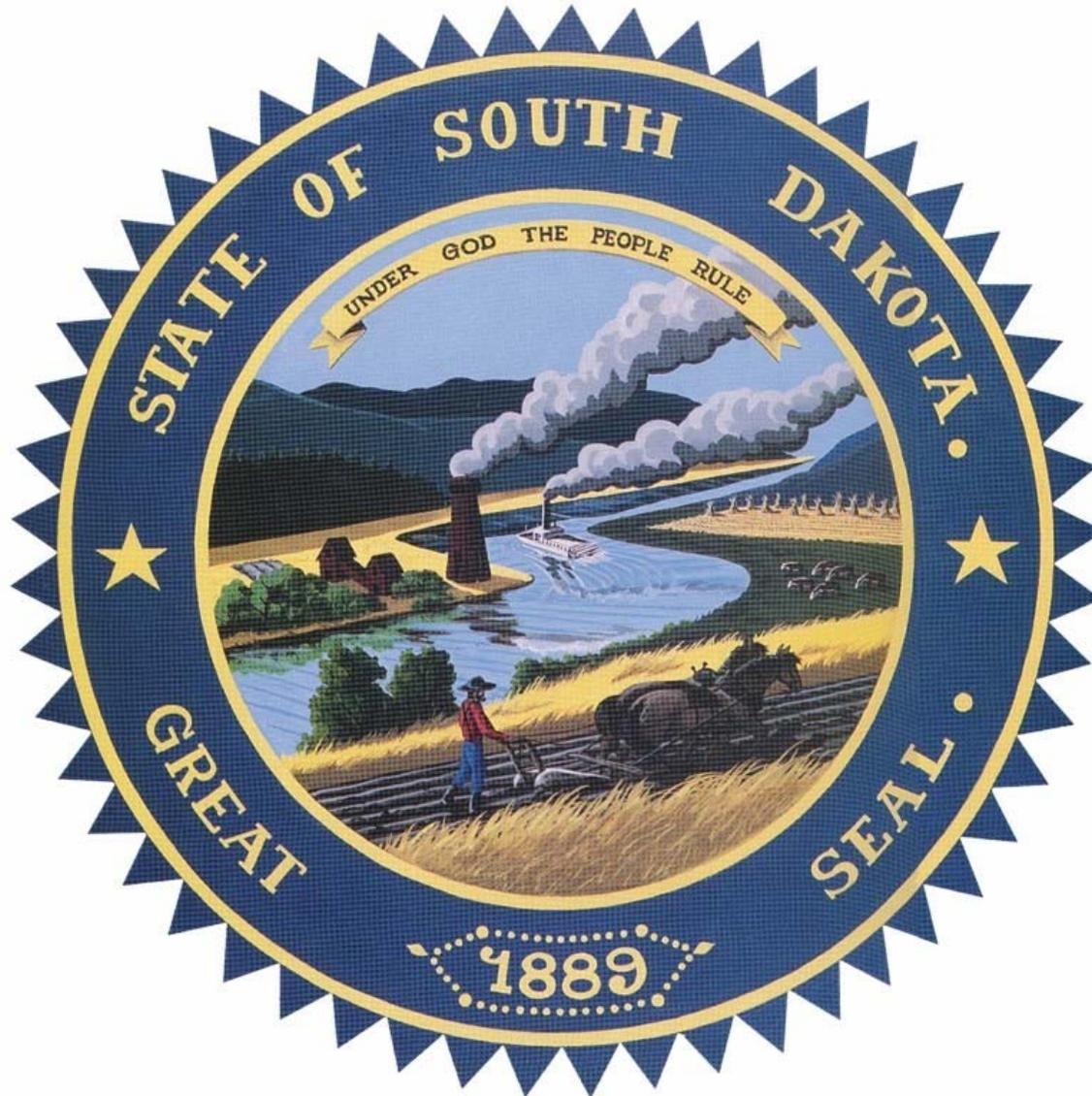


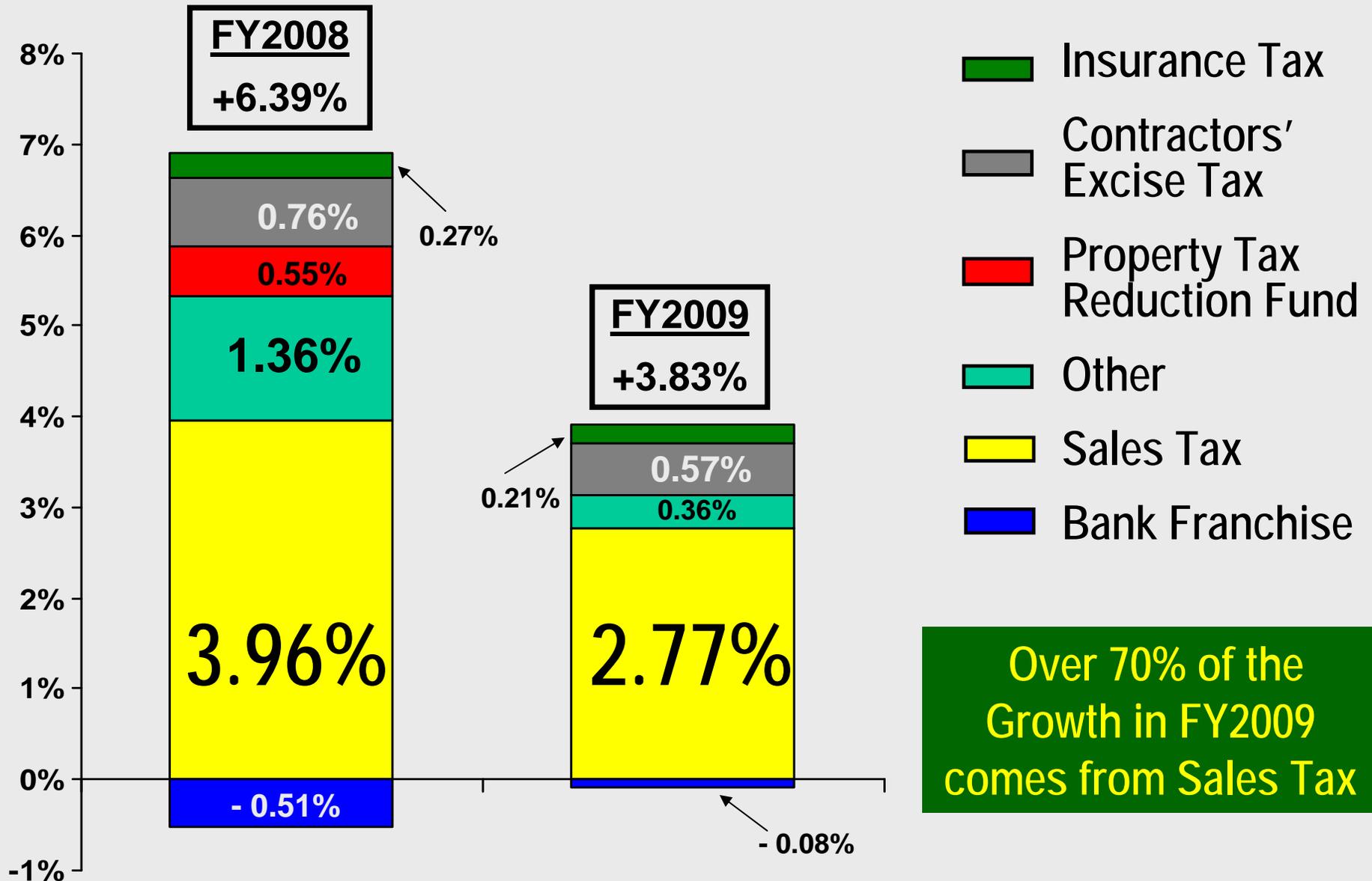
Governor Mike Rounds' FY2009 Budget Address



Budget Highlights

- **Limited Growth Budget**
- **Growing Our Economy**
- **Balancing our budget using our reserves wisely**
- **Meeting Our Basic Needs**
 - **Taking Care of People**
 - **Protecting People**
 - **Educating People**
- **No New Taxes Requested**

FY08 and FY09 Ongoing General Fund Revenue Growth



Why is Rate of Growth Declining so much in FY2009?

1) The Revised FY2008 Estimate includes growth in the following for FY08 but not FY09:

✓ Property Tax Reduction Fund (Tobacco Tax)	\$5.7 m
✓ Net Transfers In–Health Care Tobacco Tax Fund	<u>\$9.8 m</u>
Total	\$15.5 m

The \$15.5 million contributed 1.4% growth to FY2008.

2) Oil prices and Housing fallout (values and mortgages) will reduce discretionary incomes and threaten of a recession.

A return to recent growth rates for Sales and Excise Tax would add 1.05% growth to FY2009.

FY2008 & FY2009 Receipts & Forecasts

(in millions)

	<u>Rev FY2008</u>	<u>FY2009</u>	<u>Change</u>
Sales and Use Tax	\$646.0	\$677.8	+\$31.8
Property Tax Reduction Fund	126.3	126.3	0.0
Contractor's Excise Tax	86.9	93.5	+ 6.6
Insurance Company Tax	60.2	62.6	+ 2.4
Bank Franchise Tax	44.9	44.0	- 0.9
Other Continuing Receipts	184.4	188.6	+ 4.2
One-Time Receipts	<u>6.8</u>	<u>10.2</u>	<u>+ 3.4</u>
Total Receipts	1,155.5	1,203.0	+ 47.5
One-Time Reserves Transfer	<u>28.2</u>	<u>4.6</u>	<u>-23.6</u>
Total General Fund Revenues	1,183.7	1,207.6	+23.9

Bottom Line for FY2009

(General Funds in millions)

Revenues

Sales and Use Tax-- \$677.8

Property Tax Reduction Fund-- \$126.3

Contractor's Excise Tax-- \$ 93.5

Insurance Company Tax-- \$ 62.6

Other Receipts-- \$242.8

Total Receipts-- **\$1,203.0**

Expenses

Educating People-- \$594.2

Taking Care of People-- \$395.7

Protecting People-- \$127.3

Rest of State Government-- \$ 63.7

Sale/Leaseback, CRP, Bonds-- \$ 19.5

Special/Contin. Appropriations-- \$ 7.2

Total Expenses-- **\$1,207.6**

\$1,203.0

- \$1,207.6

- \$4.6

How far have we come?

(General Funds for FY2009 in millions)

September

General Fund Receipts Forecast --	\$1,174.8
General Fund Potential Expenses --	<u>\$1,301.7</u>
Shortfall --	-\$126.9

Today

General Fund Receipts Forecast --	\$1,203.0
General Fund Expenses --	<u>\$1,207.6</u>
Shortfall --	-\$ 4.6

Improvement

General Fund Receipts --	+\$ 28.2
General Fund Expenses --	<u>-\$ 94.1</u>
Total --	-\$122.3

Reserves

Dec. 4 Starting Point:

Budget Reserve Fund	\$43,247,488
Property Tax Reduction Fund	<u>\$89,276,269</u>
	\$132,523,757

Projected Reserves Uses:

Reserves needed in FY2008	- \$28,195,002
Reserves needed in FY2009	- <u>\$4,638,439</u>
	- \$32,833,441

Projected Remaining (06/30/09) → \$99,690,316

General Funds Major Spending Changes For FY 2009

Mandatory Increases + \$35,552,259

Some Examples:

State Aid (General and Special Ed.)	+ \$17.7 million
FY2008 Specials added to base	+ \$ 8.9 million
Growth in Services for those in need	+ \$ 6.6 million
Provider Inflation	+ \$ 5.2 million
Birth to Three Funding	+ \$ 1.8 million
Utilities	+ \$ 0.5 million
All Others	+ \$ 2.4 million
FMAP	- \$ 7.6 million

General Funds Major Spending Changes For FY 2009

Discretionary Increases + \$27,170,550

Some Examples:

State Employee Compensation +\$ 9.4 million

Provider Inflation +\$ 7.3 million

Maintenance, Repair, Remodels,
Demolitions +\$ 4.1 million

BOR New Bond Payment for
Science Facilities +\$ 2.3 million

BOR Mobile Computing Environment +\$ 1.3 million

All Others +\$ 2.8 million

General Funds Major Spending Changes For FY 2009

Pre K – Ph.D. Education	+ \$35,881,644
Taking Care of People	+ \$18,906,757
Protecting People	+ \$ 5,764,729
Rest of State Government	+ \$ 2,169,679
	<hr/>
Total Changes	+\$62,722,809

General Funds Major Spending Changes

Pre K – Ph.D. Education

Pre K – Ph.D. Education	+ \$35,881,644
Taking Care of People	+ \$18,906,757
Protecting People	+ \$ 5,764,729
Rest of State Government	+ \$ 2,169,679
	<hr/>
Total Changes	+ \$62,722,809

Spending Increases for FY2009

Pre K – Ph.D. Education

General Funds

K-12 State Aid Funding +	\$22,705,720
BOR Employee Compensation +	\$ 4,593,261
BOR Science Facilities Bond Payment +	\$ 2,306,300
Birth to Three Funding +	\$ 1,845,723
BOR HEFF Match for M&R +	\$ 1,632,999
BOR Mobile Computing Environment +	\$ 1,309,040
High Speed Research, Education, and Economic Development Network +	\$ 886,844
All the Rest +	\$ 601,757
TOTAL INCREASES--	+ \$35,881,644

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

	<u>State Aid On-Going Increases</u>	<u>Local Schools General Funds Ending Balance</u>	<u>Ending Balance + or - From Previous Year</u>
BaseLine FY 2003 (WJJ)	+\$4,381,409	\$123,104,947	- \$4,462,351
FY 2004 (MMR)	+\$7,393,434	\$124,626,400	+ \$1,521,462
FY 2005 (MMR)	+\$9,517,292	\$138,576,584	+ \$13,950,175
FY 2006* (MMR)	+\$13,035,774	\$154,587,407	+ \$16,010,823
FY 2007* (MMR)	+\$13,220,279	\$170,789,661	+\$16,202,254
FY2008 (MMR)	+\$23,558,675	Dec. 2008	Dec. 2008
Proposed FY2009 (MMR)	+\$18,557,062	Dec. 2009	Dec. 2009
Rounds' First 4 Budgets	+\$43,166,779		+\$46,284,714

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

Changes in School District Fund Balances

	General Fund	Change	Capital Outlay	Change
FY2003	\$123,104,947		\$ 68,709,687	
FY2004	\$124,626,409	\$ 1,521,461	\$ 67,536,414	\$ (1,173,273)
FY2005	\$138,576,583	\$ 13,950,175	\$ 83,518,546	\$ 15,982,132
FY2006*	\$154,587,407	\$ 16,010,824	\$ 73,943,729	\$ (9,574,817)
FY2007*	\$170,789,661	\$ 16,202,824	\$ 81,766,920	\$ 7,823,191
Updated FY2008	Dec. 2008	Dec. 2008	Dec. 2008	Dec. 2008
Proposed FY2009	Dec. 2009	Dec. 2009	Dec. 2009	Dec. 2009

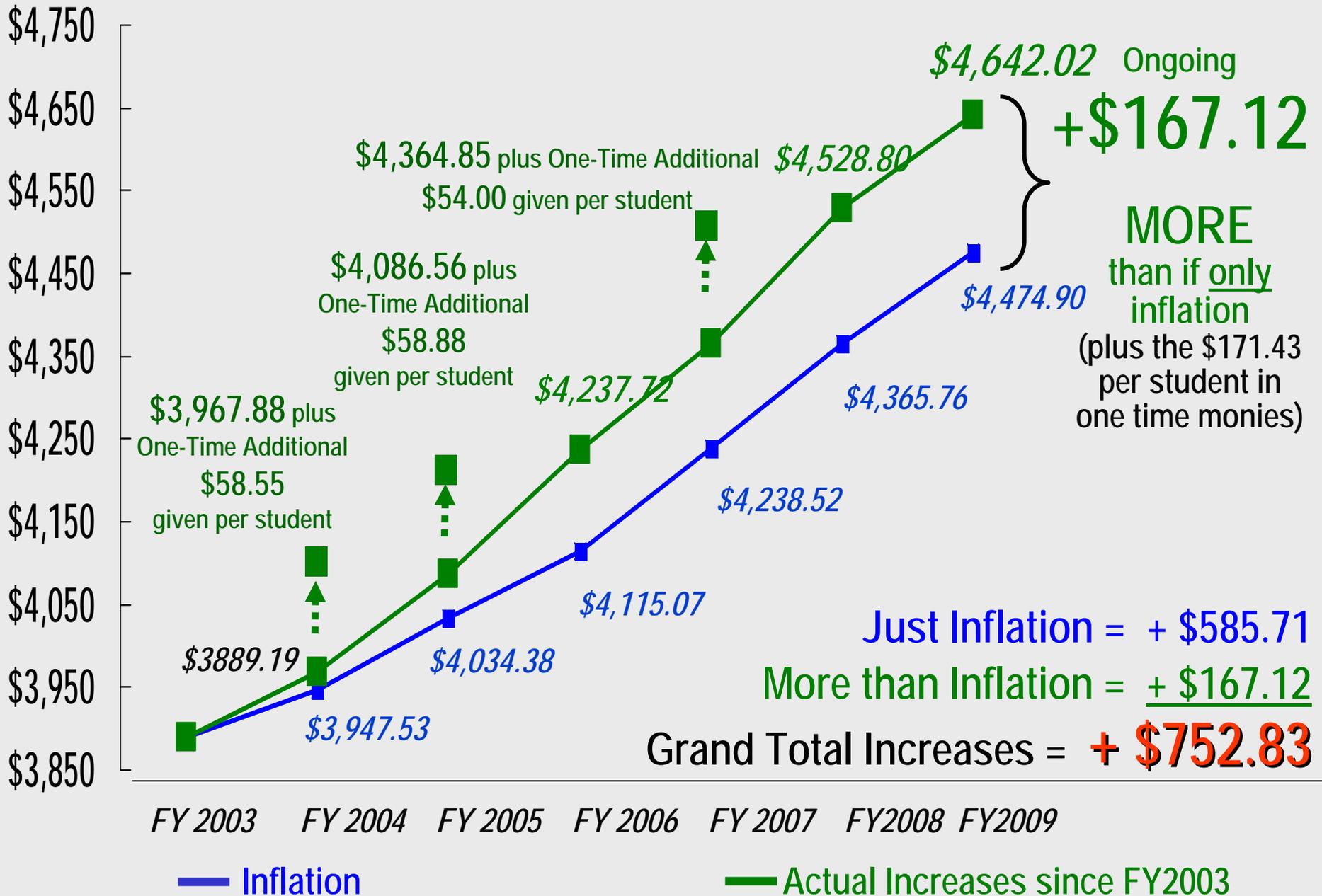
What will the districts do with the additional funding given to them in FY2008 and FY2009?

Formula expansions to put more ongoing \$\$ into K-12 Schools

(Increases over old formula base)

	<u>FY08</u>	<u>FY09</u>
✓ Small school factor to adjustment		
124 districts	+\$ 407,689	-\$ 92,311
✓ 2 year avg for declining enrollments		
105 districts	+\$ 3,866,146	+\$3,962,800
✓ Increasing enrollments		
26 districts	+\$ 3,215,969	+\$1,430,806
✓ Sparsity		
23 districts	+\$ 1,997,855	+\$2,043,138
✓ TCAP		
all districts eligible	+\$ <u>4,000,000</u>	+\$4,000,000
	TOTAL	+\$ 13,487,659 +\$11,344,433

Per Student Increases in State Aid to Local Schools



Projected Levies Decreases

(Based on most recent data)

2006 Pay 2007 Levies:

<u>Ag</u>	<u>Non-Ag Z</u>	<u>OO</u>	<u>Commercial</u>
\$3.03	\$4.03	\$4.76	\$10.19

Current Levies (2007 Pay 2008)*:

<u>Ag</u>	<u>Non-Ag Z</u>	<u>OO</u>	<u>Commercial</u>
\$2.71	\$3.71	\$4.26	\$9.11

Next Year's Proposed Levies (2008 Pay 2009):

<u>Ag</u>	<u>Non-Ag Z</u>	<u>OO</u>	<u>Commercial</u>
\$2.65	\$3.65	\$4.16	\$8.91

Proposed Changes:

<u>Ag</u>	<u>Non-Ag Z</u>	<u>OO</u>	<u>Commercial</u>
- \$0.06	- \$0.06	- \$0.10	- \$0.20

* Reflects \$9 million in property tax relief

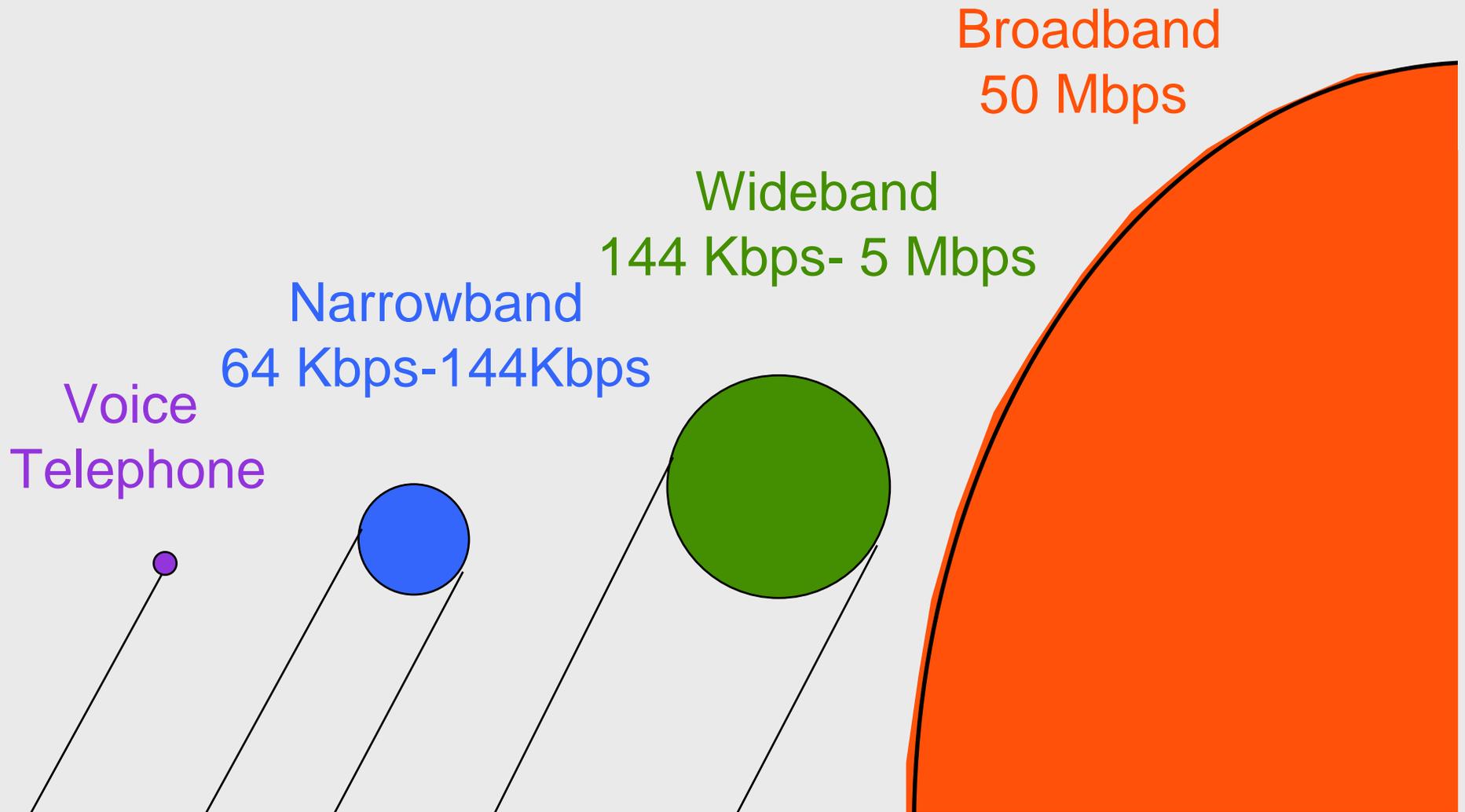
High Speed Research, Education and Economic Development Network

Building a high speed research, education and economic development network that will connect South Dakota to the rest of the world.

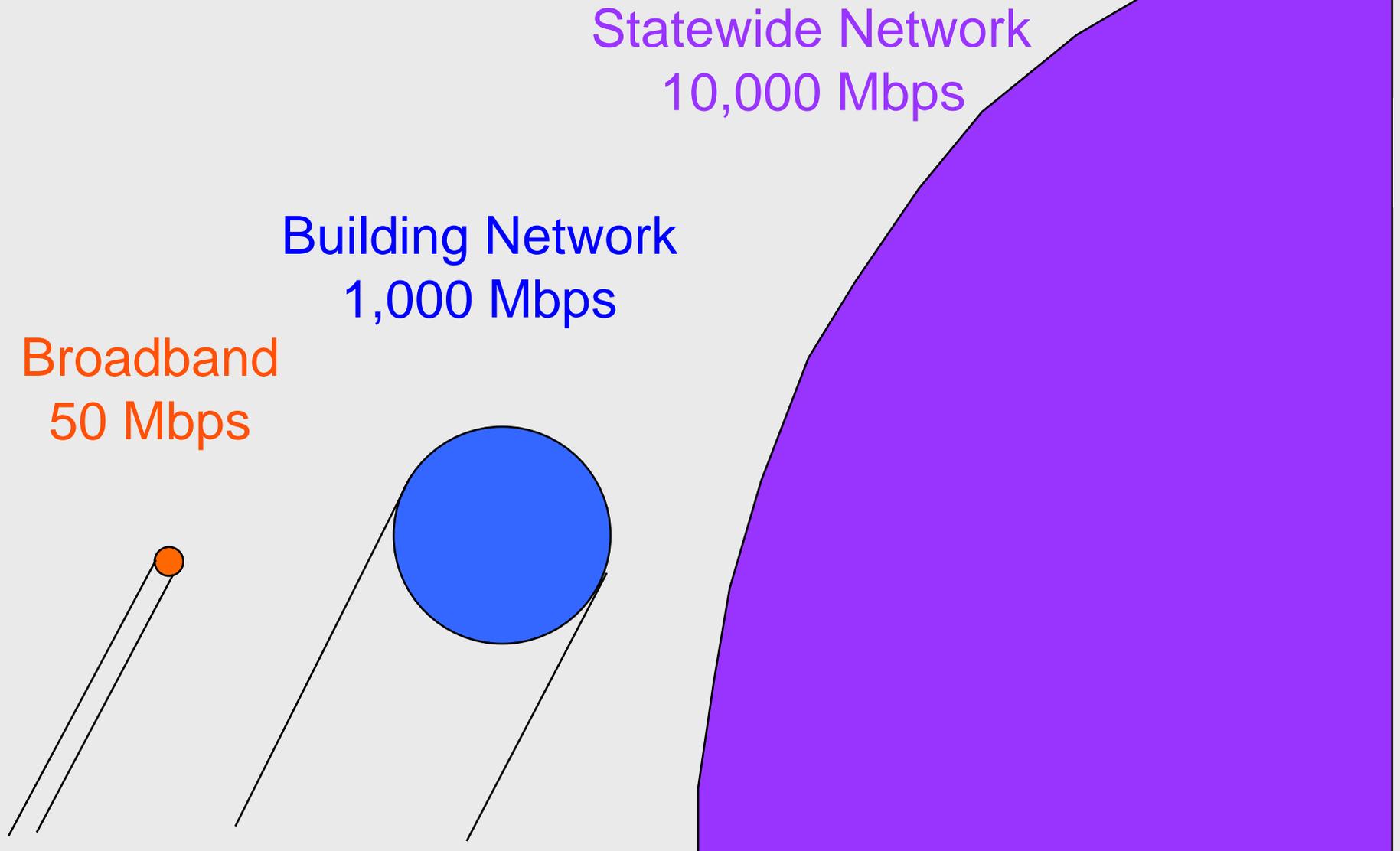
Benefits:

- Cutting edge research capabilities for medical, financial services and weather fields
 - Growing our University research infrastructure
 - Single agency managing IT resources for the state
 - Consolidating to a single, state of the art state-wide research data center
 - Achieving the highest network speeds possible in the technology world
 - Building a network where private and public sectors can share for the benefit of all South Dakota
- | | | | |
|------------------|----------------------------|---|-------------|
| ■ One-Time Costs | \$11,768,711 - \$8,000,000 | = | \$3,768,711 |
| ■ Ongoing Costs | \$ 2,301,846 - \$1,415,000 | = | \$ 886,846 |

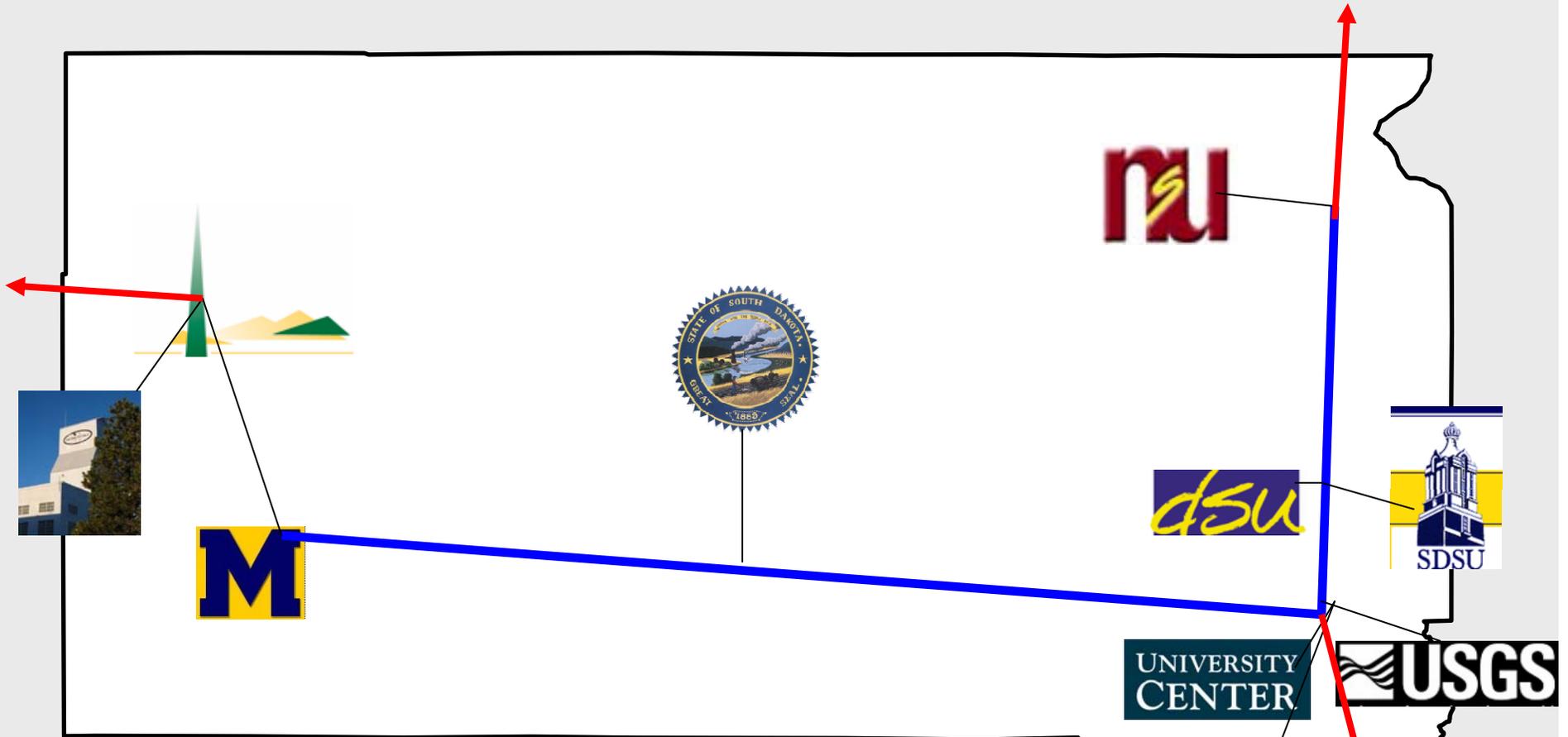
“What is Bandwidth”? (2000)



“What is Bandwidth”? (2008)



Network Locations



(3) Out-of-State Connections

- ★ Fargo, ND
- ★ Omaha, NE
- ★ Cheyenne, WY

10 In-State Connections

- | | |
|--------|----------|
| ★ BHSU | ★ NSU |
| ★ DSU | ★ Pierre |
| ★ EROS | ★ SDSU |
| ★ GEAR | ★ SDSMT |
| | ★ SUSEL |
| | ★ USD |

Capacity Comparison

- **ESNet National Backbone = 10,000 Mbps today**
- **In 2011, the ESNet goal is 40,000 Mbps**
- **SD = 2,200 Mbps today
(statewide Regental System total)**
- **SD REED = 50,000 Mbps on Day 1**

General Funds Major Spending Changes

Taking Care of People

Pre K – Ph.D. Education	+ \$35,881,644
Taking Care of People	+ \$18,906,757
Protecting People	+ \$ 5,764,729
Rest of State Government	+ \$ 2,169,679
	<hr/>
Total Changes	+ \$62,722,809

Spending Increases for FY2009

Taking Care of People

General Funds

Provider Inflation @ 2.5% (DSS&DHS)	+ \$12,364,448
Growth in Services for those in need	+ \$ 6,427,330
FY2008 Specials added to base	+ \$ 2,079,649
Employee Compensation	+ \$ 2,033,832
Medicare Part D	+ \$ 1,087,671
FMAP Rate Change (DSS&DHS)	- \$ 7,413,900
All the Rest	+ <u>\$2,327,727</u>
TOTAL INCREASES--	+ \$18,906,757

Provider Inflation

(increases for rates of care paid by the state)

- Current Forecast for inflation = 1.6%
- Funding for inflation in this budget = 2.5%

Total 2.5% Cost =

+ \$12,456,449 General Funds
+ \$31,821,613 Total Funds

What will this do?

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

General Funds Major Spending Changes

Protecting People

Pre K – Ph.D. Education	+ \$35,881,644
Taking Care of People	+ \$18,906,757
Protecting People	+ \$ 5,764,729
Rest of State Government	+ \$ 2,169,679
	<hr/>
Total Changes	+ \$62,722,809

Spending Increases for FY2009

Protecting People

	<u>General Funds</u>
UJS, ATG, DOC, & DPS Empl. Comp.	+ \$ 2,910,469
UJS budget increases (excl empl. comp)	+ \$ 1,844,494
FY2008 Specials added to base	+ \$ 790,713
Correctional Health Care	+ \$ 128,788
Utilities	+ \$ 225,605
All the Rest	<u>- \$ 135,340</u>
TOTAL INCREASES--	+ \$ 5,764,729

General Funds Major Spending Changes

Rest of State Government

Pre K – Ph.D. Education	+ \$35,881,644
Taking Care of People	+ \$18,906,757
Protecting People	+ \$ 5,764,729
Rest of State Government	+ \$ 2,169,679
	<hr/>
Total Changes	+ \$62,722,809

All the rest of State Government

	<u>Total</u>
Executive Management +	\$ 1,069,468
Agriculture/ Animal Industry Board +	\$ 808,602
Revenue and Regulation +	\$ 218,384
Environment and Natural Resources +	\$ 158,723
Military & Veterans' Affairs +	\$ 147,272
Labor +	\$ 21,815
Transportation +	\$ 7,862
Legislature & other Elected Officials +	\$ 344,604
Game, Fish, & Parks -	\$ 233,929
Tourism and State Development -	\$ 373,122
	<hr/>
Total +	\$ 2,169,679

This represents only 3.5% of our total budget increase
(includes employee compensation for this group)

FY2009 Proposed FTE Increases

**Outside the Control
of Governor-- 106.7**

**Under the Control
of Governor-- 32.5**

Total-- 139.2

Why do we keep seeing FTE increases?

Examples:

✓ DOC – Contracted service to FTE (Required by IRS)	2.0
✓ DSS – Contracted service to FTE (Required by IRS)	6.0
✓ DOE – Fed required exclusive FTE for Head Start	<u>1.0</u>
Total	9.0

Because of IRS regulations and Federal rules, we will have 9.0 more FTE next year but no increase in services

FTE Changes (Under Governor's control)

2007 Meth Special
Appropriation (HB1246) + 16.0

Medicaid Management
Information System + 20.0

Remaining FTE changes in
12 departments, 4
bureaus and the
Governor's office - 3.5

+ 32.5

FTE Increase Examples (outside Governor's control)

Board of Regents +83.5:

- 2.0 FTE for support of new data center
- 25.5 FTE for support of mobile computing
- 56.0 FTE for growth in grants and contract activity

Unified Judicial System +19.2:

- 3.0 FTE for 4th circuit drug court
- 1.0 FTE for court reporter
- 5.1 FTE for deputy clerks of court
- 4.0 FTE for court service officers
- 4.1 FTE for secretaries
- 1.0 FTE for judicial branch educator
- 1.0 FTE for court improvement coordinator

Attorney General +2.0:

- 1.0 FTE for fingerprint technician
- 1.0 FTE for meth prosecutor

FY2008 Emergency Special Appropriations

General Funds:

Extraordinary Litigation Fund	\$ 2,252,784
Fire Suppression Fund	\$ 1,843,110
Emergency Disaster Fund	\$ 4,337,522
Conservation Grant	\$ 600,000
K-12 Schools Sparsity Shortfall	\$ 197,855
<i>State Aid Lawsuit Costs</i>	<i>\$ 948,750</i>
Water Omnibus Bill/Lewis and Clark	\$ 1,000,000
Classroom Connections Year 3	\$ 2,954,440
Bear Butte State Park Easement	\$ 250,000
Energy Conservation Loan Fund	\$10,000,000
<i>Total General Funds Emergency Special Appropriations--</i>	<hr/> <i>\$24,384,461</i>

FY2008 General Bill Amendments

General Funds:

Cement Plant Earnings for Education	\$ 1,184,338
BOR Critical M&R Bond Payment	\$ 427,948
Risk Pool	\$ 50,000
Custer State Park Bond Payment	\$ 483,363
State Aid to K-12 Formula Shortfall	\$ 2,369,210

***Total General Funds Amendments for
the FY2008 General Appropriations Act-*** **\$4,514,859**

FY2009 Special Appropriations

General Funds:

Tax Refunds for Elderly and Disabled	\$ 1,000,000
Sales Tax on Food Refund Program	\$ 1,173,430
Rural Health Tuition Reimbursement	\$ 124,894
Resident Dentist Externship Program	\$ 40,000
School District Consolidation Incentives	\$ 348,900
K-12 School District Sparsity	\$ 2,043,138
Yankton Armory Upgrade	\$ 200,000

Total General Funds

Special Appropriations: \$4,930,362

State Employee Compensation

- 2.5% Salary Policy
- 2.5% Movement to Job Worth
- Continuation of the Longevity Program
- 4.5% health insurance premium cost

Items NOT in this budget due to lack of resources (in millions)

■ Increased Medicaid eligibility for Pregnant Women (200%)	\$4.0
■ Increase in Direct Care Ceiling for Long Term Care Facilities	\$0.7
■ Ease funding pressure on TANF block grant	\$2.6
■ Salary Policy at 3%	\$1.3
■ Provider Inflation at 3%	\$1.3
■ School funding at 3%	\$2.2
	<u>\$12.1</u>

The Budget Proposal

FY2009

General Funds **\$ 1,207.7 million**

Federal Funds **\$1,427.9 million**

Other Funds **\$ 914.2 million**

Total Budget = **\$ 3.55 Billion**

The Ongoing Budget Changes

FY2009

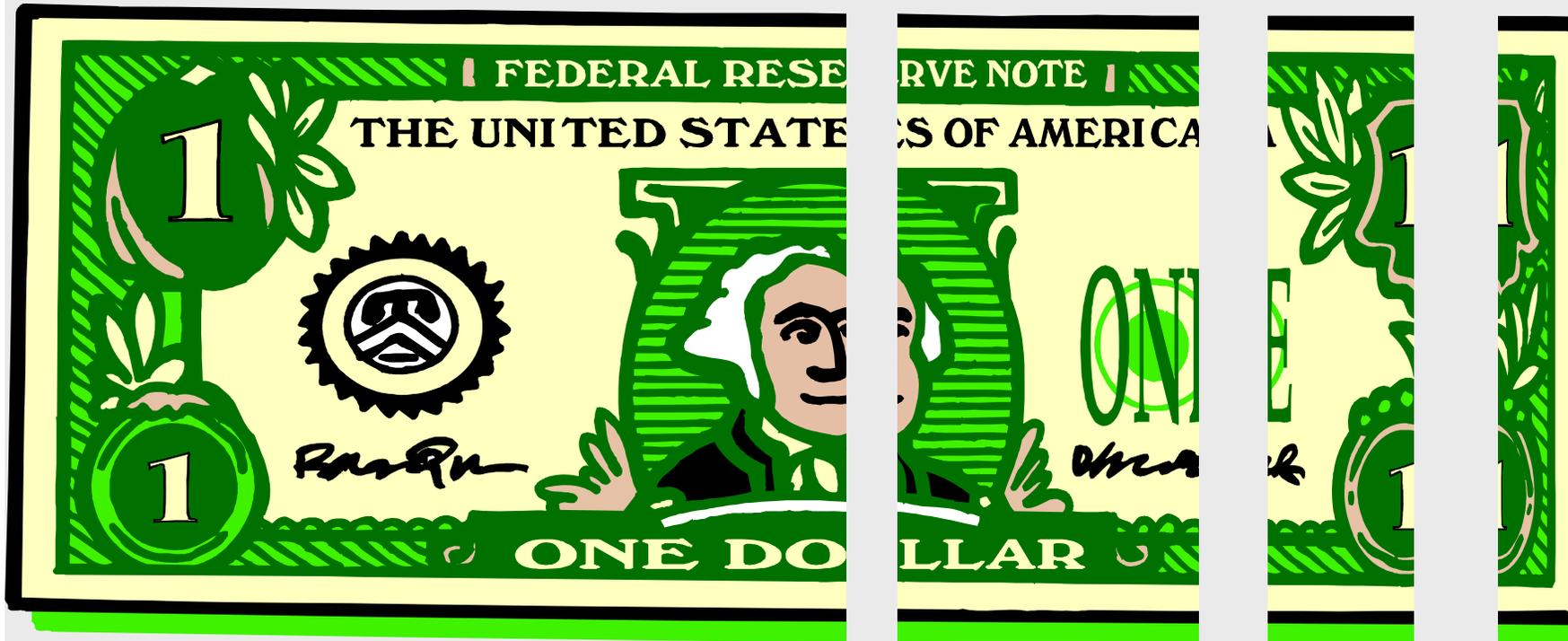
General Funds + \$ 62.7 million

Federal Funds + \$ 67.3 million

Other Funds + \$ 29.2 million

Total = + \$ 159.2 million

What your tax dollar pays for



50¢

Education

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

33¢

Taking Care of People

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

11¢

Protecting the Public

- Corrections
- Courts
- Public
Safety
- Attorney
General

6¢

Rest of State Gov't

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

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