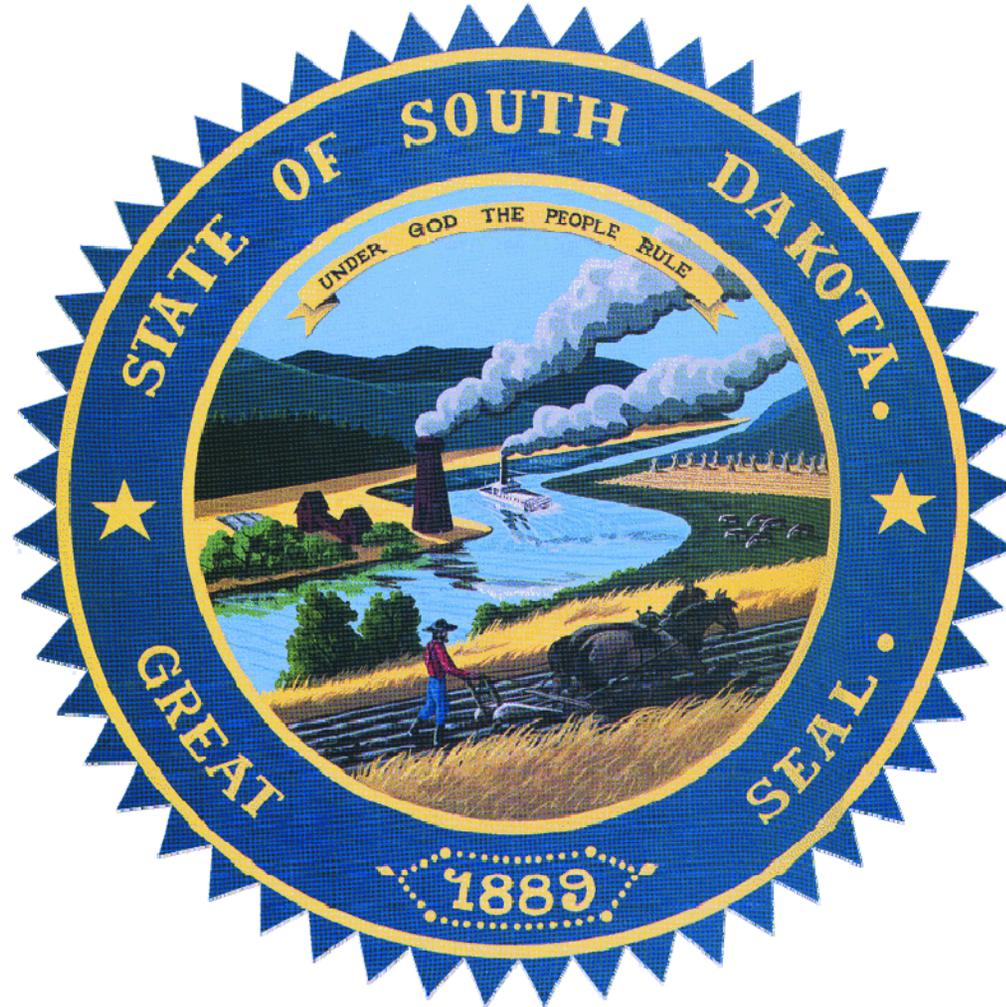


Governor Dennis Daugaard's FY2014 Budget Recommendations



December 4, 2012

Building A Stronger South Dakota

- We have restored structural balance
- We have changed our Constitution to mandate balanced budgets

Building A Stronger South Dakota

- We have restored structural balance
- We don't defer expenses or accelerate revenue
- We are conservative in our revenue estimates
- We have not appropriated every available dollar
- We have not spent every appropriated dollar
- We replenish reserves

Improving Structural Soundness

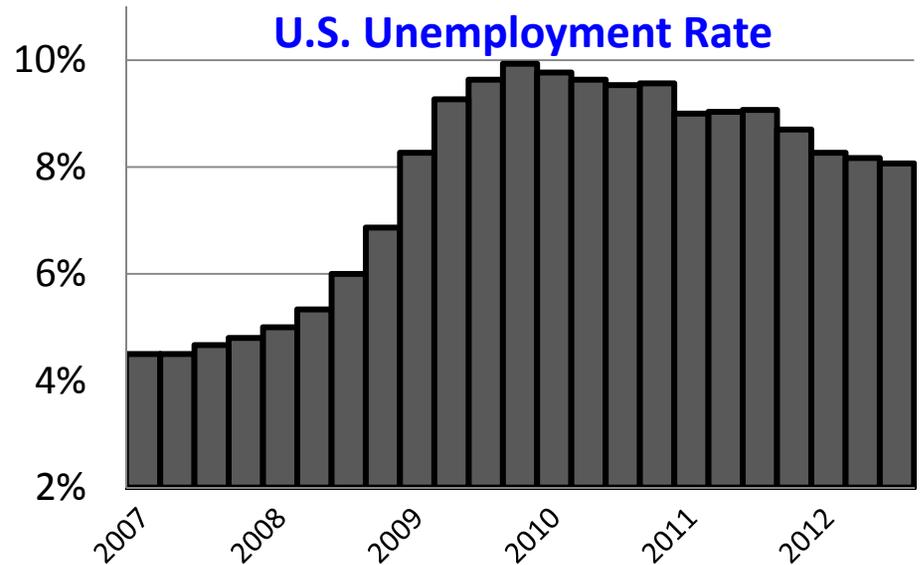
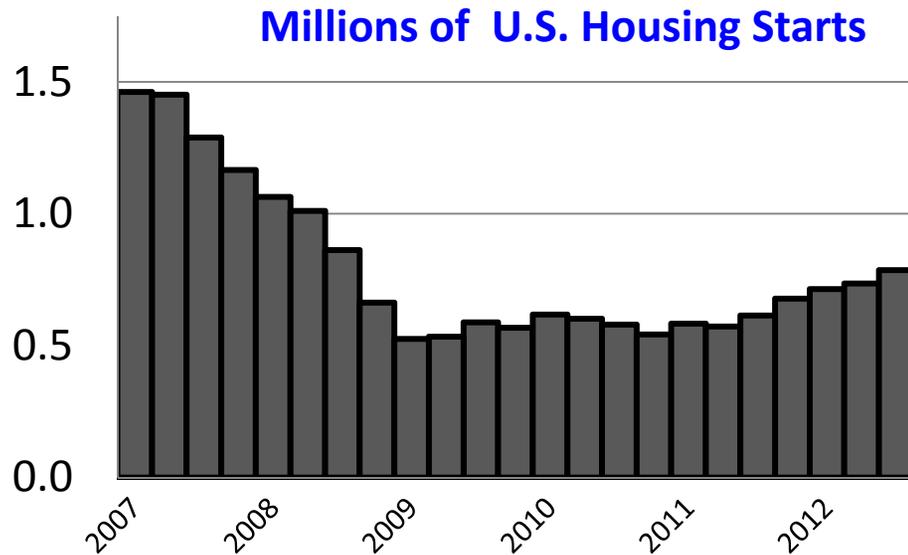
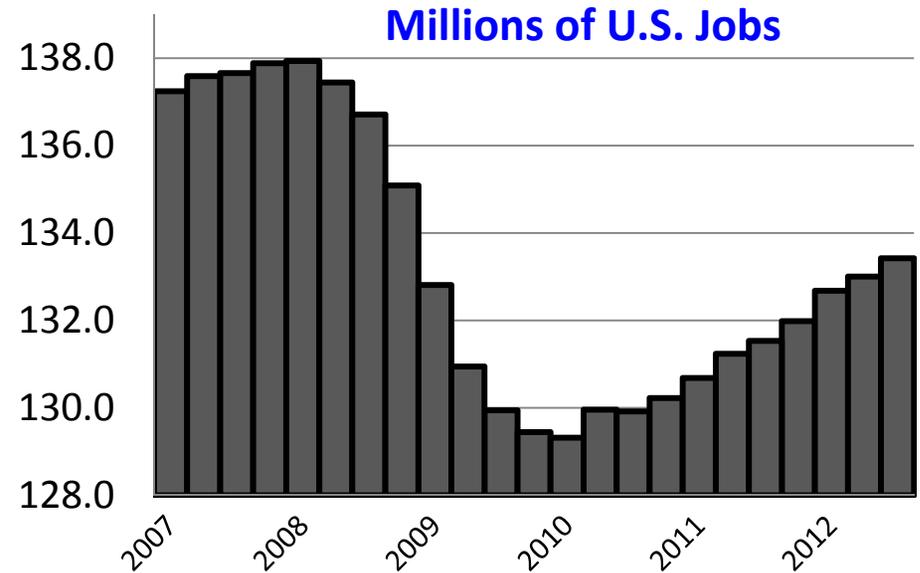
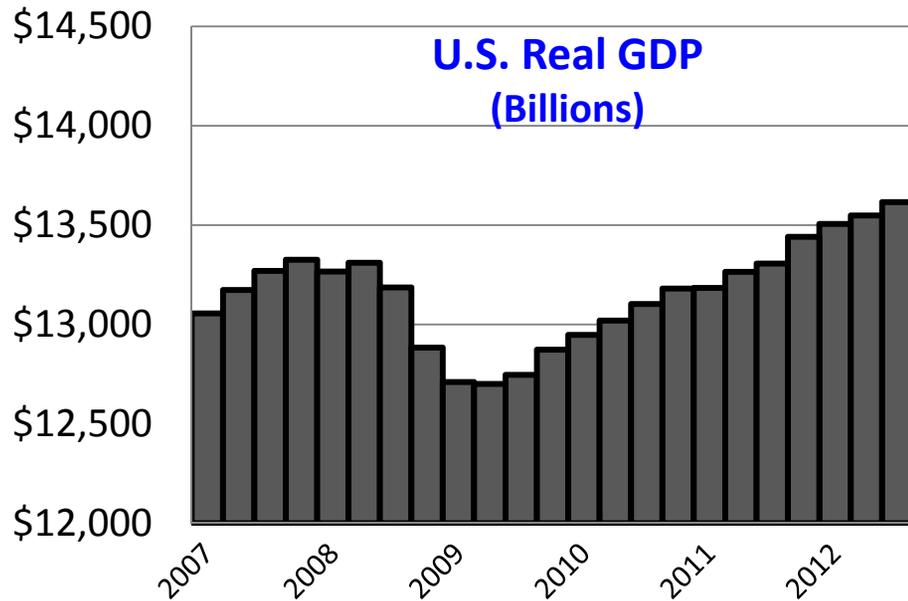
Eliminate Liabilities

Build or Improve an Asset

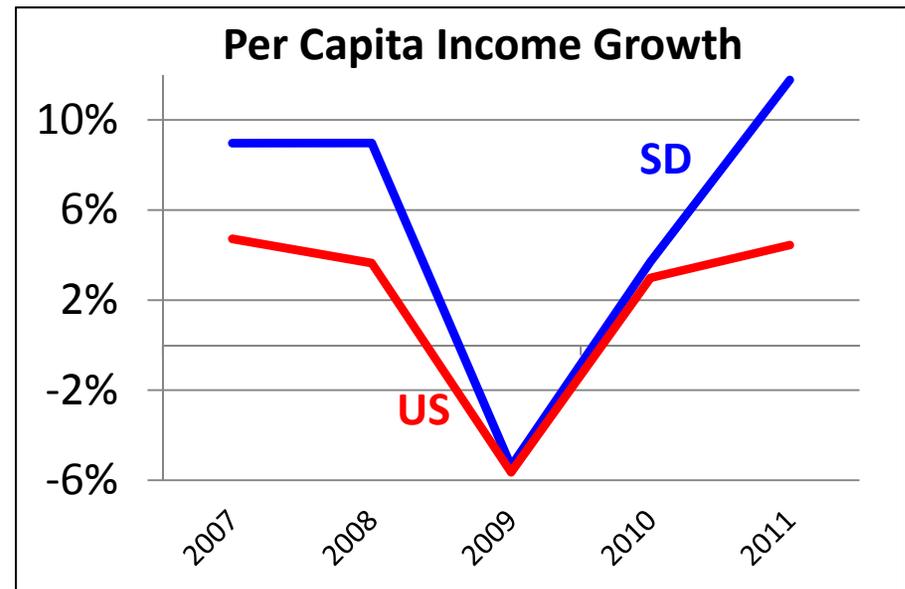
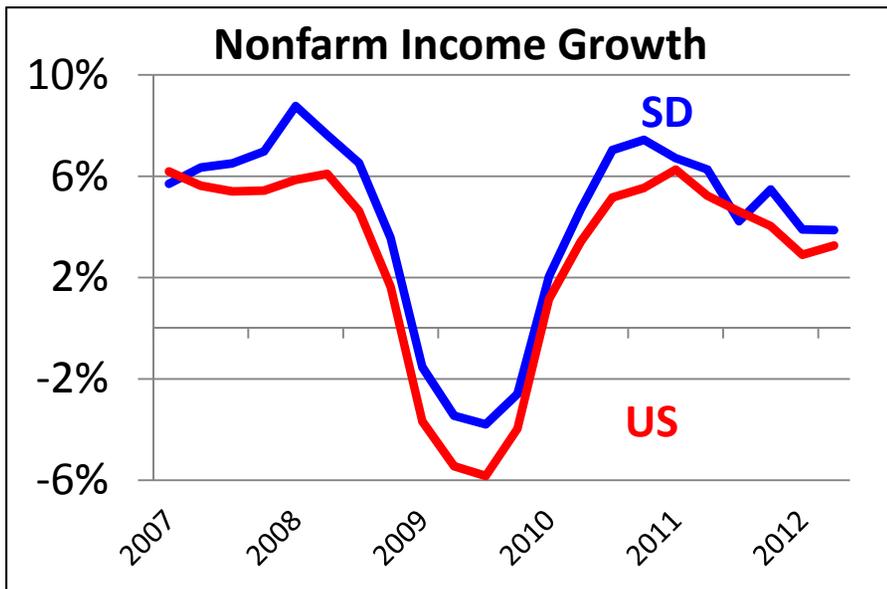
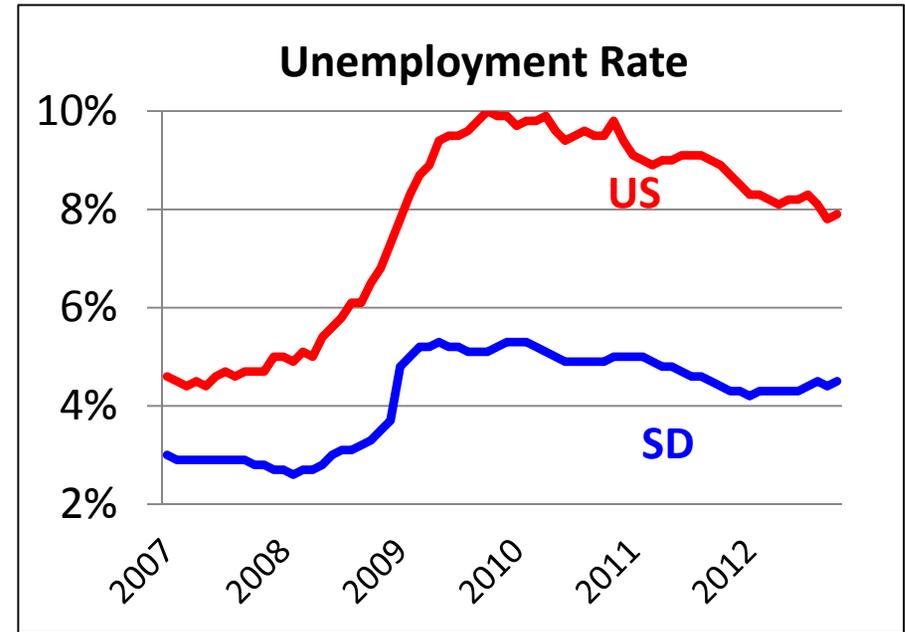
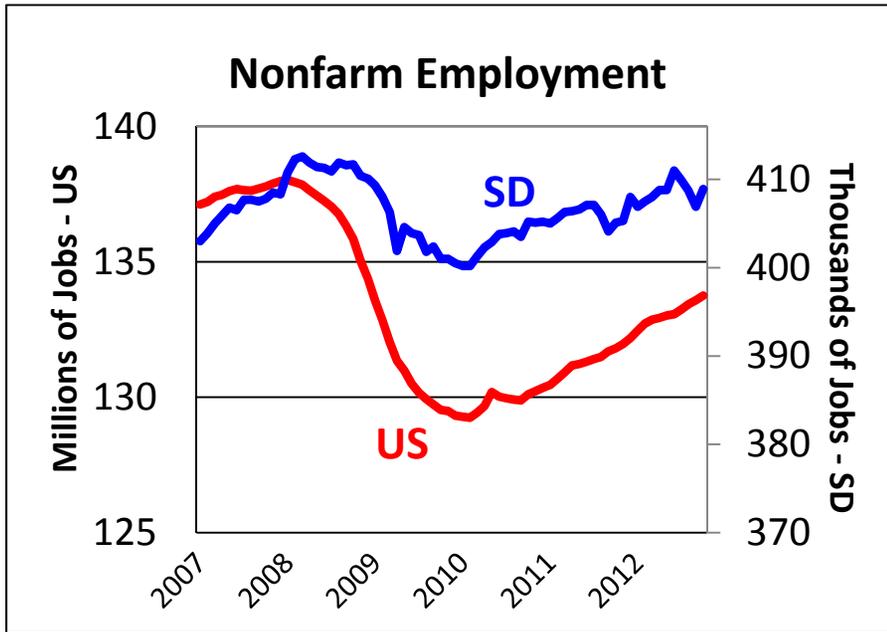
Secure an Asset

Endow a Program for the Future

The Economy is recovering..... but not recovered



South Dakota is outpacing the US economy



REVENUES

FY2013 Adopted vs. Revised Receipts

(millions)

Source	Ad. FY2013	Rev. FY2013	Change
Sales and Use Tax	\$763.2	\$769.6	+ 6.4
Property Tax Red. Fund	102.2	107.9	+ 5.7
Contractor's Excise Tax	74.0	84.6	+ 10.6
Insurance Company Tax	67.5	67.8	+ 0.3
Bank Franchise Tax	26.2	22.9	- 3.3
Transfer from Trust Funds	27.1	27.1	0.0
Charges for Goods & Serv.	22.5	25.1	+ 2.6
Other Ongoing Receipts	<u>150.8</u>	<u>152.5</u>	<u>+ 1.7</u>
Total Ongoing Receipts	1,233.5	1,257.5	+24.0
One-time Receipts	1.0	6.0	+ 5.0
Obligated Cash Carried Fwd.	<u>27.8</u>	<u>27.8</u>	<u>0.0</u>
Total Receipts	1,262.3	1,291.3	+ 29.0

FY2013 & FY2014 Receipts & Forecasts

(millions)

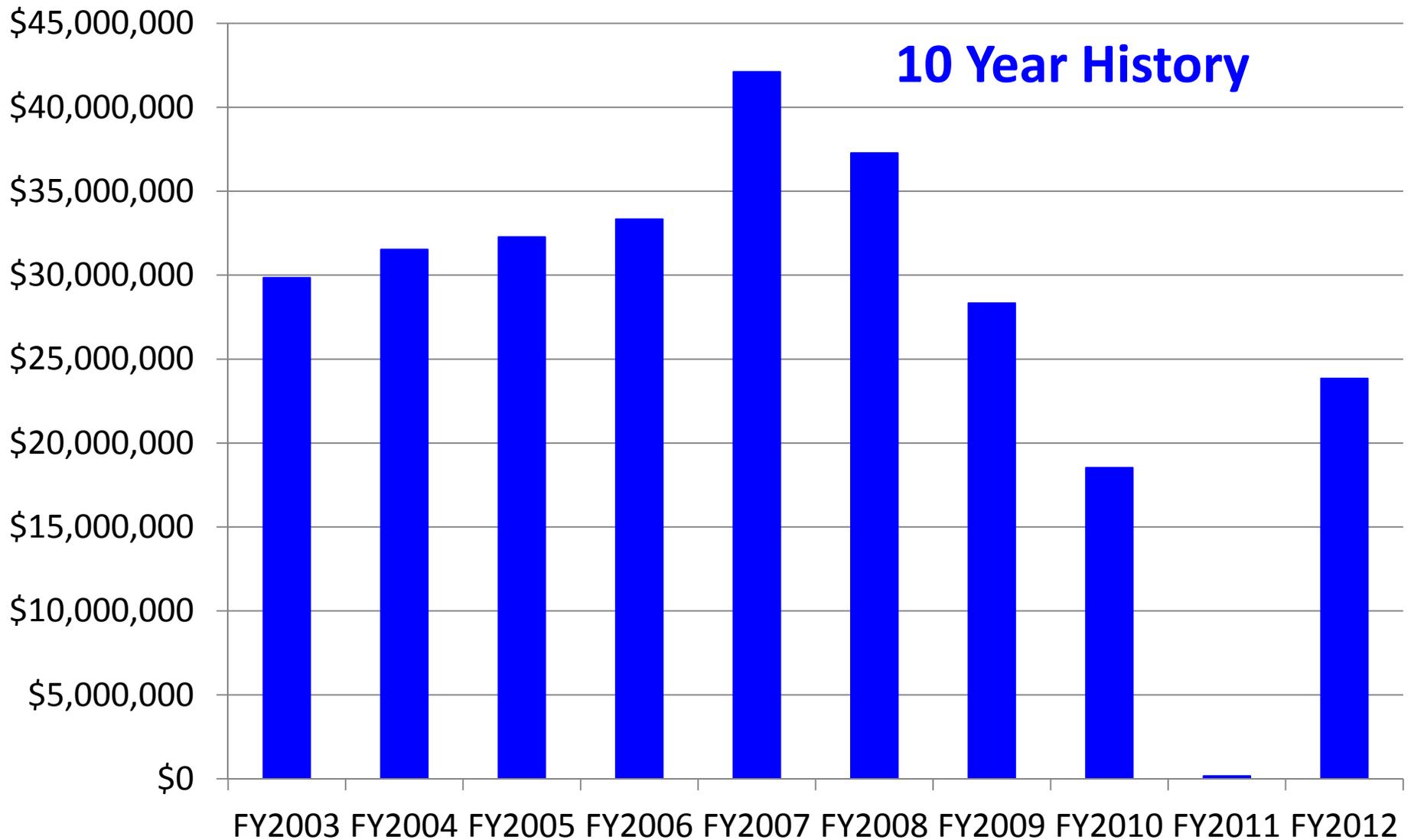
Source	Rev. FY2013	Est. FY2014	Change
Sales and Use Tax	\$769.6	\$802.5	+ 32.9
Property Tax Red. Fund	107.9	112.9	+ 5.0
Contractor's Excise Tax	84.6	90.0	+ 5.4
Insurance Company Tax	67.8	70.6	+ 2.8
Bank Franchise Tax	22.9	23.2	+ 0.3
Transfer from Trust Funds	27.1	27.8	+ 0.7
Charges for Goods & Serv.	25.1	40.1	+ 15.0
Other Ongoing Receipts	<u>152.5</u>	<u>153.4</u>	<u>+ 0.9</u>
Total Ongoing Receipts	1,257.5	1,320.5	+ 63.0
One-time Receipts	6.0	12.6	+ 6.6
Obligated Cash Carried Fwd.	<u>27.8</u>	<u>0.0</u>	<u>- 27.8</u>
Total Receipts	1,291.3	1,333.1	+ 41.8

Conservative Revenue Estimates Help Fund Additional Growth

FY2013 Structural Surplus left by 2012 Legislature	\$9 million
FY2013 Revised Ongoing Revenue Growth	\$24 million
FY2014 Projected Ongoing Revenue	\$63 million
Total Ongoing Revenue Growth Available	\$96 million

Uncertain Revenue Source: Bank Franchise Tax

Uncertain Revenue Source: Bank Franchise Tax



How we Predict the Ongoing and Negative One-Time Bank Franchise Tax Revenue Source

Bank Franchise Tax Collections

FY2003	\$29,847,100
FY2004	\$31,531,450
FY2005	\$32,271,500
FY2006	\$33,342,059
FY2007	\$42,110,543
FY2008	\$37,282,750
FY2009	\$28,335,918
FY2010	\$18,534,151
FY2011	\$ 166,250
FY2012	\$23,851,073

of Observations = 10

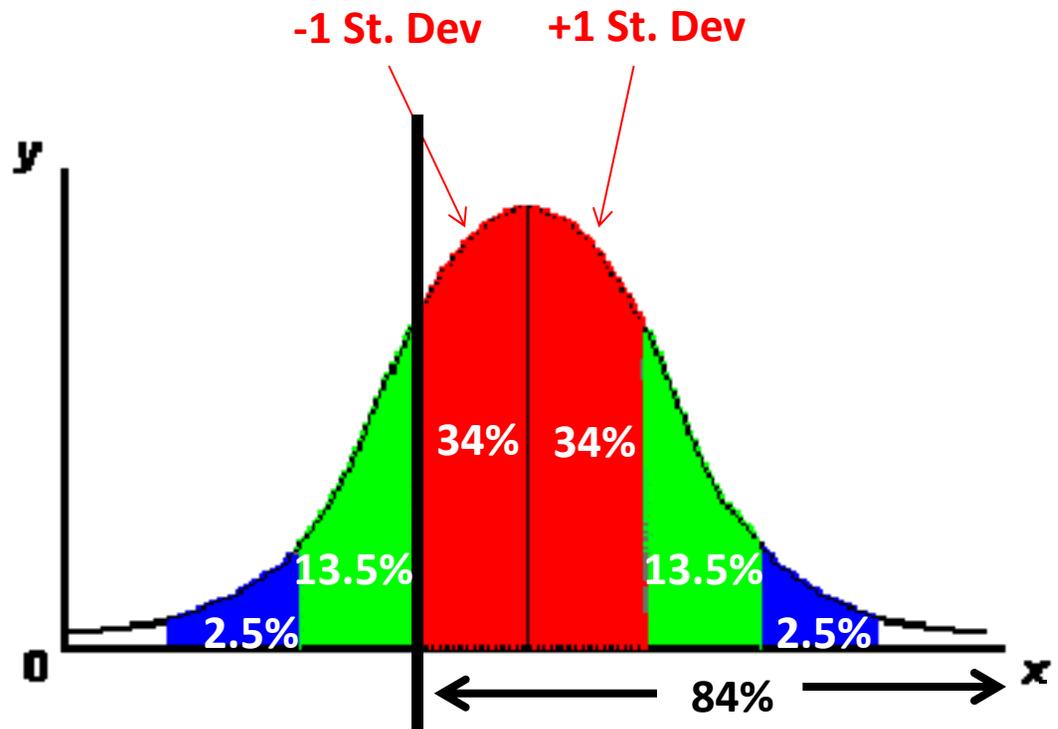
Mean = \$27,727,279

St. Dev= \$11,085,331

We used the Mean – 1 Standard Deviation as the estimate, meaning that we are 84% confident that Future Collections will be at least \$16,641,948 or higher

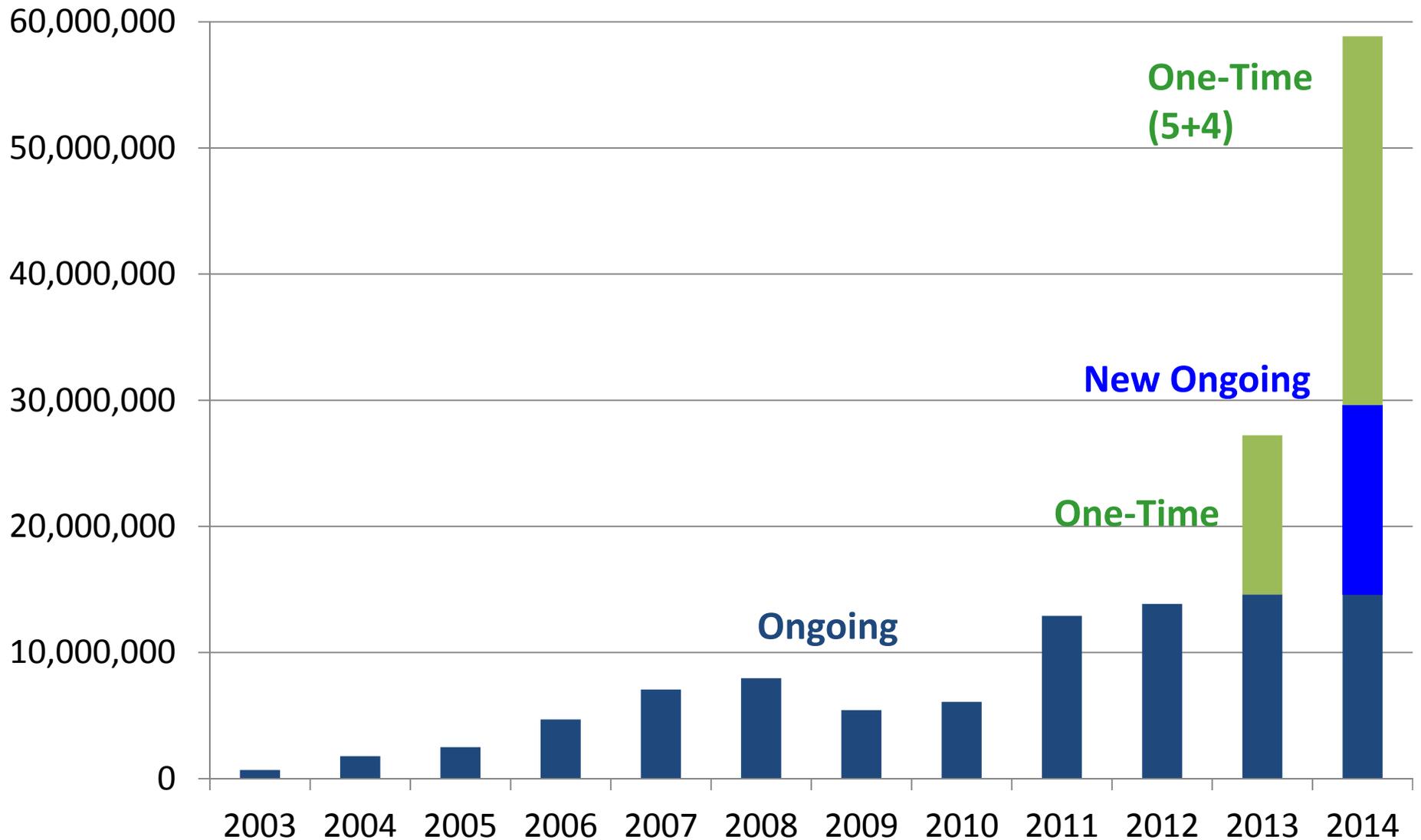
Mean +/- 1 Standard Deviation = 68%

Mean +/- 2 Standard Deviations = 95%



Volatile Revenue Source: Unclaimed Property Receipts

Volatile Revenue Source: Unclaimed Property Receipts



EXPENSES

Approach to New Spending

- ❑ Investing new ongoing revenues cautiously, in targeted areas that can be sustained long-term
- ❑ Investing one-time dollars according to structural soundness principles
- ❑ Spending new dollars only after we know the revenues to support them are probable
- ❑ Ensuring we do not create a new structural deficit

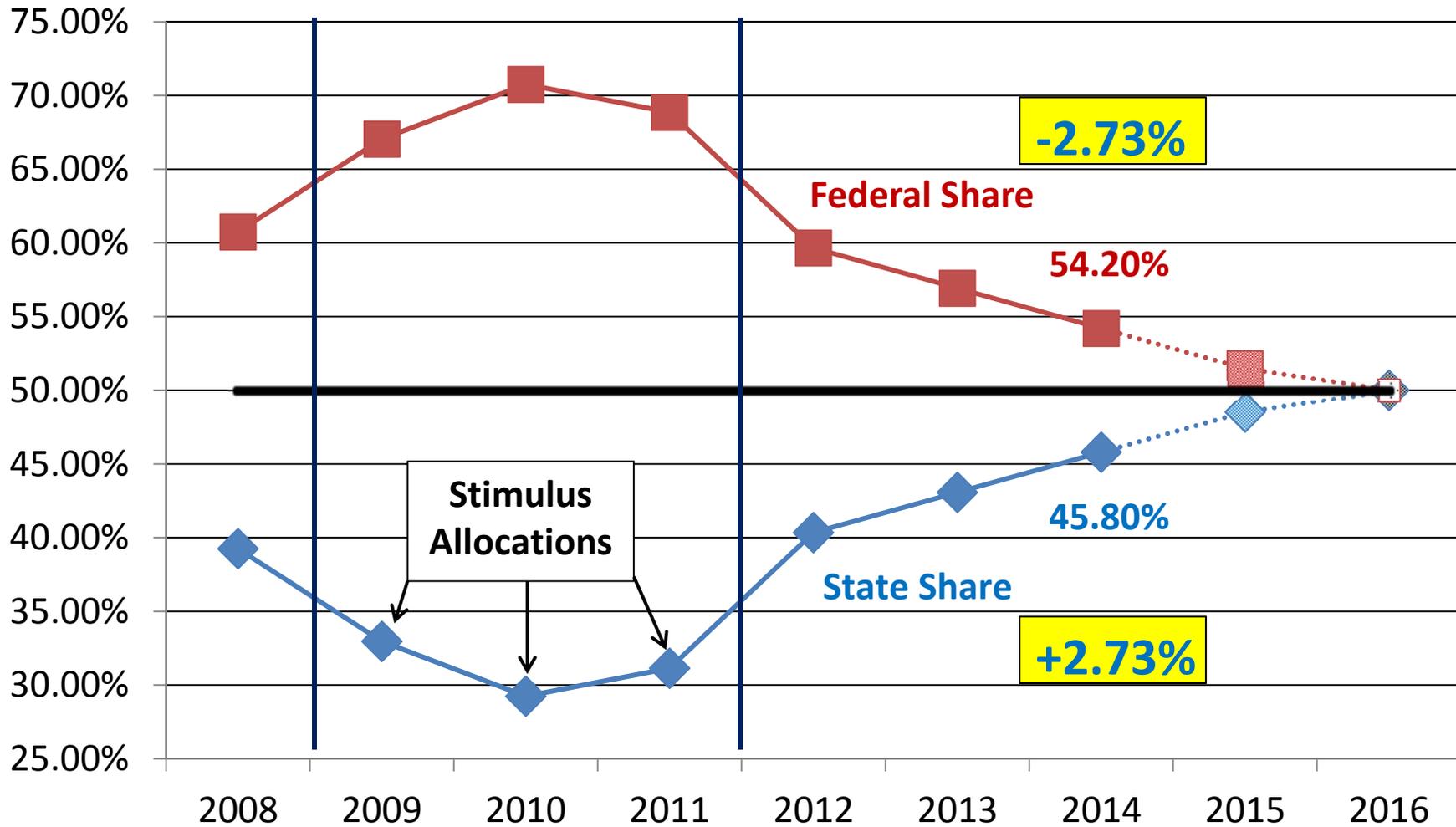
FY2014 Ongoing General Fund Proposals

- K-12 Education +3.0%
- K-12 Special Education +3.0%
- Technical Institutes +3.0%
- Board of Regents +3.2%
- Medical Provider Inflation +3.0%
- State Workforce COLA +3.0%

Education General Fund Increases

	General
State Aid to Education	\$15,884,768
Special Education	\$6,291,437
Board of Regents	\$5,347,191
Technical Institutes	\$657,685
Other Education	\$464,182
TOTAL	\$28,645,263

History of South Dakota's Blended FMAP Rates



Medical Assistance General Fund Increases

	General
Fed. Medical Assistance Percentage (FMAP)	\$20,008,950
Medical Inflation	\$13,216,962
Enrollment and Utilization Growth	\$4,419,760
Other Medical Assistance	\$1,444,750
TOTAL	\$39,090,422

FY2014 State Employee General Fund Increases

	General
Cost of Living Adjustment	\$9,265,671
Job Worth	\$3,292,145
Health Insurance	\$7,536,759
TOTAL	\$20,094,575

FY2014 Recommended Expense Overview

FY2014 Recommended Expense Overview

Major Increases/Decreases	General Funds
Education Increases	\$28,645,263
Medical Assistance Increases	\$39,090,422
State Employee Compensation Package	\$20,094,575
Criminal Justice Initiative	\$3,429,367
Maintenance & Repair	\$2,757,206
Food Service/Utilities	\$590,474
Misc. Increases/Decreases	\$550,148
TOTAL GENERAL FUND INCREASE	\$95,157,455

FY2013 General Bill Proposed Amendments

	General	Federal	Other	Total
State Employee Health Insurance	\$7,916,366	\$4,925,785	\$8,472,259	\$21,314,410
GOED Economic Development	\$5,000,000		\$5,000,000	\$10,000,000
Criminal Justice Initiative	\$2,628,500		\$1,000,000	\$3,628,500
State Aid to Special Education	\$2,476,483			\$2,476,483
Cement Plant Retirement Fund	\$2,000,000			\$2,000,000
Internal Service Rates	\$990,322	\$1,274,878	\$1,463,857	\$3,729,057
State Aid to General Education	\$637,940			\$637,940
Veterans' Services for Higher Ed	\$600,000			\$600,000
GOED Research Commerce Grants	\$500,000			\$500,000

FY2013 General Bill Proposed Amendments

(cont'd)

	General	Federal	Other	Total
DOE JAG Program	\$225,000			\$225,000
Teacher Evaluation Software	\$150,896			\$150,896
DOE Sparsity	\$9,310			\$9,310
Tech Institutes M&R			\$210,000	\$210,000
BOR Budget Authority			\$4,000,000	\$4,000,000
Technical Institutes	(\$557,644)			(\$557,644)
Medicaid Enrollment	(\$6,027,928)	(\$7,835,495)		(\$13,863,423)
TOTAL	\$16,549,245	(\$1,634,832)	\$20,146,116	\$35,060,529

FY2013 Emergency Specials

	General	Federal	Other	Total
HSC Buildings Restore/Demolish	\$6,000,000			\$6,000,000
Wildland Fire Suppression	\$4,200,000			\$4,200,000
State Veterans' Home	\$1,306,236	\$23,599,934	\$14,766,889	\$39,673,059
RC Wildland Fire Remodel	\$500,000	\$300,000		\$800,000
Military Land Purchase –SF	\$355,000			\$355,000
Military Mtr. Pool Bldg – SF		\$650,000		\$650,000
Water Omnibus Bill		\$200,000	\$16,975,000	\$17,175,000
Inmate Housing-State Fair			\$100,000	\$100,000
TOTAL	\$12,361,236	\$24,749,934	\$31,841,889	\$68,953,059

FY2014 One-Time Appropriations

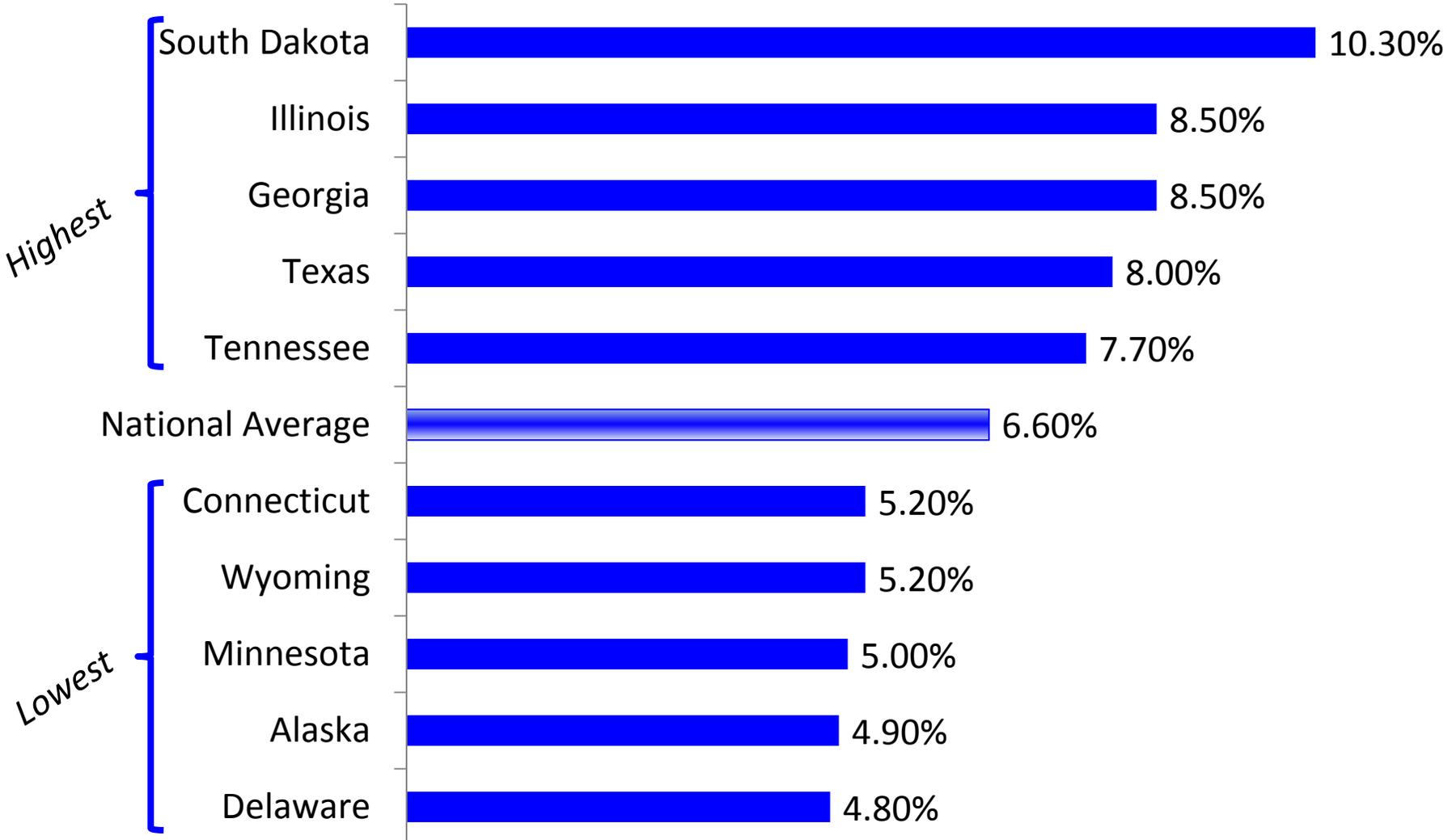
	General	Federal	Other	Total
Outdoor Heritage Projects	\$4,000,000			\$4,000,000
Pine Beetle Suppression	\$2,000,000			\$2,000,000
Homestake Ross Shaft	\$2,000,000			\$2,000,000
Railroad Trust Fund	\$1,000,000			\$1,000,000
Tax Refunds Elderly/Disabled	\$500,000			\$500,000
Physician Tuition Reimbursement	\$208,800			\$208,800
Clover Hall Replacement			\$4,000,000	\$4,000,000
Conservation Grants			\$500,000	\$500,000
STAR Academy Construction & Demolition			\$215,000	\$215,000
TOTAL	\$9,708,800	\$0	\$4,715,000	\$14,423,800

New Budget Bottom Line

	FY2013	FY2014
Total Recommended Receipts	\$1,291,306,115	\$1,333,138,646
Total Recommended Expenses	\$1,274,930,536	\$1,322,977,303
Unobligated Net	\$16,375,579	\$10,161,343

Federal Sequester Cuts, why it's critical

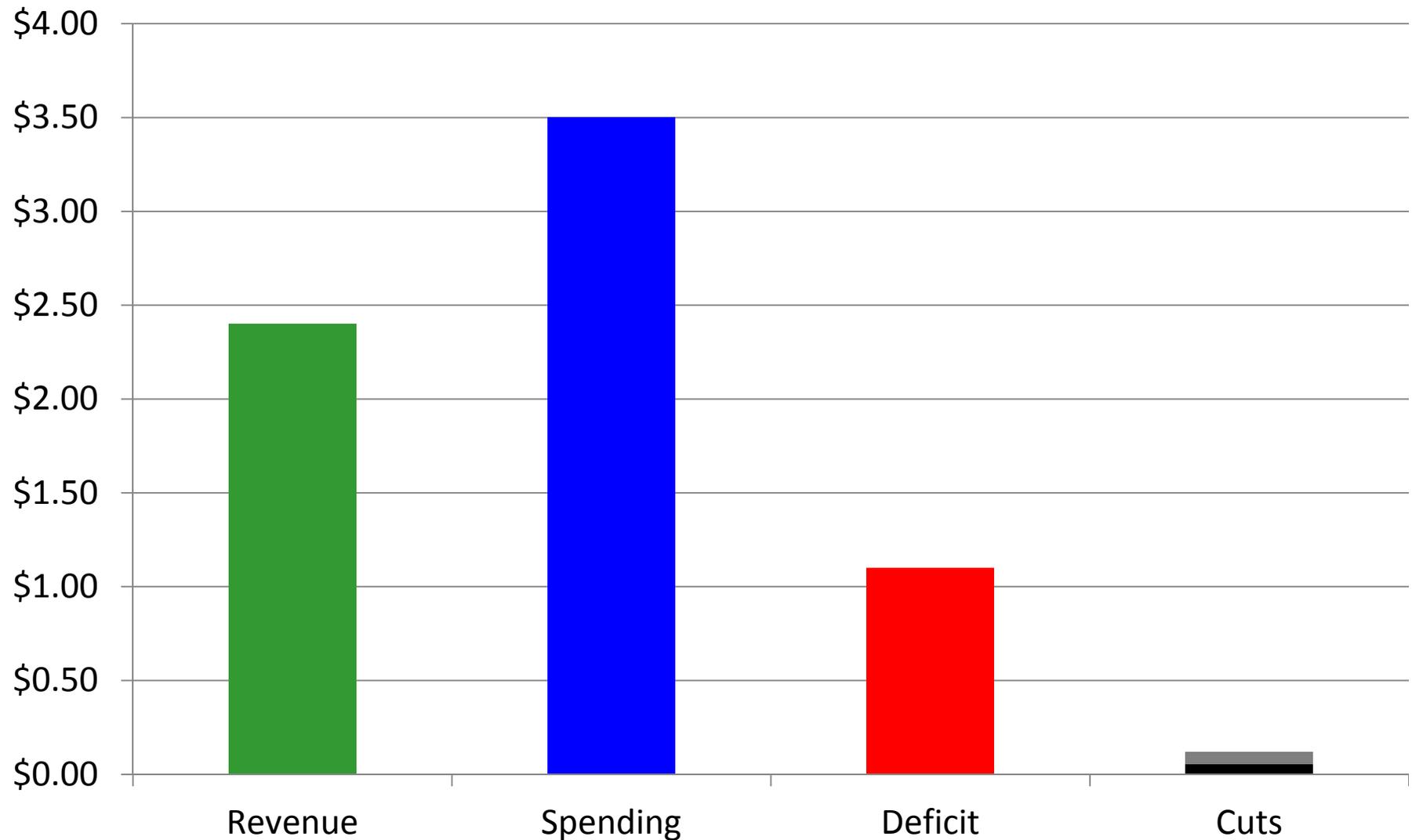
Federal Grants Subject to Sequester as a Percentage of State Revenue
Fiscal Year 2010



*Source: Pew analysis of Federal Funds Information for States and Census Bureau State Government Finances data.

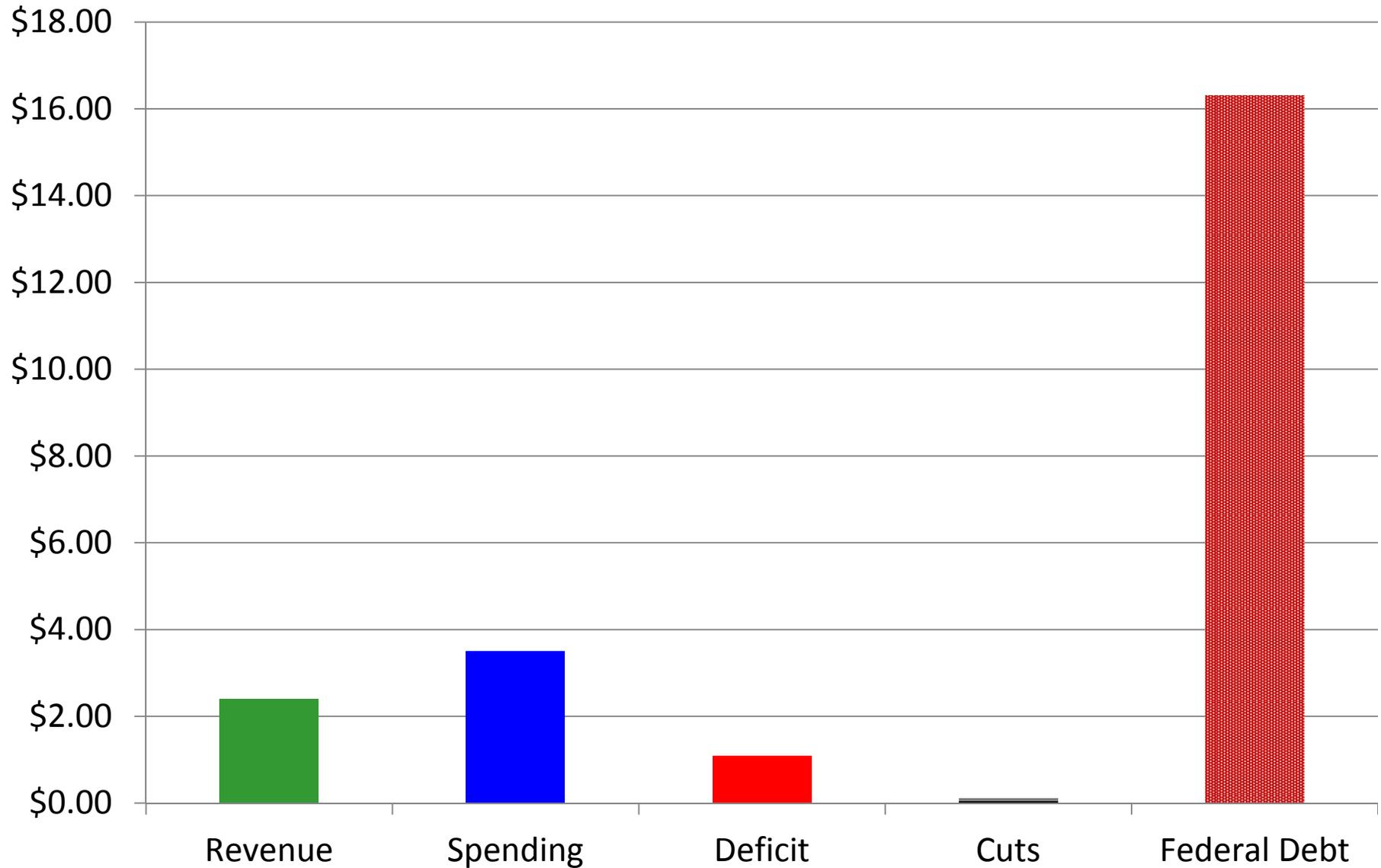
Federal Spending in Washington, D.C.

Trillions of Dollars



Federal Spending in Washington, D.C.

Trillions of Dollars

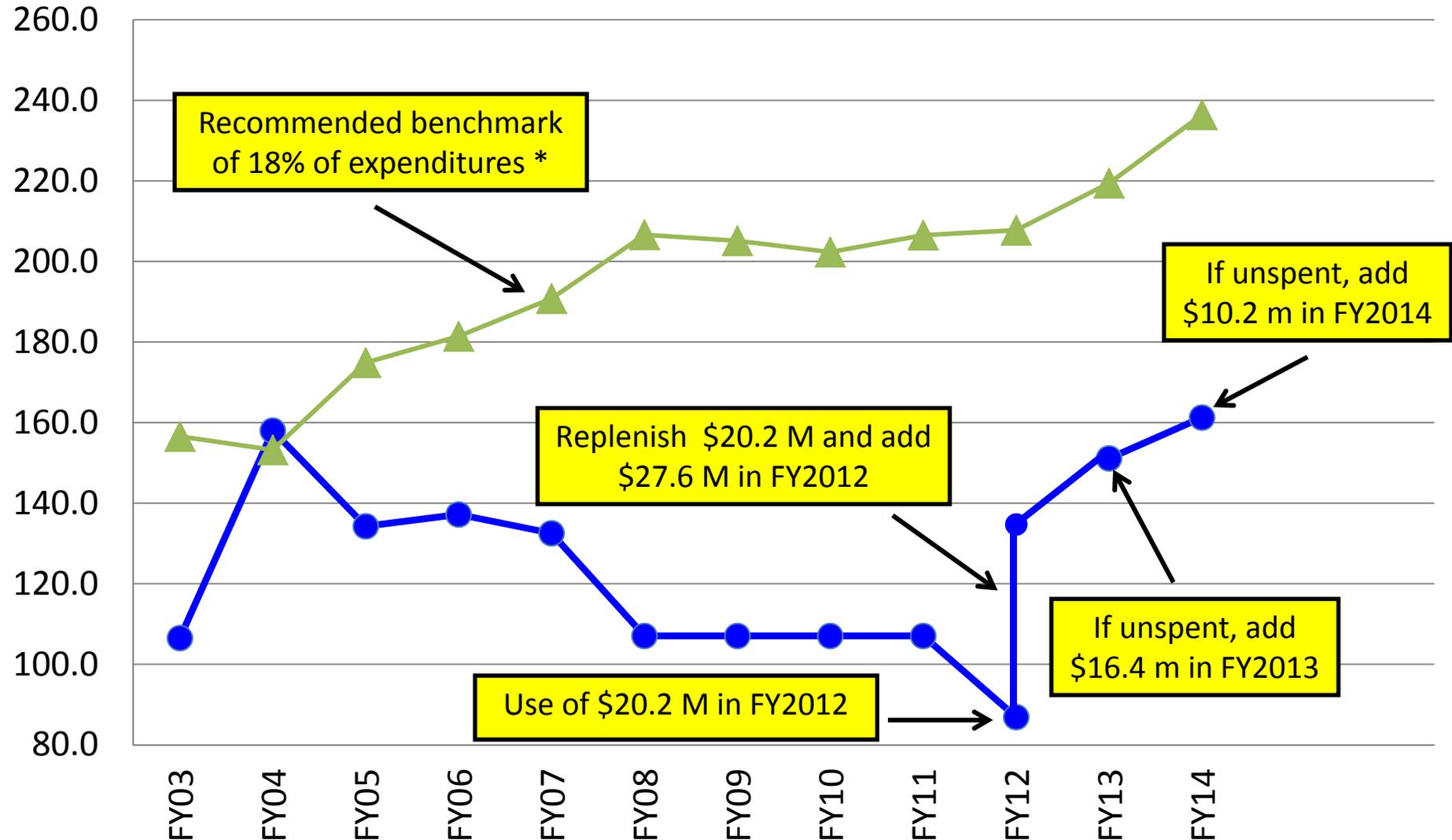


Risks for the South Dakota Budget

- Uncertainty in Washington**
- Medicaid Expansion**
- Continued Drought**
- Economic forces at home or abroad reduce revenue growth and structural deficits ensue**

Managing Our Emergency Reserves

Millions



* Source: Center on Budget and Policy Priorities

Leading the Nation by Example

- Balanced our Budget for 124 years**
- Passed Constitutional Mandate requiring balanced budget**
- Replenished Reserves**
- Preparing for Sequester cuts**
- Avoid Raising Taxes**
- Improving financial practices**
- Working for an upgrade to our credit rating**
- Identified by Barron's as best financially run state in America**

A Stronger South Dakota

