is projected to grow 1.7% and 2.3%. In 2003, 2004 and 2005, productivity increased 3.8%, 3.4% and 2.3%, respectively.

The unemployment rate in October was 4.4%, which was 0.5% below the unemployment rate reported last year at this time and 0.2% lower than September. On an annual basis, the unemployment rate was 6.0% in 2003, 5.5% in 2004 and 5.1% in 2005. In 2006 and 2007, the unemployment rate is projected to be 4.6% and 4.8%, respectively. In 2008, the unemployment rate is projected to be 4.9%.

After growing 1.7%, 1.2%, and 1.3% in the first three quarters of 2006, payroll employment is projected to

grow 1.1% in the fourth quarter and 1.2%, 0.8%, 0.9%, and 1.1% in the four quarters of 2007. In the first two quarters of 2008, payroll employment is projected to grow 1.4% 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, 1.1% in 2004 and 1.5% in 2005. Payroll employment is forecasted to grow 1.4% in 2006, 1.1% in 2007, and 1.3% in 2008.

**HOUSING:** The housing sector has been a drag on the overall economy recently although the latest housing numbers were mixed. Housing starts rebounded in September jumping 5.9%, but permits fell for the sixth straight month, hitting the lowest level since January 2004. The view is that inventories are still growing and that sales will continue to weaken in 2007. The median price for new and existing homes fell for the second consecutive month in September. The forecast points to housing starts decreasing 11.0% in 2006 and 13.8% in 2007 with most of this drop attributed to single-unit housing. It is expected that housing starts will bottom in the second half of 2007 and begin to gradually rise again. Global Insight is expecting prices of new and existing homes to decline in 2007, representing the first nominal decline in existing home sale prices in history. The slowdown in housing starts accounts for the weak forecast for spending on residential construction which is expected to drop 19% in the fourth quarter. The slowdown of the housing market is expected to take 1.2 percentage points off GDP growth in the fourth quarter and another 0.8 percentage point off GDP in 2007. For 2006, single-family starts are projected to be 1.50 million. Single-family starts were 1.60 million in 2004 and 1.72 million in 2005. Global Insight is projecting starts to slow to 1.26 million in 2007 and then rebound to 1.33 million in 2008. Overall housing starts are projected to be 1.85 million units in 2006, and then soften to 1.59 million units in 2007 and 1.665 million units in 2008. In 2003, 2004, and 2005, housing starts were 1.854, 1.950, and 2.073 million units, respectively.

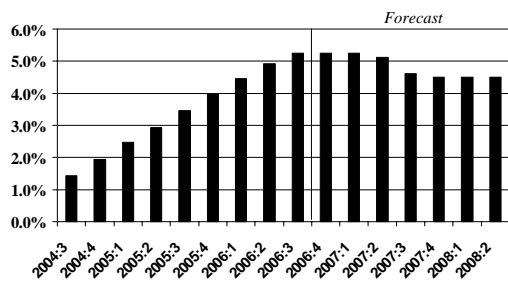
A major reason why the housing market has been weak is because inventories of new and used homes remain at near record highs. However, it is forecasted that inventories of new homes peaked in the third quarter and then will begin a gradual descent. With inventories falling, it is expected that housing starts will turn around in the second half of 2007 and the housing market will begin a steady comeback. Mortgage rates have remained relatively low in historical terms. In the third quarter, the mortgage rate was 6.57%, which was up from the third quarter of 2005's rate of 5.75%. It is Global Insight's view that mortgage rates will stay relatively low in 2007 averaging 6.23%, but will gradually rise in 2008 and 2009. Global Insight's forecast shows the 30-year fixed mortgage rate decreasing from 6.44% in 2006 to 6.23% in 2007 and then increasing to 6.47% in 2008. In the last three years, the mortgage rate has been 5.82%, 5.84% and 5.86%.

**INFLATION:** Inflation has receded in recent months due to plunging energy prices. However, other commodity prices have stabilized and labor costs have accelerated which may become worrisome to the Federal Reserve. The core CPI, which excludes volatile food and energy prices, measured at a 2.4% year-on-year growth in September which is above the Federal Reserve's presumed 1-2% tolerance range. The recent drop in the unemployment rate to 4.4% signals a tightening labor market and the potential for upward pressures on wages. However, the long-term inflation environment remains favorable as the Federal Reserve will continue to monitor core inflation in an effort to keep it near 2.0% in the long term.

The CPI increased 2.3% in 2003, 2.7% in 2004, and 3.4% in 2005. The CPI is forecasted to increase 3.3% in 2006, and then fall back to 2.1% in 2007 and 1.9% in 2008. The core CPI increased 1.5% in 2003, 1.8% in 2004 and 2.2% in 2005. It is projected to increase 2.5% in 2006, 2.4% in 2007, and 2.0% in 2008. The producer price index for finished goods fell 1.3% in 2002 and rose 3.2%, 3.6% and 4.9% in 2003, 2004 and 2005, respectively. It is expected to soften to 3.1% in 2006 and 3.1% in 2007. In 2008, it is projected to weaken to 1.7% growth.

**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 seventeen times to a current rate of 5.25%. It is Global Insight's view that the Federal Reserve will leave rates unchanged in the short term and the Fed will cut rates by 25 basis points three times in 2007 beginning in May in response to lower core inflation.

## Global Insight's Baseline Forecast of the Federal Funds Rate



The federal deficit for fiscal year 2006 was \$248 billion which was an improvement from \$319 billion in the previous fiscal year. Global Insight's forecast for the federal deficit is to increase slightly to \$267 billion in fiscal year 2007. After growing 7.0% in 2002, 6.9% in 2003, 5.2% in 2004, and 1.5% in 2005, real federal government purchases are expected to increase 1.8% in 2006, 1.5% in 2007 and 0.8% in 2008. The majority of the increases projected in 2006 and 2007 are the result of defense spending.

**INTERNATIONAL:** The U.S. trade deficit decreased \$4.7 billion in September to \$64.3 billion mainly due to falling oil prices. It is expected that lower oil imports and higher exports will narrow the deficit further in October. Looking forward, export volume gains should trim the real deficit and lower oil prices should narrow the nominal shortfall. It is Global Insight's perspective that the nominal deficit will narrow to \$594 billion in 2007 and to \$560 billion in 2008. Trade is expected to be positive for GDP growth in 2007, its first positive contribution to annual growth since 1995.

The dollar will continue to experience downward pressure which will help exports over the course of 2007. Global Insight's forecast assumes that the dollar will drop about 5% against major currencies in 2007 due to the large trade gap and interest rate differentials.

The world economy forecast is for moderate growth over the next few years with the United States leading a mild shift from above average trend from 2004-2006 to an average trend projected in 2007-2010. Moderation in global growth and oil capacity investment will help relieve inflationary pressures, although further interest rate hikes are expected in Europe and Asia. World GDP growth is expected to decelerate to near average trend pace in the first half of 2007. After growing 3.5% in 2005, world GDP is projected to increase 3.9% in 2006 and 3.3% in 2007.

## *RISKS TO THE FORECAST*

Global Insight's baseline forecast assumes that the U.S. economy is headed for a soft landing. There is a 20% probability that only a brief slowdown occurs and productivity growth recovers and stays strong for many years. In Global Insight's optimistic scenario, GDP is projected to grow 3.3% in 2006, 2.9% in 2007, and 3.9% in 2008. There are a few key differences between the optimistic scenario and the baseline scenario. First, total factor productivity is stronger, as the optimistic forecast assumes that the information-driven technology boom continues giving boost to total factor productivity. The second key assumption in the optimistic scenario is that foreign economic growth is stronger, which would strengthen U.S. manufacturing and boost exports. Thirdly, the optimistic scenario assumes a stronger dollar, resulting in expansion of the US. 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 20% 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 larger downturn in the housing market, persistently high energy prices, and higher interest rates than what is projected in the baseline forecast. In the pessimistic scenario the economy nearly sinks into recession and falls well below its potential and resembles the economic times of the late 1970s. In the pessimistic scenario, GDP is forecasted to grow 3.2% in 2006, 1.1% in 2007, and 1.7% in 2008.

## SOUTH DAKOTA ECONOMY

### *RECENT ECONOMIC ACTIVITY*

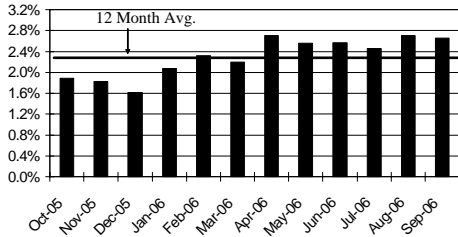
*This section briefly summarizes recent economic activity in South Dakota. A prime indicator of a state's economic health is the growth rate of nonfarm employment, as it is considered by most economists as the most timely and comprehensive measure of the performance of a state's economy.*

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 fell 1.1% and 0.3% in 2002 and 2003, respectively, and grew 1.1% and

1.5% in 2004 and 2005, respectively. Nonfarm employment growth in South Dakota was -0.3% in 2002, 0.2% in 2003, 1.4% in 2004 and 1.7% in 2005.

After adding 5,200 jobs in 2004, 6,300 jobs in 2005, jobs continue to be added in South Dakota in 2006. For the first nine months of the year, nonfarm employment has grown 2.66%, or 10,400 jobs, over the first nine months of 2005.

Recent Growth in Nonfarm Employment



The following are some recent key South Dakota economic statistics:

- In the last twelve months (October 2005 through September 2006), nonfarm employment in South Dakota grew 2.3% over the same period a year ago. Sectors that experienced strong growth in the last twelve months were construction (4.82%); manufacturing (5.27%); financial activities (3.13%); and, leisure and hospitality (2.64%).
- In the last twelve months, the average weekly earnings of manufacturing production workers grew 1.2% over the same period the year before. Average hourly earnings were up 3.09% over the last twelve months, while average weekly hours were down 1.85% over the same time period.
- From 2002-2005, South Dakota ranks first in the nation in terms of its per capita personal income growth and ranks third in the nation in its personal income growth.
- Personal income in South Dakota grew 2.8% in the first quarter of 2006, which was higher than the national growth rate during this time period (2.2%). In the second quarter of 2006, personal income in South Dakota grew 1.2%. The growth rate for the U.S. was 1.7% in the second quarter.
- The unemployment rate in South Dakota was tied for the fifth lowest in the U.S. in September, at 3.2%. This was 1.4% below the national rate and 0.6% below the unemployment rate at this time last year.

- During the latest twelve-month period (October 2005 through September 2006), the number of titles issued for new noncommercial vehicles was 35,563, which was a decrease of 5,778 (-14%) vehicles titled over the prior twelve-month period.
- The total number of residential building permits issued during the past twelve months was 3,402, which was down 436 (-11.4%) from the prior twelve-month period. The value of building permits issued was \$536.6 million for the past twelve months. This was a decrease of \$4.4 million (-0.8%) 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 \$809.4 million in 2005. This was \$57.2 million more than visitor spending in 2004, and the highest level of spending ever achieved in South Dakota. The Black Hills, Badlands and Lakes Region experienced the largest increase in visitor spending in 2005 over 2004, at 8.8%. Spending in the Southeast Region and the Glacial Lakes and Prairies Region increased 8.7% and 6.0%, respectively. Visitor spending in the Great Lakes Region fell by 1.4%. Visitation at Mount Rushmore National Memorial was up slightly in 2005 compared to 2004 (2,757,971 versus 2,754,261) and visitation at the Badlands was down last year compared to 2004 (928,009 versus 954,893).

Tourism in the state has remained strong so far this year even with high gas prices. Recent data has shown that consumers traveled shorter distances but increased spending during 2006. Tourism 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. In addition, 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 2005, the agricultural economy in South Dakota produced receipts of \$4.82 billion, which was a decrease of \$0.6 billion from 2004 (excluding government payments). Crops generated \$2.26 billion and livestock generated \$2.56 billion in 2005. Some of the decrease can be attributed to a carry over of grain inventories into 2006 as a result of low grain prices in late 2005.



Last year was an above average year for agricultural production. In 2005, corn for grain production totaled 470 million bushels with an average yield of 119 bushels. Soybean production was strong at 138.6 million bushels. The 2005 calf crop totaled 1.72 million head, which was up 0.6% from the prior year, and the pig crop last year was 2.76 million head, which was up 6.5% from 2004.

Production levels look to be below average for South Dakota in 2006, due to drought conditions experienced in central South Dakota. According to the National Agricultural Statistics Service, corn production is projected to be 385.2 million bushels, which is down 18% from last year's production. Corn yield is forecasted at 107 bushels per acre, which is down 12 bushels from last year's production. Soybean production is expected to be down 1.5% from last year, at 136.5 million bushels. Soybean yields are projected to be 35 bushels per acre, which is equal to last year. On the livestock side, September commercial red meat production in South Dakota was down 11% from last year, at 77.3 million pounds. September pork production was down from 2005, with 362,100 head slaughtered.

The Council's outlook for the agricultural economy is cautiously optimistic. Drought conditions in the central part of the state created adverse conditions for producers in 2006 as production levels were drastically reduced in areas and pasture conditions were poor. However, the recent upswing in the prices received for crops have helped offset the low production levels. High input costs and higher land values will continue to pressure the agriculture economy. Livestock producers have experienced relatively high prices over the past year although the recent upswing in grain markets has softened livestock prices.

**WAGE RATES:** The unemployment rate in South Dakota in September was 3.2%. This was 1.4% below the U.S. unemployment rate, and tied for the fifth 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 2005. Much of the strength in the construction sector was attributable to the housing market. The total number of housing units authorized in South Dakota was 5,685 in 2005,

which was down slightly from the total number of housing units authorized in 2004. However, the value of permits issued for housing units continued to remain strong, up \$36.9 million in 2005 from 2004.

Construction activity has remained strong during 2006, but the housing market has slowed compared to 2005. From January to September of this year, the total number of building permits issued for family buildings in South Dakota was 2,610, which was 308 fewer than the total number of permits issued during the same time period in 2005. The value of permits issued for family buildings during the first nine months of 2006 compared to 2005 was down \$4.9 million.

It is the Council's view that the housing market will weakened slightly in 2007, but will rebound in the second half due to relatively low interest rates and a steadily growing economy.

### ***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.*

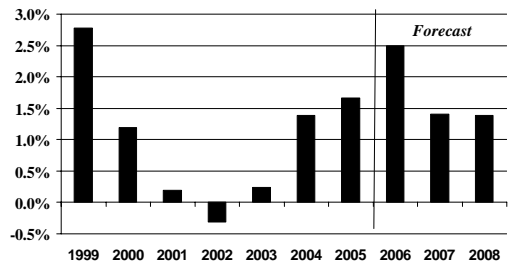
**EMPLOYMENT:** South Dakota has several advantages over other states that account for its ability to post strong gains in employment. Some of these advantages include a pro-business environment, a central geographic location, an advanced technology base, a low cost of doing business, and a high quality 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, 1.3% in 2004 and 1.7% in 2005. For 2006, 2007, and 2008, nonfarm employment is projected to continue to be relatively strong, growing 2.5%, 1.4%, and 1.4%, respectively. Sectors in service-providing industries, particularly health services, financial services, leisure and hospitality, retail trade, and



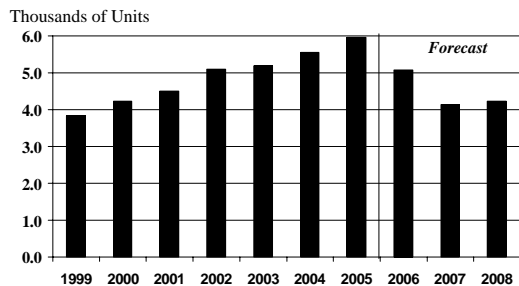
manufacturing are expected to see strong job gains in the future.

### Growth in Nonfarm Employment



**HOUSING:** Favorable interest rates and changing demographics in the state have contributed to a strong housing sector in recent years. From 1998 through 2005, the number of housing starts in South Dakota had increased each year. However, housing starts have softened in 2006 and are projected to weaken further in 2007 with a rebound in 2008. Mortgage rates are expected to still remain attractive and the economy will continue to grow giving a rebound to the housing market in the second half of 2007. Housing starts were 5,960 in 2005 and are projected to be 5,080 in 2006, 4,130 in 2007, and 4,230 in 2008.

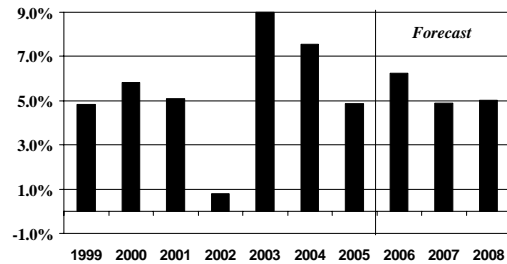
### Housing Starts



**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 0.8% in 2002. The 0.8% 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 9.0% due to rising nonfarm employment, disaster payments to farmers, and higher crop and livestock prices. Total personal income grew 7.6% in 2004 and 4.9% in 2005 due to an overall strong

economy and above average agriculture production. Personal income growth is forecasted to be 6.2% in 2006, 4.9% in 2007, and 5.1% in 2008. The gains in income are expected due to rising employment, a tight labor market, higher agriculture prices and employers compensating employees for increased productivity.

### Growth in Total Personal Income



Nonfarm personal income rose 6.8% in 1998, 5.6% in 1999, 6.6% in 2000, 6.8% in 2001, 3.9% in 2002, 4.2% in 2003, 7.2% in 2004 and 5.7% in 2005. Growth rates for 2006, 2007, and 2008 are projected to be 7.4%, 5.4%, and 5.5%, respectively.

#### **RISKS TO THE FORECAST**

The current forecast assumes that the South Dakota economy will continue to grow although at a slightly slower pace in 2007. 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 weakens further than projected. Another key risk the Council sees to the continued strengthening of the South Dakota economy is residential construction. If the housing market were to weaken more than expected, 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 FY2007 are forecasted at \$1,082.4 million. Ongoing revenues comprise \$1,075.5 million of the total, and one-time revenues compose \$6.9 million of the total. The ongoing estimate for FY2007 is an increase of \$58.3 million from actual FY2006 ongoing receipts. The majority of the forecasted increase is from the sales and use tax (+\$30.8M). Other projected significant sources of growth between FY2006 and FY2007 are the contractor's excise tax (+\$7.6M), the Property Tax Reduction Fund (+\$5.2M), licenses, permits, and fees (+\$4.4M), and the insurance company tax (+\$4.3M). The revenue source that is expected to see the most significant decrease in collections between FY2006 and FY2007 is severance taxes (-\$1.1M).

The revised ongoing estimate for FY2007 is \$9.6 million more than the estimate adopted during the 2006 legislative session. The reason the revised estimate is substantially larger than adopted is due to a shift of \$14.0 million of unanticipated revenue. Included in this unanticipated revenue is \$7.3 million from Initiated Measure 2 (cigarette tax & Property Tax Reduction Fund), \$4.7 million from Unclaimed Property, and an additional \$2.0 million transfer from the insurance operating fund. If these unanticipated revenues did not materialize, the revised ongoing estimate would be \$4.4 million less than the adopted estimate. Major revisions upward for the revised estimate are from charges for goods and services (+\$4.9M), the contractor's excise tax (+\$3.9M), the sales and use tax (+\$3.1M), and the cigarette tax (+\$2.2M). The most significant downward revisions are from insurance company tax (-\$4.6M) and the investment income and interest (-\$1.6M).

Total general fund receipts for FY2008 are projected to be \$1,142.8 million. Ongoing revenues are forecasted to be \$1,129.9 million, and one-time receipts are expected to be \$12.9 million. The forecast for ongoing receipts in FY2008 is an increase of \$54.4 million from the revised FY2007 projection of ongoing receipts. The most significant source of growth between the revised FY2007 estimate and the FY2008 forecast is expected to be from the sales and use tax (+\$34.7M). Other projected significant sources of ongoing revenue growth are from the Property Tax Reduction Fund (+\$6.7M), the bank franchise/bank card taxes (+\$5.0M), the insurance company tax (+\$4.2M), and the contractor's excise tax (+\$3.4M). The source that is expected to see the most significant decrease in collections between FY2007 and FY2008 is charges for goods and services (-\$1.1M).

## CURRENT REVENUE FORECAST (Dollars in Millions)

	<u>FY2007</u>	<u>FY2008</u>
Sales and Use Tax	607.7	642.4
Contractor's Excise Tax	82.7	86.1
Bank Franchise Tax	41.4	46.4
Insurance Company Tax	60.0	64.1
Property Tax Reduction Fund	119.9	126.6
Other Ongoing Revenues	163.8	164.3
One-Time Receipts	6.6	6.5
Property Tax Reserves	0.0	6.4
Obligated Cash Carried Forward	<u>0.3</u>	<u>0.0</u>
<b>Total Revenue</b>	<b><u>1,082.4</u></b>	<b><u>1,142.8</u></b>

### 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 FY2006, the sales and use tax grew from \$140.6 million to \$576.9 million, which was an average annual increase of 5.58%. In FY2002 and FY2003, the growth of sales and use tax collections was soft (1.24% and 3.93%, respectively) due to the slow recovery of nonfarm employment from the recession. In FY2004 and FY2005, growth in the sales and use tax was strong (6.78% and 5.11%) due to the strengthening economy. Last year, growth in the sales and use tax remained strong (7.99%) due to continued economic growth.

Collections from the sales and use tax in FY2006 were \$576.9 million, which was an increase of \$42.7 million, or 7.99%, over FY2005. Through the first four months of FY2007, sales and use tax collections were \$210 million, which is an increase of 4.58% from the first four months of FY2006. For the revised FY2007 estimate, the sales and use tax is forecasted at \$607.7 million, which is an increase of \$30.8 million, or 5.34%, over FY2006. For FY2008, the sales and use tax is forecasted at \$642.4 million, which is an increase of \$34.7 million, or 5.71%, over the revised FY2007 estimate.

### CONTRACTOR'S EXCISE TAX

Collections from the contractor's excise tax account for approximately 7.5% 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 CY2005, the number of housing units authorized in South Dakota increased from 1,922 units to 5,685 units. This expansion in activity contributed to the increase in contractor's excise tax collections from \$16.2 million in FY1988 to \$75.1 million in FY2006.

Last year, collections from the contractor's excise tax grew \$9.7 million, or 14.83%, from FY2005. Through the first four months of FY2007, contractor's excise tax collections were \$32.3 million, which was an increase of 13.71% from the first four months of FY2006. Contractor's excise tax collections for FY2007 are forecasted at \$82.7 million, which is an increase of \$7.6 million, or 10.12%, over FY2006 collections. FY2008 collections are forecasted at \$86.1 million, which is an increase of \$3.4 million, or 4.06%, over the revised FY2007 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 four fiscal years because of the strengthening economy.

Collections from the bank franchise tax were \$40.5 million in FY2006, which was an increase of \$4.1 million, or 11.23%, from FY2005. Through the first four months of FY2007, collections were \$19.6 million, which was an increase of 12.32% over the same period last year. FY2007 collections are projected to be \$41.4 million, which is an increase of \$1.0 million, or 2.40%, over FY2006 collections. Collections are expected to be \$46.4 million in FY2008, which is \$5 million, or 12.07%, more than the revised FY2007 estimate.

### ***INSURANCE COMPANY TAX***

Collections from the insurance company tax account for approximately 5.5% of ongoing general fund revenues. Between FY1985 and FY2006, insurance company tax collections grew from \$17.2 million to \$55.7 million, which was an average annual increase of 5.76%.

In FY2006, insurance company tax collections were \$55.7 million, which was an increase of \$0.2 million, or 0.38%, over FY2005 collections. During the first four months of FY2007, insurance company tax collections were \$24.4 million, which was an increase of 8.76% over the same period in FY2006. For FY2007, insurance company tax collections are forecasted at \$60 million, which is an increase of \$4.3 million, or 7.72%, over FY2006 collections. For FY2008, insurance company tax collections are forecasted to grow \$4.2 million, or 6.92%, over the revised FY2007 estimate to \$64.1 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. 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 had 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. In 2006, the voters of South Dakota adopted Initiated Measure 2, which will increase the tax on a 20 pack of cigarettes by \$1.00 per pack and the tax on a 25 pack of cigarettes by \$1.25 per pack. Initiated Measure 2 also increases the wholesale tax on other tobacco products from 10% to 35% beginning January 1, 2007. The Property Tax Reduction Fund will receive a 33% share of the revenues in excess of \$35 million each fiscal year from this revenue source. This revenue will be annually transferred to the general fund as an ongoing revenue source.

Transfers from the PTRF to the general fund from ongoing revenue sources were \$114.7 million in FY2006. In FY2007 and FY2008, it is estimated that there will be \$119.9 million and \$126.6 million, respectively, in ongoing receipts from the PTRF transferred to the general fund. Included in the FY2007 and FY2008 PTRF estimates are \$5.6 million and \$6.0 million from the telecommunications

tax as well as \$4.9 million and \$11.2 million from the 33% share of the excess tobacco tax. Video lottery receipts to the PTRF in FY2007 and FY2008 are projected to be \$109.5 million and \$109.5 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 FY2007, collections from other ongoing revenues are projected to be \$163.8 million. For FY2008, collections are forecasted to increase to \$164.3 million.

#### ***ONE-TIME RECEIPTS***

In FY2007, collections from one-time receipts are projected to be \$6.6 million. Included in this estimate is \$2.8 million transferred from the Highway Fund and \$3.8 million transferred from the Technology Fund. In FY2008, collections from one-time receipts are projected to be \$6.5 million. Included in this is a \$1.0 million transfer from the Telecommunications Relay Service Fund, a \$4.0 million transfer from the Budgetary Accounting Fund, a \$1.0 million transfer from the Petroleum Release Compensation Fund and a \$0.5 million transfer from the Video Lottery Operating Fund.

#### ***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. For FY2007, it is not anticipated that any money will need to be transferred from Property Tax Reserves to balance the budget. In FY2008, it is projected that \$6.4 million will need to be transferred from the Property Tax Reserves to the general fund to balance the budget.

#### ***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 FY2007 estimate is \$0.3 million that was carried forward from FY2006 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 FY2008 assumes that surplus funds will be available from FY2007 in the amount of \$1,933,535. To the extent this surplus is more or less than projected, the ending balance in the Budget Reserve Fund will be adjusted accordingly.

## **BUDGET RESERVE FUND CONDITION STATEMENT**

	<b>ACTUAL FY2005</b>	<b>ACTUAL FY2006</b>	<b>ESTIMATED FY2007</b>	<b>ESTIMATED FY2008</b>
Beginning Balance	\$ 40,680,675	\$ 41,862,883	\$ 42,682,740	\$ 43,000,275
Calculations for Maximum Balance in the Fund:				
General Bill Appropriation for Prior Year	\$ 851,277,150	\$ 971,660,743	\$ 1,009,980,027	\$ 1,058,109,322
Budget Reserve Fund Percentage	10%	10%	10%	10%
Maximum Amount in the Fund	<u>\$ 85,127,715</u>	<u>\$ 97,166,074</u>	<u>\$ 100,998,003</u>	<u>\$ 105,810,932</u>
Maximum Transferable Amount	<u>\$ 44,447,040</u>	<u>\$ 55,303,191</u>	<u>\$ 58,315,263</u>	<u>\$ 62,810,657</u>
Amount of General Funds Available				
End of Prior Year	\$ 1,182,209	\$ 819,857	\$ 317,535	\$ 1,933,535
Transferred in from General Fund	<u>\$ 1,182,209</u>	<u>\$ 819,857</u>	<u>\$ 317,535</u>	<u>\$ 1,933,535</u>
Ending Balance	<u><u>\$ 41,862,883</u></u>	<u><u>\$ 42,682,740</u></u>	<u><u>\$ 43,000,275</u></u>	<u><u>\$ 44,933,810</u></u>

**COMPARISON BETWEEN LEGISLATIVE AND  
REVISED ESTIMATE FOR FY2007**

	<b>LEGISLATIVE ADOPTED FY2007</b>	<b>REVISED FY2007</b>	<b>DOLLAR CHANGE</b>	<b>PERCENT CHANGE</b>
<b>CONTINUING RECEIPTS</b>				
Sales and Use Tax	\$ 604,603,599	\$ 607,722,455	\$ 3,118,856	0.52
Contractor's Excise Tax	78,841,978	82,706,906	3,864,928	4.90
Alcohol Beverage Tax	8,814,476	9,051,584	237,108	2.69
Alcohol Beverage 2% Wholesale Tax	1,074,361	1,097,299	22,938	2.14
Cigarette Tax	27,740,279	30,000,000	2,259,721	8.15
Bank Franchise Tax	41,078,381	41,418,672	340,291	0.83
Insurance Company Tax	64,557,330	59,968,019	(4,589,311)	(7.11)
Inheritance and Estate Tax	250,000	430,000	180,000	72.00
Licenses, Permits, and Fees	36,938,536	37,042,878	104,342	0.28
Investment Income and Interest	13,860,130	12,212,482	(1,647,648)	(11.89)
Charges for Goods and Services	10,776,864	15,726,437	4,949,573	45.93
Net Transfers In	8,604,656	8,541,947	(62,709)	(0.73)
Trust Funds	31,356,650	31,358,641	1,991	0.01
Severance Taxes	1,715,819	1,624,582	(91,237)	(5.32)
Unexpended Carryovers	0	0	0	0.00
Lottery	5,392,923	5,102,640	(290,283)	(5.38)
Property Tax Reduction Fund	118,777,787	119,938,204	1,160,417	0.98
Sale-Leaseback	10,498,875	10,498,875	0	0.00
CRP Program	1,108,425	1,108,425	0	0.00
<b>SUBTOTAL (CONTINUING RECEIPTS)</b>	<b>\$ 1,065,991,069</b>	<b>\$ 1,075,550,046</b>	<b>\$ 9,558,977</b>	<b>0.90</b>
<b>ONE-TIME RECEIPTS</b>				
Transfer from Highway Fund	\$ 2,750,000	\$ 2,750,000	\$ 0	0.00
Transfer from Technology Fund	3,800,000	3,800,000	0	0.00
Obligated Cash Carried Forward	0	317,535	317,535	100.00
<b>SUBTOTAL (ONE-TIME RECEIPTS)</b>	<b>6,550,000</b>	<b>6,867,535</b>	<b>317,535</b>	<b>4.85</b>
<b>GRAND TOTAL</b>	<b>\$ 1,072,541,069</b>	<b>\$ 1,082,417,581</b>	<b>\$ 9,876,512</b>	<b>0.92</b>

**COMPARISON BETWEEN FY2006 AND FY2007  
REVENUE COLLECTIONS**

	<b>ACTUAL FY2006</b>	<b>REVISED FY2007</b>	<b>DOLLAR CHANGE</b>	<b>PERCENT CHANGE</b>
<b>CONTINUING RECEIPTS</b>				
Sales and Use Tax	\$ 576,899,817	\$ 607,722,455	\$ 30,822,638	5.34
Contractor's Excise Tax	75,103,983	82,706,906	7,602,923	10.12
Alcohol Beverage Tax	8,637,272	9,051,584	414,312	4.80
Alcohol Beverage 2% Wholesale Tax	1,002,436	1,097,299	94,863	9.46
Cigarette Tax	28,174,469	30,000,000	1,825,531	6.48
Bank Franchise Tax	40,447,083	41,418,672	971,589	2.40
Insurance Company Tax	55,671,326	59,968,019	4,296,693	7.72
Inheritance and Estate Tax	672,099	430,000	(242,099)	(36.02)
Licenses, Permits, and Fees	32,624,317	37,042,878	4,418,561	13.54
Investment Income and Interest	9,410,606	12,212,482	2,801,876	29.77
Charges for Goods and Services	12,943,528	15,726,437	2,782,909	21.50
Net Transfers In	8,917,935	8,541,947	(375,988)	(4.22)
Trust Funds	32,009,283	31,358,641	(650,642)	(2.03)
Severance Taxes	2,725,946	1,624,582	(1,101,364)	(40.40)
Unexpended Carryovers	982,047	0	(982,047)	(100.00)
Lottery	5,013,429	5,102,640	89,211	1.78
Property Tax Reduction Fund	114,701,037	119,938,204	5,237,167	4.57
Sale-Leaseback	11,175,075	10,498,875	(676,200)	(6.05)
CRP Program	1,175,661	1,108,425	(67,236)	(5.72)
<b>SUBTOTAL (CONTINUING RECEIPTS)</b>	<b>\$ 1,018,287,348</b>	<b>\$ 1,075,550,046</b>	<b>\$ 57,262,698</b>	<b>5.62</b>
<b>ONE-TIME RECEIPTS</b>				
Food Services Settlement	\$ 872,408	\$ 0	\$ (872,408)	(100.00)
Securities Global Settlement	287,500	0	(287,500)	(100.00)
Transfer from Highway Fund	0	2,750,000	2,750,000	100.00
Transfer from Technology Fund	0	3,800,000	3,800,000	100.00
Transfer from Property Tax Reserves	35,387,630	0	(35,387,630)	(100.00)
Obligated Cash Carried Forward	819,857	317,535	(502,322)	(61.27)
<b>SUBTOTAL (ONE-TIME RECEIPTS)</b>	<b>\$ 38,312,706</b>	<b>\$ 6,867,535</b>	<b>\$ (31,445,171)</b>	<b>(82.08)</b>
<b>GRAND TOTAL</b>	<b>\$ 1,056,600,054</b>	<b>\$ 1,082,417,581</b>	<b>\$ 25,817,527</b>	<b>2.44</b>



**COMPARISON BETWEEN FY2007 AND FY2008  
REVENUE COLLECTIONS**

	<b>REVISED FY2007</b>	<b>PROJECTED FY2008</b>	<b>DOLLAR CHANGE</b>	<b>PERCENT CHANGE</b>
<b>CONTINUING RECEIPTS</b>				
Sales and Use Tax	\$ 607,722,455	\$ 642,423,908	\$ 34,701,453	5.71
Contractor's Excise Tax	82,706,906	86,068,494	3,361,588	4.06
Alcohol Beverage Tax	9,051,584	9,236,316	184,732	2.04
Alcohol Beverage 2% Wholesale Tax	1,097,299	1,175,307	78,008	7.11
Cigarette Tax	30,000,000	30,000,000	0	0.00
Bank Franchise Tax	41,418,672	46,416,709	4,998,037	12.07
Insurance Company Tax	59,968,019	64,120,500	4,152,481	6.92
Inheritance and Estate Tax	430,000	50,000	(380,000)	(88.37)
Licenses, Permits, and Fees	37,042,878	37,869,099	826,221	2.23
Investment Income and Interest	12,212,482	13,485,985	1,273,503	10.43
Charges for Goods and Services	15,726,437	14,608,661	(1,117,776)	(7.11)
Net Transfers In	8,541,947	8,619,085	77,138	0.90
Trust Funds	31,358,641	31,428,126	69,485	0.22
Severance Taxes	1,624,582	1,695,320	70,738	4.35
Unexpended Carryovers	0	0	0	0.00
Lottery	5,102,640	5,194,081	91,441	1.79
Property Tax Reduction Fund	119,938,204	126,613,474	6,675,270	5.57
Sale-Leaseback	10,498,875	9,827,175	(671,700)	(6.40)
CRP Program	1,108,425	1,108,425	0	0.00
<b>SUBTOTAL (CONTINUING RECEIPTS)</b>	<b>\$ 1,075,550,046</b>	<b>\$ 1,129,940,665</b>	<b>\$ 54,390,619</b>	<b>5.06</b>
<b>ONE-TIME RECEIPTS</b>				
Transfer from Petroleum Release Fund	\$ 0	\$ 1,000,000	\$ 1,000,000	100.00
Transfer from Video Lottery Fund	0	500,000	500,000	100.00
Transfer from Telecommunications Relay Service	0	1,000,000	1,000,000	100.00
Transfer from Budgetary Accounting Fund	0	4,008,132	4,008,132	100.00
Transfer from Highway Fund	2,750,000	0	(2,750,000)	(100.00)
Transfer from Technology Fund	3,800,000	0	(3,800,000)	(100.00)
Transfer from Property Tax Reserves	0	6,359,668	6,359,668	100.00
Obligated Cash Carried Forward	317,535	0	(317,535)	(100.00)
<b>SUBTOTAL (ONE-TIME RECEIPTS)</b>	<b>\$ 6,867,535</b>	<b>\$ 12,867,800</b>	<b>\$ 6,000,265</b>	<b>87.37</b>
<b>GRAND TOTAL</b>	<b>\$ 1,082,417,581</b>	<b>\$ 1,142,808,465</b>	<b>\$ 60,390,884</b>	<b>5.58</b>

## GENERAL FUND RECEIPTS

	<u>ACTUAL FY2005</u>	<u>ACTUAL FY2006</u>	<u>REVISED FY2007</u>	<u>PROJECTED FY2008</u>
<b>CONTINUING RECEIPTS</b>				
Sales and Use Tax	\$ 534,196,029	\$ 576,899,817	\$ 607,722,455	\$ 642,423,908
Contractor's Excise Tax	65,404,711	75,103,983	82,706,906	86,068,494
Alcohol Beverage Tax	8,507,013	8,637,272	9,051,584	9,236,316
Alcohol Beverage 2% Wholesale Tax	938,212	1,002,436	1,097,299	1,175,307
Cigarette Tax	27,663,802	28,174,469	30,000,000	30,000,000
Bank Franchise Tax	36,362,714	40,447,083	41,418,672	46,416,709
Insurance Company Tax	55,461,545	55,671,326	59,968,019	64,120,500
Inheritance and Estate Tax	3,992,862	672,099	430,000	50,000
Licenses, Permits, and Fees	33,198,427	32,624,317	37,042,878	37,869,099
Investment Income and Interest	9,273,336	9,410,606	12,212,482	13,485,985
Charges for Goods and Services	10,594,603	12,943,528	15,726,437	14,608,661
Net Transfers In	7,026,274	8,917,935	8,541,947	8,619,085
Trust Funds	30,453,750	32,009,283	31,358,641	31,428,126
Severance Taxes	1,616,393	2,725,946	1,624,582	1,695,320
Unexpended Carryovers	1,240,905	982,047	0	0
Lottery	4,863,115	5,013,429	5,102,640	5,194,081
Property Tax Reduction Fund	114,206,290	114,701,037	119,938,204	126,613,474
Sale-Leaseback	11,835,491	11,175,075	10,498,875	9,827,175
CRP Program	1,156,654	1,175,661	1,108,425	1,108,425
<b>SUBTOTAL (CONTINUING RECEIPTS)</b>	<u>\$ 957,992,124</u>	<u>\$ 1,018,287,348</u>	<u>\$ 1,075,550,046</u>	<u>\$ 1,129,940,665</u>
<b>ONE-TIME RECEIPTS</b>				
Transfer from Telecommunications Relay Service	\$ 0	\$ 0	\$ 0	\$ 1,000,000
Transfer from Budgetary Accounting Fund	0	0	0	4,008,132
Transfer from Petroleum Release Fund	0	0	0	1,000,000
Refinancing Gains	0	945,310	0	0
Food Services Settlement	0	872,408	0	0
Securities Global Settlement	4,375,000	287,500	0	0
Transfer from Video Lottery Fund	3,000,000	0	0	500,000
Transfer from Highway Fund	0	0	2,750,000	0
Transfer from Technology Fund	0	0	3,800,000	0
Transfer from Property Tax Reserves	24,578,419	35,387,630	0	6,359,668
Obligated Cash Carried Forward	1,182,209	819,857	317,535	0
<b>SUBTOTAL (ONE-TIME RECEIPTS)</b>	<u>\$ 33,135,627</u>	<u>\$ 38,312,706</u>	<u>\$ 6,867,535</u>	<u>\$ 12,867,800</u>
<b>GRAND TOTAL</b>	<u>\$ 991,127,751</u>	<u>\$ 1,056,600,054</u>	<u>\$ 1,082,417,581</u>	<u>\$ 1,142,808,465</u>

# RECOMMENDED EXPENDITURES

## OVERVIEW

Governor Rounds' FY2008 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 \$4,495.80 for FY2008, an increase of \$130.95 over the FY2007 base rate of \$4,364.85. In addition, the Governor is recommending \$4,000,000 in general funds to be set aside to fund a teacher compensation assistance program. Furthermore, the Governor is recommending that \$1,438,411 in general funds, along with \$571,385 in available cement plant trust fund earnings be used to continue to fund the South Dakota Opportunity Scholarship.

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 \$44.7 million, which includes a general fund increase of \$33.7 million and a federal fund expenditure authority increase of \$1.3 million. This increase accounts for 44.5% of the total general fund increase of \$75.8 million. Due to increases in personal income in South Dakota, the Federal Medical Assistance Percentage (FMAP) rate will increase by 2.71% in FY2008. An increase of \$16.9 million will be needed to cover this rate increase.

Social Services will see an increase of \$24.5 million in general funds and a decrease of \$2.4 million in federal fund expenditure authority. Five major components driving this budget are: 1) the FMAP rate, which will increase the general fund budget by \$13.2 million; 2) the provider inflation policy (3.0%) which is creating an increase of \$11.2 million in general funds and a federal fund increase of \$16.9 million; 3) increasing costs of medical coverage for those eligible for the Medicaid Program (92,190 individuals estimated in FY2008), which will cost an additional \$4.2 million of general funds; 4) the loss of Title XIX funding for non-psychiatric group and residential care which will cost an additional \$3.9

million of general funds; and 5) reduced costs in the Medical Services budget of \$7.6 million in general funds and \$9.9 million in federal fund expenditure authority.

The Human Services budget is increasing by \$9.8 million in general funds and \$2.1 million in federal fund expenditure authority. An increase of \$3,455,797 in general funds is needed to reflect the FMAP change.

The budget for the Department of Health includes a decrease of \$571,263 in general funds, and increases of \$1,600,066 in federal fund expenditure authority, and \$6,423,584 in other fund expenditure authority. This is a total increase of \$7,452,387 and 5.2 FTE. An increase of \$871,147 in other fund expenditure authority and 5.0 FTE is recommended for the Department's Correctional Health Program. In addition, \$5.0 M in other fund expenditure authority has been added to the department due to the increased tax on tobacco products as a result of the passage of Initiative 2.

To address the safety of our State's citizens, a corrections system is required to incarcerate people convicted of crimes. The FY2008 budget specifically addresses the Department of Corrections and the state's increasing prison population. The budget for Corrections will increase by \$6.2 million in general funds and 2.0 FTE. Due to the loss of Title XIX funding for non-psychiatric group and residential care, an increase of \$2,356,181 in general funds is needed in the juvenile corrections budget. To partially offset this increase, a statute change will be proposed to change the age at which DOC will be allowed to release juveniles.

The safety of South Dakota's citizens is also addressed within the budget for the Unified Judicial System. This budget is increasing by \$3.0 million which includes an increase of \$2,356,955 in general funds, a decrease of \$201,963 in federal fund expenditure authority, an increase of \$854,002 in other fund expenditure authority, and an increase of 15.8 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	\$ 77,790,760	(0.8)
Board of Regents	35,027,460	88.3
State Aid	22,901,070	
UJS/Legislature/Elected	652,725	22.0
Technical Institutes	250,604	
Special/Contin. Approp.	<u>9,527,978</u>	
	\$111,744,168	192.1

The Executive Branch, which is under direct control of the Governor, has the following funding changes for FY2008:

General Funds	\$42,489,435
Federal Funds	\$16,537,824
Other Funds	\$18,683,498
FTE	(0.8)

# 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 \$63.7 million of the \$136.6 million in total fund increases for FY2008. On the general fund side, this category accounts for \$35.6 million of the \$75.8 million increase. In terms of the total budget, the education category is 33.4% of the total funds and 49.2% of the general funds, which amounts to \$1.1 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 \$4,000,000 in general funds that the Governor is recommending be set aside to fund a teacher compensation assistance program.

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 FY2008. This brings the per-student allocation for state aid to general education to \$4,495.80 for FY2008, an increase of \$130.95 over the FY2007 base rate of \$4,364.85. An adjusted average daily membership (ADM) figure of 124,254 was used for calculating the FY2008 budget. The total recommended budgeted amount for state aid to general education is \$299,704,345 in general funds.

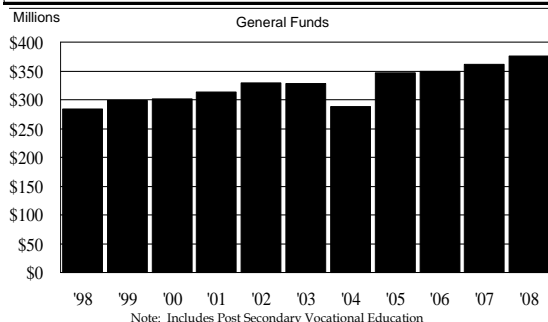
The budgeted amount for state aid to special education is recommended to increase by \$594,809 in general funds, bringing the total budget for this program to \$43,701,684 in general funds for FY2008. The formula for FY2008 is based on an inflationary increase of 3.0% to the per student allocation for each disability level. In addition, the per student allocation for each disability level will be adjusted in FY2008 in accordance with SDCL 13-37-35.2.

The FY2008 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.

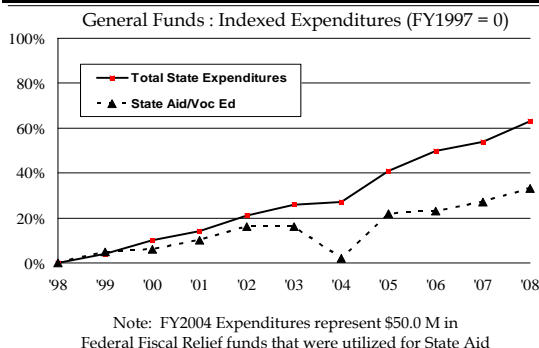
An increase of \$1,440,876 in general funds is recommended for technology in the schools. The current funding level of \$6,632,201 in general funds and \$3,560,000 in other fund expenditure authority is used to support ongoing costs of the technology infrastructure.

The Governor is recommending an increase of \$1,050,604 over the FY2007 base budget for the postsecondary technical institutes. This increase is based on a 3.0% adjustment in per student funding similar to the K-12 statutory increase. This increase is offset by the loss of \$800,000 in non-recurring funding provided for the postsecondary technical institutes in FY2007. This brings the total level of funding to \$19,127,140 for FY2008.

### State Aid to Schools



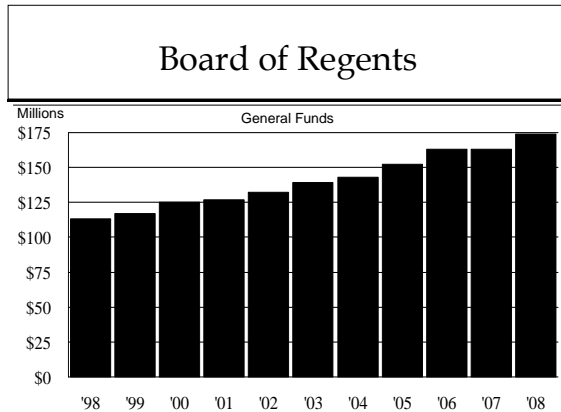
### State Aid to Schools



## 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). Within the university budgets is funding for the South Dakota Public Universities & Research Center (SDPURC), formerly known as USDSU, which is located in

Sioux Falls. 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 \$35,027,460 in total funds and 88.3 FTE over the FY2007 budget. The increase consists of \$11,281,576 in general funds, \$4,148,074 in federal fund expenditure authority, and \$19,597,810 in other fund expenditure authority. The total FY2008 recommended budget for the Board of Regents consists of \$174,163,548 in general funds, \$109,680,015 in federal fund expenditure authority, and \$280,865,959 in other fund expenditure authority, for a total FY2008 budget of \$564,709,522 and 5,507.5 FTE.

In continuation of the 2010 Initiative, the Governor is recommending 19.0 FTE and \$1,790,057 in general funds for the addition of three new Ph.D. programs. The programs being funded are USD Ph.D. in Materials Chemistry, SDSU Ph.D. in Pharmaceutical Sciences, and SDSM&T Ph.D. in Chemical and Biological Engineering. The Governor is also recommending \$500,000 in general funds for funding of new seed grants in FY2008. These grants will help support faculty researchers as they develop research programs to become more competitive for external grants and contracts.

The South Dakota Opportunity Scholarship continues to grow and is projected to have 2,912 students receiving scholarship funds in FY2008. The amount needed to fund the scholarships in FY2008 is \$3,463,000. There will be a projected carryover of \$479,000 available to use in FY2008, along with the \$974,204 that is currently in the base. The Governor is recommending that \$1,438,411 in general funds, along with \$571,385 in available cement plant trust fund earnings be used to fund this scholarship.

The FY2008 recommendation includes \$2,042,163 in general funds to cover the rising costs of utilities on the campuses, \$410,000 in general funds to replace the travel budget cut during the 2006

session, and \$40,560 in general funds to replace the amount cut from the SDSM&T budget during the 2006 session.

The Board of Regents continues to grow in federal grant and contract activity. The recommended budget includes the addition of 69.3 FTE, \$2,900,000 in federal fund expenditure authority, and \$15,255,031 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 (4.0 FTE), NSU (2.0 FTE), SDSU (38.0 FTE), USD (8.2 FTE), USD School of Medicine (16.1 FTE), and the Central Office (1.0 FTE). The growth in FTE is attributed to increases in grant and contract activity, residential life and student support staffing increases, and growth in student support credit hours.

## EDUCATION

The Governor's recommendation for the Department of Education, including the State Aid to Education formula, reflects an increase of \$24,317,516 in general funds, \$4,179,826 in federal fund expenditure authority, \$143,763 in other fund expenditure authority, and a decrease of 4.0 FTE. The recommended increase for state aid is \$22,901,070 in general funds. The increase for Postsecondary Vocational Education is \$1,050,604 in general funds. This increase is offset by the loss of \$800,000 in non-recurring funding provided for the postsecondary technical institutes in FY2007. The total recommended budget for FY2008 is \$383,352,265 in general funds, \$157,610,618 in federal fund expenditure authority, \$4,830,643 in other fund expenditure authority, and 140.0 FTE.

### GENERAL ADMINISTRATION

The total recommended FY2008 budget for this division is \$1,477,234 in general funds, \$5,176,991 in federal fund expenditure authority, \$13,674 in other fund expenditure authority, and 33.0 FTE. An increase of \$1,150,000 in federal fund expenditure authority is being recommended for the Gear Up grant. The Gear Up grant will provide \$6.9 million dollars over a period of 6 years and will be used to fund an intensive effort designed to encourage more Native American youth to graduate from high school and pursue higher education.

### CAREER AND TECHNICAL EDUCATION

The total recommended FY2008 budget for this division is \$1,561,852 in general funds, \$5,460,630 in federal fund expenditure authority, \$154,352 in other fund expenditure authority, and 11.5 FTE. Increases in this division include \$1,000,000 in general funds to provide grants to school districts

for the enhancement of secondary career and technical education programs. This is a continuation of the program started by SB 168 of the 2006 legislative session. In addition, an increase of \$100,000 in general funds is being recommended to increase the state matching funds budgeted to support the administration of the Perkins grant award and other career and technical education activities.

### 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 an increase of \$46,890 in general funds, an increase of \$2,095,616 in federal fund expenditure authority, and an increase of \$143,686 in other fund expenditure authority. An increase in federal fund expenditure authority in the amount of \$2,000,000 is recommended for No Child Left Behind (NCLB) and Individuals with Disabilities Education Act (IDEA) flow through grants. Federal fund expenditure authority in the amount \$1,122,849 is being moved from the Education Service Agencies (ESA) budget to Education Services and Support. Due to increased assessment requirements of NCLB, funding that was previously used to fund ESA programs is now needed to meet the increased assessment requirements. Other fund expenditure authority in the amount of \$140,000 is recommended to fund the Governor's New Teacher Academy and to fund increased costs due to new school accreditation requirements.

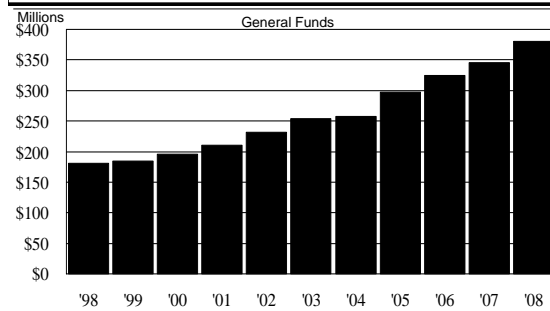
### STATE LIBRARY

The FY2008 recommended budget for the State Library consists of \$2,275,666 in general funds, \$1,178,906 in federal fund expenditure authority, \$186,083 in other fund expenditure authority, and 32.5 FTE. This recommendation includes a decrease of \$133,594 in general funds and 4.0 FTE due to an anticipated reorganization of the State Library.

## HEALTH, HUMAN, AND SOCIAL SERVICES

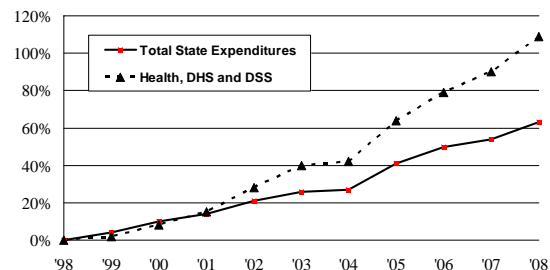
This portion of the budget comprises \$44.7 million of the \$136.6 million in total fund increases for FY2008. On the general fund side, Health, Human, and Social Services account for \$33.7 million of the \$75.8 million increase. In terms of the total state budget, this category is 31.9% of the total funds and 33.2% of the general funds, which amounts to \$1.1 billion in total funding.

## Health, Human, and Social Services



## Health, Human, and Social Services

General Funds : Indexed Expenditures (FY1998 = 0)



## HEALTH

The FY2008 Governor's recommended budget for Health, including the informational budgets for boards and commissions, includes a decrease of \$571,263 in general funds, and increases of \$1,600,066 in federal fund expenditure authority, and \$6,423,584 in other fund expenditure authority. This is a total increase of \$7,452,387 and 5.2 FTE. The total FY2008 budget is \$7,679,904 in general funds, \$34,695,664 in federal fund expenditure authority, and \$30,351,600 in other fund expenditure authority, for a total of \$72,727,168, with 401.2 FTE.

### ADMINISTRATION

The total FY2008 recommended budget for Administration is \$1,361,475 in general funds, \$1,044,583 in federal fund expenditure authority, and \$1,235,229 in other fund expenditure authority, with 32.5 FTE.

### FAMILY PRACTICE RESIDENCY

This program contains no change from FY2007. The total FY2008 budget consists of \$895,000 in general funds.



## **HEALTH SYSTEMS DEVELOPMENT AND REGULATION**

The Governor recommends a net increase of \$1,348,630. Of this increase, \$1,000,000 is in federal fund expenditure authority for the Federal Pandemic Influenza Preparedness Program. These funds will be used primarily to bolster preparedness efforts for pandemic influenza at the local level. The total FY2008 budget is \$2,147,379 in general funds, \$12,472,847 in federal fund expenditure authority, and \$55,918 in other fund expenditure authority, with 63.5 FTE.

### **HEALTH AND MEDICAL SERVICES**

The Governor recommends a net increase of \$472,933. Of this increase, \$125,000 in other fund expenditure authority is a grant from the National Governor's Association for the Healthy States Program. The total FY2008 budget for this division is \$3,276,050 in general funds, \$18,021,539 in federal fund expenditure authority, \$2,986,453 in other fund expenditure authority, and 179.0 FTE.

### **LABORATORY SERVICES**

The total FY2008 budget for this division is \$2,058,733 in federal fund expenditure authority, \$3,167,357 in other fund expenditure authority, and 29.0 FTE.

### **CORRECTIONAL HEALTH**

This program has a recommended increase of \$871,147 in other fund expenditure authority and 5.0 FTE. The majority of the increase in this budget is due to an increased number of inmates. The sole reason for 4.0 FTE is due to the rising inmate count. The additional 1.0 FTE is for the Intensive Meth Treatment program. The total FY2008 budget for this division is \$15,347,521 in other fund expenditure authority and 76.0 FTE.

### **TOBACCO PREVENTION**

The changes in this program are due to the increase in the tobacco tax. The changes include a reduction of \$707,883 in general funds, and increases of \$4,622 in federal fund expenditure authority and \$5,000,000 in other fund expenditure authority. The total FY2008 budget consists of \$1,097,962 in federal fund expenditure authority, \$5,000,000 in other 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 FY2008 for the Boards is \$2,559,122 and 19.2 FTE. This represents an increase of 0.2 FTE and a decrease of \$29,221 in other fund expenditure authority.

## **HUMAN SERVICES**

The Governor is recommending increases of \$9,753,408 in general funds, \$2,079,263 in federal fund expenditure authority, and \$966,167 in other fund expenditure authority, for a total increase of \$12,798,838. The Governor is also recommending a decrease of 2.0 FTE. The recommendation includes an increase of \$3,455,797 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 FY2008, a total budget of \$230,721,142 is recommended, consisting of \$105,221,873 in general funds, \$119,459,075 in federal fund expenditure authority, and \$6,040,194 in other fund expenditure authority, and 1,228.7 FTE.

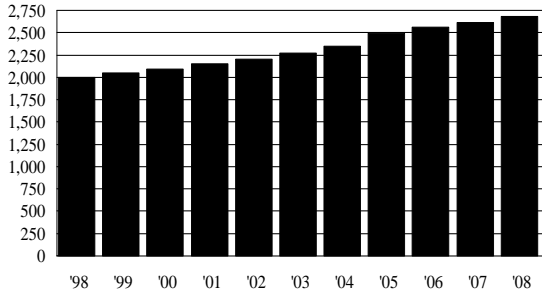
### **SECRETARIAT**

The Governor's recommendation includes increases of \$36,741 in general funds, \$18,120 in federal fund expenditure authority, and \$87 in other fund expenditure authority, for a total increase of \$54,948. An increase of \$4,290 in general funds is recommended for a 3.0% provider inflation policy.

### **DEVELOPMENTAL DISABILITIES**

The recommendation for the Division of Developmental Disabilities is an increase in general funds of \$4,283,103 and an increase in federal fund expenditure authority of \$1,555,547, for a total increase of \$5,838,650 and 1.0 FTE. An increase of \$977,142 in general funds and \$1,516,990 in federal fund expenditure authority, for a total of \$2,494,132 is recommended for a 3.0% provider inflation policy. The Governor's recommendation also includes \$1,043,189 in general funds and \$1,614,618 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 \$1,061,060 in general funds, \$121,067 in federal fund expenditure authority, and \$725,890 in other fund expenditure authority, for a total increase of \$1,908,017. The increases at SDDC are reflective of food services, utility increases, and personal services.

### ALCOHOL AND DRUG ABUSE

The Governor recommends an increase of \$1,604,152 in general funds, a decrease of \$728,769 in federal fund expenditure authority, an increase of \$850,801 in other fund expenditure authority, and an increase of 5.0 FTE, for a total increase of \$1,726,184 in this division. An increase of \$338,434 in general funds and \$68,266 in federal fund expenditure authority, for a total of \$406,700 is recommended for a 3.0% provider inflation policy. Additional major increases within this Division are due to the Intensive Methamphetamine Treatment program and replacement funding for two Meth specific programs.

### REHABILITATION SERVICES

The Governor's recommended budget for Rehabilitation Services includes increases of \$211,681 in general funds and \$296,703 in federal fund expenditure authority, for a net increase of \$510,384. An increase of \$36,675 in general funds and \$46,162 in federal fund expenditure authority, for a total of \$82,837 is recommended for a 3.0% provider inflation policy. The Governor's recommendation also includes \$48,765 in general funds and \$75,478 in federal fund expenditure authority to address consumer expansion for individuals in need of Assistive Daily Living Services.

### TELECOMMUNICATION DEVICES FOR THE DEAF

The Governor is recommending a reduction of \$828,853 in other fund expenditure authority for Telecommunication Devices for the Deaf. The total

FY2008 budget is \$1,251,680 in other fund expenditure authority.

### BOARD OF COUNSELOR EXAMINERS - INFORMATIONAL

The Governor is recommending an increase of \$5,939 in other fund expenditure authority. The total FY2008 budget is \$76,625 in other fund expenditure authority.

### BOARD OF PSYCHOLOGY EXAMINERS - INFORMATIONAL

The Governor is recommending an increase of \$2,104 in other fund expenditure authority. The total FY2008 budget is \$73,114 in other fund expenditure authority.

### BOARD OF SOCIAL WORK EXAMINERS - INFORMATIONAL

The Governor is recommending an increase of \$2,083 in other fund expenditure authority. The total FY2008 budget is \$89,968 in other fund expenditure authority.

### CERTIFICATION BOARD FOR ALCOHOL & DRUG PROFESSIONALS - INFORMATIONAL

The Governor is recommending an increase of \$2,235 in other fund expenditure authority. The total FY2008 budget is \$123,849 in other fund expenditure authority and 1.3 FTE.

### SERVICES TO THE BLIND AND VISUALLY IMPAIRED

The Governor is recommending increases of \$16,547 in general funds, \$101,875 in federal fund expenditure authority, and \$4,973 in other fund expenditure authority, for a total increase of \$123,395 in the Division of Services to the Blind and Visually Impaired.

### HUMAN SERVICES CENTER

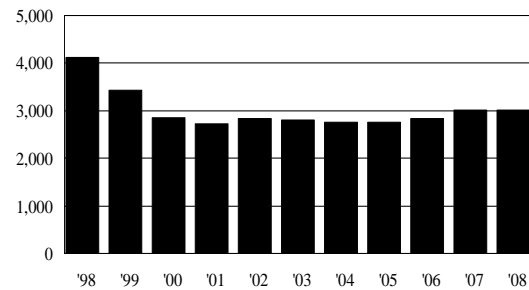
The Governor recommends increases of \$1,516,519 in general funds, \$102,055 in federal fund expenditure authority, \$116,974 in other fund expenditure authority, and 1.5 additional FTE, for a total increase of \$1,735,548. Miscellaneous increases in this division are related to food services, utilities, and personal services. The FTE will be Charge Nurses at the Human Services Center.

### COMMUNITY MENTAL HEALTH

The Governor's recommendation for Community Mental Health reflects increases of \$1,023,605 in

general funds, \$610,665 in federal fund expenditure authority, and \$83,934 in other fund expenditure authority, for a net increase of \$1,718,204. The Governor is recommending an overall reduction of 9.5 FTE within the Division. Additional funding is recommended for Mental Health waiting lists at a total cost of \$212,202 in general funds and \$144,980 in federal fund expenditure authority. An increase of \$370,354 in general funds, \$247,888 in federal fund expenditure authority, and \$8,603 in other fund expenditure authority, for a total increase of \$626,845 is recommended for a 3.0% provider inflation policy. The state IMPACT program is being converted to a community based program similar to the other IMPACT programs, thus resulting in a reduction of FTE.

## TANF Case Load in South Dakota



### MEDICAL AND ADULT SERVICES

The recommended budget for Medical and Adult Services includes an increase of \$19,615,046 in general funds, a decrease of \$2,092,558 in federal fund expenditure authority, and an increase of \$655,441 in other fund expenditure authority, for a total increase of \$18,177,929. The FY2008 recommended budget is \$212,183,855 in general funds, \$368,901,092 in federal fund expenditure authority, and \$3,486,090 in other fund expenditure authority, for a total budget of \$584,571,037, and 134.5 FTE. The major adjustment to this budget is an increase over the FY2007 base budget of \$12,479,645 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 \$10,570,432 in general funds and \$16,429,639 in federal fund expenditure authority; 2) an increase of \$4,362,081 in general funds and \$6,969,269 in federal fund expenditure authority due to the growth in the number of Medicaid and CHIP clients, and the increased utilization of Medical Services; 3) an increase of \$1,737,110 in general funds and a decrease of \$1,403,479 in federal fund expenditure authority due to the loss of Title XIX funding for non-psychiatric group and residential care; 4) a reduction of \$1,213,745 in general funds and \$1,878,598 in federal fund expenditure authority due to the projected reduction of Nursing Facility Medicaid days budgeted; 5) a reduction of \$650,000 in general funds and increase of \$650,000 in other fund expenditure authority due to the availability of Homemaker Fees/Alternative Care fees to be used in the Homemaker program; and 6) a projected budget savings of \$7,557,147 in general funds and \$9,919,595 in federal fund expenditure authority due to reduced costs in the Medical Services budget.

## SOCIAL SERVICES

The Governor's recommended budget for the Department of Social Services is \$263,496,580 in general funds, \$483,842,712 in federal fund expenditure authority, \$9,198,440 in other fund expenditure authority, for a total FY2008 budget of \$756,537,732 and 990.5 FTE. This recommendation includes an increase of \$24,541,426 in general funds, a decrease of \$2,369,893 in federal fund expenditure authority, and an increase of \$2,292,827 in other fund expenditure authority.

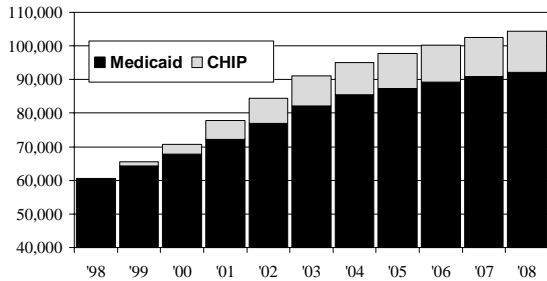
### ADMINISTRATION

The recommended budget for Administration includes an increase of \$98,762 in general funds, \$47,245 in federal fund expenditure authority, and \$349 in other fund expenditure authority, for a total increase of \$146,356. The major adjustment to this budget is due to the reduction of two consultant contracts.

### ECONOMIC ASSISTANCE

The Governor's recommended budget for Economic Assistance includes an increase of \$632,669 in general funds, \$341,710 in federal fund expenditure authority, and \$300,000 in other fund expenditure authority, for a total increase of \$1,274,379. The major adjustment to this budget is an inflationary increase for Auxiliary Placement.

## Medical Assistance Case Loads in South Dakota



### CHILDREN'S SERVICES

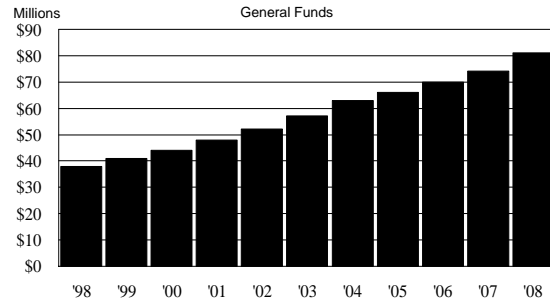
The Governor's recommended FY2008 budget for Children's Services includes an increase of \$4,194,949 in general funds, a decrease of \$666,290 in federal fund expenditure authority, and an increase of \$1,337,037 in other fund expenditure authority, for a total increase of \$4,865,696. The major adjustment to this budget is an increase of \$2,206,959 in general funds and a decrease of \$265,461 in federal fund expenditure authority due to the loss of Title XIX funding for non-psychiatric group and residential care. Other adjustments include an increase of general funds and offsetting decrease in federal fund expenditure authority due to the change in the FMAP, an increase for 3% provider inflation, increases for foster and adoptive care, and funding source changes in the Division of Child Support due to the incentive awards no longer being able to be used as match for federal funds.

### CORRECTIONS

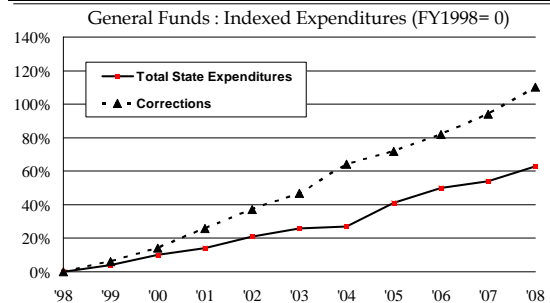
The Governor's recommendation for the Department of Corrections includes an increase of \$6,184,518 in general funds, a decrease of \$1,391,468 in federal fund expenditure authority, and an increase of \$788,904 in other fund expenditure authority, for a net increase of \$5,581,954. The Governor is also recommending an increase of 2.0 FTE, for a total FTE count of 906.5.

The Average Daily Count (ADC) of adult inmates is projected to reach 3,745 in FY2008. This represents an increase of 317 inmates over the actual FY2006 ADC of 3,428 inmates, or a 9.25% increase over two years. The average daily population of juveniles in institutional settings within the Department of Corrections is projected at 200 for FY2008, which is a 5.4% increase over two years.

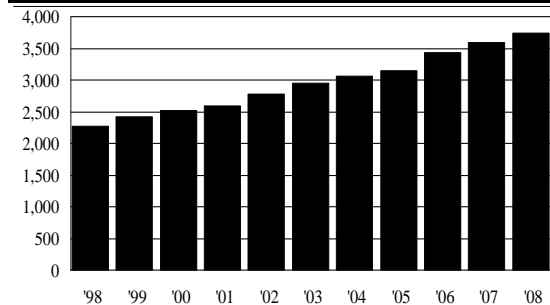
## Corrections



## Corrections



## Average Daily Population of Adult Inmates



### ADMINISTRATION

The Governor is recommending an increase in general funds of \$1,112,986 and \$728,445 in federal fund expenditure authority, and an increase of 1.0 FTE. The majority of the general fund increases is tied to 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 \$18,225,267 in general funds, \$2,560,267 in federal fund expenditure authority, and \$172,743 in other fund expenditure authority, with 32.0 FTE.

## **MIKE DURFEE STATE PRISON**

The recommendation for the Mike Durfee State Prison (MDSP) includes increases of \$978,484 in general funds, \$48,533 in federal fund expenditure authority, and \$3,776 in other fund expenditure authority, for a total increase of \$1,030,793. Major impacts to this division are food services, clothing, and utilities increases. The overall budget for MDSP is \$12,630,745 in general funds, \$134,678 in federal fund expenditure authority, \$315,762 in other fund expenditure authority, and 182.0 FTE.

## **STATE PENITENTIARY**

The recommendation for the South Dakota State Penitentiary (SDSP) includes increases of \$592,938 in general funds, \$104,842 in federal fund expenditure authority, and \$3,038 in other fund expenditure authority for a total increase of \$700,818. Major impacts to this division are food services, clothing, and utilities increases. The overall budget for SDSP is \$17,761,944 in general funds, \$526,518 in federal fund expenditure authority, \$416,076 in other fund expenditure authority, and 291.0 FTE.

## **WOMEN'S PRISON**

The budget for the Women's Prison (SDWP) is recommended to increase by \$146,581 in general funds and \$75,000 in other fund expenditure authority. The overall budget for SDWP is \$3,053,008 in general funds, \$374,818 in federal fund expenditure authority, \$151,814 in other fund expenditure authority, and 50.0 FTE.

## **PHEASANTLAND INDUSTRIES**

The recommendation for Pheasantland Industries is an increase of \$70,187 in other fund expenditure authority and an increase of 1.0 FTE. The 1.0 FTE is for an additional Correctional Officer. This will bring the total budget to \$3,006,777 in other fund expenditure authority and 15.0 FTE.

## **COMMUNITY SERVICES**

Community Services is recommended to increase by \$286,616 in general funds, \$89 in federal fund expenditure authority, and \$605,282 in other fund expenditure authority. The Governor also recommends an increase of 10.0 FTE. The main increase within this program is due to the Intensive Methamphetamine Treatment Program - Unit H at the Women's Prison. Other increases are due to food services and miscellaneous expenses.

## **PAROLE SERVICES**

The recommendation for Parole Services is an increase of \$103,212 in general funds and \$1,621

in other fund expenditure authority. The total FY2008 budget recommendation is \$3,588,239 in general funds, \$43,298 in other fund expenditure authority, and 59.0 FTE.

## **JUVENILE COMMUNITY CORRECTIONS**

Juvenile Community Corrections is recommended to increase by \$1,854,084 in general funds and decrease by \$1,202,159 in federal fund expenditure authority for a total increase of \$651,925. The main change within this program is a result of Title XIX no longer covering group and residential individuals in certain placements. To partially offset this increase in general funds, a statute change will be proposed to change the age at which DOC will be allowed to release juveniles.

## **YOUTH CHALLENGE CENTER/LIVING CENTER**

The Governor recommends a decrease of \$163,101 in general funds and an increase of \$8,914 in federal fund expenditure authority along with a reduction of 6.0 FTE at the Youth Challenge Center/Living Center (YCC/LC). The reduction in FTE is a result of changing programming in the Juvenile System to create shorter term programming. The total budget for YCC/LC is \$1,565,975 in general funds, \$245,532 in federal fund expenditure authority, \$14,942 in other fund expenditure authority, and 35.0 FTE.

## **PATRICK HENRY BRADY ACADEMY**

The Governor recommends a decrease of \$118,349 in general funds and a reduction of 4.0 FTE. The reduction in FTE is a result of changing programming in the Juvenile System to create shorter term programming. The total budget for the Patrick Henry Brady Academy is \$1,789,928 in general funds, \$14,280 in other fund expenditure authority, and 32.0 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. Food Services and utilities account for the main increases within this program. The budget for FY2008 is recommended to increase by \$238,803 in general funds, \$24,948 in federal fund expenditure authority, and \$30,000 in other fund expenditure authority for a total increase of \$293,751.

## **QUEST/EXCEL**

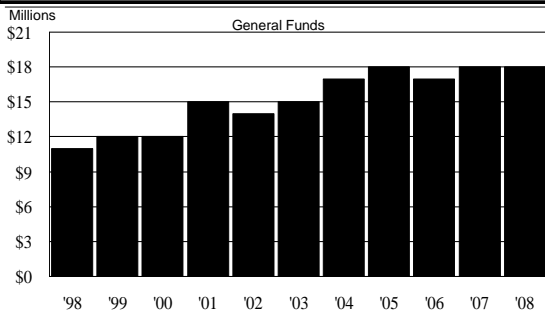
The Governor recommends an increase of \$1,152,264 in general funds and a decrease of

\$1,105,080 in federal fund expenditure authority at Quest/ExCel. The main change within this program is a result of Title XIX no longer covering group care. The total budget for Quest/ExCel is \$1,441,965 in general funds, \$12,650 in other fund expenditure authority, and 27.0 FTE.

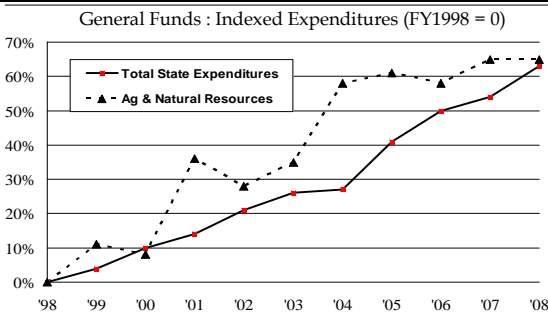
**AGRICULTURE; ENVIRONMENT AND NATURAL RESOURCES; AND, GAME, FISH, AND PARKS**

This portion of the budget represents \$8.8 million of the recommended \$136.6 million in total fund increases for FY2008. The total general funds appropriated to Agriculture; Environment & Natural Resources; and, Game, Fish, & Parks are recommended to increase by \$594,915. Federal and other fund expenditure authority are recommended to increase by \$8.2 million. In comparison to the total state budget, this category represents 6.5% of the total recommended FY2008 increase and 0.8% 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 FY2008 recommended budget for the Department of Agriculture is \$32,143,373; consisting of \$6,055,911 in general funds, \$6,732,739 in federal fund expenditure

authority, \$19,354,723 in other fund expenditure authority, and a total of 198.8 FTE. This represents a \$3,021,060 increase in the Department of Agriculture's overall budget, and an increase of 1.0 FTE.

**OFFICE OF THE SECRETARY**

The Governor is recommending an overall increase of \$97,987 and 1.0 FTE for the Office of the Secretary. The recommended 1.0 FTE is for an Agriculture Product Certification Manager. The Office of the Secretary's total recommended budget is \$796,343 and consists of \$634,825 in general funds, \$51,242 in federal fund expenditure authority, and \$110,276 in other fund expenditure authority, with 8.5 FTE.

**AGRICULTURAL SERVICES & ASSISTANCE**

The recommended FY2008 budget for Agricultural Services & Assistance includes \$2,263,226 in general funds, \$2,709,410 in federal fund expenditure authority, and \$2,688,234 in other fund expenditure authority, for a total budget of \$7,660,870, with 84.9 FTE. This recommendation reflects a total increase of \$250,638 for FY2008.

The total FY2008 recommended budget for Agriculture Services is \$3,919,871 and 34.0 FTE.

The total recommended budget for Fire Suppression includes \$3,740,999 and 50.9 FTE. Included in the FY2008 budget is an increase of \$19,414 in general funds, \$59,385 in federal fund expenditure authority and \$98,675 in other fund authority.

**AGRICULTURAL DEVELOPMENT & PROMOTION**

The Governor is recommending an overall decrease of \$302,899 and a decrease of 1.0 FTE for Agricultural Development & Promotion. The total recommended FY2008 budget of \$4,229,768 consists of \$1,191,347 in general funds, \$1,615,736 in federal fund expenditure authority, \$1,422,685 in other fund expenditure authority, and 28.0 FTE.

The total FY2008 recommended budget for Agriculture Development is \$1,500,323 and 9.0 FTE.

The total FY2008 recommended budget for Resource Conservation & Forestry includes an overall decrease of \$323,201. The total recommended budget for Resource Conservation and Forestry is \$2,729,445 and 19.0 FTE.

## **ANIMAL INDUSTRY BOARD**

The recommended budget for the Animal Industry Board includes an increase of \$220,130 in general funds, an increase of \$234,141 in federal fund expenditure authority, and an increase of 1.0 FTE. The general fund increase includes a \$127,000 increase due to an anticipated loss of federal funding in FY2008. The increase of 1.0 FTE, \$24,739 in general funds, and \$24,739 in federal fund expenditure authority is recommended due to an increased workload within meat inspection. An increase of \$175,100 in federal fund expenditure authority will provide early detection of high pathogenicity avian influenza in live bird marketing systems and noncommercial poultry, upland game birds, and commercial and subpart E poultry. The total budget for the Animal Industry Board is \$4,449,504 and 44.9 FTE.

## **STATE FAIR**

The total FY2008 recommended budget for the State Fair is \$1,885,948. The State Fair's budget is comprised of \$1,885,948 in other fund expenditure authority, and 19.5 FTE.

## **ENVIRONMENT AND NATURAL RESOURCES**

The Governor's FY2008 recommended budget for the Department of Environment and Natural Resources totals \$17,430,799, and consists of \$6,263,707 in general funds, \$5,910,470 in federal fund expenditure authority, \$5,256,622 in other fund expenditure authority, and 176.5 FTE. This recommendation includes an increase of \$180,583 in general funds, \$270,436 in federal fund expenditure authority, and \$174,989 in other fund expenditure authority. The total increase for the Department of Environment and Natural Resources is \$626,008 and 3.0 FTE.

## **FINANCIAL AND TECHNICAL ASSISTANCE**

The Financial and Technical Assistance budget consists of \$2,238,211 in general funds, \$1,759,745 of federal fund expenditure authority, and \$698,211 of other fund expenditure authority, for a total budget of \$4,696,167 and 58.0 FTE. The Governor is recommending no significant changes to this budget.

## **ENVIRONMENTAL SERVICES**

The Governor recommends a total FY2008 budget for Environmental Services of \$10,219,632 and 118.5 FTE. Environmental Services consists of \$4,025,496 general funds, \$4,150,725 in federal fund expenditure authority, \$2,043,411 in other fund expenditure authority and 118.5 FTE. The

recommended increase is comprised of a \$115,806 increase in general funds, \$227,145 increase in federal fund expenditure authority, \$155,812 increase in other fund authority and an increase of 3.0 FTE. The recommendation for 3.0 FTE is based on increases of ethanol and industrial facilities and changes made to the federal storm water discharge program.

## **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 FY2008 recommended budget for the Department of Game, Fish, and Parks totals \$65,627,775, including \$5,866,746 in general funds, \$18,768,145 in federal fund expenditure authority, \$40,992,884 in other fund expenditure authority, and 570.6 FTE. This budget reflects an overall increase of \$5,169,025.

## **CONSERVATION RESERVE ENHANCEMENT PROGRAM**

The Governor is recommending an overall decrease of \$4,758 in general funds for the Conservation Reserve Enhancement Program. The total recommended budget for FY2008 is \$1,168,680 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 \$4,334,476 and 27.1 FTE for the Division of Administration. Included in the recommendation is an increase of \$1,707 in general funds and an increase of \$77,009 in other fund expenditure authority.

## **WILDLIFE – INFORMATIONAL**

The recommendation for the Division of Wildlife includes an increase of \$1,204,748 in federal fund expenditure authority and an increase of \$96,841 in



other fund expenditure authority. Included in this recommendation is a \$292,177 increase in federal fund expenditure authority for fish research grants. Also included is \$660,000 of federal fund expenditure authority for habitat management. The total FY2008 recommended budget for the Division of Wildlife is \$33,254,509 and 291.2 FTE.

The Wildlife Development and Improvement Program is recommended to increase by \$2,588,000 with a total budget of \$3,360,000. The recommended increase includes a \$1,956,750 increase in federal fund expenditure authority and \$631,250 in other fund expenditure authority. The recommended increase is for statewide dam repairs, public water fishing access development and fish habitat improvements in Pennington County.

### STATE PARKS AND RECREATION

The Division of State Parks and Recreation's recommended FY2008 budget includes \$3,342,270 in general funds, \$1,793,645 in federal fund expenditure authority, and \$10,091,934 in other fund expenditure authority, for a total budget of \$15,227,849 and 241.9 FTE.

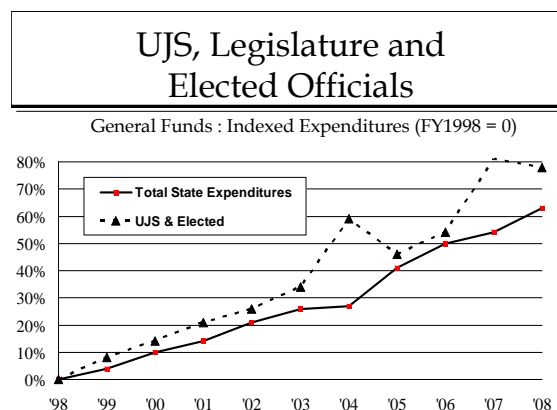
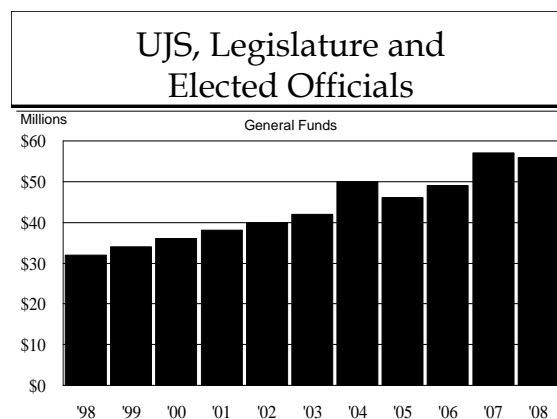
The Division of State Parks and Recreation's Development and Improvement Program has a total recommended increase of \$613,880. Included in the recommendation is an increase of \$1,243,649 in federal fund expenditure authority and a decrease of \$629,769 in other fund expenditure authority. The total recommended budget for the Development and Improvement Program includes \$202,175 in general funds, \$4,647,326 in federal fund expenditure authority, \$2,263,956 in other fund expenditure authority, and 1.3 FTE. Included in this recommendation is an \$892,375 increase within Waterbased Recreation for improvement of statewide facilities.

### SNOWMOBILE TRAILS – INFORMATIONAL

Recommended changes within the Snowmobile Trails Program include an increase of \$10,000 in federal fund expenditure authority and an increase of \$167,329 in other fund expenditure authority. The total recommended budget for the Snowmobile Trails Program is \$114,000 in federal fund expenditure authority, \$1,054,804 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 FY2008 budget for this sector (excluding special appropriations) totals \$87,327,178, of which \$55,786,606 is general funds, \$7,770,592 is federal fund expenditure authority, and \$23,769,980 is other fund expenditure authority. This reflects a decrease of \$1,151,520 in general funds, \$383,207 in federal fund expenditure authority, and an increase of \$2,267,455 in other fund expenditure authority. This is a total increase of \$652,725 which is .5% of the total increases in the FY2008 budget. The recommendation also includes an increase of 22.0 FTE, for a total of 866.4 FTE.



## LEGISLATURE

The total FY2008 recommended budget for the South Dakota Legislature is \$7,506,306 in general funds, \$35,000 in other fund expenditure authority, and 69.3 FTE. Changes to the budget for the Legislative Research Council include a decrease of \$118,415 due to a 35-day session. The Governor is also recommending a total decrease of \$58,008 for Legislative Audit. Included in this budget is an

increase of \$135,246 in general funds to fund the employee compensation package. The net change for the South Dakota Legislature is an increase of \$36,403 in general funds.

### ***UNIFIED JUDICIAL SYSTEM***

The Governor's FY2008 recommendation for the Unified Judicial System includes an increase of \$2,356,955 in general funds, a decrease of \$201,963 in federal fund expenditure authority, and an increase of \$854,002 in other fund expenditure authority, for a total increase of \$3,008,994. This recommendation also contains 15.8 additional FTE. Expansion in personal services amounts to \$1,942,900, of which \$645,574 is for the new FTE. The total FY2008 recommended budget totals \$39,114,288 and consists of \$32,580,959 in general funds, \$290,670 in federal fund expenditure authority, \$6,242,659 in other fund expenditure authority, and 514.6 FTE.

The operating side of the Unified Judicial System's budget is increasing by \$593,516 in general funds, decreasing by \$205,203 in federal fund expenditure authority, and increasing by \$677,781 in other fund expenditure authority. Operating expenses such as travel, contractual services, and supplies account for a portion of the increase along with increases in Community Based Services, microfilming clerk records, and expenses associated with the implementation of a 4<sup>th</sup> Circuit Drug Court.

### ***PUBLIC UTILITIES COMMISSION***

The Governor recommends a decrease of \$9,072 in general funds, an increase of \$1,986 in federal fund expenditure authority, an increase of \$43,239 in other fund expenditure authority, and a reduction of .5 FTE for the Public Utilities Commission. The total FY2008 recommended budget is \$577,302 in general funds, \$350,544 in federal fund expenditure authority, and \$3,031,926 in other fund expenditure authority, with 30.2 FTE.

### ***ATTORNEY GENERAL***

The Governor's recommendation for the Office of the Attorney General is an overall budget decrease of \$3,503,807. The FY2008 budget recommendation consists of a decrease of \$3,692,891 in general funds, a decrease of \$147,352 in federal fund expenditure authority, and an increase of \$336,436 in other fund expenditure authority, with an additional 6.0 FTE. The most significant budget adjustment is due to the calling of the Series A Bonds used to finance the construction of the Mickelson Criminal Justice Center, thus resulting in a reduction of \$4,563,130 in general funds. The total recommended FY2008 budget for

the Office of the Attorney General is \$9,685,641 in general funds, \$3,680,014 in federal fund expenditure authority, and \$4,042,420 in other fund expenditure authority, for a total budget of \$17,408,075, with 152.0 FTE.

### **LEGAL SERVICES**

The recommended budget for the Legal Services Program is \$7,114,577. This represents an increase of \$530,179 in general funds, a decrease of \$273,852 in federal fund expenditure authority, and an increase of \$142,266 in other fund expenditure authority. The two main changes within this program are the replacement of Edward Byrne funding and an additional FTE to serve as the Legal Director for the Conference of Western Attorneys Generals.

### **CRIMINAL INVESTIGATION**

The overall recommended budget for the Division of Criminal Investigation is \$8,278,386. This includes an increase of \$174,492 in general funds, an increase of \$126,500 in federal fund expenditure authority, an increase of \$192,301 in other fund expenditure authority, and an increase of 3.5 FTE. The FTE are comprised of a DNA Examiner, a Forensic Serologist, .5 Evidence Support staff, and an FTE to work on the Sex Offender Registry.

### **LAW ENFORCEMENT TRAINING**

The Governor's recommendation for Law Enforcement Training is an increase of \$165,396 in general funds and an increase of \$386 in other fund expenditure authority. The total budget for this division is \$549,724 in general funds and \$1,270,850 in other fund expenditure authority.

### **911 TRAINING**

The Governor is recommending an increase of \$172 in general funds and \$1,483 in other fund expenditure authority. The total budget for this division is \$194,538.

### **CALLABLE BONDS**

The Governor is recommending a decrease of \$4,563,130 in general funds due to calling the Series A Bonds used to finance the construction of the Mickelson Criminal Justice Center.

### ***SECRETARY OF STATE***

The Governor's recommendation for the Secretary of State's FY2008 budget is \$956,710 in general funds, \$3,190,564 in federal fund expenditure authority, \$266,540 in other fund expenditure authority, and 15.3 FTE. This budget includes

increase of \$19,789 in general funds, \$1,585 in federal fund expenditure authority, and \$3,639 in other fund expenditure authority to fund the employee compensation package.

### **SCHOOL AND PUBLIC LANDS**

The Governor's recommendation for the FY2008 School and Public Lands' budget is \$538,897 in general funds and \$225,000 in other fund expenditure authority, for a total budget of \$763,897, with 7.0 FTE. Included in this budget is an increase of \$12,788 in general funds to fund the employee compensation package.

### **STATE AUDITOR**

The Governor's recommended budget is an increase of \$37,293 in general funds and 0.7 FTE. The total FY2008 recommended budget is \$1,162,584 in general funds and 18.0 FTE.

### **STATE TREASURER**

The Governor's recommended budget includes an increase of \$10,702 in general funds and \$1,028,833 in other fund expenditure authority. The total FY2008 recommended budget consists of \$497,568 in general funds, \$9,926,435 in other fund expenditure authority, and 37.0 FTE.

### **TREASURY MANAGEMENT**

The Governor's recommended FY2008 budget consists of \$497,568 in general funds and 5.5 FTE.

### **UNCLAIMED PROPERTY - INFORMATIONAL**

The recommended FY2008 budget consists of \$2,370,442 in other fund expenditure authority and 3.5 FTE.

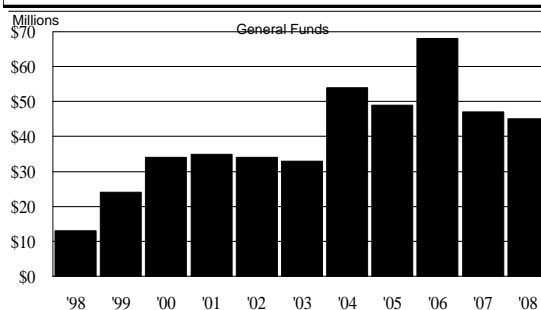
### **INVESTMENT COUNCIL**

The Governor recommends an increase of \$1,023,013 in other fund expenditure authority for the Investment Council. Included is an increase of \$778,108 for personal services as the Investment Council's salary budget is slated to increase 15.8%. Also included in the Governor's recommendation is an increase of \$244,905 for operating expenses mainly due to the Investment Council's shift to independent research. The total recommended FY2008 budget is \$7,555,993 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 \$13.2 million of the \$136.6 million in total fund increases for FY2008. On the general fund side, this category accounts for \$0.8 million of the \$75.8 million increase. In terms of the total state budget, this category has 25.6% of the total funds and 4.0% of the general funds, which amounts to \$855.1 million in total funding.

### **Remainder of State Government**



## **EXECUTIVE MANAGEMENT**

The Governor's recommendation for the Department of Executive Management includes a reduction of \$824,676 in general funds, increases of \$7,879 in federal fund expenditure authority and \$2,102,953 in other fund expenditure authority, and an additional 6.0 FTE. The total FY2008 budget includes \$23,307,826 in general funds, \$3,619,616 in federal fund expenditure authority, and \$85,094,327 in other fund expenditure authority, for a total of \$112,021,769, with 665.3 FTE.

### **GUBERNATORIAL DIVISION**

The Governor is recommending \$2,315,639 in general funds, \$258,800 in federal fund expenditure authority, and 23.0 FTE for a total of \$2,574,439 in the FY2008 Gubernatorial Division budget.

### **BUREAU OF FINANCE AND MANAGEMENT**

The Governor recommends a general fund decrease of \$625,350 attributable to the Bureau of Finance and Management (BFM) sale/leaseback agreement schedule. Also included in this budget is an additional 1.0 FTE for a financial systems analyst to continue upgrades and maintain the accounting system. The recommended FY2008 budget for BFM is \$10,008,248 in general funds

and \$5,191,827 in other fund expenditure authority, for a total FY2008 recommended budget of \$15,200,075 and 26.0 FTE.

### **BUREAU OF ADMINISTRATION**

The Governor recommends a decrease of \$417,896 in general funds and an increase of \$1,166,491 in other fund expenditure authority. A decrease of \$385,610 in general funds is being offset by an increase in the budget for each agency within the Capital Complex due to the new space billing rate. A recalculation of the way the Capital Complex Maintenance and Repair is recovered is the result of adding three additional buildings (the Health Lab, the Cultural Heritage Center, and the new DCI building) to the total value of the Capital Complex. An increase of \$761,041 in other fund expenditure authority is also due to the change in space billing. The FY2008 recommended budget for this division is \$4,714,277 in general funds, \$500,000 in federal fund expenditure authority, and \$30,764,338 in other fund expenditure authority, for a total FY2008 budget of \$35,978,615, and 177.5 FTE.

### **BUREAU OF INFORMATION AND TELECOMMUNICATIONS**

The Governor's total recommended FY2008 budget for the Bureau of Information and Telecommunications is \$5,411,079 in general funds, \$2,360,816 in federal fund expenditure authority, and \$37,966,584 in other fund expenditure authority, for a total FY2008 recommended budget of \$45,738,479, and 368.3 FTE. This includes an increase of 4.0 FTE which will be a cost savings in the Department of Social Services and the Department of Transportation of over \$317,000.

### **BUREAU OF PERSONNEL**

The Governor's recommendation for the Bureau of Personnel includes an increase of \$10,020 in general funds and \$183,258 in other fund expenditure authority, for a total increase of \$193,278 and 1.0 FTE. The additional FTE is for a benefit analyst to provide continual analysis of the state's benefit plans. The total FY2008 budget consists of \$858,583 in general funds, \$500,000 in federal fund expenditure authority, and \$11,171,578 in other fund expenditure authority, for a total of \$12,530,161, and 70.5 FTE.

### **MILITARY AND VETERANS' AFFAIRS**

The Governor's recommendation for the Department of Military and Veterans' Affairs (MVA) includes increases of \$252,447 in general funds, \$252,072 in other fund expenditure authority, and a decrease of \$839,314 in federal fund expenditure

authority. Included in the general fund increase is \$102,480 due to the rising costs of utilities. The total recommended FY2008 budget for MVA is \$5,914,446 in general funds, \$19,643,775 in federal fund expenditure authority, and \$4,523,778 in other fund expenditure authority, for a total of \$30,081,999, with 194.6 FTE.

### **OFFICE OF THE ADJUTANT GENERAL**

The Governor's FY2008 total budget recommendation for the Office of the Adjutant General is \$663,739 in general funds, \$11,300 in federal fund expenditure authority, and \$25,439 in other fund expenditure authority, with 4.3 FTE.

### **ARMY AND AIR GUARD**

The Governor's recommendation for the Guard is an increase of \$101,618 in general funds and a decrease of \$877,032 in federal fund expenditure authority. The increase in general funds is mainly due to increased utility costs. The total FY2008 recommended budget for the Army Guard is \$16,660,551, and 48.6 FTE. The total FY2008 recommendation for the Air Guard is \$4,421,551, and 41.0 FTE.

### **VETERANS' BENEFITS AND SERVICES**

The total recommended FY2008 budget for Veterans' Benefits and Services is \$1,096,743 in general funds and \$266,104 in federal fund expenditure authority, for a total of \$1,362,847 and 18.0 FTE.

### **STATE VETERANS' HOME**

The Governor's recommendation for the State Veterans' Home includes an increase of \$102,727 in general funds and \$251,441 in other fund expenditure authority and 1.0 additional FTE. The total recommended FY2008 budget is \$1,950,733 in general funds, \$487,500 in federal fund expenditure authority, and \$4,498,339 in other fund expenditure authority, for a total budget of \$6,936,572, and 82.7 FTE.

## **REVENUE AND REGULATION**

The Governor's recommended budget for the Department of Revenue and Regulation totals \$54,453,266, and consists of \$1,107,244 in general funds, \$53,346,022 in other fund expenditure authority, and 320.1 FTE. The Governor is recommending an increase of \$85,764 in general funds, and a reduction of \$962,352 in other fund expenditure authority, and an additional 8.0 FTE.

## SECRETARIAT

The recommended budget consists of \$161,001 in general funds and \$3,543,993 in other fund expenditure authority, for a total budget of \$3,704,994 and 39.0 FTE, which includes a reduction of 1.0 FTE.

## BUSINESS TAX

The Governor is recommending an increase of \$136,753 in other fund expenditure authority and 1.0 FTE due to the growing demands of the Refund Program in Business Tax. The FY2008 recommended budget consists of \$3,501,656 in other fund expenditure authority and 51.0 FTE.

## MOTOR VEHICLES

The Governor's recommendation includes an overall decrease of \$475,116 in other fund expenditure authority. This includes a decrease of \$577,500 in other fund expenditure authority due to the completion of the Motor Vehicle Registration system in FY2008. Also included is an additional 1.0 FTE to reflect the transfer of the Single State Registration System/Unified Carrier Registration program to Motor Vehicles from the Public Utilities Commission. The total FY2008 recommended budget consists of \$5,916,926 in other fund expenditure authority and 48.1 FTE.

## PROPERTY AND SPECIAL TAXES

The Governor is recommending an increase of \$84,746 in general funds and 1.0 FTE to audit banks to ensure compliance of the bank franchise/bank card taxes. The recommended FY2008 budget consists of \$946,243 in general funds and 14.0 FTE.

## AUDITS

The recommended FY2008 budget consists of an increase of \$356,565 in other fund expenditure authority and 5.0 FTE. The recommended 5.0 FTE will be classified as Revenue Auditors and will conduct audits to ensure tax compliance, concentrating on out-of-state businesses. The total FY2008 budget consists of \$3,525,295 in other fund expenditure authority and 56.0 FTE.

## BANKING

The Governor's recommendation is an increase of \$282,813 in other fund expenditure authority and 1.0 FTE. The additional FTE will be classified as an attorney/examiner to address the increase in state-chartered trust companies. Also included in this increase is \$135,000 of other fund expenditure authority for the purchase of a database to automate processes. The recommended FY2008

budget is \$1,602,677 in other fund expenditure authority and 17.5 FTE.

## SECURITIES

The FY2008 recommended budget consists of \$379,355 in other fund expenditure authority and 5.0 FTE.

## INSURANCE

The recommended FY2008 budget consists of \$1,787,058 in other fund expenditure authority and 28.5 FTE.

## INSURANCE FRAUD UNIT - INFORMATIONAL

The Governor's recommended FY2008 budget is \$313,463 in other fund expenditure authority and 4.0 FTE.

## PETROLEUM RELEASE COMPENSATION

The Governor is recommending an overall decrease of \$1,488,498 in other fund expenditure authority due to the decrease in actual cleanup claims. The total recommended FY2008 budget for Petroleum Release Compensation is \$2,539,184 in other fund expenditure authority and 5.0 FTE.

## LOTTERY

The total recommended FY2008 budget for Lottery is \$28,446,001 of 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 FY2008 recommended budget for the Boards and Commissions is \$1,790,414 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 \$77,119,714, and consists of \$12,155,443 in general funds, \$14,668,230 in federal fund expenditure authority, \$50,296,041 in other fund expenditure authority, and 193.9 FTE. The Governor is recommending an increase of \$1,202,517 in general funds, \$59,287 in federal fund expenditure authority, and \$255,960 in other fund expenditure authority. Included in the general fund increase is \$1,000,000 for the Tourism Challenge funds.

## **ECONOMIC DEVELOPMENT**

The recommended budget for Economic Development consists of \$4,420,758 in general funds, \$11,295,185 in federal fund expenditure authority, and \$11,565,459 in other fund expenditure authority, for a total budget of \$27,281,402 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 FY2008, the Governor is recommending an increase of \$561,788 in other fund expenditure authority for additional advertising and promotions based on a projected 7.77% growth in revenues. The total FY2008 recommended budget consists of \$9,321,770 in other fund expenditure authority and 23.8 FTE.

## **RESEARCH COMMERCE**

The Governor is recommending \$4,036,574 in general funds and 2.0 FTE for the Division of Research Commerce.

## **TRIBAL GOVERNMENT RELATIONS**

The Governor's recommendation for the FY2008 Tribal Government Relations budget is \$218,220 in general funds and 3.0 FTE.

## **CULTURAL AFFAIRS**

The total recommended FY2008 Cultural Affairs budget consists of \$3,479,891 in general funds, \$1,601,584 in federal fund expenditure authority, and \$2,132,907 in other fund expenditure authority, for a total budget of \$7,214,382, and 48.0 FTE.

## **SOUTH DAKOTA HOUSING DEVELOPMENT AUTHORITY - INFORMATIONAL**

The total FY2008 recommended budget is \$9,836,498, and consists of \$1,771,461 in federal fund expenditure authority, \$8,065,037 in other fund expenditure authority, and 64.0 FTE.

## **SOUTH DAKOTA SCIENCE AND TECHNOLOGY AUTHORITY - INFORMATIONAL**

The Governor is recommending a total FY2008 budget of \$19,210,868 in other fund expenditure authority and 12.3 FTE.

## **TRANSPORTATION**

The budget for Construction Contracts is \$323,406,824 and makes up 67% of the Department of Transportation's \$483,610,838 budget. The \$323,406,824 budgeted for Construction Contracts is informational.

The Department of Transportation's recommended FY2008 budget contains \$510,798 in general funds, \$290,834,670 in federal fund expenditure authority, \$192,265,370 in other fund expenditure authority, and 1,054.3 FTE. The FY2008 budget reflects an increase of \$9,432 in general funds, \$10,736,329 in federal fund expenditure authority, and an increase of \$2,032,816 in other fund expenditure authority, and a decrease of 21.0 FTE. This decrease is to better align the department's FY2008 FTE usage with previous years FTE usage.

The Governor's FY2008 recommendation for General Operations includes increases of \$9,432 in general funds, \$2,022,233 in federal fund expenditure authority for state transit grants, and \$7,961,088 in other fund expenditure authority for road maintenance.

The recommended budget for Construction Contracts includes an increase of \$8,714,096 in federal fund expenditure authority for statewide airport construction projects and a decrease of \$5,928,272 in other fund expenditure authority.

## **LABOR**

The Governor's recommendation for the Department of Labor is \$847,448 in general funds, \$36,723,655 in federal fund expenditure authority, and \$6,549,178 in other fund expenditure authority, for a total FY2008 budget of \$44,120,281 and 431.5 FTE. This recommendation includes a reduction of 3.0 FTE and \$125,586 in federal fund expenditure authority. 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 budgets for six professional and occupational licensing boards 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 FY2008 of \$2,735,266, which is a total increase of \$74,718 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 \$3,389,488 in other fund expenditure authority and 31.0 FTE. The recommendation includes an increase of \$102,393 in other fund expenditure authority.

**PUBLIC SAFETY**

The Department of Public Safety has a total FY2008 recommended budget of \$53,679,295, including \$3,882,068 in general funds, \$25,241,090 in federal fund expenditure authority, \$24,556,137 in other fund expenditure authority, and 410.5 FTE.

**ADMINISTRATION**

Administration's total recommended budget is \$628,976, including \$62,928 in general funds, \$566,048 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 62% of the total FY2008 recommended budget of \$26,042,822 is for salaries and benefits. The total FY2008 recommendation consists of \$1,788,700 in general funds, \$5,573,698 in federal fund expenditure authority, and \$18,680,424 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 Governor is recommending 3.0 additional FTE for the office of Emergency Management due to an increased workload. The total recommended budget for the Emergency Services Division is \$5,613,421, including \$1,479,752 in general funds, \$3,880,627 in federal fund expenditure authority, \$253,042 in other fund expenditure authority, and 32.5 FTE.

**INSPECTION AND LICENSING**

This division includes Weights and Measures, Driver Licensing, and Inspections. The total recommended FY2008 budget includes \$550,688 in general funds, \$300,000 in federal fund expenditure

authority, \$5,056,623 in other fund expenditure authority, and 88.0 FTE.

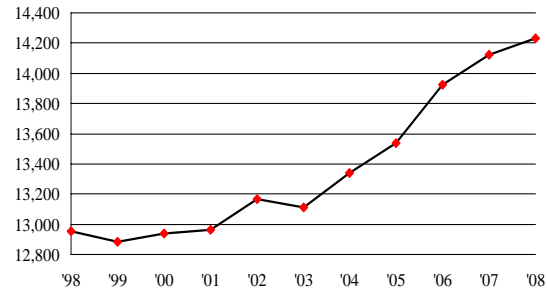
**HOMELAND SECURITY**

The Governor's recommendation for the Office of Homeland Security is a reduction of \$5,226,794 in federal fund expenditure authority due to the availability of federal funds. The total FY2008 budget for Homeland Security is \$15,486,765 in federal fund expenditure authority and 3.0 FTE.

**FTE CHANGE**

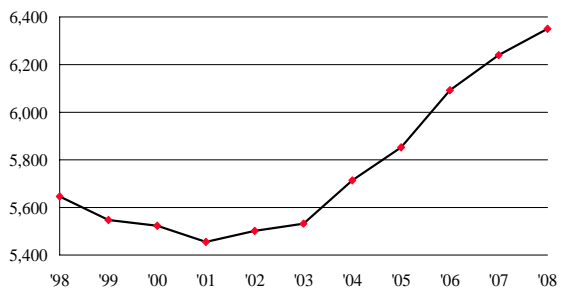
The total appropriated FTE increased from 12,953.6 in FY1998 to a proposed level of 14,234.0 for FY2008. This is a difference of 1,280.4 FTE over a ten-year period.

FTE History  
All of State Government



For offices outside the control of the Governor, total appropriated FTE grew from 5,645.3 in FY1998 to a recommended 6,350.9 for FY2008, or an increase of 705.6 FTE.

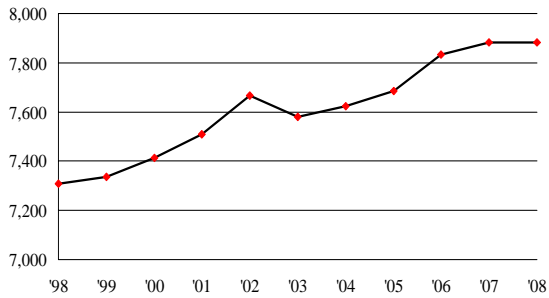
FTE History for Offices  
Outside Control of Governor



The agencies under direct control of the Governor had total appropriated FTE of 7,308.3 in FY1998. The FY2008 budget proposal brings the FTE to a level of 7,883.1, for an increase of 574.8 FTE during the decade.



## FTE History for Offices Under Control of Governor



## ***SUMMARY OF REORGANIZATIONS***

### ***CORRECTIONS***

A reorganization occurred in the Department of Corrections. The department consolidated all sex offender management activities into one activity within Administration.

## SPECIAL APPROPRIATION RECOMMENDATIONS

FY2008 SPECIAL APPROPRIATIONS	GENERAL FUNDS	FEDERAL FUNDS	OTHER FUNDS	TOTAL
Tax Refunds for Elderly and Disabled	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000
Pine Beetle Suppression	\$ 175,000	\$ -	\$ -	\$ 175,000
State Fair	\$ 750,000	\$ -	\$ -	\$ 750,000
Physician Tuition Reimbursement	\$ 250,315	\$ -	\$ -	\$ 250,315
Resident Dentist Externship Program	\$ 50,000	\$ -	\$ -	\$ 50,000
School District Consolidation Incentives	\$ 251,276	\$ -	\$ -	\$ 251,276
K-12 School District Sparsity	\$ 2,400,000	\$ -	\$ -	\$ 2,400,000
Capitol Lake Plaza Purchase	\$ 1,500,000	\$ -	\$ -	\$ 1,500,000
Remodel 4th Floor for Legislature	\$ 408,100	\$ -	\$ -	\$ 408,100
Conservation Grant	\$ -	\$ -	\$ 600,000	\$ 600,000
<b>TOTAL FY2008 SPECIAL APPROPRIATIONS</b>	<b>\$ 6,784,691</b>	<b>\$ -</b>	<b>\$ 600,000</b>	<b>\$ 7,384,691</b>

**NOTE:** FY2008 special appropriations become available for expenditure on July 1, 2007 and are included in the FY2008 column of the General Fund Condition Statement.

Governor Rounds is recommending a total special appropriation of \$6,784,691 in general funds, and \$600,000 in other fund expenditure authority. The following paragraphs highlight each recommended special appropriation.

- ◆ **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.
- ◆ **Pine Beetle Suppression:** The Governor is recommending \$175,000 in general funds for the suppression and control of pine beetle outbreaks in Custer State Park.
- ◆ **State Fair:** The Governor is recommending \$750,000 in general funds to cover the projected operating shortfall for the 2007 State Fair.
- ◆ **Physician Tuition Reimbursement Program:** The Governor is recommending \$250,315 in general funds to reimburse seven participants who have complied with the requirements of the South Dakota Physician, Midlevel, or Dentist Tuition Reimbursement program per SDCL 1-16A-71.1, SDCL 1-16A-73.6, or SDCL 1-16A-73.2.
- ◆ **Resident Dentist Externship Program:** The Governor is recommending \$50,000 in general funds to compensate dental schools for the cost of sending South Dakota dental students back to South Dakota for a three-week externship experience.
- ◆ **School District Consolidation Incentives:** The Governor is recommending \$251,276 in general funds to reimburse certain school districts for consolidation incentives per SDCL 13:6:92.
- ◆ **K-12 School District Sparsity:** The Governor is recommending \$2,400,000 of general funds to provide funding for sparse school districts as per SB 198 of the 2006 legislative session.
- ◆ **Capitol Lake Plaza Purchase:** The Governor is recommending \$1,500,000 in general funds for the acquisition of the Capitol Lake Plaza building.
- ◆ **Remodel 4th Floor for Legislature:** The Governor is recommending \$408,100 in general funds for the Legislative Research Council to remodel the fourth floor of the Capital per SB 179.
- ◆ **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.

<u>FY2007 EMERGENCY SPECIAL APPROPRIATIONS</u>	<u>GENERAL FUNDS</u>	<u>FEDERAL FUNDS</u>	<u>OTHER FUNDS</u>	<u>TOTAL</u>
Fire Suppression Fund	\$ 695,256	\$ -	\$ -	\$ 695,256
Drought Resistance Research Center	\$ 2,962,500	\$ -	\$ -	\$ 2,962,500
K-12 School District Sparsity FY2007 Shortfall	\$ 818,762	\$ -	\$ -	\$ 818,762
Emergency and Disaster Fund	\$ 1,503,029	\$ -	\$ -	\$ 1,503,029
Cement Plant Earnings for Education	\$ 571,385	\$ -	\$ -	\$ 571,385
State Vet's Home Life Safety Capital Improvement Grant	\$ 1,082,783	\$ 1,807,526	\$ -	\$ 2,890,309
Armory Transformation Upgrade for Brookings	\$ 200,000	\$ 350,000	\$ -	\$ 550,000
<b>TOTAL FY2007 EMERGENCY SPECIAL APPROPRIATIONS</b>	<b>\$ 7,833,715</b>	<b>\$ 2,157,526</b>	<b>\$ -</b>	<b>\$ 9,991,241</b>

- ◆ **Fire Suppression Fund:** The governor is recommending \$695,256 in general funds to be deposited into the Fire Suppression Fund for costs related to the suppression of wildfires in South Dakota.
- ◆ **Drought Resistance Research Center:** The Governor is recommending \$2,962,500 in general funds over three years for a sixth research center to foster the development of new drought resistant products.
- ◆ **K-12 School District Sparsity:** The Governor is recommending \$818,762 in general funds to fund the FY2007 shortfall in K-12 School District Sparsity Funding. SB 198 of the 2006 legislative session appropriated \$1,500,000 in general funds to provide funding for sparse school districts. The need is currently estimated to be \$2,318,762.
- ◆ **Emergency and Disaster Fund:** The Governor is recommending \$1,503,029 in general funds to be deposited into the Emergency and Disaster Special Revenue Fund for costs related to disasters in South Dakota.
- ◆ **Cement Plant Earnings for Education Enhancement:** Due to the extra earnings from the Dakota Cement Trust fund, \$571,385 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 Vet's Home Life Safety Capital Improvement Grant:** The Governor is recommending \$1,082,783 in general funds and \$1,807,526 in federal fund expenditure authority for the renovation of the nursing care building for facility upgrades that address fire safety issues.
- ◆ **Armory Transformation Upgrade for Brookings:** The Governor is recommending \$200,000 in general funds and \$350,000 in federal fund expenditure authority for the renovation of the Brookings armory as part of the Army National Guard Transformation plan.

## GOVERNOR ROUND'S RECOMMENDATION FOR STATE EMPLOYEE COMPENSATION PACKAGE

	GENERAL FUNDS	FEDERAL FUNDS	OTHER FUNDS	TOTAL FUNDS
<p><b>PACE ADJUSTMENT TO JOB WORTH:</b> 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>	\$ 1,605,840	\$ 903,209	\$ 1,112,859	\$ 3,621,908
<p><b>ACROSS-THE-BOARD INCREASE:</b> The Governor is recommending that all permanent state employees receive a 3% pay increase.</p>				
Executive Branch	\$ 3,388,945	\$ 2,833,956	\$ 4,152,313	\$ 10,375,214
Board of Regents	4,291,191	1,109,167	3,774,705	9,175,063
Legislative Branch	122,979	-	-	122,979
Judicial Branch	988,081	48,810	154,617	1,191,508
<b>Subtotal</b>	<b>\$ 8,791,196</b>	<b>\$ 3,991,933</b>	<b>\$ 8,081,635</b>	<b>\$ 20,864,764</b>
<p><b>HEALTH INSURANCE INCREASE:</b> The costs associated with the employer-paid portion of the state employee's health insurance plan for FY2008 is projected to increase by 4.2%.</p>	\$ 1,198,067	\$ 560,760	\$ 1,048,896	\$ 2,807,723
<p><b>GRAND TOTAL INCREASE FOR STATE EMPLOYEE COMPENSATION:</b></p>	<b>\$ 11,595,103</b>	<b>\$ 5,455,902</b>	<b>\$ 10,243,390</b>	<b>\$ 27,294,395</b>

For FY2008, the employee compensation package was distributed to agencies in the Governor's recommended budget.

# GOVERNOR'S FY2008 GENERAL FUND RECOMMENDATIONS

<b>GENERAL BILL</b>	<b>FTE EXPANSION/ (REDUCTION)</b>	<b>GENERAL FUND EXPANSION/ (REDUCTION)</b>	<b>TOTAL GENERAL FUND RECOMMENDATION</b>
Administration (Excluding Sale-Leaseback)	0.0	(368,389)	3,395,011
Agriculture	1.0	317,799	6,055,911
Attorney General	6.0	(3,692,891)	9,685,641
Corrections	2.0	6,184,518	80,583,713
Education (Excluding State Aid and Postsecondary Education)	(4.0)	1,165,842	9,646,895
State Aid to Education		22,901,070	354,578,230
Postsecondary Vocational Education		250,604	19,127,140
Environment and Natural Resources	3.0	180,583	6,263,707
Finance and Management (Excluding Sale-Leaseback)	1.0	23,498	854,221
Game, Fish, and Parks (Excluding CRP)	0.0	101,291	4,698,066
Gubernatorial Division	0.0	72,124	2,315,639
Health	5.2	(571,263)	7,679,904
Human Services	(2.0)	9,753,408	105,221,873
Information and Telecommunications	4.0	112,928	5,411,079
Labor and Regulation (Includes SD Retirement System)	(3.0)	22,155	847,448
Legislature (Includes Employee Compensation)	0.0	36,403	7,471,306
Military and Veteran's Affairs	1.0	252,447	5,914,446
Personnel (does not include Employee Compensation)	1.0	10,020	858,583
Public Safety	3.0	145,074	3,882,068
Public Utilities Commission	(0.5)	(9,072)	577,302
Regents (Includes Employee Compensation)	88.3	11,281,576	174,163,548
Revenue	8.0	85,764	1,107,244
School and Public Lands	0.0	14,547	538,897
Secretary of State	0.0	22,419	956,710
Social Services	0.0	24,541,426	263,496,580
State Auditor	0.7	37,293	1,162,584
State Treasurer (Including Investment Council)	0.0	10,702	497,568
Tourism & State Development	0.0	1,202,517	12,155,443
Transportation	(21.0)	9,432	510,798
Unified Judicial System (Includes Employee Compensation)	15.8	2,356,955	32,580,959
Sale-Leaseback		(674,857)	10,473,294
Conservation Reserve Program		(4,758)	1,168,680
<b>TOTAL FY2008 GENERAL BILL RECOMMENDATIONS</b>	<u>109.5</u>	<u>75,771,165</u>	<u>1,133,880,487</u>
 <b>BREAKDOWN</b>			
Executive Branch	(0.8)	42,489,435	530,224,963
Unified Judicial System, Legislature, and Constitutional Offices	22.0	(1,151,520)	55,786,606
State Aid		22,901,070	354,578,230
Postsecondary Vocational Education		250,604	19,127,140
Board of Regents	88.3	11,281,576	174,163,548
<b>TOTAL FY2008 GENERAL BILL RECOMMENDATIONS</b>	<u>109.5</u>	<u>75,771,165</u>	<u>1,133,880,487</u>

## GENERAL FUND CONDITION STATEMENT

	ACTUAL FY2005	ACTUAL FY2006	REVISED FY2007	PROJECTED FY2008
<b>RECEIPTS</b>				
Sales and Use Tax	\$ 534,196,029	\$ 576,899,817	\$ 607,722,455	\$ 642,423,908
Contractor's Excise Tax	65,404,711	75,103,983	82,706,906	86,068,494
Property Tax Reduction Fund	114,206,290	114,701,037	119,938,204	126,613,474
Bank Franchise Tax	36,362,714	40,447,083	41,418,672	46,416,709
Insurance Company Tax	55,461,545	55,671,326	59,968,019	64,120,500
Other	152,360,836	155,464,102	163,795,790	164,297,580
One-Time Receipts	7,375,000	2,105,219	6,550,000	6,508,132
Transfer from Property Tax Reserves	24,578,419	35,387,630	0	6,359,668
Obligated Cash Carried Forward	1,182,209	819,857	317,535	0
<b>TOTAL RECEIPTS</b>	<b>\$ 991,127,751</b>	<b>\$ 1,056,600,054</b>	<b>\$ 1,082,417,581</b>	<b>\$ 1,142,808,465</b>
<b>EXPENDITURES</b>				
General Bill Excl. State Aid to Educ.	\$ 639,618,783	\$ 675,863,041	\$ 726,432,162	\$ 779,302,257
State Aid to Education	329,965,971	330,104,895	331,677,160	354,578,230
Special Appropriations	6,791,878	8,433,364	12,178,439	6,784,691
Emergency Special Appropriations	10,851,130	39,109,900	7,833,715	0
Continuing Appropriations	1,897,924	1,951,462	2,045,035	2,143,287
<b>TOTAL EXPENDITURES</b>	<b>\$ 989,125,686</b>	<b>\$ 1,055,462,662</b>	<b>\$ 1,080,166,511</b>	<b>\$ 1,142,808,465</b>
<b>TRANSFERS</b>				
Budget Reserve Fund	\$ 1,182,209	\$ 819,857	\$ 317,535	\$ 0
Property Tax Reduction Fund	0	0	0	0
<b>TOTAL TRANSFERS</b>	<b>\$ 1,182,209</b>	<b>\$ 819,857</b>	<b>\$ 317,535</b>	<b>\$ 0</b>
<b>Beginning Unobligated Cash Balance</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>Net (Receipts less Expend./Transfers)</b>	<b>819,857</b>	<b>317,535</b>	<b>1,933,535</b>	<b>0</b>
<b>OBLIGATIONS AGAINST CASH</b>				
Budget Reserve Fund	(819,857)	(317,535)	0	0
Property Tax Reduction Fund	0	0	0	0
<b>Total Obligations Against Cash</b>	<b>(819,857)</b>	<b>(317,535)</b>	<b>0</b>	<b>0</b>
<b>Ending Unobligated Cash Balance</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 1,933,535</b>	<b>\$ 0</b>

**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 2005	ACTUAL FY 2006	BUDGETED FY 2007	REQUESTED FY 2008	GOVERNOR'S RECOMMENDED FY 2008	RECOMMENDED INC/(DEC) FY 2008
<b>FUNDING SOURCE:</b>						
General Funds	\$ 969,584,750	\$ 1,005,967,940	\$ 1,058,109,322	\$ 1,132,386,923	\$ 1,133,880,487	\$ 75,771,165
Federal Funds	906,236,286	923,820,595	1,038,362,204	1,045,612,028	1,047,620,644	9,258,440
Other Funds	469,234,147	509,132,124	546,237,253	572,551,394	586,325,419	40,088,166
<b>Total</b>	<b>\$ 2,345,055,183</b>	<b>\$ 2,438,920,659</b>	<b>\$ 2,642,708,779</b>	<b>\$ 2,750,550,345</b>	<b>\$ 2,767,826,550</b>	<b>\$ 125,117,771</b>
<b>EXPENDITURE DETAIL:</b>						
Personal Services	\$ 577,919,182	\$ 605,445,171	\$ 661,948,890	\$ 669,409,369	\$ 692,348,293	\$ 30,399,403
Operating Expenses	1,767,136,002	1,833,475,488	1,980,759,889	2,081,140,976	2,075,478,257	94,718,368
<b>Total</b>	<b>\$ 2,345,055,183</b>	<b>\$ 2,438,920,659</b>	<b>\$ 2,642,708,779</b>	<b>\$ 2,750,550,345</b>	<b>\$ 2,767,826,550</b>	<b>\$ 125,117,771</b>
Staffing Level FTE:	12,237.4	12,267.3	12,855.2	13,106.2	12,962.0	106.8

### SPECIAL APPROPRIATIONS AND GENERAL FUND CONTINUING APPROPRIATIONS

FUNDING SOURCE:	REVISED BUDGETED FY 2007	GOVERNOR'S RECOMMENDED FY 2008	RECOMMENDED INC/(DEC) FY 2008
General Funds	\$ 22,057,189	\$ 8,927,978	(\$ 13,129,211)
Federal Funds	4,271,526	0	( 4,271,526)
Other Funds	8,077,714	600,000	( 7,477,714)
<b>Total</b>	<b>\$ 34,406,429</b>	<b>\$ 9,527,978</b>	<b>(\$ 24,878,451)</b>

### TOTAL STATE GOVERNMENT BUDGET

FUNDING SOURCE:	REVISED BUDGETED FY 2007	GOVERNOR'S RECOMMENDED FY 2008	RECOMMENDED INC/(DEC) FY 2008
General Funds	\$ 1,080,166,511	\$ 1,142,808,465	\$ 62,641,954
Federal Funds	1,042,633,730	1,047,620,644	4,986,914
Other Funds	554,314,967	586,925,419	32,610,452
<b>Total</b>	<b>\$ 2,677,115,208</b>	<b>\$ 2,777,354,528</b>	<b>\$ 100,239,320</b>
Staffing Level FTE:	12,855.2	12,962.0	106.8

## INFORMATION BUDGETS CONTAINED IN THE GENERAL APPROPRIATIONS BILL

	ACTUAL FY 2005	ACTUAL FY 2006	BUDGETED FY 2007	REQUESTED FY 2008	GOVERNOR'S RECOMMENDED FY 2008	RECOMMENDED INC/(DEC) FY 2008
<b>FUNDING SOURCE:</b>						
General Funds	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Federal Funds	251,203,995	252,919,737	287,440,582	298,198,317	298,484,833	11,044,251
Other Funds	235,455,793	266,357,031	258,968,075	256,358,533	259,428,672	460,597
<b>Total</b>	<b>\$ 486,659,788</b>	<b>\$ 519,276,768</b>	<b>\$ 546,408,657</b>	<b>\$ 554,556,850</b>	<b>\$ 557,913,505</b>	<b>\$ 11,504,848</b>
<b>EXPENDITURE DETAIL:</b>						
Personal Services	\$ 68,193,350	\$ 70,750,520	\$ 78,923,246	\$ 78,899,738	\$ 81,703,180	\$ 2,779,934
Operating Expenses	418,466,437	448,526,248	467,485,411	475,657,112	476,210,325	8,724,914
<b>Total</b>	<b>\$ 486,659,788</b>	<b>\$ 519,276,768</b>	<b>\$ 546,408,657</b>	<b>\$ 554,556,850</b>	<b>\$ 557,913,505</b>	<b>\$ 11,504,848</b>
Staffing Level FTE:	1,191.7	1,369.1	1,269.3	1,272.0	1,272.0	2.7

## INFORMATION BUDGETS



## TOTAL STATE GOVERNMENT BUDGET (Including Information Budgets)

### GENERAL APPROPRIATIONS BILL

	ACTUAL FY 2005	ACTUAL FY 2006	BUDGETED FY 2007	REQUESTED FY 2008	GOVERNOR'S RECOMMENDED FY 2008	RECOMMENDED INC/(DEC) FY 2008
<b>FUNDING SOURCE:</b>						
General Funds	\$ 969,584,750	\$ 1,005,967,940	\$ 1,058,109,322	\$ 1,132,386,923	\$ 1,133,880,487	\$ 75,771,165
Federal Funds	1,157,440,281	1,176,740,332	1,325,802,786	1,343,810,345	1,346,105,477	20,302,691
Other Funds	704,689,940	775,489,154	805,205,328	828,909,927	845,754,091	40,548,763
Total	<u>\$ 2,831,714,971</u>	<u>\$ 2,958,197,427</u>	<u>\$ 3,189,117,436</u>	<u>\$ 3,305,107,195</u>	<u>\$ 3,325,740,055</u>	<u>\$ 136,622,619</u>
<b>EXPENDITURE DETAIL:</b>						
Personal Services	\$ 646,112,532	\$ 676,195,691	\$ 740,872,136	\$ 748,309,107	\$ 774,051,473	\$ 33,179,337
Operating Expenses	2,185,602,439	2,282,001,736	2,448,245,300	2,556,798,088	2,551,688,582	103,443,282
Total	<u>\$ 2,831,714,971</u>	<u>\$ 2,958,197,427</u>	<u>\$ 3,189,117,436</u>	<u>\$ 3,305,107,195</u>	<u>\$ 3,325,740,055</u>	<u>\$ 136,622,619</u>
Staffing Level FTE:	13,429.1	13,636.5	14,124.5	14,378.2	14,234.0	109.5

### SPECIAL APPROPRIATIONS AND GENERAL FUND CONTINUING APPROPRIATIONS

FUNDING SOURCE:	REVISED BUDGETED FY 2007	GOVERNOR'S RECOMMENDED FY 2008	RECOMMENDED INC/(DEC) FY 2008
General Funds	\$ 22,057,189	\$ 8,927,978	(\$ 13,129,211)
Federal Funds	4,271,526	0	( 4,271,526)
Other Funds	8,077,714	600,000	( 7,477,714)
Total	<u>\$ 34,406,429</u>	<u>\$ 9,527,978</u>	<u>(\$ 24,878,451)</u>

### TOTAL STATE GOVERNMENT BUDGET

FUNDING SOURCE:	REVISED BUDGETED FY 2007	GOVERNOR'S RECOMMENDED FY 2008	RECOMMENDED INC/(DEC) FY 2008
General Funds	\$ 1,080,166,511	\$ 1,142,808,465	\$ 62,641,954
Federal Funds	1,330,074,312	1,346,105,477	16,031,165
Other Funds	813,283,042	846,354,091	33,071,049
Total	<u>\$ 3,223,523,865</u>	<u>\$ 3,335,268,033</u>	<u>\$ 111,744,168</u>
Staffing Level FTE:	14,124.5	14,234.0	109.5