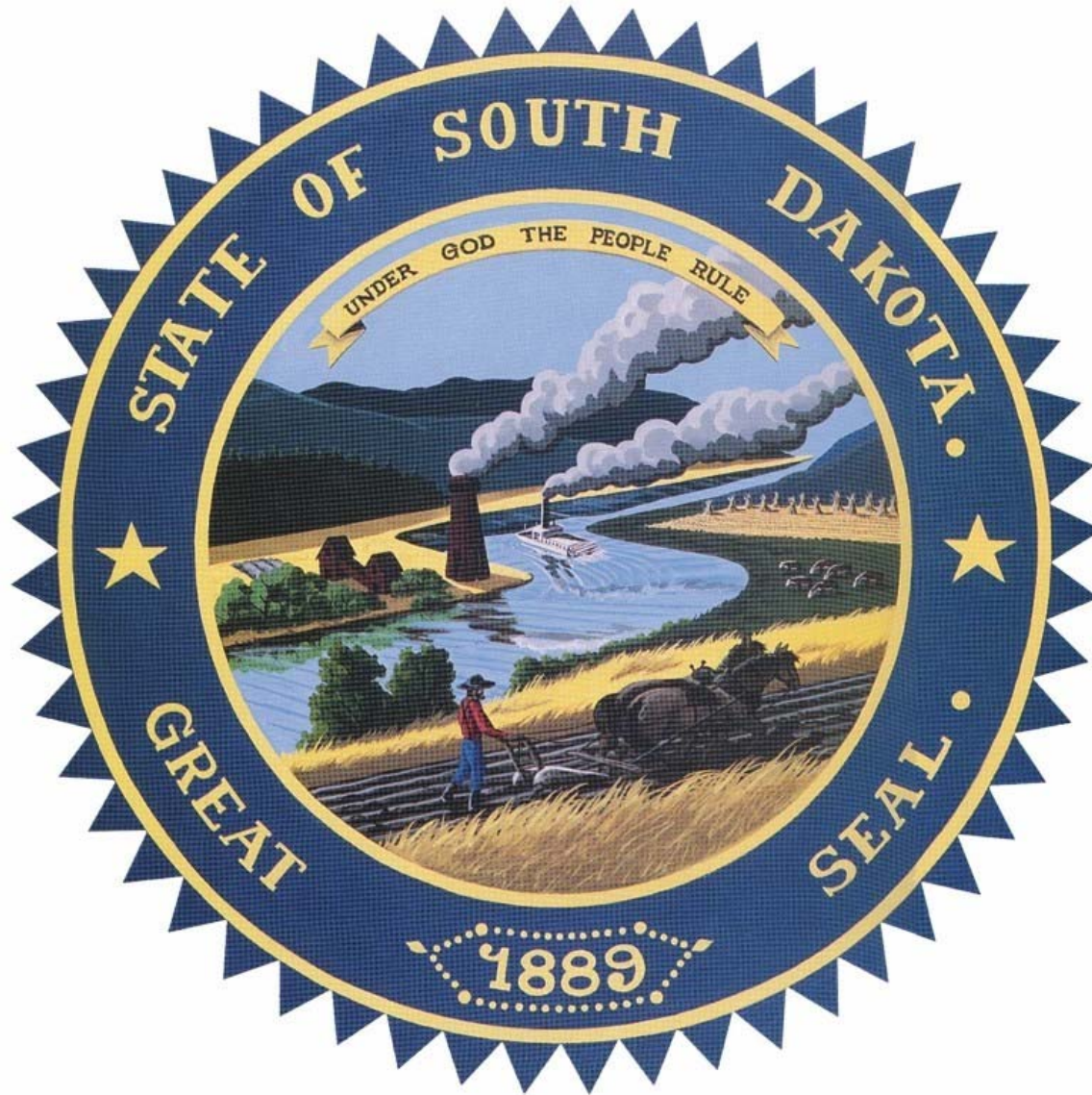


Governor Mike Rounds' FY2010 Budget Address



Budget Highlights

- **A Very Cautious Budget**
- **An Uncertain Economy**
- **Running out of Reserves**
- **Funding only Our Basic Needs**
 - **Taking Care of People**
 - **Protecting the Public**
 - **Educating our Children**
- **Update Fees**

In Other States

Poor economy puts a dent in state revenue

--Minneapolis Star Tribune

State government to cut up to \$40 million

--Des Moines Register

Governor recommends \$114 million in cuts to higher education

--Lawrence Journal-World

State lawmakers consider big budget cuts

--Rocky Mountain News

State pension fund may cut payments

--Wisconsin State Journal

States cut services for elderly, disabled

--Wall Street Journal

In California, Davis has begun addressing a potential \$12.4-billion deficit by ordering a hiring freeze and, more recently, floating a \$1-billion bond. "They've given us a fighting chance to work our way through this," said David McCoy, North Carolina's state budget officer. North Carolina's general fund has not taken the same hit from the declining stock market as California's has, with personal income tax receipts from stock options accounting for a significant portion of the state's revenue. "When they're laid off, they're not buying anything."

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In Other States

Education takes major hit

-- Maine Today

Paterson: School, medicaid cuts painful, but necessary

--Newsday

Governor, lawmakers work to close \$1.2 billion deficit

--Arizona Republic

“We’re going to have to sacrifice.”

--Seattle Times

State budget woes mean less salting, plowing of roads

--Detroit News

Schwarzenegger calls for sales tax hike, cuts in services

--Los Angeles Times

In California, Davis has begun addressing a potential \$12.4-billion deficit by ordering a hiring freeze and, more recently, floating \$1 billion out of the current budget. The governor's proposal is being considered in a special session that begins on Sept. 11. Davis is also proposing tax hikes--a 1% increase in the state income tax and a 1% increase in the sales tax. The Assembly approved a similar plan in the event of an emergency return.

"They've given us a fighting chance to work our way through this," said David McCoy, North Carolina's state budget officer.

North Carolina's general fund has not taken the same hit from the declining stock market as California's has, with personal income tax revenue down 10% in April.

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companies in particular. (For their part, Republican lawmakers contend that a fast-growing government has compounded the state's financial problem.)

California Legislative Analyst Mark J. Miller says that the state's revenue from stock options and capital gains set to expire in 1997 is down 10% from the previous year--a sum that made up 10% of the state's revenue.

Washington state, which has ridden the high-tech roller coaster, has had a different experience because, unlike California, it does not have a personal income tax.

Conservative economists say that the state's revenue from stock options and capital gains set to expire in 1997 is down 10% from the previous year--a sum that made up 10% of the state's revenue.

Washington state is facing a revenue shortfall of as much as \$900 million in addition to \$500 million in unanticipated expenses.

exp
lar
"T

lawmakers are talking about a temporary sales tax increase to get through this period.

Bottom Line for FY2010

(General Funds in millions)

Revenues

Sales and Use Tax-- \$709.6

Property Tax Reduction Fund-- \$129.9

Contractor's Excise Tax-- \$ 90.9

Insurance Company Tax-- \$ 69.9

Other Receipts-- \$203.5

Total Receipts-- \$1,203.8

Expenses

Educating People-- \$608.9

Taking Care of People-- \$410.7

Protecting the Public-- \$140.3

Rest of State Government-- \$ 76.3

Total Expenses-- \$1,236.2

\$1,203.8

- \$1,236.2

- \$32.4

Property Tax Reduction Fund

Dec. 2 Starting Point:

Current Balance \$63,626,269

Projected Uses:

Amount needed in FY2009 - \$26,828,755

Amount needed in FY2010 - \$32,375,962

- \$59,204,717

PTRF Remaining (06/30/10) ➔ \$4,521,552

FY2009 Adopted vs. Revised Receipts

(in millions)

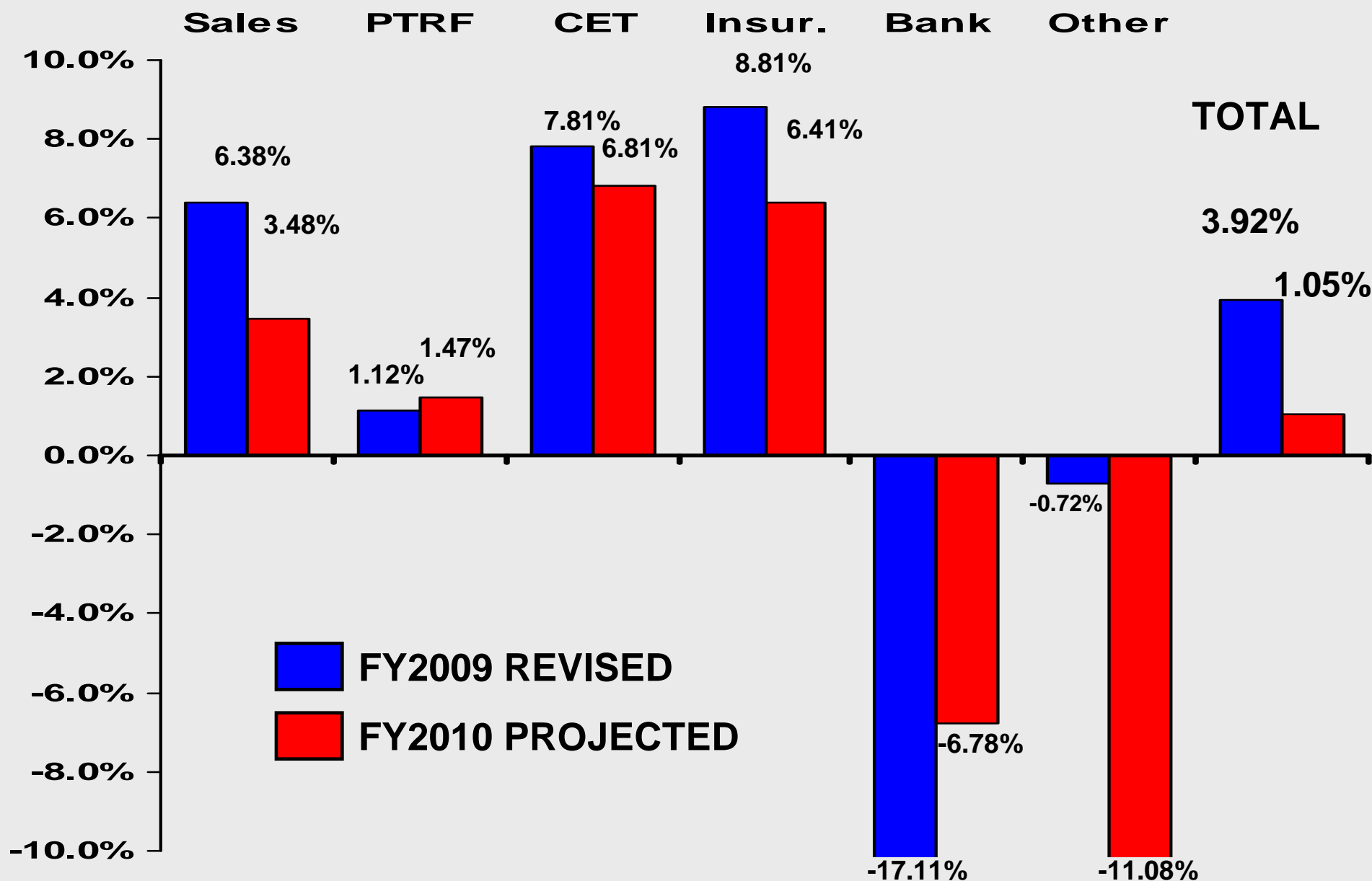
	<u>Ad. FY2009</u>	<u>Rev FY2009</u>	<u>Change</u>
Sales and Use Tax	\$675.9	\$685.7	+\$9.8
Property Tax Reduction Fund	127.6	128.0	+ 0.4
Contractor's Excise Tax	92.6	85.1	- 7.5
Insurance Company Tax	64.0	65.7	+ 1.7
Bank Franchise Tax	44.3	37.7	- 6.6
Transfer from Trust Funds	32.9	32.9	0.0
Interest Earnings	14.6	15.4	+0.8
Other Continuing Receipts	143.5	138.4	-5.1
One-Time Receipts	12.8	13.0	+0.2
Total Receipts	<u>1,208.2</u>	<u>1,201.9</u>	<u>-6.3</u>
Shortfall	<u>11.9</u>	<u>26.8</u>	<u>+ 14.9</u>
Total General Fund Revenues	1,220.1	1,228.7	+ 8.6

FY2009 & FY2010 Receipts & Forecasts

(in millions)

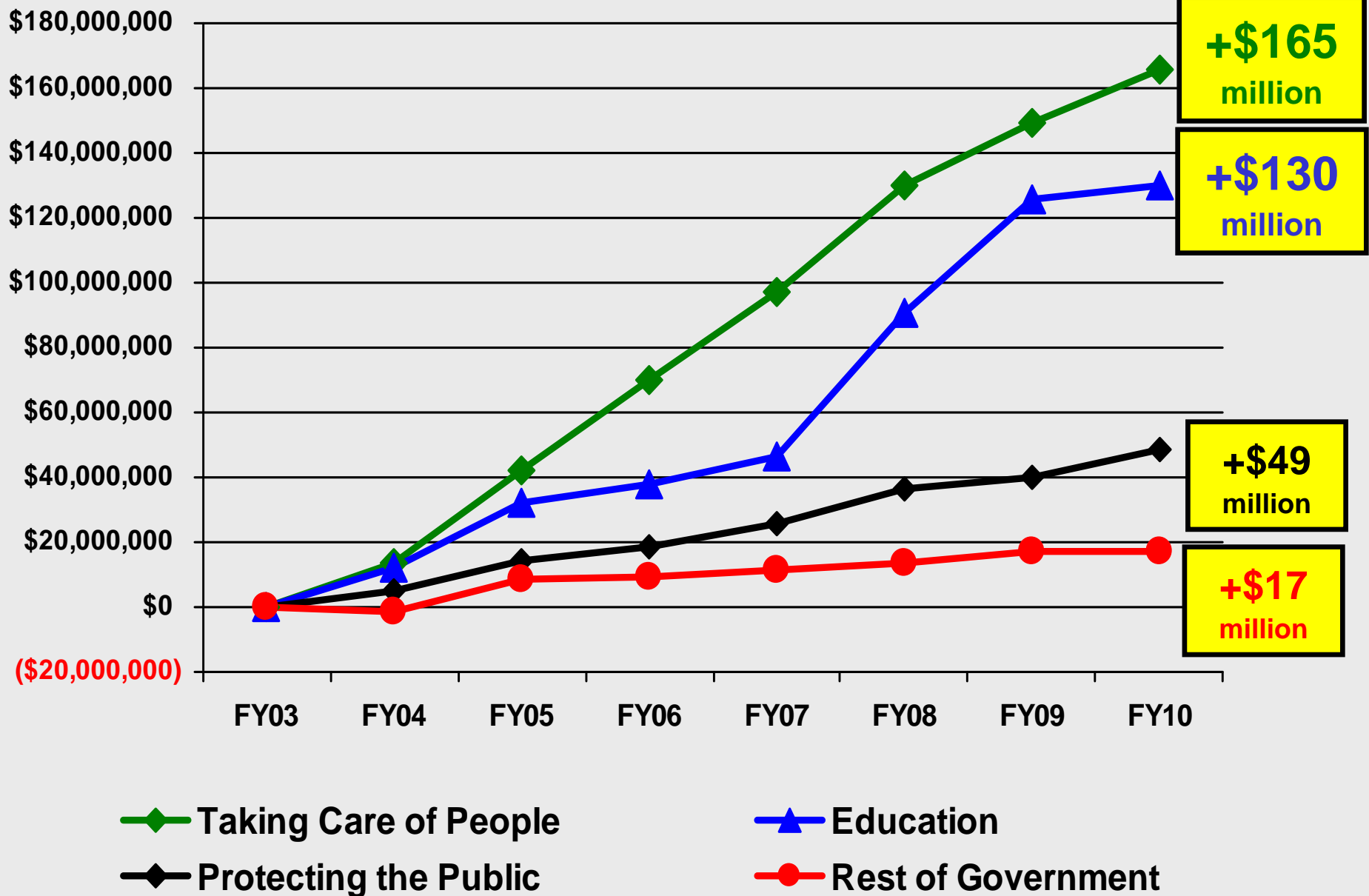
	<u>Rev FY2009</u>	<u>FY2010</u>	<u>Change</u>
Sales and Use Tax	\$685.7	\$709.6	+\$23.9
Property Tax Reduction Fund	128.0	129.9	+ 1.9
Contractor's Excise Tax	85.1	90.9	+ 5.8
Insurance Company Tax	65.7	69.9	+ 4.2
Bank Franchise Tax	37.7	35.1	- 2.6
Transfer from Trust Funds	32.9	12.0	-20.9
Interest Earnings	15.4	13.8	-1.6
Other Continuing Receipts	138.4	140.3	+1.9
One-Time Receipts	13.0	2.3	- 10.7
Total Receipts	<u>1,201.9</u>	<u>1,203.8</u>	<u>+ 1.9</u>
Shortfall	<u>26.8</u>	<u>32.4</u>	<u>+ 5.6</u>
Total General Fund Revenues	1,228.7	1,236.2	+ 7.5

Changes to FY2009 & FY2010 Ongoing Revenue Growth



General Fund Expenditure Growth

(Excl Bonds, Sale/leasebacks, and Special Appropriations)



General Funds Major Spending Changes For FY 2010

Mandatory Increases + \$24,396,128

Discretionary Increases + \$ 388,695

Total Increases + \$24,784,823

General Funds Major Spending Changes For FY 2010-- Mandatory

Mandatory Increases + \$24,396,128

Some Examples:

State Aid to Education (@3.0%)	+ \$12.5 million
Increase in Mandatory Medical Costs	+ \$ 3.4 million
Increased Utilization of Medical Services	+ \$ 2.3 million
Increased Placement/Community Services	+ \$ 2.3 million
Lost Fed. Funding for Juvenile Services	+ \$ 1.7 million
Growth of Title XIX Medicaid Clients	+ \$ 1.7 million
Increased Utility Costs	+ \$ 1.5 million
All the rest	- \$ 1.0 million

General Funds Major Spending Changes For FY 2010-- Discretionary

Discretionary Increases + \$ 388,695

Some Examples:

State Employee Compensation (@1.5%)	+ \$ 6.3 million
Discretionary Provider Inflation (@1.5%)	+ \$ 5.5 million
Moving Meth Programs to Base Budget	+ \$ 1.8 million
Moving State Fair to Base Budget	+ \$ 0.8 million
All Others	- \$ 14.0 million

General Funds Major Spending Changes For FY2010

Education	+ \$ 4,249,964
Taking Care of People	+ \$14,654,941
Protecting the Public	+ \$ 6,493,042
Rest of State Government	- \$ 613,124
<hr/>	
Total Changes	+ \$24,784,823

Even in these tough economic times...

State law (SDCL—13-13-10.1) mandates that school districts receive per student state aid increases at the rate of inflation or 3%, whichever is less.

That means 3% for FY 2010, which equals

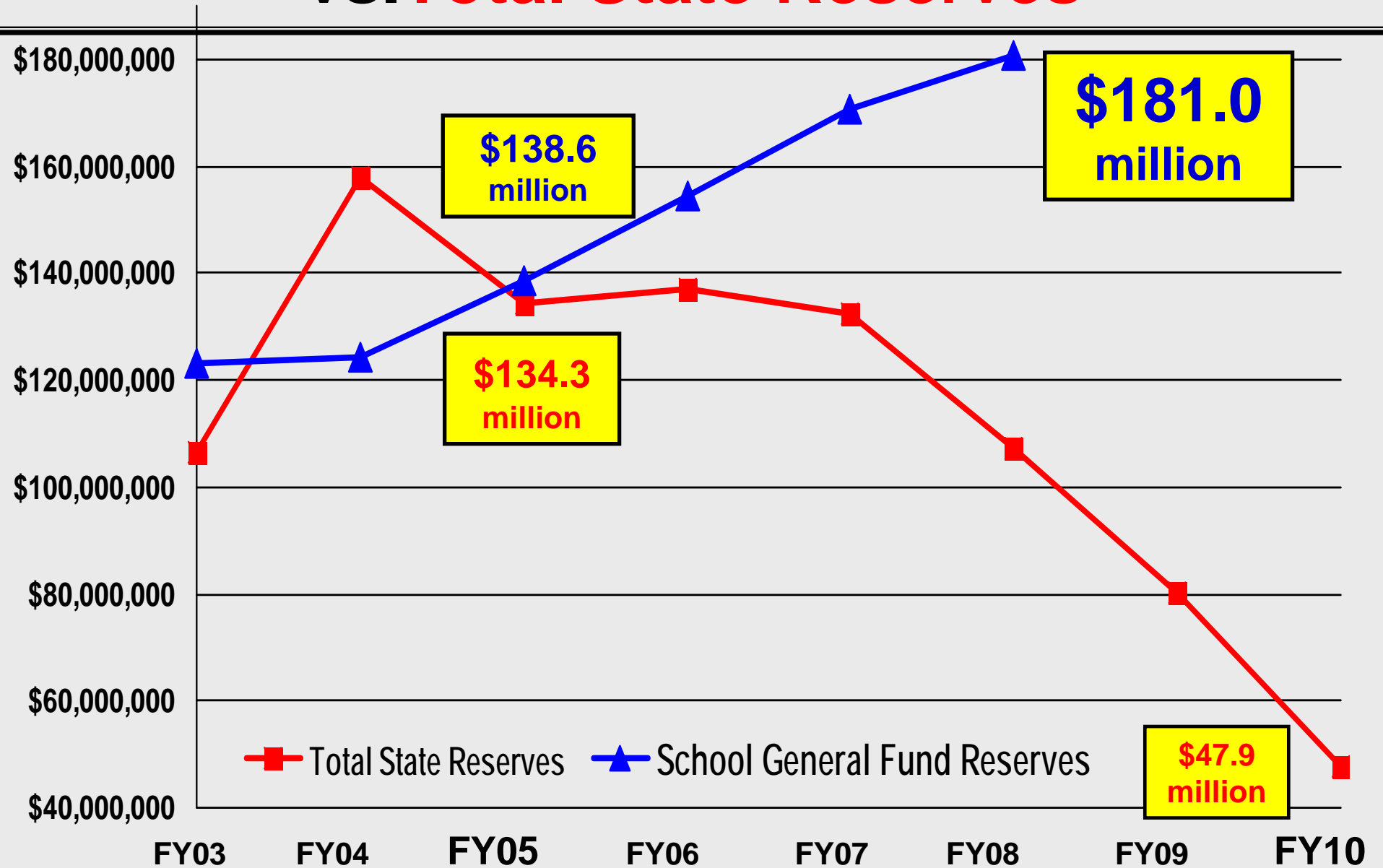
+ \$12.5 million.

Spending Increases for FY2010

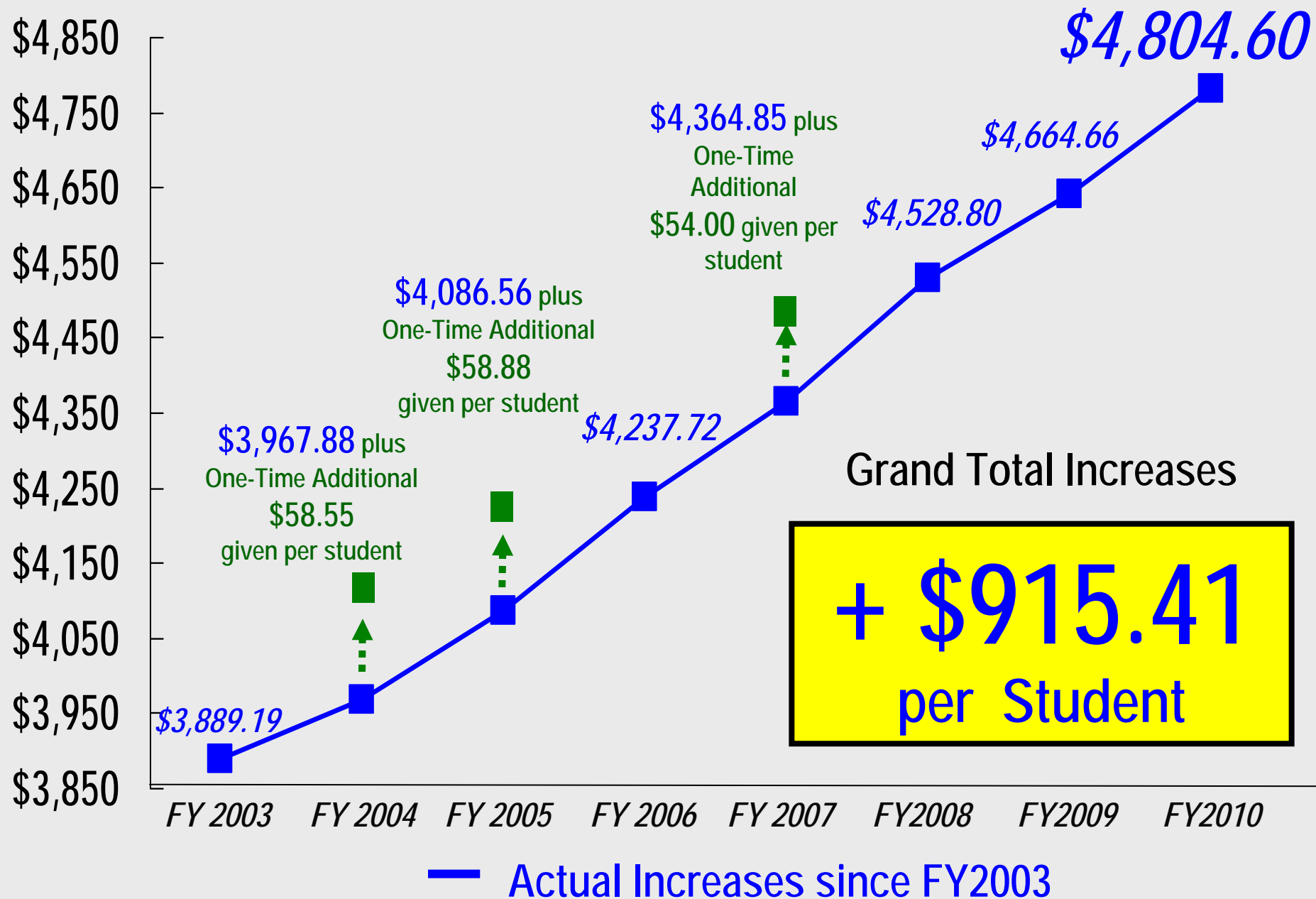
Education

	<u>General Funds</u>
K-12 State Aid Funding (@3.0%)	+ \$12,506,383
BOR and DOE Employee Comp. (@1.5%)	+ \$ 2,726,632
BOR Utilities	+ \$ 1,152,717
Birth to Three Funding	+ \$ 337,761
Technical Institute Formula Funding (@3.0%)	+ \$ 280,285
Repeal Inc./Dec. Enrollment Supplements	- \$ 5,718,837
Maintain Current Tax Levies	- \$ 6,319,257
All the Rest	- \$ 715,720
TOTAL INCREASES--	+ \$ 4,249,964

School General Fund Reserves vs. Total State Reserves



Per Student Increases in State Aid to Local Schools



What Does This Increase Really Mean?

\$915.41

more per student since 2003

means

+\$18,308.20

more money in state and local funding
is available for every classroom of 20 students
to increase teacher salaries and improve education,
if local school boards choose to do so.

Projected Levies

(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

2007 Pay 2008 Levies (Includes \$9 m Property Tax Relief):

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

Current Levies (2008 Pay 2009):

<u>Ag</u>	<u>Non-Ag Z</u>	<u>OO</u>	<u>Commercial</u>
\$2.61	\$3.61	\$4.10	\$8.78

Next Year's Proposed Levies (2009 Pay 2010):

<u>Ag</u>	<u>Non-Ag Z</u>	<u>OO</u>	<u>Commercial</u>
\$2.61	\$3.61	\$4.10	\$8.78

We are proposing to keep the current levies at their existing low rate

General Funds Major Spending Changes

Taking Care of People

Education	+ \$ 4,249,964
Taking Care of People	+ \$14,654,941
Protecting the Public	+ \$ 6,493,042
Rest of State Government	- \$ 613,124
<hr/>	
Total Changes	+ \$24,784,823

Spending Increases for FY2010

Taking Care of People

(mandatory and discretionary)

General Funds

Provider Inflation (DSS&DHS)	+ \$ 8,645,410
Medical Services eligibles growth & utilization	+ \$ 6,907,234
Lost Federal Funding	+ \$ 1,863,960
Employee Compensation (@1.5%)	+ \$ 1,440,437
FY2009 Specials added to base	+ \$ 920,287
FMAP Rate Change (DSS&DHS)	- \$ 5,095,751
All the Rest	- \$ 26,636
<hr/>	
TOTAL INCREASES--	+ \$14,654,941

What is Medicaid?

- Title XIX is a Federal Entitlement program created in 1965 as part of the Social Security Act.
- It provides comprehensive healthcare to those in poverty such as the disabled, children, and elderly.
- In FY2008, Medicaid and the Children's Health Insurance Program covered 109,000 different South Dakotans, of which 74,000 were children.
- Safety net/funding source for individuals who have nowhere else to turn that have reached insurance limitations or those with a catastrophic illnesses such as cancer, hemophilia, premature babies, or nursing home care. It is the largest payer of healthcare.
- 1 of 8 South Dakotans and 50% of all children under one are on Medicaid (increasing \$19.0 million next year).

General Funds Major Spending Changes

Protecting the Public

Education	+ \$ 4,249,964
Taking Care of People	+ \$14,654,941
Protecting the Public	+ \$ 6,493,042
Rest of State Government	- \$ 613,124
<hr/>	
Total Changes	+ \$24,784,823

Spending Increases for FY2010

Protecting the Public

General Funds

Lost Federal Funding	+	\$ 2,372,395
UJS, ATG, DOC, & DPS Empl. Comp. (@1.5%)	+	\$ 1,873,331
Increased Placement Services	+	\$ 1,192,431
FY2009 Specials added to base	+	\$ 865,652
UJS budget increases (excl. Emp. Comp & Spec.)	+	\$ 537,319
Utilities	+	\$ 357,013
All the Rest	-	\$ 705,099
<hr/>		
TOTAL INCREASES--	+	\$ 6,493,042

General Funds Major Spending Changes

Rest of State Government

Education	+ \$ 4,249,964
Taking Care of People	+ \$14,654,941
Protecting the Public	+ \$ 6,493,042
Rest of State Government	- \$ 613,124
<hr/>	
Total Changes	+ \$24,784,823

All the Rest of State Government

	<u>Total</u>
Agriculture/ Animal Industry Board	+ \$ 603,600
Military & Veterans' Affairs	+ \$ 167,504
Tourism & State Development	+ \$ 115,820
Labor	+ \$ 13,495
Transportation	+ \$ 5,986
Revenue and Regulation	- \$ 5,621
Legislature & other Elected Officials	- \$ 275,100
Environment and Natural Resources	- \$ 323,696
Executive Management	- \$ 448,491
Game, Fish, & Parks	- \$ 466,621
Total	- \$ 613,124

This segment represents 6% of our total spending and will now go down to only 5% of total spending with this budget.

FY2010 Proposed FTE Increases

**Outside the Control
of Governor-- 75.0**

**Under the Control
of Governor-- 7.7**

Total-- 82.7

**Without 16.0 FTE added to the base for Meth Treatment,
the FTE under the control of the Governor
would be decreasing by – 8.3.**

FTE Changes Outside Governor's Control

Board of Regents +67.0:

- 3.0 FTE for accounting support
- 64.0 FTE for growth in grants and contract activity

Unified Judicial System +9.0:

- 3.0 FTE for 4th circuit drug court
- 2.0 FTE for new circuit judges
- 2.0 FTE for court reporters
- 1.0 FTE for law clerk
- 1.0 FTE for court service officer

Attorney General +1.0:

- 1.0 FTE for consumer protection

Legislative Research Council -2.0

FY2009 Emergency Special Appropriations

General Funds:

Sales Tax on Food Refund Program \$ 2,003,302

Emergency & Disaster Fund \$ 1,916,721

School District Consolidation Incentives \$ 1,154,293

Fire Suppression Fund \$ 641,065

***Total General Funds Emergency
Special Appropriations \$ 5,715,381***

FY2009 General Bill Amendments

General Funds:

Cement Plant Earnings for Education	\$1,522,942
-------------------------------------	-------------

DSS Medical Services Shortfall	\$ 862,396
--------------------------------	------------

Custer State Park Bond Payment	\$ 156,382
--------------------------------	------------

State Vet's Home Utility Shortfall	\$ 70,464
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<i>Total General Funds Amendments for the FY2009 General Appropriations Act</i>	<i>\$2,612,184</i>
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FY2010 Special Appropriations

General Funds:

Tax Refunds for Elderly and Disabled	\$ 800,000
--------------------------------------	------------

Rural Health Tuition Reimbursement	\$ 145,938
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<i>Total General Funds Special Appropriations:</i>	<i>\$ 945,938</i>
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State Employee Compensation

- 1.5% Salary Policy
- 2.5% Movement to Job Worth
- Continuation of the Longevity Program
- 1.5% Increase in State Funded Healthcare Costs

The Budget Proposal

FY2010

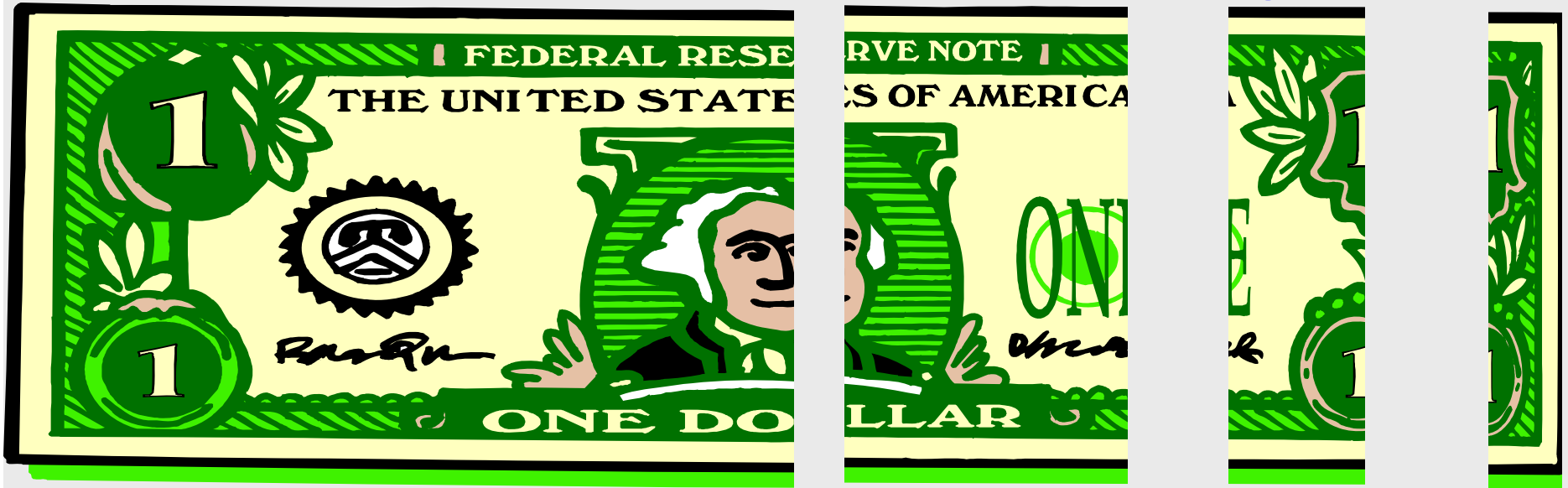
General Funds \$ 1,236.2 million

Federal Funds \$ 1,476.8 million

Other Funds \$ 953.3 million

**Total Budget =
\$ 3.67 Billion**

What Your Tax Dollar Pays For



50 ¢

Education

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

34 ¢

Taking Care of People

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

11 ¢

Protecting the Public

- Corrections
- Courts
- Public Safety
- Attorney General

5 ¢

Rest of State Gov't

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

General Funds Offset Due to Proposed Fee Increases

Revenue and Regulation	\$ 1,087,260
Secretary of State	\$ 1,070,277
Health	\$ 1,030,199
Game, Fish, and Parks	\$ 476,950
Public Safety	\$ 451,512
Environment & Natural Resources	\$ 413,465
Agriculture	\$ 307,362
Corrections	\$ 108,000
Total	\$ 4,945,025

What's Being Done Now to Reduce the Shortfall for FY2009

On November 25, I ordered a freeze on executive branch state government hiring, out-of-state travel and large capital outlay expenditures.

- We are not filling vacancies in the executive branch unless there is a clearly demonstrated need for the job to be filled. All other vacancies will stay open.
- We are not approving any out-of-state travel in the executive branch unless it is absolutely necessary.
- We are not approving large executive branch capital expenditures such as computers, furniture and equipment unless the replacement is needed immediately.

**This will delay spending until we can afford it.
It is no different than what families do during tight economic times.**

Solutions in this Budget to Help Fix The Deficit for 2010

- | | | |
|-------------------------------------|--|-----------------|
| <input checked="" type="checkbox"/> | Cutting the FY10 Requests
and Base Budgets | \$100.1 million |
| <input checked="" type="checkbox"/> | Maintain Current Tax Levies | \$ 6.3 million |
| <input checked="" type="checkbox"/> | Repeal Increasing / Decreasing
Enrollment Supplements | \$ 5.7 million |
| <input checked="" type="checkbox"/> | Fee Proposals | \$ 4.9 million |

How Far Have We Come?

(General Funds for FY2010 in millions)

September:

General Fund Receipts Forecast --	\$1,235.4
General Fund Potential Expenses --	<u>\$1,336.2</u>
Shortfall --	-\$100.8

Change:

General Fund Receipts Changes--	-\$ 31.6
New General Fund Receipts Forecast --	<u>\$1,203.8</u>
Shortfall --	-\$ 132.4

General Fund Requests/Expenses Cuts--	-\$ 100.1
New General Fund Expenses--	<u>\$1,236.1</u>
Shortfall --	-\$ 32.4

Examples of Items NOT in This Budget Due to Lack of Resources (in millions)

■ Regents new initiatives	\$22.5
■ Reduce Current Tax Levies	\$ 6.3
■ Funding for SD's new research mission	\$ 6.0
■ Inc./Dec. Enrollment Supplements	\$ 5.7
■ Salary Policy at 3%	\$ 4.7
■ Provider Inflation at 3%	\$ 4.6
■ Continuation of M&R funding to 2%	\$ 4.3
■ XIX eligibility for Pregnant Women (133%-200%)	\$ 3.1
■ Classroom Connections Year 4	\$ 2.5
■ K-12 Sparsity	\$ 2.3
■ Prevnar Vaccine for children	\$ 1.4
■ SCHIP eligibility from 200% to 250%	\$ 1.2
■ Preserve TANF block grant cash	\$ 0.5
■ 6 th Circuit Drug Court	\$ 0.2

Bottom Line for FY2010

(General Funds in millions)

Revenues

Sales and Use Tax-- \$709.6

Property Tax Reduction Fund-- \$129.9

Contractor's Excise Tax-- \$ 90.9

Insurance Company Tax-- \$ 69.9

Other Receipts-- \$203.5

Total Receipts-- \$1,203.8

Expenses

Educating People-- \$608.9

Taking Care of People-- \$410.7

Protecting People-- \$140.3

Rest of State Government-- \$ 76.3

Total Expenses-- \$1,236.2

\$1,203.8
- \$1,236.2
- \$32.4

PTRF
Remaining
(06/30/10) →
\$4.5

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