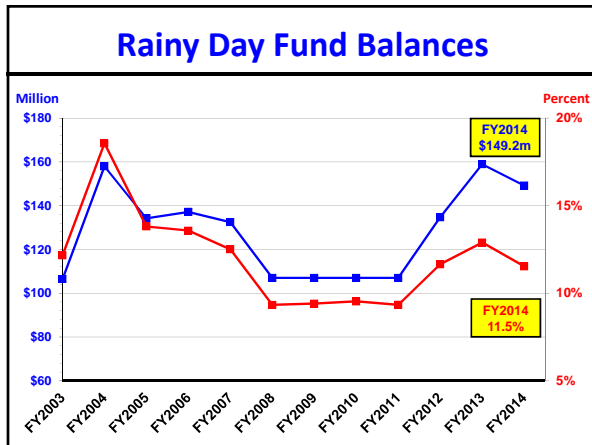
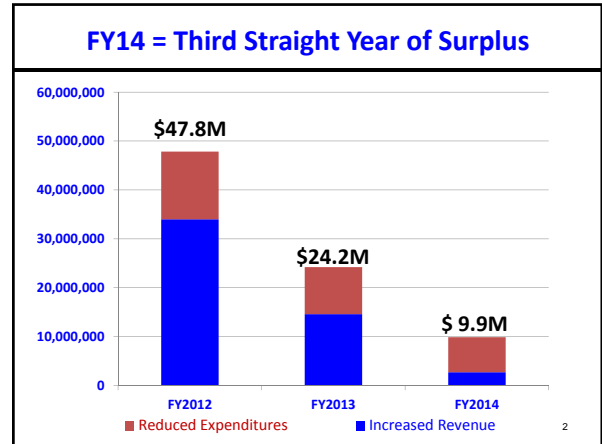


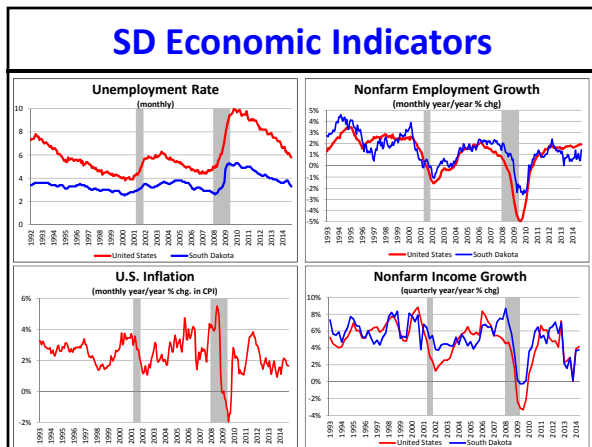
**Governor Dennis Daugaard's  
FY2016 Budget Recommendations**



**December 2, 2014**



**SOUTH DAKOTA'S  
ECONOMY**



**Forecasted Growth for Major Economic Variables Continues to Revise Downward**

| Changes in Forecasts for CY 2015 |           |  |  |  |
|----------------------------------|-----------|--|--|--|
| SD Variables                     | Feb. 2014 |  |  |  |
| SD Nonfarm Empl.                 | 1.9%      |  |  |  |
| SD Nonfarm Income                | 5.4%      |  |  |  |
| SD Housing Starts                | 6,100     |  |  |  |
| <b>US Variables</b>              |           |  |  |  |
| Real GDP                         | 3.3%      |  |  |  |
| US Housing Starts                | 1.47M     |  |  |  |
| Business Investment              | 6.8%      |  |  |  |
| Consumption Expend.              | 3.1%      |  |  |  |
| US Total Income                  | 5.1%      |  |  |  |

### Forecasted Growth for Major Economic Variables Continues to Revise Downward

| Changes in Forecasts for CY 2015 |           |           |  |  |
|----------------------------------|-----------|-----------|--|--|
| SD Variables                     | Feb. 2014 | July 2014 |  |  |
| SD Nonfarm Empl.                 | 1.9%      | 1.7%      |  |  |
| SD Nonfarm Income                | 5.4%      | 5.1%      |  |  |
| SD Housing Starts                | 6,100     | 5,900     |  |  |
| <b>US Variables</b>              |           |           |  |  |
| Real GDP                         | 3.3%      | 3.0%      |  |  |
| US Housing Starts                | 1.47M     | 1.37M     |  |  |
| Business Investment              | 6.8%      | 6.5%      |  |  |
| Consumption Expend.              | 3.1%      | 2.7%      |  |  |
| US Total Income                  | 5.1%      | 4.7%      |  |  |

### Forecasted Growth for Major Economic Variables Continues to Revise Downward

| Changes in Forecasts for CY 2015 |           |           |           |  |
|----------------------------------|-----------|-----------|-----------|--|
| SD Variables                     | Feb. 2014 | July 2014 | Oct. 2014 |  |
| SD Nonfarm Empl.                 | 1.9%      | 1.7%      | 1.9%      |  |
| SD Nonfarm Income                | 5.4%      | 5.1%      | 4.9%      |  |
| SD Housing Starts                | 6,100     | 5,900     | 5,800     |  |
| <b>US Variables</b>              |           |           |           |  |
| Real GDP                         | 3.3%      | 3.0%      | 2.7%      |  |
| US Housing Starts                | 1.47M     | 1.37M     | 1.19M     |  |
| Business Investment              | 6.8%      | 6.5%      | 5.5%      |  |
| Consumption Expend.              | 3.1%      | 2.7%      | 2.8%      |  |
| US Total Income                  | 5.1%      | 4.7%      | 4.6%      |  |

### Forecasted Growth for Major Economic Variables Continues to Revise Downward

| Changes in Forecasts for CY 2015 |           |           |           |               |
|----------------------------------|-----------|-----------|-----------|---------------|
| SD Variables                     | Feb. 2014 | July 2014 | Oct. 2014 | BFM/Nov. 2014 |
| SD Nonfarm Empl.                 | 1.9%      | 1.7%      | 1.9%      | 1.2%          |
| SD Nonfarm Income                | 5.4%      | 5.1%      | 4.9%      | 4.4%          |
| SD Housing Starts                | 6,100     | 5,900     | 5,800     | 4,800         |
| <b>US Variables</b>              |           |           |           |               |
| Real GDP                         | 3.3%      | 3.0%      | 2.7%      | 2.7%          |
| US Housing Starts                | 1.47M     | 1.37M     | 1.19M     | 1.19M         |
| Business Investment              | 6.8%      | 6.5%      | 5.5%      | 5.5%          |
| Consumption Expend.              | 3.1%      | 2.7%      | 2.8%      | 2.8%          |
| US Total Income                  | 5.1%      | 4.7%      | 4.6%      | 4.6%          |

# REVENUES

### A History of Ongoing Revenue Estimating

| Year    | Adopted         | Actual Revenues | Difference     |
|---------|-----------------|-----------------|----------------|
| 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 | \$1,353,797,245 | \$33,238,450   |
| FY2015  | \$1,391,836,433 | \$1,381,085,998 | (\$10,750,435) |

\*Includes adjustments

### FY2015 Adopted vs. Revised Revenues

| Source (millions)           | Ad. FY2015       | Rev. FY2015      | Change       |
|-----------------------------|------------------|------------------|--------------|
| Sales and Use Tax           | \$851.3          | \$844.8          | -6.5         |
| Lottery                     | 7.8              | 6.9              | -0.9         |
| Contractor's Excise Tax     | 95.4             | 94.9             | -0.5         |
| Insurance Company Tax       | 78.0             | 79.3             | +1.3         |
| Unclaimed Property          | 60.2             | 54.2             | -6.0         |
| Licenses, Permits, and Fees | 52.3             | 53.8             | +1.5         |
| Interest Income             | 2.9              | 0.8              | -2.1         |
| Property Tax Red. Fund      | 107.8            | 110.1            | +2.3         |
| Other Ongoing Revenues      | <u>136.1</u>     | <u>136.3</u>     | +0.2         |
| Total Ongoing Revenues      | \$1,391.8        | \$1,381.1        | -10.7        |
| One-time Revenues           | 0.0              | 6.7              | +6.7         |
| Repeal of Special Approp.   | <u>0.0</u>       | <u>18.4</u>      | +18.4        |
| <b>Total Revenues</b>       | <b>\$1,391.8</b> | <b>\$1,406.2</b> | <b>+14.4</b> |

### FY2015 & FY2016 Revenues & Forecasts

| Source (millions)           | Rev. FY2015      | Est. FY2016      | Change        |
|-----------------------------|------------------|------------------|---------------|
| Sales and Use Tax           | \$844.8          | \$879.6          | + 34.8        |
| Lottery                     | 6.9              | 105.8            | + 98.9        |
| Contractor's Excise Tax     | 94.9             | 99.9             | + 5.0         |
| Insurance Company Tax       | 79.3             | 83.4             | + 4.1         |
| Unclaimed Property          | 54.2             | 56.7             | + 2.5         |
| Licenses, Permits, and Fees | 53.8             | 55.5             | + 1.7         |
| Interest Income             | 0.8              | 4.2              | + 3.4         |
| Property Tax Red. Fund      | 110.1            | N/A              | - 110.1       |
| Other Ongoing Revenues      | <u>136.3</u>     | <u>156.1</u>     | <u>+ 19.8</u> |
| Total Ongoing Revenues      | \$1,381.1        | \$1,441.2        | + 60.1        |
| One-time Revenues           | 6.7              | 0.0              | - 6.7         |
| Repeal of Special Approp.   | <u>18.4</u>      | <u>0.0</u>       | <u>- 18.4</u> |
| <b>Total Revenues</b>       | <b>\$1,406.2</b> | <b>\$1,441.2</b> | <b>+ 35.0</b> |

### Sorting out our Unclaimed Property Revenues

(millions)

| Revenue Source       | Adopted FY2015 Est. | Current FY2015 Est. | Change       | Current FY2016 Est. | Chg. From Adopted FY15 |
|----------------------|---------------------|---------------------|--------------|---------------------|------------------------|
| Large Holder #1      | \$32.6              | \$28.0              | - 4.6        | \$28.0              | - 4.6                  |
| Large Holder #2      | \$27.6              | \$31.8              | + 4.2        | \$31.8              | + 4.2                  |
| "Rest" Ongoing       | \$5.5               | \$4.4               | - 1.1        | \$4.4               | - 1.1                  |
| Claims & Reciprocity | - \$5.5             | - \$10.0            | - 4.5        | - \$7.5             | - 2.0                  |
| <b>Total UCP</b>     | <b>\$60.2</b>       | <b>\$54.2</b>       | <b>- 6.0</b> | <b>\$56.7</b>       | <b>- 3.5</b>           |

### Reversal of 90% Interest Proration

| Current Law                | FY2015             | FY2016             |
|----------------------------|--------------------|--------------------|
| Final 10% from previous FY | \$754,294          | \$423,329          |
| Est. 90% from current FY   | <u>\$3,809,961</u> | <u>\$4,819,601</u> |
| Total GF Interest Income   | <b>\$4,564,256</b> | <b>\$5,242,930</b> |

| Recommendation               | FY2015           | FY2016             |
|------------------------------|------------------|--------------------|
| Final 10% from previous FY   | \$754,294        | \$0                |
| 100% actual from previous FY | <u>\$0</u>       | <u>\$4,233,290</u> |
| Total GF Interest Income     | <b>\$754,294</b> | <b>\$4,233,290</b> |

### Revenue Growth Available to Fund Expenses

(Ongoing)

|   | Year Ago     | Today         |
|---|--------------|---------------|
| Structural Surplus left by Legislature                | \$6M         | \$0M          |
| <b>Current Year Revised Ongoing Revenue Growth</b>    | <b>\$33M</b> | <b>-\$11M</b> |
| <b>Budgeted Year Projected Ongoing Revenue Growth</b> | <b>\$40M</b> | <b>\$60M</b>  |
| <b>Total Ongoing Revenue Growth Available</b>         | <b>\$79M</b> | <b>\$49M</b>  |

# EXPENSES

### Inflation Remains Low

|   |       |
|---|-------|
| <input type="checkbox"/> K-12 Education (CPI-W)       | +1.5% |
| <input type="checkbox"/> Technical Institutes (CPI-W) | +1.5% |
| <input type="checkbox"/> Board of Regents (CPI-W)     | +1.5% |
| <input type="checkbox"/> Provider Inflation (CPI-U)   | +1.4% |
| <input type="checkbox"/> State Workforce (COLA)       | +1.5% |

| FY2016 Ongoing General Fund Proposals         |            |
|---|------------|
| <input type="checkbox"/> K-12 Education       | +2.0%      |
| <input type="checkbox"/> Technical Institutes | +2.0%      |
| <input type="checkbox"/> Board of Regents     | +2.3%/1.6% |
| <input type="checkbox"/> Provider Inflation   | +2.0%      |
| <input type="checkbox"/> State Workforce COLA | +2.0%      |

| FY2016 Recommended Ongoing Expense - Summary |                     |
|--|---------------------|
| Major Increases/Decreases                    | General Funds       |
| Education Increases                          | \$15,425,486        |
| Medical & Provider Assistance Increases      | \$16,228,696        |
| State Employee Compensation Package          | \$11,134,753        |
| All the Rest                                 | \$6,617,539         |
| <b>TOTAL GENERAL FUND INCREASES</b>          | <b>\$49,406,474</b> |

| FY2016 Recommended Ongoing Expense - Education |                     |
|--|---------------------|
| Major Increases/Decreases                      | General Funds       |
| State Aid to General Education                 | \$8,962,141         |
| State Aid to Special Education                 | \$2,666,902         |
| BOR Maintenance and Repair                     | \$2,055,512         |
| Grow SD Opportunity Scholarships               | \$1,274,001         |
| BOR Utility Costs                              | \$1,230,803         |
| Dual Credit Increased Demand                   | \$802,500           |
| Technical Institute Facilities                 | \$437,533           |
| Miscellaneous Increases/Decreases              | (\$2,003,906)       |
| <b>TOTAL GENERAL FUND INCREASES</b>            | <b>\$15,425,486</b> |

| FY2016 Recommended Ongoing Expense – Medical & Provider Assistance |                     |
|--|---------------------|
| Major Increases/Decreases  | General Funds       |
| Provider Inflation   | \$10,102,790        |
| Federal Medical Assistance Percentage                              | \$5,090,176         |
| Juvenile Justice Reinvestment Initiative                           | \$2,930,540         |
| Growth and Utilization   | \$1,901,953         |
| Miscellaneous Increases/Decreases                                  | (\$3,796,763)       |
| <b>TOTAL GENERAL FUND INCREASES</b>                                | <b>\$16,228,696</b> |

| FY2016 Recommended Ongoing Expense - State Workforce |                     |
|--|---------------------|
| Major Increases/Decreases                            | General Funds       |
| Market Adjustment                                    | \$6,817,056         |
| Movement towards Market Value                        | \$3,858,561         |
| Career Banding Pay for Performance                   | \$558,136           |
| Health Insurance                                     | \$0                 |
| <b>TOTAL GENERAL FUND INCREASES</b>                  | <b>\$11,134,753</b> |

| FY2016 Recommended Ongoing Expense - All Others |                    |
|---|--------------------|
| Major Increases/Decreases                       | General Funds      |
| State Buildings Maintenance and Repair          | \$3,449,606        |
| Correctional Health                             | \$970,134          |
| Drug/DUI Courts                                 | \$666,815          |
| Utilities/Internal Service Rates                | \$648,385          |
| Law Enforcement Officers Training Fund          | \$607,801          |
| Property and Casualty Insurance                 | \$592,982          |
| Rest of Juvenile Justice Reinvestment           | \$305,000          |
| Miscellaneous Increases/Decreases               | \$965,885          |
| State Veterans' Home Savings                    | (\$1,589,069)      |
| <b>TOTAL GENERAL FUND INCREASES</b>             | <b>\$6,617,539</b> |

# ONE-TIME

**Where did the One-time Funds Come From?**

| Reduced Revenue and Reduced Expenses            | FY2015              |
|---|---------------------|
| Nominal FY15 Surplus left by Legislature        | \$0                 |
| Reduced Revenues                                | (\$4,044,023)       |
| Reduction of One-time Specials                  | \$18,420,000        |
| Reduction of Annual Appropriations              | <u>\$13,473,928</u> |
| <b>Total One-time Funds Available in FY2015</b> | <b>\$27,849,905</b> |

**Reduction of One-time Specials**

|                             | General Funds         |
|-----------------------------|-----------------------|
| Repeal of Medicaid Reserve  | (\$16,000,000)        |
| Repeal of Risk Pool Reserve | <u>(\$2,420,000)</u>  |
| <b>Total</b>                | <b>(\$18,420,000)</b> |

**Reduction of Annual Appropriations**

|  | General Funds         |
|--|-----------------------|
| State Aid                                | (\$6,933,797)         |
| Medicaid Eligibles                       | (\$2,647,655)         |
| Juvenile Placement                       | (\$1,395,094)         |
| Child Care Subsidies                     | (\$1,296,081)         |
| Technical Institutes Formula and Bonding | (\$1,057,341)         |
| Correctional Health Care                 | <u>(\$143,960)</u>    |
| <b>Total</b>                             | <b>(\$13,473,928)</b> |

**One-time Proposed Expenses**

|  | General Funds |
|--|---------------|
| Emergency & Disaster Fund                          | \$7,994,449   |
| Provider Direct Care Hiring Supplement             | \$4,125,000   |
| Capitalize Property & Casualty Insurance Captive   | \$4,000,000   |
| Capitalize Liability Insurance Captive             | \$2,000,000   |
| Science & Tech Authority Ross Shaft Construction   | \$3,950,000   |
| SD Conservation Fund (Pheasant Habitat Work Group) | \$1,500,000   |
| DOE Jobs for America's Graduates Startup Funding   | \$925,000     |
| DOE Dual Credit Increased Demand                   | \$577,500     |
| Statewide Utilities                                | \$546,793     |

**One-time Proposed Expenses**

| Continued:                                       | General Funds       |
|--|---------------------|
| Big Sioux River Flow Study                       | \$500,000           |
| Tax Refunds for Elderly and Disabled             | \$450,000           |
| Rural Healthcare Tuition Reimbursement Program   | \$381,766           |
| DENR Information Systems Upgrade                 | \$350,000           |
| Rural Healthcare Facility Recruitment Assistance | \$302,500           |
| GFP Bond Payments                                | \$184,896           |
| Fire Premium Refunds                             | <u>\$62,001</u>     |
| <b>Total</b>                                     | <b>\$27,849,905</b> |

| <b>Summary of Budget Recommendations</b> |                           |                               |
|--|---------------------------|-------------------------------|
|  | <b>Revised<br/>FY2015</b> | <b>Recommended<br/>FY2016</b> |
| Change to Ongoing Revenues               | (\$10,750,435)            | \$60,156,909                  |
| Reduced Revenue from FY15 Adopted        |                           | (\$4,044,023)                 |
| Change to One-time Revenues              | \$6,706,412               | (\$6,706,412)                 |
| Reduced Expenses                         | \$31,893,928              |                               |
| New Proposed Expenses                    | (\$27,849,905)            | (\$49,406,474)                |
| <b>Total</b>                             | <b>\$0</b>                | <b>\$0</b>                    |

| <b>New Budget Bottom Line</b> |                        |                        |
|-------------------------------|------------------------|------------------------|
|                               | <b>FY2015</b>          | <b>FY2016</b>          |
| Total Recommended Revenues    | \$1,406,212,410        | \$1,441,242,907        |
| Total Recommended Expenses    | <u>\$1,406,212,410</u> | <u>\$1,441,242,907</u> |
| <b>Unobligated Net</b>        | <b>\$0</b>             | <b>\$0</b>             |

- | <b>Setting a Good Fiscal Example</b>  |
|---|
| <ul style="list-style-type: none"> <li><input type="checkbox"/> <b>Balancing Our Budget for 126 years</b></li> <li><input type="checkbox"/> <b>Managing Rainy Day Funds Responsibly</b></li> <li><input type="checkbox"/> <b>Keeping Taxes low</b></li> <li><input type="checkbox"/> <b>Building Structural Soundness</b></li> <li><input type="checkbox"/> <b>SDRS Pension Fund over 100% funded</b></li> <li><input type="checkbox"/> <b>Improved financial practices</b></li> <li><input type="checkbox"/> <b>S&amp;P outlook upgrade from stable to positive</b></li> </ul> |

