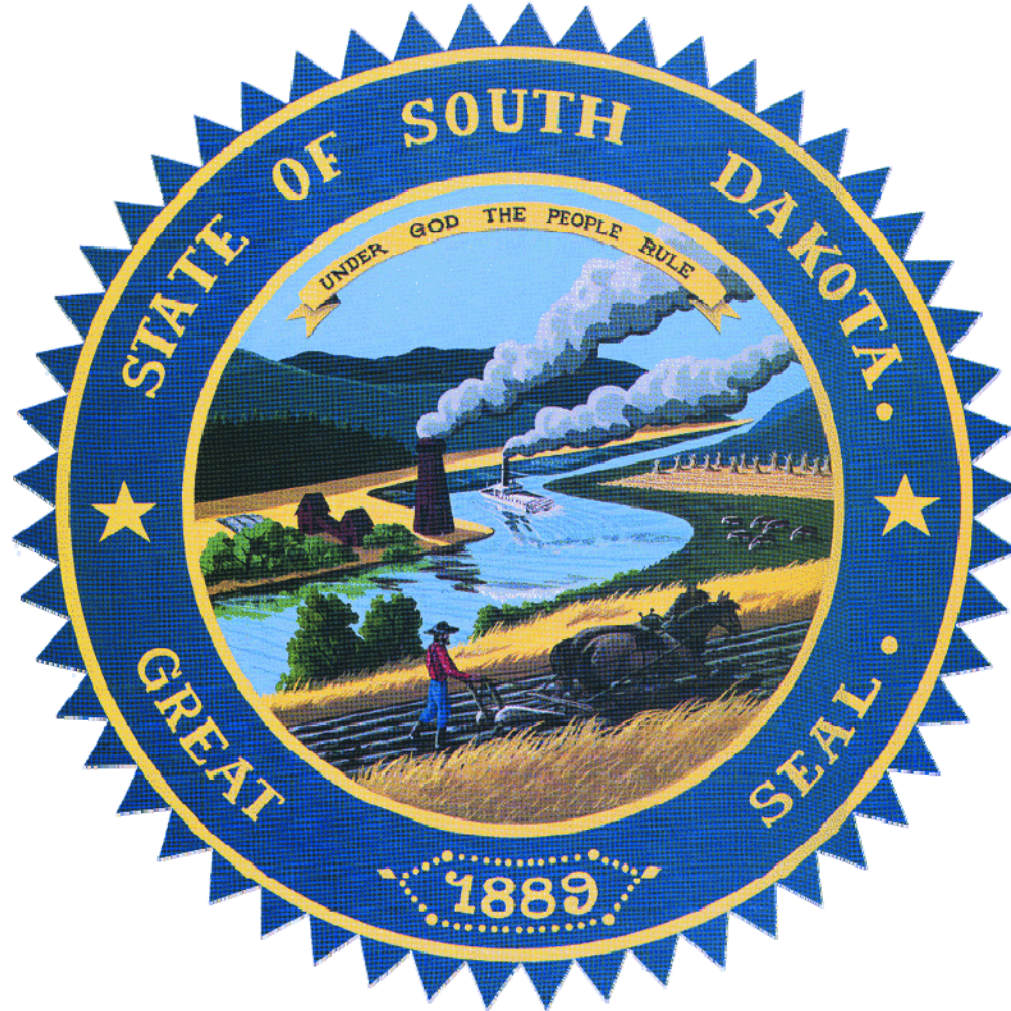


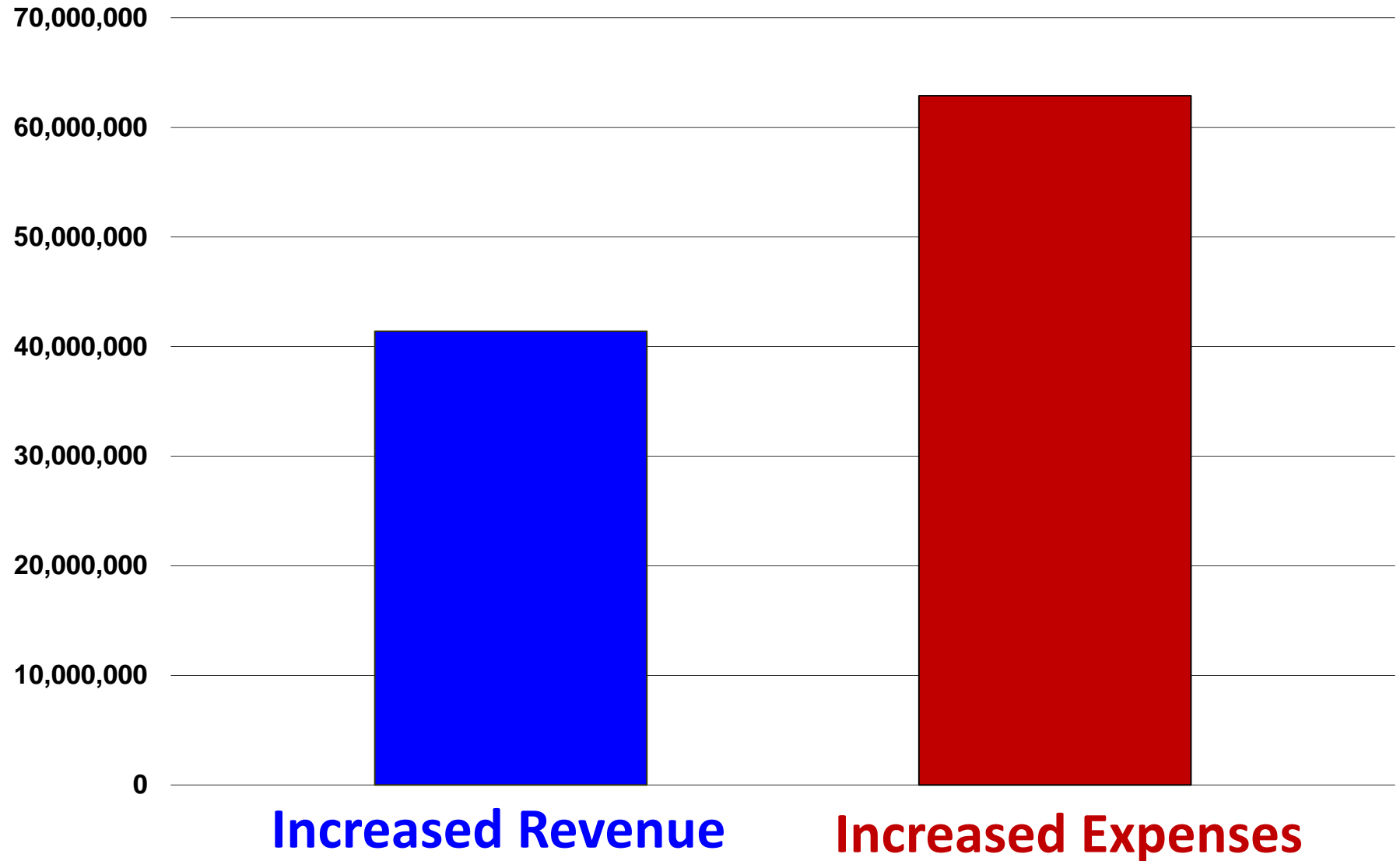
Governor Dennis Daugaard's FY2015 Budget Recommendations



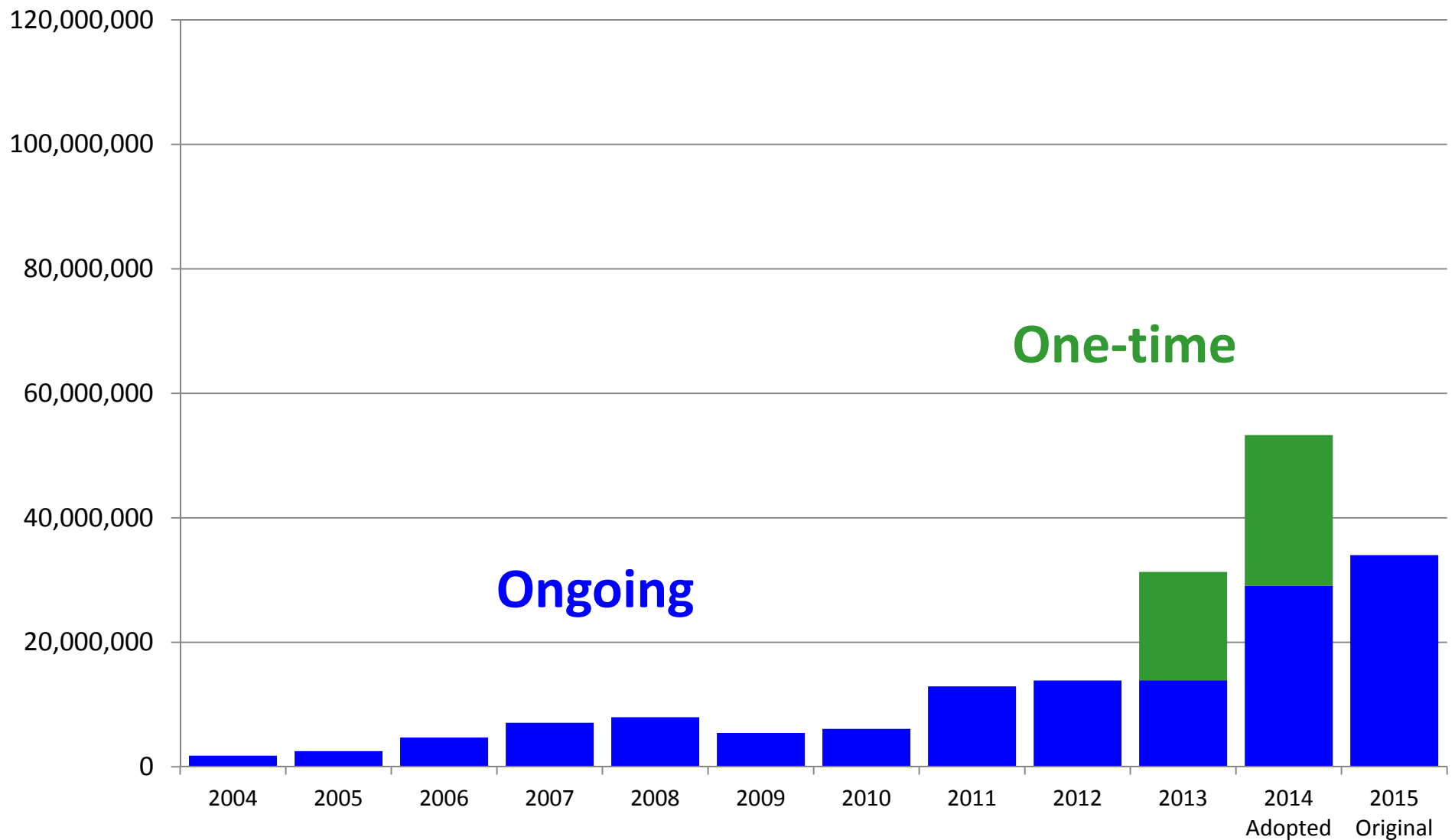
December 3, 2013

Off to a Budgetary Rough Start

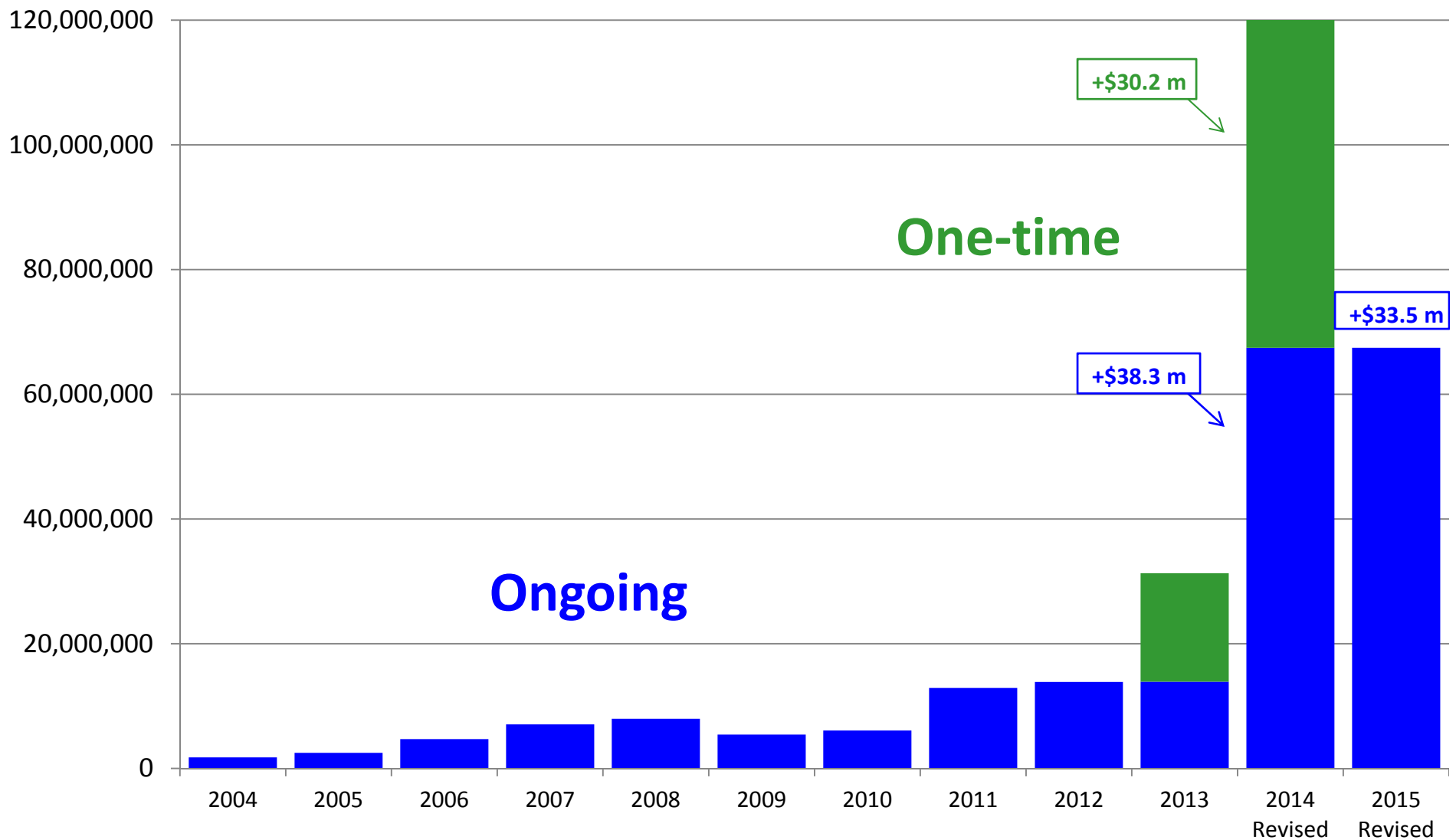
(9/1/2013)



Volatile Revenue Source: Unclaimed Property Receipts



Volatile Revenue Source: Unclaimed Property Receipts



Ongoing Increase Result to the Budget?

+\$33.5 million = 1.6% in Minimal Expenses + Normal Expenses

Using one-time dollars to gain ongoing dollars

\$30 million in one-time to prefund BSD

=

\$16.9 million in ongoing savings

The Ongoing Budgetary Result: Revenue

Initial FY15 Ongoing Revenue Growth	\$41.4m
Remaining Revised Revenue Estimates	\$ 3.8m
Revised Revenue from UCP	\$33.5m
SB 235 Implementation Costs (BSDF)	<u>(\$16.9m)</u>
Total Ongoing Revenue Growth	\$61.8m

The Ongoing Budgetary Result: Revenue

Initial FY15 Ongoing Revenue Growth	\$41.4m
Remaining Revised Revenue Estimates	\$ 3.8m
Revised Revenue from UCP	\$33.5m
<hr/>	
Total Ongoing Revenue Growth	\$78.7m

Prefunding Building South Dakota Fund

Three year proposal

Allocations	Original FY2015 Projection	Prefund Option
Workforce Education Fund (30%)	\$2,184,188	\$3,000,000
Local Infrastructure Fund (25%)	\$1,820,156	\$2,500,000
Housing Opportunity Fund (25%)	\$1,820,156	\$2,500,000
Econ. Dev. Partnership (15%)	\$1,092,095	\$1,500,000
REDI Fund (5%)	\$364,030	\$500,000
Total	\$7,280,625	\$10,000,000
3 Year Total	\$36,403,125	\$30,000,000

Using one-time dollars to gain ongoing dollars

\$30 million in one-time
to prefund BSD = \$16.9 million in
ongoing savings

\$58.1 million in one-
time to prepay liabilities = \$6.3 million in
ongoing savings

Prepay Bonds

Project	Amount of Bonds to Be Paid in Full	FY15 Ongoing General Fund Savings	Future Interest and Fee Savings	Avg. Yield
Mickelson DCI	\$6,040,293	\$647,160	\$1,618,905	4.63%
BOR Science Facilities	\$32,465,540	\$2,301,879	\$11,308,928	4.71%
Mickelson HSC	\$11,018,853	\$2,870,299	\$340,789	6.7%*
Mickelson HSC Dietary	\$8,607,368	\$457,175	\$0	5.59%
Total	\$58,132,054	\$6,276,513	\$13,268,622	

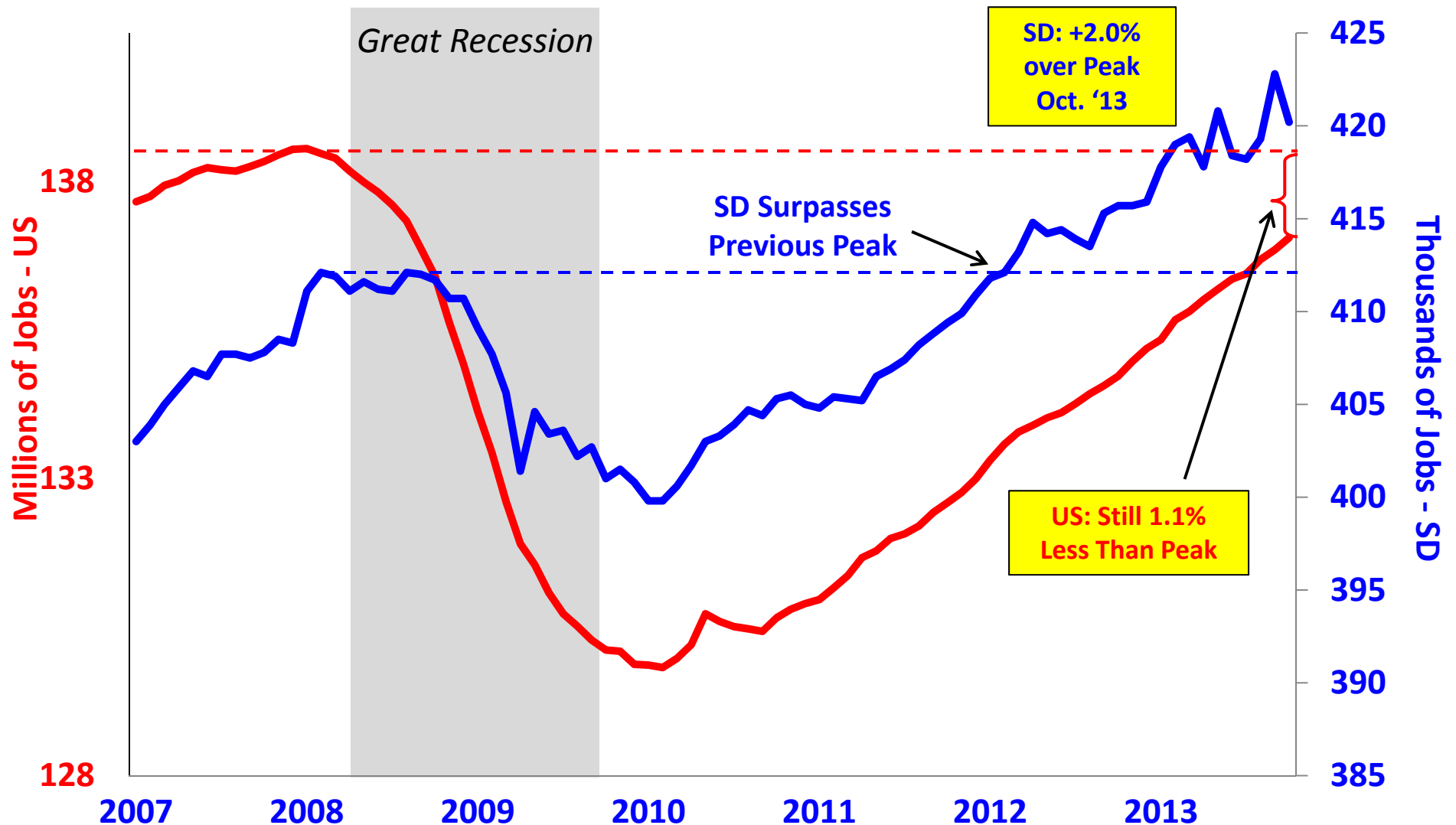
The Ongoing Budgetary Result: Expenses

Initial entitlement, inflationary and statutorily driven expense growth	\$ 62.9m
Other expense ups and downs	\$ 5.2m
Savings from prepaying bonds	(\$ 6.3m)
Costs to move to 3%	<u>\$ 16.9m</u>
Total Expense Growth	\$ 78.7m

SOUTH DAKOTA'S ECONOMY

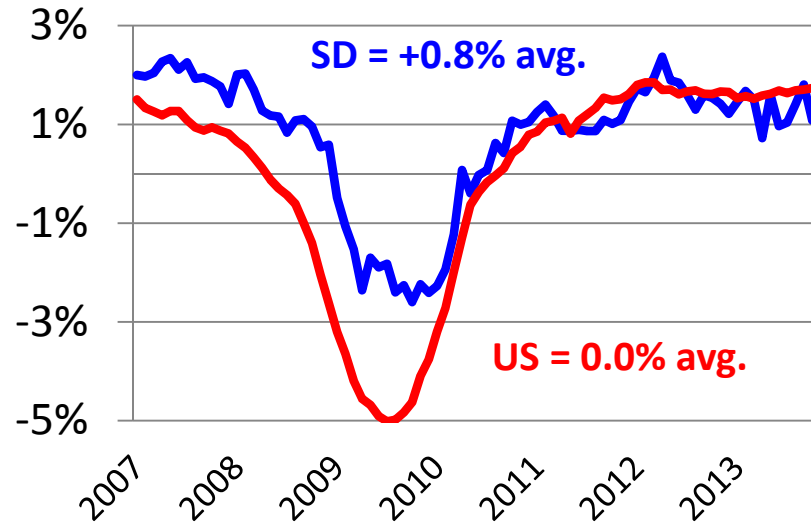
A slow economic recovery continues...

Nonfarm Employment

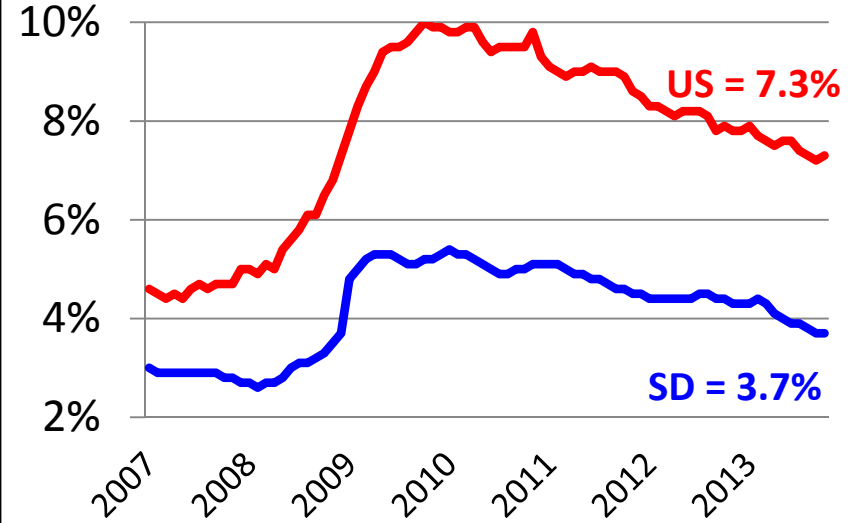


SD continues to outpace the US economy

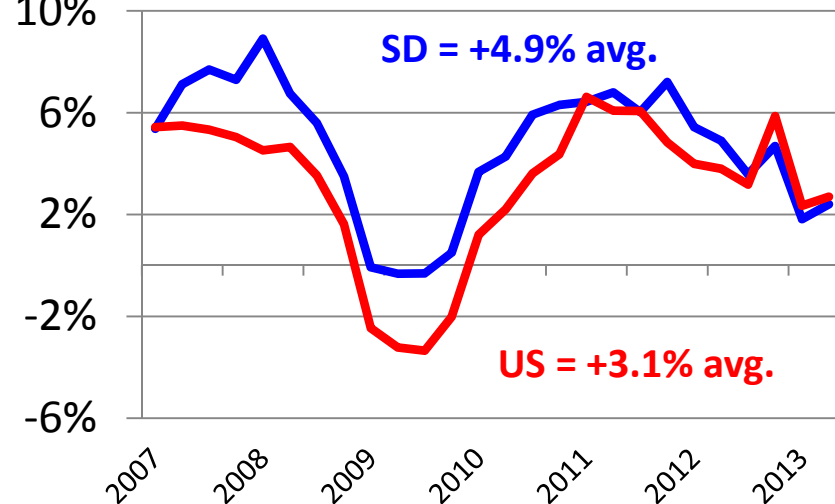
Nonfarm Employment Growth



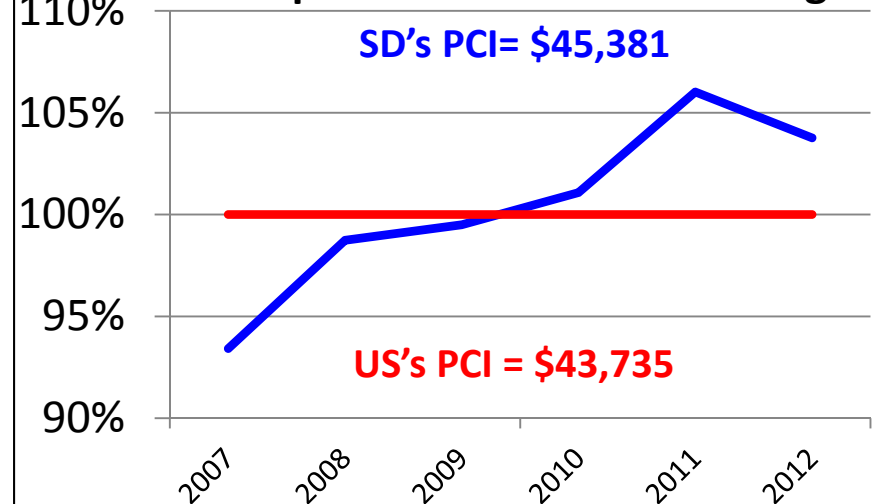
Unemployment Rate



Nonfarm Income Growth



Per Capita Income as % of US Avg.



REVENUES

Approach to Projecting Revenues

- ☐ Use Sound Economic Assumptions
- ☐ Solicit statewide input of Governor's Council of Economic Advisors
- ☐ Project revenues at levels having high probability of attainment
- ☐ Use long-term baselines to protect ongoing expenses from short-term revenue fluctuations

South Dakota – An example to be followed

- ☐ Maintaining and improving structural balance
- ☐ Conservative revenue estimates
- ☐ Eliminating liabilities where possible

A History of Ongoing Revenue Estimating

Year	Adopted	Actual Receipts	Difference
FY2004*	\$876,682,272	\$917,449,464	\$40,767,192
FY2005	\$952,696,623	\$956,751,219	\$4,054,596
FY2006*	\$1,001,797,801	\$1,013,115,062	\$11,317,261
FY2007*	\$1,065,991,069	\$1,061,350,024	(\$4,641,045)
FY2008*	\$1,148,973,257	\$1,143,748,223	(\$5,225,034)
FY2009	\$1,195,459,836	\$1,138,901,445	(\$56,558,391)
FY2010*	\$1,130,101,479	\$1,109,359,945	(\$20,741,534)
FY2011	\$1,154,744,209	\$1,163,046,393	\$8,302,184
FY2012	\$1,165,379,488	\$1,235,903,897	\$70,524,409
FY2013	\$1,233,473,042	\$1,258,177,217	\$24,704,175
FY2014	\$1,320,558,795	\$1,353,715,139	\$33,156,344

* Includes adjustments

FY2014 Adopted vs. Revised Ongoing Receipts

Source	Ad. FY2014	Rev. FY2014	Dollar Change
Sales and Use Tax	\$805.4	\$810.1	+ 4.7
Property Tax Red. Fund	111.0	108.1	- 2.9
Contractor's Excise Tax	88.4	89.5	+ 1.1
Insurance Company Tax	72.2	74.0	+ 1.8
Ongoing UCP Receipts	29.1	67.5	+ 38.4
Licenses, Permits, & Fees	50.1	49.9	- 0.2
Net Transfers In	31.2	30.7	- 0.5
Trust Fund Transfers	28.3	28.4	+ 0.1
Bank Franchise Tax	23.2	17.0	- 6.2
Other Ongoing Receipts	<u>81.6</u>	<u>78.5</u>	<u>- 3.1</u>
Total Ongoing Receipts	1,320.5	1,353.7	+ 33.2

FY2014 & FY2015 Ongoing Receipts

Source	Rev. FY2014	Est. FY2015	Dollar Change
Sales and Use Tax	\$810.1	\$835.2	+ 25.1
Property Tax Red. Fund	108.1	110.2	+ 2.1
Contractor's Excise Tax	89.5	94.8	+ 5.3
Insurance Company Tax	74.0	77.5	+ 3.5
Ongoing UCP Receipts	67.5	67.5	0.0
Licenses, Permits & Fees	49.9	51.1	+ 1.2
Net Transfers In	30.7	31.3	+ 0.6
Trust Fund Transfers	28.4	30.5	+ 2.1
Bank Franchise Tax	17.0	17.5	+ 0.5
Other Ongoing Receipts	<u>78.5</u>	<u>78.1</u>	<u>- 0.4</u>
Total Ongoing Receipts	1,353.7	1,393.7	+ 40.0

Conservative Revenue Estimates Help Fund Additional Growth

FY2014 Structural Surplus left by 2013 Legislature	\$5.5 million
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FY2014 Revised Ongoing Revenue Growth	\$33.2 million
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FY2015 Projected Ongoing Revenue Growth	<u>\$40.0 million</u>
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Total Ongoing Revenue Growth Available	\$78.7 million
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EXPENSES

Principles for New Spending

Avoid a structural deficit

- ☐ Only spend revenues highly probable
- ☐ Cautious, sustainable ongoing increases
- ☐ Use of one-time dollars to reduce ongoing expenses

FY2015 Ongoing General Fund Proposals

<input type="checkbox"/> K-12 Education	+3.0%
<input type="checkbox"/> Technical Institutes	+3.0%
<input type="checkbox"/> Board of Regents	+2.6%
<input type="checkbox"/> Provider Inflation	+3.0%
<input type="checkbox"/> State Workforce COLA	+3.0%

FY2015 Recommended Ongoing Expense - Summary

Major Increases/Decreases	General Funds
Education Increases	\$19,187,087
Medical & Provider Assistance Increases	\$39,199,089
State Employee Compensation Package	\$20,333,662
All the Rest	\$6,223,492
Bond Prepayment Savings	<u>(\$6,276,513)</u>
TOTAL GENERAL FUND INCREASES	\$78,666,817

FY2015 Recommended Ongoing Expense - Education

Major Increases/Decreases	General Funds
State Aid to Education	\$8,000,244
BOR In-state Resident Tuition Freeze	\$3,955,862
Technical Institute Tuition Buy-down	\$915,920
BOR Maintenance and Repair	\$1,647,447
BOR Utilities	\$1,161,617
Medical School Expansion	\$1,036,515
Technical Institute Bonds	\$875,880
Technical Institute Formula	\$778,992
Miscellaneous Increases/Decreases	<u>\$814,610</u>
TOTAL GENERAL FUND INCREASES	\$19,187,087

FY2015 Recommended Ongoing Expense – Medical & Provider Assistance

Major Increases/Decreases	General Funds
Provider Inflation	\$15,716,286
FMAP	\$15,637,278
Growth in Eligibles and Utilization	\$6,660,485
Miscellaneous Increases/Decreases	<u>\$1,185,040</u>
TOTAL GENERAL FUND INCREASES	\$39,199,089

FY2015 Recommended Ongoing Expense - State Workforce

Major Increases/Decreases	General Funds
Cost of Living Adjustment	\$9,739,760
Movement to Job Worth	\$2,797,040
Career Banding Pay for Performance	\$585,673
Targeted Compensation Adjustments	\$454,727
Health Insurance	<u>\$6,756,462</u>
TOTAL GENERAL FUND INCREASES	\$20,333,662

FY2015 Recommended Ongoing Expense - All Others

Major Increases/Decreases	General Funds
Maintenance & Repair	\$3,481,983
Agriculture Rural Rehabilitation	\$460,000
Drug/DUI Courts	\$395,773
Utilities/Internal Service Rates	\$350,955
Adult Education & Literacy	\$325,000
Increase Jail Rate to Counties	\$135,200
Miscellaneous Increases/Decreases	\$1,074,581
TOTAL GENERAL FUND INCREASES	\$6,223,492

ONE-TIME

Improving Structural Soundness

☐ **Eliminate Liabilities**

☐ **Build or Improve an Asset**

☐ **Secure an Asset**

☐ **Endow a Program for the Future**

Where did the One-time Funds Come From?

(increased revenue)

Source: Revenue	FY2014
Nominal FY14 Surplus left Legislature	\$1,695,919
Increase in UCP one-time receipts	\$30,210,803
Liquidation of §10-45B account	\$19,424,586
Bank card tax reduction (issue resolved)	\$16,641,948
Reversion of unexpended carryover	\$4,000,000
Increase in ongoing UCP (one-time in FY14)	\$38,333,302
Change to rest of ongoing (one-time in FY14)	(\$5,176,958)
Transfer from Property Tax Reduction Fund	\$19,626,221
Total One-time Funds (Revenue Side)	\$124,755,821

Where Did the One-time Funds Come From?

(decreased expenses)

Source: Expenses	FY2014
DSS Revised Medicaid Eligibles Revision	(\$6,086,570)
State Aid to General Ed Revision	(\$5,874,773)
Continuous Appropriations Change	\$135,646
Total Reduction to FY2014 Adopted Expense	(\$11,825,697)

**Total One-time Funds Available
FY2014:**

\$136,581,518

FY2014 General Bill Amendments

	General
State Employee Health Insurance Shortfall	\$8,778,258
Correctional Healthcare Shortfall/Reserve	\$3,500,000
State Health Insurance Reserve	\$1,145,433
DOE Technology Upgrades	\$1,100,000
Revised Utility Projections	\$780,243
Internal Service Rate Changes	\$743,113
Miscellaneous Increases/Decreases	<u>\$655,943</u>
Total FY2014 General Bill Amendments	\$16,702,990

FY2014 Special Appropriations

	General
Tax Refunds for Elderly and Disabled Persons	\$450,000
Mountain Pine Beetle Treatment	\$350,000
Watertown Armory Land Acquisition	\$151,768
Rural Healthcare Recruitment Assistance Program	<u>\$94,167</u>
Total Special Appropriations	\$1,045,935

Remaining One-time Funds

Total One-time Funds	\$136,581,518
Total FY2014 General Bill Amendments	(\$16,702,990)
Total Normal Special Appropriations	<u>(\$1,045,935)</u>
One-time Funds Available	\$118,832,593

One-time Proposed Expenses

Prepay Bonds	\$58,132,054
Prefund Building South Dakota	\$30,000,000
Pay Cash vs. Borrowing for State Vet's Home	\$16,365,044
Eliminate UAAL for Cement Plant Retirement	\$5,598,495
BOR Health Insurance Tuition Shortfall	\$2,600,000
SDSU Swine Facility Construction	\$2,037,000
Public Safety Building Construction	\$1,400,000
Missouri River Rail Bridge Repair	\$1,200,000
Health Care Provider Loan Fund	\$1,000,000
New South Dakotans/Dakota Roots	<u>\$500,000</u>
Total	\$118,832,593

State Veterans' Home

Total Cost of Vets' Home	\$41,271,214
Federal Grant	<u>\$23,599,934</u>
Remaining State Share	\$17,671,280
General Funds Appropriated (2013)	\$1,306,236
One-Time Appropriation	\$16,365,044
FY2016 Ongoing General Fund Budget Savings	\$1,589,069

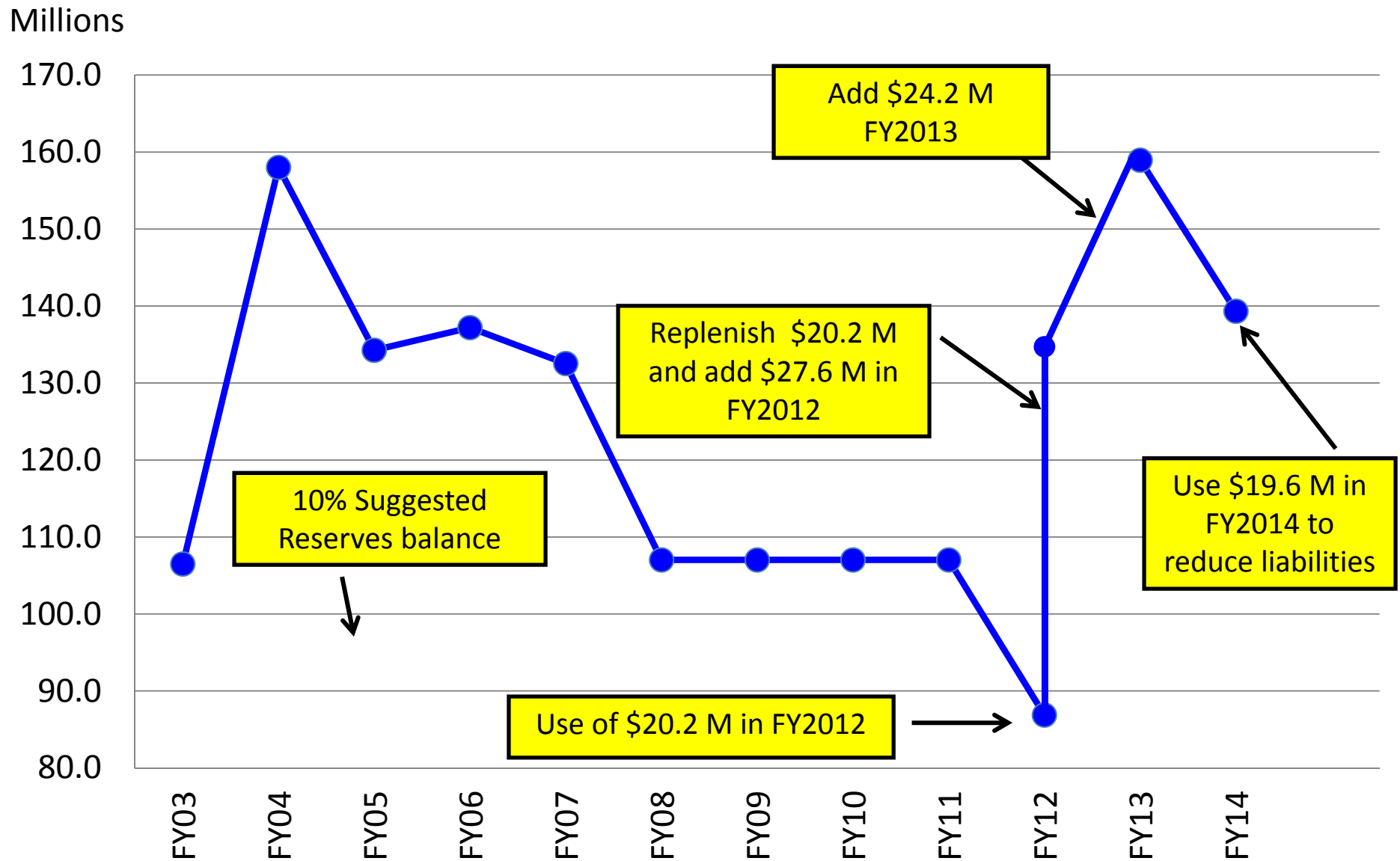
Cement Plant Retirement Fund

CPRF Funded Status on June 30, 2013	87.7%
Unfunded Actuarial Accrued Liability as of 6/30/ 2013	\$7,598,495
2013 Legislature Contribution	(\$2,000,000)
Total Liability Remaining	\$5,598,495
After Payoff:	
Funded Status based on CPRF assumptions	100.0%
Funded Status based on SDRS assumptions	107.0%
Funded Status of SDRS as of June 30, 2013	103.2%

New Budget Bottom Line

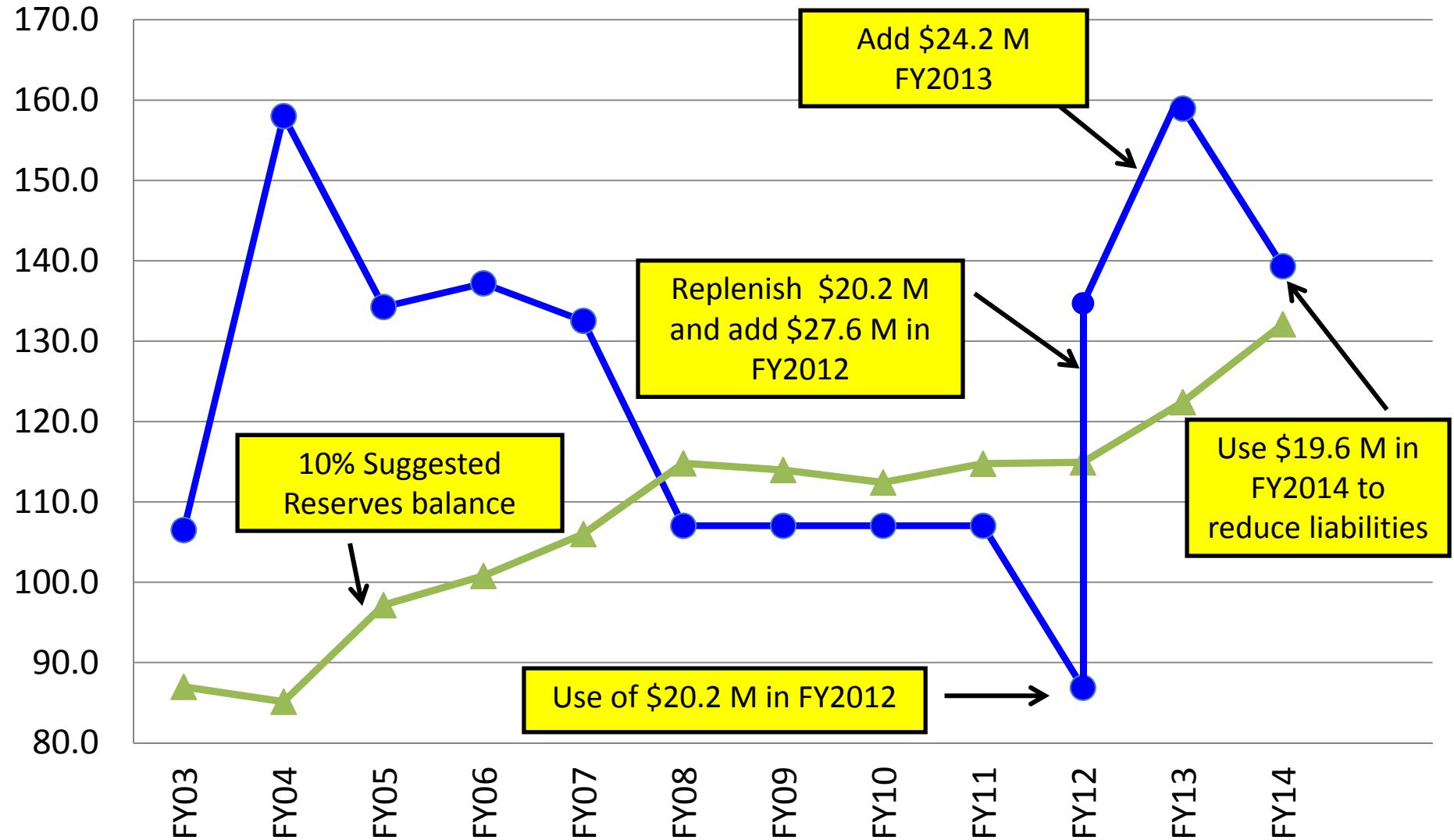
	FY2014	FY2015
Total Recommended Receipts	\$1,476,437,920	\$1,393,732,594
Total Recommended Expenses	\$1,476,437,920	\$1,393,732,594
Unobligated Net	\$0	\$0

Managing Our Emergency Reserves



Managing Our Emergency Reserves

Millions



Leading the Nation by Example

- ☐ **Balancing Our Budget for 125 years**
- ☐ **Managing Rainy Day Funds Responsibly**
- ☐ **Avoiding Tax Increases**
- ☐ **Improving Structural Soundness**
- ☐ **SDRS Pension Fund over 100% funded**
- ☐ ***Barron's*: SD is the Best Run State in America (2012)**
- ☐ ***CNBC*: SD is #1 for Business (2013)**

A Stronger South Dakota

