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SUMMARY OVERVIEW

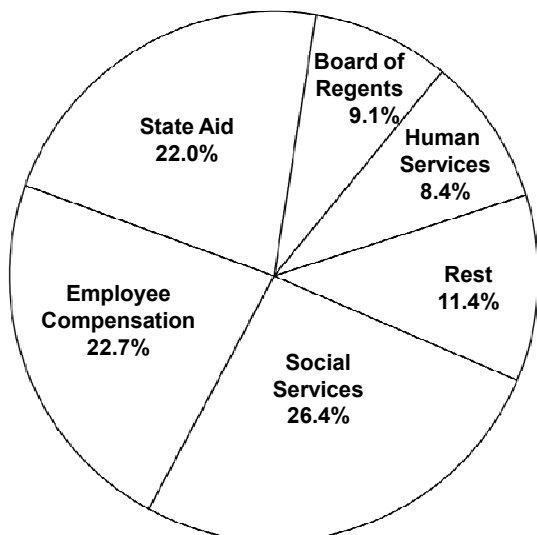
Governor Daugaard is recommending a budget (including special appropriations) for FY2016 totaling \$4,322,977,794 and 14,008.6 FTE. This represents an overall increase of \$10,443,587 in total funds and an increase of 40.1 FTE over FY2015. For FY2016, the Governor is proposing a general fund budget of \$1,441,242,907, which is an increase of \$35,030,497 over the FY2015 budget. The proposed FY2016 general fund budget is distributed as follows:

- \$438.8 million, or 30.4% for Aid to Schools;
- \$550.9 million, or 38.2% for Health, Human, and Social Services;
- \$198.6 million, or 13.8% for Higher Education;
- \$95.3 million, or 6.7% for Corrections;
- \$66.4 million, or 4.6% for the Legislature, Unified Judicial System, Public Utilities Commission, and Elected Officials;
- \$17.9 million, or 1.2% for Agriculture; Environment and Natural Resources; and Game, Fish, and Parks; and,
- \$73.3 million, or 5.1% for the Remainder of State Government.

The graph below depicts the FY2016 recommended general fund increases, excluding special appropriations and including the employee compensation package.

FY2016 General Fund Increases

Excluding Special Appropriations and Including Employee Compensation Package



TOTAL INCREASE:

\$49,169,688

Social Services	\$13.0
Employee Compensation	\$11.1
State Aid	\$10.8
Board of Regents	\$ 4.5
Human Services	\$ 4.1
Rest	\$ 5.6

U.S. AND SOUTH DAKOTA ECONOMIC FORECASTS

U.S. ECONOMY

RECENT ECONOMIC ACTIVITY

US economic growth started out very weak in the beginning of 2014, with the first quarter registering negative growth due to weather related interruptions and low inventory growth. Overall economic growth has improved since the first quarter disruption as consumption, investment, exports, and government spending rebounded as the year progressed. In May of 2014, the US economy finally exceeded the peak level of nonfarm employment reached more than six years ago, prior to the 2007 to 2009 recession. Employment is now again expanding instead of just recovering in the United States. US payroll employment in October totaled 139.7 million jobs, about 1% higher than the prior peak level. Ever since the last recession ended five years ago, the US economy has been growing. However, GDP has not exceeded 2.5% for a single calendar year in this time period, suggesting an overall weak economic recovery. In comparison, real GDP averaged 3.0% growth over the 10 years prior to the recession beginning in late 2007. The current economic outlook for 2015 and 2016 assumes continued moderate economic growth as improvements in the housing market and consumer spending offset slower federal government spending.

Oil prices have declined recently as West Texas Intermediate prices declined from a recent high of \$106/barrel in June to about \$76/barrel recently. This will provide relief to consumers in the coming months and should boost holiday shopping as retail sales for the holiday season are expected to be stronger than 2012 and 2013.

The Federal Reserve continues to support an accommodative monetary policy through a low federal funds rate, but took steps to reduce asset purchases during 2014, often referred to as quantitative easing. The Federal Reserve began slowing the pace of their third round of quantitative easing by reducing purchases of assets starting in late 2013. The \$85 billion per month in asset purchases were reduced each month by approximately \$10 billion throughout the course of 2014 and the asset purchases were concluded in September of 2014, a sign the Federal Open Market Committee is becoming more confident in the overall economy and labor market. The Federal Reserve continues to promote a low interest rate policy with the federal funds in the 0%-0.25% range. It is

anticipated to remain at this record low level until mid-2015.

Recent economic indicators show the economy continues to grow in 2014.

The following are recent key national economic statistics:

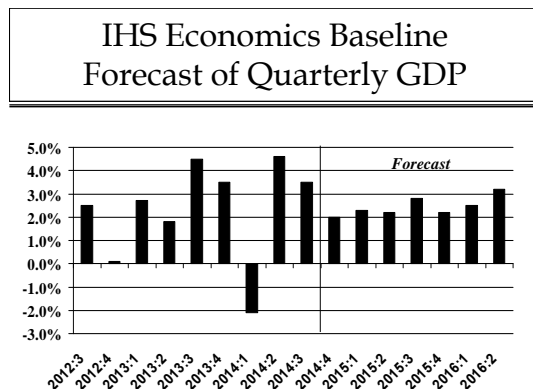
- Advance estimates indicate real GDP grew 3.5% in the third quarter of 2014, slower than the weather related 4.6% growth registered in the second quarter.
- The unemployment rate was 5.8% in October, 0.1% lower than the prior month. The current rate is 1.4% lower than October of 2013.
- The Institute of Supply Management's (ISM) manufacturing report on business was 59.0 in October, up from 56.6 in September. This was the 15th consecutive month the index has been above 50 after it briefly dropped to 49.0 in May of 2013. A reading above 50 usually indicates the manufacturing sector is expanding.
- The ISM non-manufacturing report on business was 57.1 in October, down slightly from 58.6 in September. This was the 56th consecutive monthly reading above 50, indicating continued expansion.
- US personal income increased at an annual rate of 6.3% in the second quarter but softened to 4.2% in the third quarter of 2014. Personal income grew 6.2% in 2011, 5.2% in 2012, and 2.0% in 2013.
- Real personal spending increased 2.5% in the second quarter and 1.8% in the third quarter of 2014. Both quarters were driven by a robust increase in durable goods spending of 14.2% and 7.2%, respectively.
- Total construction spending was down 0.4% in September compared to August. Private construction was down 0.1%, while public construction was 1.4% lower compared to the prior month. Year-to-date through September 2014, construction spending is up 6.1% compared to the same time period in 2013.

NATIONAL FORECAST HIGHLIGHTS

This section summarizes IHS Economics forecast as of November 2014 for various categories of the US economy. IHS Economics is one of the most respected economic forecasting firms in the world.

GDP: US economic growth was strong in late 2013 before declining in the first quarter of 2014 as economic growth was weakened by poor weather conditions, discontinuance of extended unemployment insurance benefits, and a weak housing sector. The combination of these factors caused real GDP growth to fall from 3.5% growth in the fourth quarter of 2013 to a contraction of 2.1% in the first quarter of 2014. Economic growth returned in the second quarter as the factors contributing to the decline in the first quarter were mostly temporary. Inventories surged in the second quarter and exports expanded in the third quarter. This, combined with improvements in the housing sector led to stronger economic growth in the second and third quarters of 2014. Federal defense spending also accelerated during the third quarter, but this increase is expected to be temporary and will likely be reversed during the fourth quarter. Currently, IHS Economics believes the upside and downside economic risks are roughly balanced in the short term. IHS's baseline forecast is for continued modest economic growth over the next several quarters. Growth over the coming year is expected to be similar to 2014 excluding the weather disruptions experienced early in the year.

In the first three quarters of this year, real GDP decreased 2.1%, and then grew 4.6% and 3.5%, respectively. In the fourth quarter, GDP growth is forecast to grow 2.0%. In the four quarters in 2015, IHS Economics is projecting GDP growth of 2.3%, 2.2%, 2.8%, and 2.2%. In 2016, GDP is forecast to increase 2.5% in the first quarter and 3.2% in the second quarter.



On an annual basis, GDP decreased 2.9% in 2009 and grew 2.5% in 2010, 1.6% in 2011, 2.3% in 2012, and 2.2% in 2013. IHS Economics latest

forecast projects real GDP to grow 2.2% in 2014, 2.6% in 2015, and 2.8% in 2016.

CONSUMERS: Consumer spending is a key component contributing to economic growth, as consumption accounts for over two-thirds of economic activity as measured by GDP. In 2009, real consumer spending declined 1.6% as the recession caused major job losses leading to depressed consumer spending. Over the next four years, consumer spending improved with growth rates of 1.9%, 2.3%, 1.8%, and 2.4%, respectively. In 2014, real consumption growth has been 1.2%, 2.5%, and 1.8% the first three quarters, and is anticipated to be 3.1% in the fourth quarter. The growth of 1.8% realized in the third quarter was led by a 7.2% increase in spending on durable goods while nondurable and service consumption registered just a 1.1% growth rate. The growth in durable goods continues to be positive news as improving consumer confidence is boosting purchase of larger ticket items. Both the Reuters/University of Michigan's index of consumer confidence and the Conference Board's consumer confidence index are at the highest levels since 2007, a positive sign heading into the holiday shopping season. The decline in gasoline prices since the beginning of the year will allow more discretionary spending during the fourth quarter. IHS Economics expects holiday sales in November and December to increase 4.2% over last year, better than the 3.1% growth realized the past two years. On an annual basis, real consumption is projected to increase by 2.3% in 2014, with growth improving to 2.8% and 3.0% for 2015 and 2016, respectively.

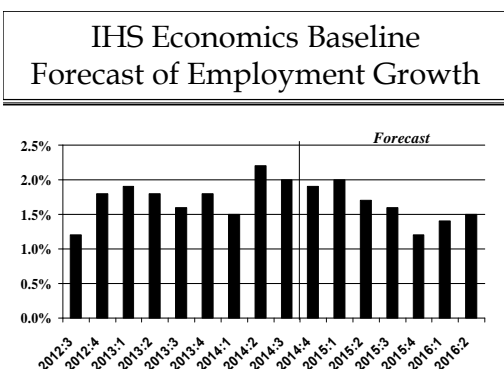
The personal savings rate (as a percentage of disposable income) was 5.5% in the third quarter of 2014. This was an increase from the 4.9% and 5.4% savings rate registered in the first and second quarter. In 2011, 2012, and 2013, the savings rate was 6.0%, 7.2%, and 4.9%, respectively. The savings rate is projected to be 5.3% in 2014, 5.2% in 2015, and 5.5% in 2016.

EMPLOYMENT: The latest US payroll employment report indicated total nonfarm employment grew by 214,000 jobs in October, in line with expectations. Private sector employment increased by 209,000, which increased the total gains for private employment payrolls to slightly more than 2.2 million so far in 2014. Modest growth is expected to continue in 2015 and 2016. The sectors showing gains over the past several months include: manufacturing, wholesale and retail trade, financial activities, professional and business services, education and health services, construction, and leisure and hospitality. In the fourth quarter of 2014 nonfarm employment is expected to be 2.6 million jobs higher than the fourth quarter of 2013,

representing a 1.9% year-over-year growth rate. The current forecast shows total employment growing 2.5 million jobs in 2014 on an annual basis compared to 2013. In 2015 and 2016, employment growth is estimated to be 2.6 million and 2.1 million jobs, registering growth rates of 1.9% and 1.5%, respectively.

The unemployment rate in October continued to decrease to 5.8%, which was 0.1% lower than September and 1.4% lower than a year ago. The unemployment rate is expected to continue to recede during 2015 and 2016 due to steady employment gains. On an annual basis, the unemployment rate was 8.9% in 2011, 8.1% in 2012, and 7.4% in 2013. In 2014 and 2015, the unemployment rate is projected to be 6.2% and 5.7%, respectively, on an annual basis. In 2016, the unemployment rate is projected to decline to 5.5% and gradually improve thereafter.

In the first quarter of 2014, nonfarm payroll employment realized growth of 1.5%, and growth improved to 2.2% and 2.0% in the second and third quarters (seasonally adjusted annual rate). Employment growth is projected at 1.9% in the fourth quarter of 2014, and is expected to continue into 2015 with growth rates of 2.0%, 1.7%, 1.6%, and 1.2% in the four quarters. In the first two quarters of 2016, payroll employment growth is projected to continue with growth rates of 1.5% and 1.4%, respectively.



On an annual basis, payroll employment in the US increased 1.2% in 2011, 1.7% in 2012, and 1.7% in 2013. Payroll employment is forecasted to grow 1.8% in 2014, 1.9% in 2015, and 1.5% in 2016.

HOUSING: Recent data releases regarding household formations revealed the number of households formed over the past year were well below expectations and partially explains why the housing market has performed below expectations. According to the supplement from the Current Population Survey, about 0.5 million households were formed in the year ended in March 2014, well

below the long term average of more than 1.0 million households formed per year. Even with lower household formations, home prices continue to improve and are helping to support the economic recovery. The S&P/Case-Shiller Home Price Index was up 5.1% year-over-year in August. Since the recession, households have shifted from homeownership to renting for their primary residence. The rental vacancy rate has fallen 0.9% since last year while the homeownership rate continues to fall, registering 64.3% in the third quarter, 0.9% lower than a year ago. This trend continues to improve the prospects of multi-family housing in the coming quarters. Recent data for housing starts has been positive as both multi-family and single family starts registered gains in the third quarter. Demand for housing continues to be strong as the homeowner vacancy rate was 1.8% in the third quarter, indicating new housing units are being absorbed by the market. Historically low interest rates, steady employment growth, and improved access to credit will help support the recovery in the housing sector in 2015 and 2016. Residential investment in housing is expected to contribute 0.4% and 0.3% growth to real GDP in 2015 and 2016, respectively.

Total housing starts are projected to be 1.00 million units in 2014 and 1.20 million units in 2015, then grow to 1.35 million units in 2016 as housing sector continues to improve. In 2011, 2012, and 2013, total housing starts were 0.61 million, 0.78 million, and 0.93 million units, respectively. IHS Economics is forecasting the median price of existing homes to increase by 4.8% in 2014. In 2015 prices are expected to soften at -0.8% and then grow slightly by 0.6% in 2016 due to the increasing demand to rent versus own a home.

INFLATION: The Consumer Price Index (CPI) was unchanged in October after increasing 0.1% in September. The October 2014 CPI was up 1.7% year-over-year. Decreasing energy prices were offset by higher prices in other areas during October. The core CPI (excludes food and energy prices) increased at a 1.8% rate year-over-year in October. IHS Economics expects core price increases to remain in the 1.5% to 2.0% range well within the Federal Reserve's target as wage inflation remains subdued. IHS expects headline inflation to decrease 0.3% in the fourth quarter, mainly due to the decrease in energy prices. Low energy prices and sluggish wage growth is anticipated to keep inflationary pressures historically low over the forecast period.

The CPI increased 3.1% in 2011, 2.1% in 2012, and 1.5% in 2013. The CPI is forecasted to increase 1.7% in 2014, 1.0% in 2015, and 1.6% in 2016. The producer price index for finished goods grew

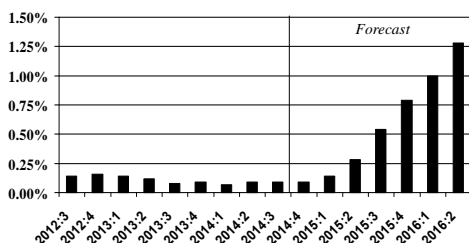
6.0% in 2011, 1.9% in 2012, and 1.2% in 2013. It is expected to increase 1.9% in 2014, decrease 0.1% in 2015, and increase 1.0% in 2016.

MONETARY AND FISCAL POLICY: Monetary and fiscal policies were very aggressive during the economic recession. The Federal Reserve utilized traditional as well as other liquidity and quantitative easing programs in an effort to support financial markets and the economy. In terms of fiscal policy, the federal government enacted a \$787 billion economic stimulus package in early 2009 as well as a temporary cut in payroll taxes for employees in 2011, which was extended into 2012. These actions helped stabilize the economy during and after the recession.

The actions the Federal Reserve took during the recession to stabilize the financial system and economy grew the Fed's balance sheet from under \$1 trillion in 2008 to nearly \$4.5 trillion at the present time. In October, the third round of quantitative easing, in which the Federal Reserve purchased \$85 billion of assets per month, was ended over a several month period. This is the first step in beginning to withdraw some of the monetary stimulus. Over the next several years, it is anticipated the Federal Reserve will continue receding these monetary stimulus actions, allowing the balance sheet to normalize. However, the future timing of these actions is uncertain. If the Federal Reserve withdraws monetary stimulus too quickly, they risk slowing the economic expansion. If they act too slowly, the economy could begin growing quickly and risk an increase in inflation. The Federal Reserve continues to monitor economic conditions and inflation measures to gauge when to act on interest rates and/or to begin reducing the amount of assets held within their balance sheet.

Currently, the federal funds target rate remains at the record low range of 0%-0.25% since being set in December of 2008. IHS Economics expects the Federal Reserve to leave the federal funds rate at the current range until mid-2015. Then they are expected to gradually raise rates.

IHS Global Insight's Baseline Forecast of the Federal Funds Rate



The federal budget deficit in 2014 was \$483 billion for the federal fiscal year, a significant improvement from 2013. Much of the improvement came from an 8.8% increase in revenue, as expenditures grew only 1.4% over the prior year. In the third quarter of 2014, federal government purchases grew 9.9%, which represented the first time federal government spending contributed to real GDP growth since 2012. The majority of the increase was from federal defense spending and is likely an end of the federal fiscal year anomaly. IHS Economics expects federal government spending to have small negative contributions to overall economic growth over the next several quarters. However, it is expected to be offset by modest increases in state and local government spending. The Republicans gained control of both houses of Congress in this year's mid-term elections, but with a presidential election just two years away, gridlock in Washington is the most likely outcome. Thus, no major changes to taxes or entitlement programs are anticipated in the short term forecast.

The unified federal deficit for federal fiscal year 2014 was \$483 billion, which is \$197 billion lower than fiscal year 2013. The fiscal year 2014 deficit represents approximately 2.8% of GDP, an improvement from 4.1% of GDP in fiscal 2013. IHS Economics forecasts a slightly larger deficit of \$490 billion for federal fiscal year 2015.

Real federal government purchases grew 4.3% in 2010, and then declined 2.6% in 2011, 1.4% in 2012, and 2.0% for 2013. Real federal government purchases are expected to decline 2.0% in 2014, 1.4% in 2015, and 0.9% in 2016. Federal government spending is forecasted to decline in real terms from 2015 through 2019, as the sequestration spending cuts help to stabilize the deficit as a percentage of GDP.

INTERNATIONAL: Global economic growth has been weak in 2014 as the European and Japanese economies continue to struggle. The European economy realized just 0.2% growth in GDP in the third quarter after 0.1% growth registered in the second quarter. Increased geopolitical tensions related to Russia and the Ukraine continues to temper confidence and investment in Europe. GDP growth in the Eurozone declined 0.4% in 2013 and is forecast to grow just 0.8% in 2014. Continued sluggish growth is expected in 2015 at 1.4%. The Chinese central bank recently cut interest rates to try to combat falling property values and signaled possible rate cuts in the future as the economy slowed in the third quarter. Real GDP growth in China slowed to 7.3% in the third quarter, down from the second quarter growth of 7.5%. The Chinese economy grew 7.7% in 2013 and is forecast to slow to 7.3% in 2014 and 7.0% in 2015.

SOUTH DAKOTA ECONOMY

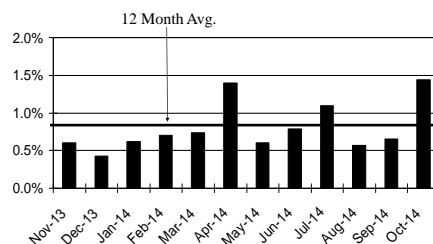
RECENT ECONOMIC ACTIVITY

This section briefly summarizes recent economic activity in South Dakota. A prime indicator of a state's economic health is the growth rate of nonfarm employment, as it is considered by most economists as the most timely and comprehensive measure of the performance of a state's economy.

Nonfarm employment growth in South Dakota increased at an average rate of 1.4% from 2002 through 2008, approximately 0.6% higher than the U.S. nonfarm employment growth rate of 0.8% over the same time period. However, the 2007 to 2009 economic recession caused declines of 1.9% and 0.1% during 2009 and 2010 in South Dakota's employment. In 2011, 2012, and 2013, positive growth returned with growth rates of 1.1%, 1.7%, and 0.7%, respectively. So far in 2014, employment growth has registered positive gains as the labor market continues slow and steady growth.

South Dakota had relatively strong employment growth in 2006, 2007, and 2008, adding 8,700, 8,000 and 4,900 jobs, respectively. However, the national recession led to 7,700 job losses during 2009 and 600 job losses in 2010. In 2011, 2012, and 2013 nonfarm employment grew 4,200 jobs, 6,800 jobs, and 3,100 jobs, respectively. In October 2014, nonfarm employment was up 1.44% over October 2013. The current forecast indicates a growth of 3,600 jobs for 2014 compared to 2013.

**Recent Growth in S.D.
Nonfarm Employment**



The following are some recent key South Dakota economic statistics:

- In the last twelve months (November 2013 through October 2014), nonfarm employment (seasonally adjusted) in South Dakota grew by 0.80% over the same period a year ago. Sectors experiencing growth in the last twelve months were: professional and business services

In terms of GDP, global economic growth is projected to be 2.7% in 2014, but improving to 3.1% in 2015. The forecasts for real GDP growth for 2015 for the United States, Japan, South America, and Canada are 2.6%, 1.1%, 1.5%, and 2.7%, respectively.

The US trade deficit grew in September to \$43.0 billion compared to \$40.0 billion in August as imports grew and exports decreased. The decrease in exports was primarily for decreased industrial supplies and materials. After growing 3.0% in 2013, real export growth is expected to grow 3.3% in 2014 and 2.9% in 2015. Overall, IHS Economics forecasts net exports to be -\$437.6 billion in 2014, then increase to -\$460.9 billion in 2015, and -\$520.0 billion in 2016. The US economy is expected to be a leader in economic growth in 2015 and 2016 allowing imports to grow faster than exports.

RISKS TO THE FORECAST

The US economy continued a modest pace of growth in 2014, despite weather related disruptions during the first quarter. Increases in consumption, investment, and exports helped push the economy to 4.6% and 3.5% GDP growth in the second and third quarter. Currently, the negative and positive risks to the economy are roughly balanced.

A 15% probability exists of US economic growth being much stronger than the baseline forecast. In IHS Economics' optimistic scenario, GDP is projected to grow 2.3% in 2014, followed by robust growth of 3.5% in 2015 and 3.9% in 2016. The optimistic scenario assumes lower oil prices which help fuel consumer spending in the United States. In addition, the European economy and emerging market economies are stronger, helping support export growth in the optimistic scenario.

While signs of improvement exist, concerns still remain including continued political uncertainty, restless financial markets, and the housing recovery. IHS Economics' pessimistic scenario has a 15% probability of occurring. In this scenario, household formation stagnates due to low wage growth, slower immigration, limited access to credit, and a large student loan burden. This weakens the housing market, sending prices lower. Foreign economies are much weaker in this scenario and lead to declines in exports, the stock markets, and consumer confidence. Weak domestic demand combined with declining exports lead to lower employment, depressed wages, and higher unemployment. In the pessimistic scenario, real GDP declines 0.2% in the first quarter of 2015 with slow growth the remainder of the year. In the pessimistic forecast, GDP grows just 2.1% in 2014, 1.1% in 2015, and 1.4% in 2016.

(2.58%); mining, logging, and construction (1.93%); other services (1.46%); manufacturing (1.44%); trade, transportation, and utilities (1.12%); financial activities (0.76%); and government (0.57%). The education and health services sector experienced no change in employment, while the leisure and hospitality sector was the only sector to experience a decrease (-0.84%) on average over the past twelve months.

- The unemployment rate in South Dakota was the second lowest in the US in October at 3.3%. This was 2.5% below the national rate of 5.8% in October, and 0.4% lower than South Dakota's unemployment rate from October of 2013.
- During the twelve-month period from November 2013 through October 2014, the number of titles issued for new noncommercial vehicles was 42,761, which is an increase of 487, or 1.2%, over the prior twelve-month period.
- The total number of residential units authorized by building permits issued January through September of 2014 was 3,465, which was down 1,193 units from the same time period in 2013. The value of residential building permits issued year-to-date in 2014 was \$555.2 million. This is a decrease of \$51.9 million from the first 9 months of 2013.

COUNCIL OF ECONOMIC ADVISORS

The Council of Economic Advisors, which has been in existence since 1991, consists of economics professors and business people from South Dakota. The purpose of the Council is to assist in the development of the best possible forecast of South Dakota's economy. This section summarizes the Council's view of South Dakota's economy.

TOURISM: The economic impact in South Dakota from tourism totaled \$1.98 billion in 2013, a record high in South Dakota. This was a 2.8% growth in the economic impact compared to 2012. The growth rate experienced in 2013 was largely due to increased spending by visitors compared to 2012 as taxable sales related to tourism were up 4.5%.

Tourism has been mixed thus far in 2014, with park visitation numbers lower than a year ago, but tourism related spending higher than last year. Total park visitation in the state through 9 months was 5.7% lower than a year ago, while tourism taxable sales registered a 4.5% increase in the first 9 months of 2014. Based on recent lower gas prices and recent increases in taxable sales, the outlook for the South

Dakota tourism industry is positive heading into 2015 as the state continues to promote South Dakota as a travel destination. Also, 2015 marks the 75th anniversary of the Sturgis motor cycle rally, which is expected to draw record attendance in the Black Hills, helping to boost tourism activity in 2015.

AGRICULTURE: In 2013, the agricultural economy in South Dakota produced cash receipts of \$10.47 billion, which was a decrease of \$0.18 billion from 2012's record high in terms of cash receipts. Crops generated \$6.54 billion and livestock generated \$3.93 billion in 2013. Lower crop prices were partially offset by higher livestock prices in 2013.

Overall, crop production in 2013 was strong compared to the prior year as drought conditions were present throughout much of the state during 2012. In 2013, corn for grain production totaled 808.7 million bushels, up significantly from 2012's production of 535.3 million bushels. The average yield of 138 bushels per acre was up from 2012's yield of 101 bushels per acre. Soybean production was 183.2 million bushels, an increase compared to 2012's production of 144.0 million bushels. Wheat production was down in 2013 compared to 2012 due to lower yield and fewer acres harvested. Livestock production in 2013 was similar compared to 2012 levels. The 2013 calf crop totaled 1.69 million head compared to 2012's production of 1.71 million head. The pig crop in 2013 was 3.72 million head, down slightly from 2012's production of 3.76 million head.

Crop production levels are higher for South Dakota producers in 2014 due to optimal growing conditions across much of the state during the year. According to the National Agricultural Statistics Service, as of November 1, corn production is projected to be 815.4 million bushels, up 6.7 million bushels compared to 2013. The corn yield is estimated to be 151 bushels per acre, up 13 bushels from last year's yield. If realized, this would tie for the highest yield on record for the state. Soybean production is expected to be 230.0 million bushels, up 24% from a year ago, with a yield of 45 bushels per acre, up 4.5 bushels from the 2013 yield. Overall, farm income for 2014 is anticipated to be down from 2013 as crop prices are significantly lower compared to a year ago. However, high livestock prices for cattle and hogs will offset some of the price loss from crops.

The Council's outlook for the agricultural economy is cautious for 2015, yet relatively optimistic over the long term. Large supplies of crops have put downward pressure on prices over the past year and transportation issues with railroads in the region have caused problems with exporting grain out of the state, leading to lower cash prices in many areas. However, tight supplies and strong demand for pork and beef have driven livestock prices higher over the

past year, which has helped offset a portion of the lower crop prices. Over the long term, continued growth in worldwide demand for agriculture products will ensure a healthy agriculture economy in the future.

CONSTRUCTION: So far in 2014, construction activity has continued to improve. Contractor's excise tax collections are up 6.1% so far through the first 9 months of activity in calendar year 2014 compared to the prior year. However, building permits related to housing are showing some weakening compared to last year's strong levels. Total housing units authorized by residential building permits through September 2014 were lower by 1,193 units and the value of permits was \$51.9 million lower than the same time period a year earlier. The decrease is mostly attributable to lower multi-family units compared to a year ago.

Although the residential and commercial construction market was impacted by tight credit availability and higher supply during the recession, interest rates continue to be attractive and credit availability continues to improve. Due to steady employment growth and improving credit markets, the Council believes construction activity will continue to increase as long as the economy continues to create jobs in 2015 and 2016.

SOUTH DAKOTA FORECAST HIGHLIGHTS

IHS Economics' forecast of the national and state economy and the input of the Council of Economic Advisors were incorporated into the forecast of South Dakota's economy. This section summarizes various categories of the latest forecast for the South Dakota economy.

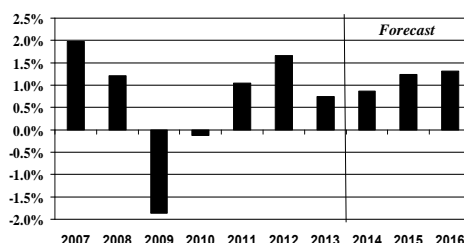
The South Dakota economy has been in a growth phase for nearly five years as increases in employment, income, and overall spending have been rebounding since early 2010. However, the pace of the recovery has been mixed, with modest growth realized in 2011 and 2012, followed by slower growth in 2013. The agriculture sector has supported overall economic growth directly and indirectly due to record farm income in recent years. Overall, South Dakota's economy is expected to continue to grow at a steady pace in 2015 and into 2016.

EMPLOYMENT: South Dakota has several advantages over other states which account for its ability to grow employment. Some of these advantages include a pro-business environment, a central geographic location, a low cost of doing business, and a high quality of life. These competitive advantages are expected to continue to

enhance employment growth in the future. One challenge the state continues to face now and over the long term is the size of a qualified labor force to fill current and future jobs.

Between 1990 and 2000, nonfarm employment in South Dakota grew at an average annual rate of 2.7%, which was significantly higher than the national average annual growth rate of 1.9% over the 10 year period. The majority of additional jobs in South Dakota during this period occurred in the manufacturing, construction, and service sectors. During and after the 2001 national recession, South Dakota nonfarm employment growth slowed to 0.2% in 2001, declined 0.3% in 2002, and then rose 0.2% in 2003. Over the next four years, employment growth accelerated to 1.3% in 2004, 1.7% in 2005, 2.2% in 2006, and 2.0% in 2007. In 2008, when the U.S. economy was officially in a recession, South Dakota still obtained a 1.2% growth in employment. However, in 2009 and 2010, employment declined 1.9% and 0.1%, respectively, as the national recession caused major job losses in manufacturing, construction, professional and business services, and financial services. In 2011, 2012, and 2013, employment growth rebounded with growth rates of 1.1%, 1.7%, and 0.7%, respectively. For 2014, the employment levels are expected to grow 0.9% compared to 2013 on an annual basis. In 2015 and 2016, nonfarm employment growth is projected to improve, growing 1.2% and 1.3%, respectively. In 2014, on an annual basis, the sectors projected to post gains are manufacturing, professional and business services, wholesale and retail trade, health and education services, financial activities, and government. The only sector expected to realize an employment loss is leisure and hospitality in 2014. In 2015 and 2016, annual employment increases are projected across all major sectors.

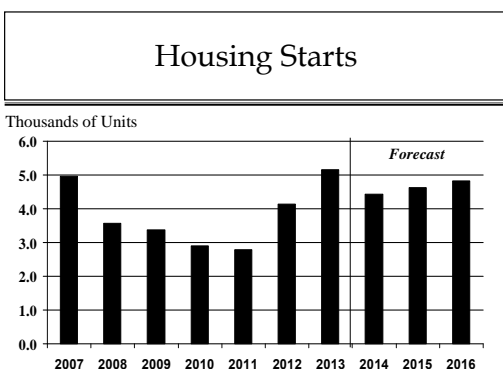
Growth in Nonfarm Employment



HOUSING: Favorable interest rates and changing demographics in the state contributed to a strong housing sector from 1998 through 2005 with the number of housing starts in South Dakota increasing each year. Then, from 2005 through 2011, the number of housing starts in South Dakota declined

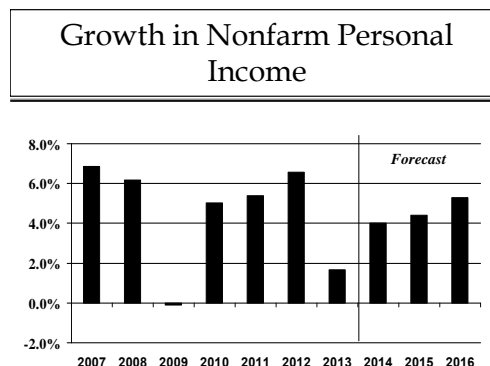
each year due to high inventories and reduced housing demand from the recession. In 2012 and 2013, the housing market recovered, realizing gains in housing starts in both years. Thus far in 2014, the housing market is indicating mixed signals as permits for housing are down compared to a year ago, but increases in the contractor's excise tax, an overall indicator of construction activity, has been strong so far this year.

After a brief slowdown in 2014, the housing market is expected to experience steady growth in 2015 and 2016 due to increasing economic activity across the state. Mortgage rates still remain attractive as the Federal Reserve continues to maintain a low interest rate policy. As job growth rises in 2015 and 2016, housing starts are expected to improve and will approach the levels realized in the early part of this decade. Housing starts were 5,150 in 2013 and are projected to be 4,440 in 2014, 4,630 in 2015, and 4,830 in 2016.



INCOME: Between 1990 and 2000, the average annual growth rate in nonfarm personal income in South Dakota grew at an average rate of 6.3%, higher than US growth rate of 5.9% over the same time period. However, after the 2001 recession, income growth slowed both in South Dakota and in the US. Nonfarm personal income in South Dakota grew 5.9% in 2001, 4.1% in 2002, and 4.5% in 2003. From 2004 through 2008, nonfarm income growth rebounded with growth averaging 5.8% per year. The higher growth rates in those years were due to strong employment increases and a growing economy. However, in 2009, the national economic recession caused nonfarm personal income to decline slightly. This was the first annual decrease in nonfarm personal income in South Dakota since 1937. In 2010, 2011, and 2012, nonfarm personal income increased by 5.0%, 5.4%, and 6.6%, respectively, as the economy recovered from the economic recession. In 2013, nonfarm income grew just 1.7%, reflecting slower job growth and higher federal payroll taxes reinstated in January 2013. In 2014, nonfarm income growth is forecasted to increase by 4.0%, an improvement from 2013, but

still below the average growth rate of 4.7% realized over the past ten years. In 2015 and 2016, the forecast for growth is to improve to 4.4% and 5.3%, reflecting steady employment and wage growth.



RISKS TO THE FORECAST

The Council of Economic Advisors sees some key risks to the current forecast. The primary risk to South Dakota's economy would be the national or global economy weakening during 2015. The national economy is growing, but continuing uncertainty in the fiscal/monetary policy as well as geopolitical risks are ever present. Other negative risks include possible financial market shocks or oil price shocks potentially lowering consumer confidence. Ongoing risks present in the agriculture economy include weather conditions, concerns of declining real estate values, grain transportation issues, and low commodity prices.

If any of the negative risks were to occur, employment levels and income could experience slower growth in the short term, leading to lower levels of consumer spending and slower economic growth in the short term.

Positive developments potentially improving the economic outlook in South Dakota include a stronger US economy as well as stronger foreign economic growth. Stronger economic growth from beyond our borders would strengthen exports of goods and services produced within our state and improve the overall economic outlook in South Dakota.

REVENUE ESTIMATES

SUMMARY

General fund receipts for FY2015 are forecasted at \$1,416.1 million. Ongoing receipts comprise \$1,381.1 million of the total. One-time revenues comprise \$35.0 million of the total, which includes \$9.9 million of obligated cash carried forward from FY2014. The ongoing estimate for FY2015 includes an increase of \$27.3 million from actual FY2014 ongoing receipts. Categories forecasted to show major increases in FY2015 include the sales and use tax (+\$21.4M), contractor's excise tax (+\$4.5M), the insurance company tax (+\$4.1M), property tax reduction fund (PTRF) receipts (+\$3.6M), transfers from trust funds (+\$2.4M), and licenses, permits, and fees (+\$1.6M). Categories forecasted for major decreases from FY2014 actual receipts are from unclaimed property receipts (-\$5.5M) and investment income and interest (-\$3.8M).

The revised ongoing estimate for FY2015 is \$10.7 million lower than the ongoing estimate adopted during the 2014 legislative session. Major positive adjustments for the revised FY2015 estimate compared to the adopted FY2015 estimate are for property tax reduction fund receipts (+\$2.3M), licenses, permits, and fees (+\$1.5M); the bank franchise tax (+\$1.5M); and the insurance company tax (+\$1.3M). The most significant negative revisions compared to the adopted FY2015 estimate are for the sales and use tax (-\$6.5M), unclaimed property receipts (-\$6.0M), investment income and interest (-\$2.1M), and severance taxes (-\$1.2M).

General fund receipts for FY2016 are projected to be \$1,441.2 million all of which are ongoing revenues. No one-time receipts are forecasted at this time. The forecast for ongoing receipts in FY2016 is an increase of \$60.2 million from the revised FY2015 projection. The significant sources of growth are the sales and use tax (+\$34.8M), the contractor's excise tax (+\$5.0M), the insurance company tax (+\$4.2M), investment income and interest (+\$3.5M), unclaimed property receipts (+\$2.5M), trust fund transfers (+\$2.4M), licenses, permits, and fees (+\$1.7M), and severance taxes (+\$1.3M). The increases in lottery receipts (+\$98.9M), tobacco taxes (+\$23.5M), the telecommunications tax (+\$7.0M), as well as the decreases in net transfers in (-\$15.3M) and PTRF receipts (-\$110.1M) represent the reclassification among revenue categories beginning in FY2016. The Governor is recommending legislation to repeal several unnecessary funds, including the property tax reduction fund, which will change the classification of several revenue sources.

CURRENT REVENUE FORECAST (Dollars in Millions)

	<u>FY2015</u>	<u>FY2016</u>
Sales and Use Tax	844.8	879.6
Lottery	6.9	105.8
Contractor's Excise Tax	94.9	99.9
Insurance Company Tax	79.3	83.4
Unclaimed Property	54.2	56.7
Tobacco Taxes	30.0	53.5
Property Tax Reduction Fund	110.1	N/A
Other Ongoing Revenues	160.9	162.3
One-Time Receipts	25.1	0.0
Obligated Cash Carried Forward	9.9	0.0
Total Revenue	<u>1,416.1</u>	<u>1,441.2</u>

SALES AND USE TAX

The sales and use tax is the single largest revenue source for the state's general fund and accounts for approximately 60% of ongoing general fund revenue. Between FY1980 and FY2014, the sales and use tax grew from \$140.6 million to \$823.4 million, which was an average annual increase of 5.3%. In FY2002 and FY2003, the growth of sales and use tax collections was weak (1.2% and 3.9%, respectively) due to a national recession and drought conditions impacting the agriculture sector. From FY2004 through FY2006, growth in the sales and use tax was strong (6.8%, 5.1%, and 8.0%) due to the strengthening economy. In FY2007, growth was below average (4.6%) due to drought conditions throughout much of the state. In FY2008, growth in the sales and use tax was above average (6.9%) due to increased employment and a strong farm economy. In FY2009 and FY2010, growth was below average (2.3% and -1.2%) due to a severe national recession causing declines in employment. In FY2011, growth was robust (8.9%) due to a strong agriculture sector combined with a recovering economy. In FY2012 and FY2013, growth was slightly below average (4.8% and 4.3%), reflecting low inflation and a slowing economic recovery. FY2014 realized a 6.1% growth due to record audit collections and increased equipment purchases, especially in the agriculture sector.

Net collections from the sales and use tax in FY2014 were \$823.4 million, which was an increase of \$47.3 million, or 6.1%, compared to FY2013. Through the first four months of FY2015, sales and use tax collections to the general fund were \$300.3 million, which is an increase of 2.1% from the first four months of FY2014. For the revised FY2015 estimate, the sales and use tax is forecasted at \$844.8 million, which is an increase of \$21.4 million, or 2.6%, compared to FY2014. For FY2016, the sales and use tax is forecasted at \$879.6 million,

which is an increase of \$34.8 million, or 4.1%, over the revised FY2015 estimate.

LOTTERY

Collections from lottery activities will account for approximately 7% of ongoing general fund revenues beginning in FY2016. The Governor is recommending legislation to repeal the Property Tax Reduction Fund (PTRF) beginning in FY2016, allowing the state's receipts of video lottery to flow directly into the general fund in this category. In FY2015, lottery collections are anticipated at \$6.9 million, which includes the general fund's share of instant lottery ticket sales of \$5.5 million and the first \$1.4 million of online ticket sales. In FY2016, lottery receipts are projected at \$105.8 million, which includes \$5.8 million from instant lottery income, the first \$1.4 million from online lottery income, and \$98.6 million from the state's share of video lottery receipts. Prior to FY2016, the state's share of video lottery was included in the PTRF receipts. In FY2013 and FY2014, video lottery receipts were \$91.4 million and \$91.6 million, respectively. So far in FY2015, video lottery receipts have been strong, growing 6.2% through the first four months compared to the prior year. In FY2015 and FY2016, receipts of \$95.3 million and \$98.6 million, respectively, are expected from the state's share of video lottery.

CONTRACTOR'S EXCISE TAX

Collections from the contractor's excise tax account for approximately 7% of ongoing general fund revenues. Construction activity has a direct impact on the growth in the contractor's excise tax collections. Expansion in this activity contributed to the increase in contractor's excise tax collections from \$16.2 million in FY1988 to \$90.4 million in FY2014. In FY2014, net collections to the general fund from the contractor's excise tax grew \$5.9 million, or 7.0%, from FY2013. Through the first four months of FY2015, net contractor's excise tax collections were \$38.7 million, an increase of 5.9% compared to the first four months of FY2014. The increase in FY2015 is primarily due to continued increases in construction activity. Contractor's excise tax collections for FY2015 are forecasted to be \$94.9 million, which is an increase of \$4.5 million, or 5.0%, over FY2014 collections. FY2016 collections are forecasted at \$99.9 million, which is an increase of \$5.0 million, or 5.3%, compared to the revised FY2015 estimate.

INSURANCE COMPANY TAX

Collections from the insurance company tax account for approximately 6% of ongoing general fund revenues. From FY1985 to FY2014, insurance company tax collections grew from \$17.2 million to \$75.1 million, which was an average annual increase of 5.2%. In FY2014, insurance company tax collections were \$75.1 million, which was an increase of \$4.8 million, or 6.9%, compared to FY2013 collections. During the first four months of FY2015, insurance company tax collections were \$33.1 million, which is an increase of 7.9% over the same period in FY2014. For FY2015, insurance company tax collections are forecasted at \$79.3 million, which is an increase of \$4.1 million, or 5.5%, over FY2014 collections. For FY2016, insurance company tax collections are forecasted to be \$83.4 million, which is an increase of \$4.2 million, or 5.3%, over the revised FY2015 estimate.

UNCLAIMED PROPERTY

Historically, collections from unclaimed property have been relatively small, but are now expected to represent 4% of ongoing general fund revenues in FY2016. Unclaimed property has been remitted to the state since the 1980's. Recently, collections to the general fund ranged from \$0.4 million in FY1997 to \$8.0 million in FY2010. In FY2011 through FY2013, ongoing collections increased to \$12.9 million, \$13.9 million, and \$13.9 million, respectively, due to mergers within the banking industry. Continued consolidation combined with the migration of home office locations to South Dakota led to an increase in ongoing collections in FY2014 to \$59.8 million. Through early November of FY2015, net unclaimed property collections to the general fund were \$59.1 million. For FY2015, after claim and reciprocity payment are made through the remainder of the year, net ongoing unclaimed property collections are forecasted at \$54.2 million. This is a decrease of \$5.5 million, or 9.2%, compared to FY2014. For FY2016, ongoing unclaimed property collections are forecasted to be \$56.7 million, an increase of \$2.5 million, or 4.6% compared to the FY2015 revised estimate. The increase in FY2016 is due to lower anticipated claims and reciprocity payments as compared to FY2015.

TOBACCO TAXES

Beginning in FY2016, the Governor is recommending legislation to repeal several unnecessary funds, including the Property Tax Reduction Fund, the Health Care Tobacco Tax

Fund, and the Education Enhancement Tobacco Tax Fund. Currently these three funds receive a portion of the tobacco taxes collected in excess of \$35.0 million, but are subsequently transferred into the general fund. This change will eliminate unnecessary statutes, funds, and related accounting transactions. This change will continue to direct the first \$30.0 million collected in tobacco taxes to the general fund and the next \$5.0 million collected to the tobacco prevention and reduction trust fund. Any collections in excess of \$35.0 million will now go directly to the general fund in the tobacco tax category beginning in FY2016. In FY2015, total receipts from tobacco taxes are projected at \$30.0 million. In FY2016, under the Governor's proposal, tobacco tax collections to the general fund are estimated at \$53.5 million. This change does not represent any new net revenue to the general fund, just a change in how the revenue is classified.

PROPERTY TAX REDUCTION FUND

In FY2016, the Governor is proposing legislation to repeal the Property Tax Reduction Fund (PTRF) and direct the ongoing sources of revenue directly to the state general fund as these ongoing sources have been subsequently transferred to the general fund for the past 10 fiscal years. The PTRF has traditionally been the source from which the state has funded property tax relief. In 1996, the Legislature directed receipts from video lottery to be transferred into the PTRF and checks were written from the fund to the counties to fund the first Property Tax Credit Program. Currently, the PTRF also receives ongoing funding from the telecommunications tax, a 33% share of the revenues collected in excess of \$35 million each fiscal year from the tobacco taxes as well as transfers from the wind energy tax fund per SDCL 10-35-22. All ongoing revenue is currently transferred from the PTRF to the general fund as an ongoing revenue source. Beginning in FY2016, the telecommunications tax will be included as a separate revenue category and the tobacco portion will be included in the tobacco tax category, while the transfer from the wind energy tax fund will be included in the net transfers in category.

Transfers from the PTRF to the general fund from ongoing revenue sources totaled \$106.5 million in FY2014, which was a 0.7% decrease from FY2013. The decrease in receipts in FY2014 was due to lower collections from the telecommunications tax. In FY2015 ongoing receipts of \$110.1 million is expected to be transferred from the PTRF to the

general fund. In FY2016 all ongoing receipts will be reflected as previously noted.

OTHER ONGOING REVENUES

Receipts included in this category come from the bank franchise tax; alcohol beverage tax; the alcohol beverage 2% wholesale tax; licenses, permits, and fees; investment income and interest; charges for goods and services; net transfers in; transfers from the Dakota Cement, Education Enhancement, and Health Care Trust Funds; severance taxes; and the sale-leaseback annuity payments. Beginning in FY2016, this will also include the telecommunications tax previously included in the Property Tax Reduction Fund receipts. For FY2015, collections from other ongoing revenues are projected to be \$160.9 million, which is approximately 12% of total ongoing general fund revenues. This is a decrease of \$1.4 million compared to FY2014. In FY2016, collections from other ongoing revenues are expected to increase compared to FY2015, mainly due to increases in trust fund transfers, investment income, and severance taxes. For FY2016, collections are projected at \$162.2 million.

ONE-TIME RECEIPTS

In FY2015, collections from one-time receipts are projected to be \$25.1 million. This includes \$5.4 million from refinancing gains and remaining funds from the defeasance of 2014 bonds, a \$2.4 million transfer from the South Dakota Risk Pool fund, and a \$1.3 million transfer from the large project refund liability account. Also included is \$16.0 million which represents the recommended repeal of the Medicaid reserve fund in FY2015. In FY2016, there are no one-time receipts projected at this time.

OBLIGATED CASH CARRIED FORWARD

This is the amount of prior year cash carried forward to meet obligations existing at the end of the previous year. For FY2015, the total amount of obligated cash carried forward was \$9.9 million. This was obligated to the Budget Reserve Fund from the budget surplus at the end of FY2014.

BUDGET RESERVE

House Bill 1287, passed by the 1991 South Dakota Legislature, created the Budget Reserve Fund. The purpose of its creation was to place resources into a reserve which would only be used to address emergency situations without having to raise taxes or cut spending. In FY1992, \$20.0 million was transferred from the general fund to the Budget Reserve Fund. For each year thereafter, the maximum level of funds in the reserve was set at 5% of the general funds appropriated the prior year in the General Appropriations Act, with the funding coming from any unobligated cash remaining in the general fund at the end of a fiscal year. House Bill 1195, passed by the 2002 South Dakota Legislature, changed the maximum level of funds in the reserve

to 10% of the general fund appropriations from the General Appropriations Act for the prior fiscal year. The use of funds within the reserve requires a 2/3 vote by the South Dakota Legislature. At the end of FY2012, FY2013, and FY2014, unobligated general fund cash in the amounts of \$47.8 million, \$24.2 million, and \$9.9 million, respectively, was obligated to the Budget Reserve Fund. These funds were transferred into the reserve at the beginning of FY2013, FY2014, and FY2015, respectively. The ending cash balance for FY2015 does not assume that surplus funds will be available. If there is a surplus in FY2015, the ending balance in the Budget Reserve Fund will be adjusted accordingly.

BUDGET RESERVE FUND CONDITION STATEMENT

	ACTUAL FY2013	ACTUAL FY2014	ESTIMATED FY2015	ESTIMATED FY2016
Beginning Balance	\$ 23,243,431	\$ 71,093,284	\$ 95,325,807	\$ 105,202,156
Calculations for Maximum Balance in the Fund:				
General Bill Appropriation for Prior Year	\$ 1,155,867,146	\$ 1,232,361,618	\$ 1,293,068,278	\$ 1,377,141,851
Budget Reserve Fund Percentage	10%	10%	10%	10%
Maximum Amount in the Fund	<u>\$ 115,586,715</u>	<u>\$ 123,236,162</u>	<u>\$ 129,306,828</u>	<u>\$ 137,714,185</u>
Maximum Transferable Amount	<u>\$ 92,343,284</u>	<u>\$ 52,142,878</u>	<u>\$ 33,981,021</u>	<u>\$ 32,512,029</u>
Amount of General Funds Available End of Prior Year	\$ 47,849,854	\$ 24,232,522	\$ 9,876,349	\$ -
Transferred in from General Fund	<u>\$ 47,849,854</u>	<u>\$ 24,232,522</u>	<u>\$ 9,876,349</u>	<u>\$ -</u>
Transferred out to General Fund	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Ending Balance	<u>\$ 71,093,284</u>	<u>\$ 95,325,807</u>	<u>\$ 105,202,156</u>	<u>\$ 105,202,156</u>

NOTE: The totals may not add due to rounding.

**COMPARISON BETWEEN LEGISLATIVE ADOPTED AND
REVISED ESTIMATE FOR FY2015**

	LEG. ADOPTED FY2015	REVISED FY2015	DOLLAR CHANGE	PERCENT CHANGE
ONGOING RECEIPTS				
Sales and Use Tax	\$ 851,345,413	\$ 844,828,546	(\$6,516,867)	(0.77)
Lottery	7,800,696	6,852,306	(948,390)	(12.16)
Contractor's Excise Tax	95,378,299	94,927,448	(450,851)	(0.47)
Insurance Company Tax	77,967,813	79,256,436	1,288,623	1.65
Unclaimed Property Receipts	60,200,000	54,230,300	(5,969,700)	(9.92)
Licenses, Permits, and Fees	52,273,316	53,759,733	1,486,417	2.84
Tobacco Taxes	30,000,000	30,000,000	0	0.00
Trust Funds	30,782,266	30,826,733	44,467	0.14
Net Transfers In	31,173,505	31,587,703	414,198	1.33
Alcohol Beverage Tax	11,143,578	11,100,378	(43,200)	(0.39)
Bank Franchise Tax	8,711,612	10,177,974	1,466,362	16.83
Charges for Goods and Services	10,844,148	10,534,785	(309,363)	(2.85)
Telecommunications Tax	0	0	0	0.00
Severance Taxes	6,260,231	5,072,701	(1,187,530)	(18.97)
Sale-Leaseback	5,236,813	5,236,813	0	0.00
Investment Income and Interest	2,860,000	754,294	(2,105,706)	(73.63)
Alcohol Beverage 2% Wholesale Tax	2,037,571	1,833,747	(203,824)	(10.00)
Property Tax Reduction Fund	107,821,172	110,106,101	2,284,929	2.12
SUBTOTAL (ONGOING RECEIPTS)	\$ 1,391,836,433	\$ 1,381,085,998	(\$10,750,435)	(0.77)
ONE-TIME RECEIPTS				
Refinancing Gains/Transfer from SDBA	\$ 0	\$ 5,406,984	\$ 5,406,984	100.00
Transfer from South Dakota Risk Pool	0	2,420,000	2,420,000	100.00
Transfer from Large Project Liability Account	0	1,299,428	1,299,428	100.00
Unexpended Carryovers and Specials	0	16,000,000	16,000,000	100.00
Obligated Cash Carried Forward	0	9,876,349	9,876,349	100.00
SUBTOTAL (ONE-TIME RECEIPTS)	\$ 0	\$ 35,002,761	\$ 35,002,761	100.00
GRAND TOTAL	\$ 1,391,836,433	\$ 1,416,088,759	\$24,252,326	1.74

NOTE: The totals may not add due to rounding.

COMPARISON BETWEEN FY2014 AND REVISED FY2015 REVENUE COLLECTIONS

	ACTUAL FY2014	REVISED FY2015	DOLLAR CHANGE	PERCENT CHANGE
ONGOING RECEIPTS				
Sales and Use Tax	\$ 823,401,593	\$ 844,828,546	\$21,426,953	2.60
Lottery	6,296,600	6,852,306	555,706	8.83
Contractor's Excise Tax	90,409,495	94,927,448	4,517,953	5.00
Insurance Company Tax	75,110,734	79,256,436	4,145,702	5.52
Unclaimed Property Receipts	59,761,191	54,230,300	(5,530,891)	(9.25)
Licenses, Permits, and Fees	52,203,471	53,759,733	1,556,262	2.98
Tobacco Taxes	30,000,000	30,000,000	0	0.00
Trust Funds	28,436,564	30,826,733	2,390,169	8.41
Net Transfers In	32,133,057	31,587,703	(545,354)	(1.70)
Alcohol Beverage Tax	10,790,053	11,100,378	310,325	2.88
Bank Franchise Tax	10,782,035	10,177,974	(604,061)	(5.60)
Charges for Goods and Services	10,461,221	10,534,785	73,564	0.70
Telecommunications Tax	0	0	0	
Severance Taxes	5,424,019	5,072,701	(351,317)	(6.48)
Sale-Leaseback	5,838,681	5,236,813	(601,868)	(10.31)
Investment Income and Interest	4,528,811	754,294	(3,774,517)	(83.34)
Alcohol Beverage 2% Wholesale Tax	1,690,523	1,833,747	143,224	8.47
Property Tax Reduction Fund	106,529,196	110,106,101	3,576,905	3.36
SUBTOTAL (ONGOING RECEIPTS)	\$ 1,353,797,245	\$ 1,381,085,998	\$27,288,753	2.02
ONE-TIME RECEIPTS				
Refinancing Gains/Transfer from SDBA	\$ 0	\$ 5,406,984	\$ 5,406,984	100.00
Transfer from South Dakota Risk Pool	0	2,420,000	2,420,000	100.00
Transfer from Large Project Liability Account	0	1,299,428	1,299,428	100.00
Unexpended Carryovers and Specials	0	16,000,000	16,000,000	100.00
Obligated Cash Carried Forward	0	9,876,349	9,876,349	100.00
SUBTOTAL (ONE-TIME RECEIPTS)	\$ 0	\$ 35,002,761	\$ 35,002,761	100.00
GRAND TOTAL	\$ 1,353,797,245	\$ 1,416,088,759	\$62,291,514	4.60

NOTE: The totals may not add due to rounding.

COMPARISON BETWEEN REVISED FY2015 AND FY2016 REVENUE COLLECTIONS

	REVISED FY2015	PROJECTED FY2016	DOLLAR CHANGE	PERCENT CHANGE
ONGOING RECEIPTS				
Sales and Use Tax	\$ 844,828,546	\$ 879,581,671	\$ 34,753,125	4.11
Lottery	6,852,306	105,801,639	98,949,333	1,444.03
Contractor's Excise Tax	94,927,448	99,940,035	5,012,587	5.28
Insurance Company Tax	79,256,436	83,430,980	4,174,544	5.27
Unclaimed Property Receipts	54,230,300	56,730,300	2,500,000	4.61
Licenses, Permits, and Fees	53,759,733	55,461,356	1,701,623	3.17
Tobacco Taxes	30,000,000	53,526,233	23,526,233	78.42
Trust Funds	30,826,733	33,244,122	2,417,389	7.84
Net Transfers In	31,587,703	16,289,692	(15,298,011)	(48.43)
Alcohol Beverage Tax	11,100,378	11,421,991	321,613	2.90
Bank Franchise Tax	10,177,974	11,036,706	858,732	8.44
Charges for Goods and Services	10,534,785	10,544,803	10,018	0.10
Telecommunications Tax	0	7,011,714	7,011,714	100.00
Severance Taxes	5,072,701	6,361,925	1,289,224	25.41
Sale-Leaseback	5,236,813	4,663,938	(572,875)	(10.94)
Investment Income and Interest	754,294	4,233,290	3,478,996	461.23
Alcohol Beverage 2% Wholesale Tax	1,833,747	1,962,512	128,765	7.02
Property Tax Reduction Fund	110,106,101	N/A	(110,106,101)	(100.00)
SUBTOTAL (ONGOING RECEIPTS)	\$ 1,381,085,998	\$ 1,441,242,907	\$ 60,156,909	4.36
ONE-TIME RECEIPTS				
Refinancing Gains/Transfer from SDBA	\$ 5,406,984	\$ 0	\$ (5,406,984)	(100.00)
Transfer from South Dakota Risk Pool	2,420,000	0	(2,420,000)	(100.00)
Transfer from Large Project Liability Account	1,299,428	0	(1,299,428)	(100.00)
Unexpended Carryovers and Specials	16,000,000	0	(16,000,000)	(100.00)
Obligated Cash Carried Forward	9,876,349	0	(9,876,349)	(100.00)
SUBTOTAL (ONE-TIME RECEIPTS)	\$ 35,002,761	\$ 0	\$ (35,002,761)	(100.00)
GRAND TOTAL	\$ 1,416,088,759	\$ 1,441,242,907	\$ 25,154,148	1.78

NOTE: The totals may not add due to rounding.

GENERAL FUND RECEIPTS

	ACTUAL FY2013	ACTUAL FY2014	REVISED FY2015	PROJECTED FY2016
ONGOING RECEIPTS				
Sales and Use Tax	\$ 776,095,539	\$ 823,401,593	\$ 844,828,546	\$ 879,581,671
Lottery	7,735,976	6,296,600	6,852,306	105,801,639
Contractor's Excise Tax	84,466,868	90,409,495	94,927,448	99,940,035
Insurance Company Tax	70,291,028	75,110,734	79,256,436	83,430,980
Unclaimed Property Receipts	13,912,329	59,761,191	54,230,300	56,730,300
Licenses, Permits, and Fees	48,775,456	52,203,471	53,759,733	55,461,356
Tobacco Taxes	30,000,000	30,000,000	30,000,000	53,526,233
Trust Funds	27,235,040	28,436,564	30,826,733	33,244,122
Net Transfers In	31,003,732	32,133,057	31,587,703	16,289,692
Alcohol Beverage Tax	10,456,399	10,790,053	11,100,378	11,421,991
Bank Franchise Tax	17,537,046	10,782,035	10,177,974	11,036,706
Charges for Goods and Services	11,144,224	10,461,221	10,534,785	10,544,803
Telecommunications Tax	0	0	0	7,011,714
Severance Taxes	7,690,588	5,424,019	5,072,701	6,361,925
Sale-Leaseback	6,465,087	5,838,681	5,236,813	4,663,938
Investment Income and Interest	6,459,192	4,528,811	754,294	4,233,290
Alcohol Beverage 2% Wholesale Tax	1,647,547	1,690,523	1,833,747	1,962,512
Property Tax Reduction Fund	107,261,166	106,529,196	110,106,101	N/A
SUBTOTAL (ONGOING RECEIPTS)	\$1,258,177,217	\$1,353,797,245	\$1,381,085,998	\$1,441,242,907
ONE-TIME RECEIPTS				
Refinancing Gains/Transfer from SDBA	\$ 1,738,786	\$ 0	\$ 5,406,984	\$ 0
Transfer from South Dakota Risk Pool	0	0	2,420,000	0
Transfer from Large Project Liability Account	0	19,424,586	1,299,428	0
One-time Unclaimed Property Receipts	17,397,006	54,013,610	0	0
Transfer from Tax Relief Fund	4,133,192	0	0	0
Miscellaneous Settlements	2,366,100	0	0	0
Transfer from Budgetary Accounting Fund	1,839,990	0	0	0
Transfer from Tobacco Prev. and Red. Trust Fund	1,000,000	0	0	0
One-time Bank Franchise Tax	1,153,334	0	0	0
Unexpended Carryovers and Specials	303,580	4,152,194	16,000,000	0
Transfer from Property Tax Reserves	0	19,626,221	0	0
Obligated Cash Carried Forward	75,655,964	25,216,171	9,876,349	0
SUBTOTAL (ONE-TIME RECEIPTS)	\$ 105,587,953	\$ 122,432,782	\$ 35,002,761	\$ 0
GRAND TOTAL	\$1,363,765,170	\$1,476,230,027	\$1,416,088,759	\$1,441,242,907

NOTE: The totals may not add due to rounding.

TAX EXPENDITURES

Sales and Use Tax Exemptions

**Annual Est. General
Fund Revenue Loss**

Agriculture Group

10-45-18, 10-45-18.2, 10-46-16, 10-46-16.2: Livestock, live poultry, ostriches, emus, or rheas, if such sales are part of a series of transactions incident to producing a finished product intended to be offered for an ultimate retail sale. Also includes live cattle, buffalo, sheep, goats, swine, poultry, and horses.	\$160,075,000
10-45-18.3: Feed for cattle, buffalo, sheep, goats, swine, poultry, ostriches, emus, rheas, and domesticated fur-bearing animals defined in chapter 40-35, if such feed is used by farmers or ranchers who are regularly engaged in the business of raising and feeding such animals, or producing milk for sale for human consumption, and horses and other animals with the family equidae. Poultry does not include any fowl other than domestic fowl kept and raised for the market or the production of eggs for human consumption.	\$51,200,000
10-45-16: Commercial fertilizer, either liquid or solid, when sold in quantities of five hundred pounds or more in a single sale to be used exclusively for agricultural purposes.	\$39,600,000
10-45-15: Seed legumes, seed grasses, and seed grains sold in quantities of 25 pounds or more in a single sale to be used exclusively for agricultural purposes.	\$31,602,000
10-45-3.4: (1) Parts or repairs on machinery or equipment which are clearly identifiable as used primarily for agricultural purposes, including irrigation equipment, if the part replaces a farm machinery or irrigation equipment part assigned a specific or generic part number by the manufacturer of the farm machinery or irrigation equipment; and (2) Maintenance items and maintenance services used on machinery or equipment which are clearly identifiable as used primarily for agricultural purposes, including irrigation equipment.	\$19,877,000
10-45-16.1, 10-46-17.5: Pesticides (including insecticides, herbicides, pesticides, rodenticides, and fumigants) and products or substances used in conjunction with application of the pesticides used exclusively for agricultural purposes. (Sales tax applies to endoparasiticides and ectoparasiticides)	\$19,405,000
10-45-19, 10-46-17: Motor fuel, including kerosene, tractor fuel, liquefied petroleum gas, natural and artificial gas, diesel fuels, and distillate, when used for agricultural purposes. Agricultural purposes includes hay grinding but does not include the lighting or heating of any farm residence.	\$17,919,000
10-45-12.1: Farm Product Warehousing & Storage	\$8,200,000
10-45-12.1: Agricultural Services, except: Veterinary Services and Animal Specialty Services.	\$7,365,000
10-45-93: Sale of agricultural and industrial production equipment in international commerce where physical delivery of the goods takes place in South Dakota if the property is to be shipped to a point outside the United States not to be returned to a point within the United States. (also 10-46E)	\$325,000
10-45-12.1: Forestry Services	\$250,000
10-45-18.6, 10-46-16.6: The sale of swine or cattle semen used for agricultural purposes.	\$195,000
10-45-16.2, 10-45-16.3: Rental of devices primarily used to apply fertilizers, pesticides, herbicides, and insecticides for agricultural purposes if sales or use tax was paid on the original purchase of the device.	\$26,000
10-45-18.4, 10-46-16.4: Live nondomestic animal regulated by the animal industry board pursuant to 40-3-26 if the animal is to be used by a farmer or rancher who is regularly engaged in the breeding and raising of such animals.	\$26,000
10-45-19.1, 10-46-17.2: Electricity used to power irrigation pumps and horsepower charge on electric motors powering irrigation pumps when the purchase is exclusively for agricultural purposes.	\$21,000
10-45-18.5, 10-46-16.5: Feed for nondomestic animals exempted in 10-45-18.4	\$6,500

TAX EXPENDITURES

Sales and Use Tax Exemptions

**Annual Est. General
Fund Revenue Loss**

Healthcare Group

10-45-12.1: Health Services; 10-45-14, 10-45-15: Purchases by nonprofit hospitals; 10-45-14.10: Drugs to the extent used by humans that are prescribed, dispensed, or administered by a physician, chiropractor, optometrist, dentist, podiatrist, or audiologist; 10-45-14.9: Insulin that is not sold by prescription; 10-45-14.11: Durable medical equipment, mobility enhancing equipment, and prosthetic devices used by humans when prescribed by prescription, dispensed, or administered for a specific patient by a physician, chiropractor, optometrist, dentist or podiatrist; 10-45-14.12: Medical devices used by humans when prescribed by prescription, dispensed, or administered for a specific patient by a physician, chiropractor, optometrist, dentist or podiatrist; 10-45-14.6: Hospital meals paid for by a public entity.	\$120,000,000
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Government

10-45-10: Purchases by the Federal Government, State Government, Public or Municipal Corporations, and Indian tribes. Estimate includes purchases by Educational Institutions and 10-45-14: purchases by Religious or Private Educational Institutions.	\$100,000,000
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Business Group

10-45-7: Lodging or campsites provided to any person for 28 or more consecutive days. Occasional rental of sleeping accommodations or camp sites, which is 10 or less days/year.	\$48,000,000
10-45-11.1, 10-46-17.3: Goods and services furnished to meet warranty obligation.	\$8,000,000
10-45-20.6, 10-46-9.6: Replacement parts sold to retailers that will be installed in tangible personal property that will ultimately be for resale.	\$7,500,000
10-45-12.1: Exempts advertising services, which is the preparing and placement of ads. Exempts charges by media for placement of an ad in that media.	\$7,000,000
10-45-68, 10-46-56: Sale of credit card processing services to retailers.	\$3,000,000
10-45-12.1: Water Supply	\$2,600,000
10-45-9.1: Personal Property sold for lease.	\$2,000,000
10-45-13.1: Membership fees to membership organizations and services provided by membership organizations.	\$2,000,000
10-45-5.2: Sanitary services except for the collection and disposal of solid waste which is specifically listed as subject to sales tax.	\$2,000,000
10-45-20.1: Payments made by one member of a controlled group to another member of a controlled group which represent an allocation, reimbursement, or charge for services provided by or rendered by the members of the controlled group. The exemption provided in this section does not apply to the lease of tangible personal property unless the sales or use tax has been paid on the property by the lessor. (estimate also includes 10-45-20.2)	\$1,000,000
10-45-29.1 Allows deduction from gross receipts charges to clients for tangible personal property or services purchased by the attorney or accountant on behalf of a client, provided the purchase was not a resale purchase.	\$750,000
10-45-12.5, 10-46-9.5: Fees or commissions received for rendering a service which provides for the sale of tangible personal property or services. 10-45-84, 10-45-90 Fees or commissions received by a retailer for arranging a loan for a customer to pay for property sold by that retailer.	\$500,000
10-45-12.1: Motion picture rentals to a commercially operated theater primarily engaged in the exhibition of motion pictures.	\$500,000
10-45-5.2: Research, development, and testing services (SIC 8733)	\$500,000
10-45-7.1, 10-46-68: Membership fees paid to a lodging house or hotel membership organization operated for the benefit of its members.	\$250,000
10-45-96: Deduction allowed for actual disbursements, including appropriate reserves, for the wages, salaries, payroll taxes, payroll deductions, workers' compensation costs, insurance premiums, welfare benefits, retirement benefits, and other employee benefits of its co-employees.	\$250,000
10-45-5.2: Radio & Television Broadcasting	\$250,000
10-45-5: Leases of tangible personal property between one telephone company and another telephone company.	\$250,000

TAX EXPENDITURES

Sales and Use Tax Exemptions

**Annual Est. General
Fund Revenue Loss**

Business Group (Continued)

10-45-1.6: Exempts gross receipts received by a retailer from a manufacturer, wholesaler, or distributor pursuant to a written contract that requires the retailer to display the manufacturer, wholesaler, or distributor's product or signage in a specified manner or location. Discounts or deferred payment received by a retailer from a distributor, wholesaler, or manufacturer for purchasing a product for sale at retail does not constitute gross receipts subject to tax.	\$200,000
10-45-5.2: Goods or services with money advanced as an accommodation are retail purchases and are not included in gross receipts for funeral services and fees paid or donated for religious ceremonies are not included in gross receipts for funeral services.	\$200,000
10-45-5.5, 10-46-2.5: Chemicals purchased for use by Lawn & Garden Services.	\$150,000
10-45-92: Deduction allowed from auctions gross receipts for expenses for tangible personal property or services purchased by the auctioneer for that client, provided the purchase was not a resale purchase.	\$100,000
10-45-14.2, 10-46-9.1: Ink and newsprint used to produce shoppers' guides.	\$100,000
10-45-94: Postage by a mailing service provided the cost of postage is itemized on the customer's bill and the cost of the postage is no greater than the cost of the postage to the mailing service.	\$50,000
10-45-12.4: Services provided to a rural water system by a wholly owned cooperative or nonprofit corporation.	\$50,000
10-45-110: Exempts coins, currency, or bullion.	\$32,000
10-45-12.7: Any person officiating an amateur sporting event. However, this exemption does not apply to any person officiating any sporting event sponsored and operated by any elementary, secondary, or postsecondary school.	\$25,000
10-45-90, 10-46-63: Services performed for rodeos by promoters, stock contractors, stock handlers, announcers, judges, and clowns.	\$25,000
10-45-18.1, 10-46-16.1: Live gamebirds sold by the producer to nonprofit organizations which release such birds or to commercial hunting operators who charge fees to hunt such birds.	\$5,000
10-45-12.1: Consumer Credit Reporting Agencies and Mercantile Reporting Agencies.	\$5,000

Educational Services

10-45-12.1: Educational Services - Exempt schools: Continuing education programs, tutoring, and vocational counseling not including Rehabilitation counseling (See Social Services exemption for Rehabilitation counseling).	\$20,000,000
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Financial Group

10-45-12.1: Commissions earned or service fees paid by an insurance company to an agent or representative for the sale of a policy. 10-44-8 Insurance companies are exempt from all other taxes, except sales or use tax on tangible personal property and taxes on real property. Insurance companies do not owe use tax on the purchase of services, if the service provider does not collect the applicable sales tax.	\$7,700,000
10-45-20.5, 10-46-2.1: Services by a related corporation to a financial institution or services by a financial institution to a related corporation if they are part of a controlled group of corporations.	\$1,000,000
10-45-12.1: Commodity Contracts Brokers & Dealers; 10-45-12.1: Brokers, Dealers, and Flotation Companies; 10-46-9.2: Brokers licensed under Title 47.	\$1,000,000
10-43-5: Bank franchise tax is paid in lieu of other taxes, except sales or use tax on tangible personal property. Financial institutions do not owe use tax on services, if the service provider does not collect the applicable sales tax.	\$750,000
10-45-12.1: Financial services of institutions subject to the tax under Chapter 10-43 (Bank Franchise) including loan origination fees, late payment charges, nonsufficient fund check charges, stop payment charges, safe deposit box rent, exchange charges, commission on travelers checks, charges for administration of trusts, interest charges, and "points" charged on loans.	\$280,000
10-45-12.6, 10-46-6.2: Sale of credit services by credit bureaus to financial institutions that are paying bank franchise taxes.	\$25,000
10-45-13.5: exempts receipts received by the state and political subdivisions from management services provided to a revolving loan fund operated by a nonprofit entity.	\$5,000

TAX EXPENDITURES

Sales and Use Tax Exemptions

**Annual Est. General
Fund Revenue Loss**

Transportation Group

10-45-12.1: Railroad Transportation & Rental of Railroad Cars.	\$7,500,000
10-45-12.1: Arrangement of Passenger Transportation; Arrangement of Transportation of Freight & Cargo; Local and Suburban Passenger Transportation, except Limousine Services; Trucking and Courier services, except air, except collection and disposal of solid waste; Pipelines, except Natural Gas; Transportation on rivers and canals; and school buses. 10-45-67, 10-46-55: Natural gas transportation by pipeline.	\$3,000,000

Social Services

10-45.12.1: Social services and credit counseling services provided by individual and family social services.	\$10,000,000
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Manufacturing Group

10-46-5: Excludes the fabrication costs from the fair market value of tangible personal property fabricated by a contractor or subcontractor for use in the contract. The fair market value is subject to use tax.	\$1,000,000
10-46-3: Tangible personal property not originally purchased for use in this state, but thereafter used, stored, or consumed in this state if the equipment is more than seven years old at the time it is brought into this state.	\$500,000
10-45-14.4, 10-46-9.3: Packing material used or consumed by manufacturers, processors, or fabricators as raw material. 10-45-14.5, 10-46-9.4 Packing material sold to retailers if the retailer used the article as wrappers or containers to hold other tangible personal property sold by the retail that is subject to sales or use tax and the articles are supplied free by the retailer as a convenience to the customer.	\$100,000

Civic & Nonprofit Association Events/Admissions/Donations

10-45-13: Exempts tax on the gross receipts of various sales and admission for civic and nonprofit associations and purposes.	\$100,000
10-45-13.2, 10-46-15.4: Donations of tangible personal property or services given without charge to organizations exempt from sales tax.	\$5,000

Miscellaneous Sales Tax Exemptions

Mini-storage receipts are not specifically subject to tax and therefore are exempt.	\$1,400,000
10-45-13.4: Library copying charges.	\$25,000

Total Sales and Use Tax Exemptions	\$717,774,500
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Other Tax Expenditures

10-44-4: Tax credit for principal office or regional home office for insurance companies.	\$12,332,231
10-45-27.2: Collection allowance for sales tax of 1.5% of collections with a maximum of \$70 per month.	\$4,500,000
10-50-18: Distributor discount of 1% of cigarette stamp face value.	\$547,327

Total Other Tax Expenditures	\$17,379,558
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Grand Total Tax Expenditures	\$735,154,058
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RECOMMENDED EXPENDITURES

OVERVIEW

Governor Daugaard's FY2016 budget recommendation maintains a structurally balanced budget while making targeted investments in the areas of providing a quality education for our children, taking care of those who cannot take care of themselves, and protecting us from those who would do us harm. The Governor is also proposing that the state continue to invest in the state employee workforce, which is any organization's greatest resource.

The Governor recommends a 2.0% inflationary increase to the per student allocation for state aid to general education and state aid to special education. This increases the ongoing per student allocation to \$4,876.76 for general education. The Governor is also recommending a 2.0% inflationary increase for the Technical Institutes which brings the per student allocation to \$3,329.13. In addition, the Governor recommends funding to assist with maintenance and repair costs at the Technical Institutes. Funding is also recommended for technology in schools, sparsity, and increased dual credit courses.

The ongoing budget for the Board of Regents contains an increase of \$4.5 million in general funds. Included is a general fund increase of \$1.3 million to increase the total four year award of the South Dakota Opportunity Scholarship from \$5,000 to \$6,500 per student. Additional recommended general fund increases include \$2.1 million for maintenance and repair and \$1.2 million for increased utility costs across the state's campuses.

The Departments of Social Services, Human Services, and Health are responsible for the majority of the programs which help those who cannot take care of themselves, including the very young and the very old. The Departments of Health, Human, and Social Services account for \$17.1 million of the \$49.2 million in ongoing general fund increases. This portion of the total budget comprises of \$8.5 million of the \$61.2 million in ongoing total fund increases for FY2016.

Social Services will see ongoing increases of \$13.0 million in general funds, \$0.02 million in other fund expenditure authority, along with a decrease of \$12.7 million in federal fund expenditure authority. This includes an increase of \$3.1 million

in general funds with a corresponding decrease in federal fund expenditure authority due to the Federal Medical Assistance Percentage (FMAP) rate change. Increases of \$7.2 million in general funds, \$6.4 million in federal fund expenditure authority, and \$0.01 million in other fund expenditure authority are for a 2.0% provider inflation increase. Increases of \$1.1 million in general funds and \$3.2 million in federal fund expenditure authority are due to a projected increase in the number of Medicaid clients. An increase of \$1.1 million in general funds with a corresponding decrease in federal fund expenditure authority is due to the Health Home program's enhanced match rate for the Health Home's program ending. A decrease of \$4.7 million in general funds with a corresponding increase in federal fund expenditure authority is due to receiving a temporary enhancement to the Children's Health Insurance Program (CHIP) match rate.

The Human Services ongoing budget is increasing by \$4.1 million in general funds, \$3.0 million in federal fund expenditure authority, and \$0.5 million in other fund expenditure authority. An increase of \$0.7 million in general funds with a corresponding decrease in federal fund expenditure authority is due to the FMAP rate change. Increases of \$1.2 million in general funds, \$1.4 million in federal fund expenditure authority, and \$0.2 million in other fund expenditure authority are for a 2.0% provider inflation increase. Also included in the budget are increases of \$2.2 million in general funds and \$2.3 million in federal fund expenditure authority for additional clients served.

The ongoing budget for the Department of Health includes a decrease of \$0.1 million in general funds and increases of \$0.6 million in other fund expenditure authority and 4.0 FTE. This includes increases of \$0.2 million in general funds for an immunization billing system and 4.0 FTE for nurses to work on disease prevention and infectious disease control activities. An increase of \$0.07 million in general funds is to allow health profession students to participate in a four week program in rural communities. An increase of \$0.8 million in other fund expenditure authority is due to costs associated with treatment of the Hepatitis C disease, as well as other inflationary costs. Decreases of \$0.3 million in general funds and \$0.3 million in other fund expenditure authority are due

to the final Health Laboratory bond payment being made in FY2015.

To address the safety of our State's citizens, a progressive criminal justice system is in place. The ongoing budget for the Department of Corrections increased by \$0.6 million in general funds and 3.0 FTE, and decreased by \$0.9 million in federal fund expenditure authority and \$0.2 million in other fund expenditure authority. The primary increases throughout the department include: \$1.0 million in general funds for Correctional Healthcare. \$0.5 million is specifically for the treatment of Hepatitis C; \$0.2 million in general funds and \$0.1 million in federal fund expenditure authority for a 2% provider inflation increase; and \$0.2 million and 4.0 FTE for Correctional Officers to serve as armed escorts. Also included is a decrease of \$1.4 million due to a lower projected average daily population for juveniles.

The Department of Public Safety and the Office of the Attorney General are also engaged in providing for the safety of the public. The Department of Public Safety's ongoing budget includes an increase of \$0.02 million in total funds. The Office of the Attorney General's ongoing general fund budget is increasing by \$0.6 million, primarily due to the Governor's plan to use general funds to correct the structural deficit within the Law Enforcement Officers Training Fund.

The safety of South Dakota's citizens is also addressed within the ongoing budget for the Unified Judicial System, which is being increased by \$1.1 million in general funds. This includes increases of \$0.7 million in general funds and 7.0 FTE for the Drug/DUI Courts. Also included are increases of \$0.3 million in general funds for the Juvenile Justice Reinvestment Initiative, \$0.1 million in general funds to correct the structural deficit within the Law Enforcement Officers Training Fund, and general funds and 0.3 FTE for a Court Services Secretary in Hughes County.

The Governor is recommending a 2.0% pay increase for all permanent state employees not in career bands, and market adjustments based on actual market movement of the job family for employees in the Career Bands:

Nursing	0.0%
Information Technology	1.1%
Accountants/Auditors	1.7%
Engineers	2.0%
Environmental Scientists	6.6%

As a result of the market analysis developed by the Total Compensation Work Group, the Governor is moving all permanent employees under his control that are not currently in career bands from the Performance and Compensation Equity (PACE) system established in FY1990 into a new market-based General Pay Structure. The employees in the General Pay Structure are recommended to receive 2.5% adjustment towards their new market value. Employees remaining in the PACE system, along with other offices with established classifications and assigned pay grades, are recommended to receive 2.5% movement towards the job worth of their current pay grade.

The Governor is also recommending the continuation of the performance-based increases towards market value of 0.0% to 4.5% for the career band families established in FY2010.

Description	Inc./(Dec.)	FTE
Executive Branch	\$19,317,776	34.0
Board of Regents	4,474,331	20.0
State Aid	10,813,206	
UJS/Legislature/Elected	1,829,890	7.6
Technical Institutes	1,599,732	
Employee Comp.	11,134,753	
Special/Contin. Approp.	174,785	
Total	\$49,344,473	61.6

Executive Branch agencies, under direct control of the Governor, have the following funding changes for FY2016 excluding the employee compensation package:

General Funds	\$ 19,317,776
Federal Funds	\$ (683,904)
Other Funds	\$ 4,039,258
FTE	34.0

SUMMARY OF RECOMMENDED BUDGET ADJUSTMENTS

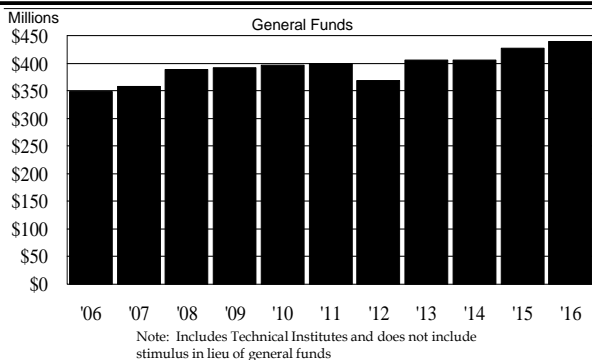
STATE AID, TECHNICAL INSTITUTES, HIGHER EDUCATION, & EDUCATION

The budgets included in this category are State Aid to K-12 Education and Technical Institutes, Higher Education, and the Department of Education. General funds in this budget account for a \$15.4 million increase out of the \$49.2 million in ongoing increases. This budget comprises of an increase of \$4.3 million of the \$61.2 million in ongoing total fund increases for FY2016. In terms of the total ongoing budget, the education category is 45.1% of the general funds and 33.8% of the total ongoing funds, which amounts to over \$1.5 billion in total ongoing funding for education.

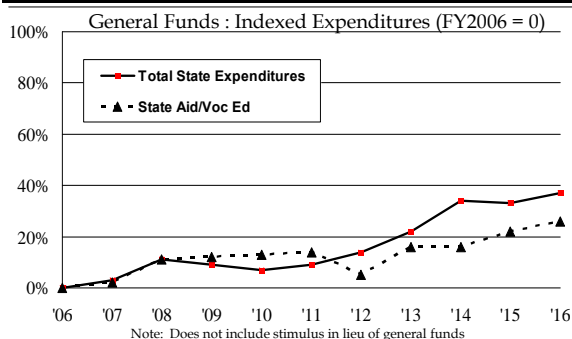
STATE AID TO K-12 EDUCATION AND TECHNICAL INSTITUTES

This category includes State Aid to K-12 General Education, Special Education, Technical Institutes, sparse school district funding, and Technology in the Schools.

State Aid to Schools



State Aid to Schools



STATE AID TO K-12 EDUCATION

The Governor's recommendation for State Aid to K-12 Education reflects an increase of \$10,813,206 in general funds. The total recommended budget for FY2016 is \$413,815,266 in general funds and \$3,904,346 in other fund expenditure authority.

The Governor is recommending a 2.0% inflationary increase to the base per student allocation for FY2016, which is 0.5% higher than the statutory required 1.5% increase for FY2016. This brings the per student allocation for general education to \$4,876.76 for FY2016, an increase of \$95.62 per student over the base FY2015 level.

In addition to the inflationary increase to the formula, the Governor also recommends funding for the Technology in Schools budget, payments to sparse school districts, and statewide assessment costs to be included as an additional component in the state aid formula. The budget increase for state aid to general education will be offset by corresponding decreases within the Technology in Schools, Sparsity, and Educational Services and Resources budgets, for a net savings of \$2,605,288 in general funds. The net savings is used to increase the per student allocation growth from 1.5% to 2.0%. The total recommended budgeted amount for state aid to general education is \$347,719,770 in general funds and \$2,100,000 in other fund expenditure authority for FY2016. The other fund expenditure authority of \$2,100,000 is budgeted to pay for the state share of the Limited English Proficiency adjustment through the Workforce Education Fund. An estimated FY2016 fall enrollment of 132,550 was used for calculating the FY2016 budget, which is a growth of 1,300 over the budgeted FY2015 level.

The funding for each disability level for State Aid to Special Education is recommended to increase 2.0%. The total recommended amount for state aid to special education is \$54,883,378 in general funds for FY2016. This represents a \$2,666,902 increase in state general funds over the FY2015 budget. Included in this budget is funding for the summer program within the South Dakota School for the Blind and Visually Impaired per South Dakota Codified Law 13-37-13.

The Governor is recommending \$1,900,032 in general funds for payments to sparse school districts. An estimated 28 schools will be eligible for sparse payments in FY2016.

The Governor is recommending increases totaling \$1,752,472 in general funds for the Technology in Schools budget in FY2016. This includes an increase of \$235,954 in general funds for software maintenance costs including the addition of the Longitudinal Data System. Also, an increase of \$53,518 in general funds is for contract increases at the K-12 data center. This recommendation also includes an increase of \$1,463,000 in general funds for statewide assessment costs, which will be offset by a decrease in the Educational Services and Resources budget, as these expenses have been transferred to the Technology in Schools budget to be included as a component to the state aid formula. The total recommended budget includes \$9,312,086 in general funds and \$1,804,346 in other fund expenditure authority. The Technology in Schools budget is used to support ongoing costs of the technology infrastructure and systems for the school districts.

STATE AID TO TECHNICAL INSTITUTES

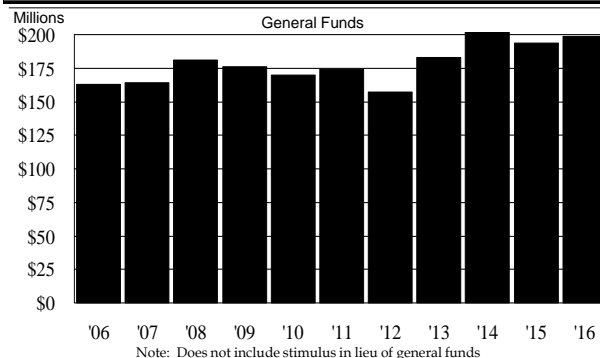
The Governor's recommendation for State Aid to Technical Institutes reflects an increase of \$683,812 in general funds. The total recommended budget for FY2016 is \$24,949,318 in general funds and \$100,000 in other fund expenditure authority.

An increase of \$59,911 in general funds is based on a per student funding level of \$3,329.13 for FY2016, which is a 2.0% increase from FY2015. The estimated number of students for the FY2016 budget is a decrease of 105 for a total of 6,150. An increase of \$186,368 in general funds is for the state share of the bond payments due to the passage of HB1098 from the 2013 legislative session. An increase of \$437,533 in general funds is recommended to assist in the maintenance and repair of Technical Institute buildings. The total recommended FY2016 budget for Technical Institutes is \$24,949,318 in general funds and \$100,000 in other fund expenditure authority.

BOARD OF REGENTS

The budget for the Board of Regents provides funding for the six state universities (Black Hills State University, Dakota State University, Northern State University, South Dakota School of Mines and Technology, South Dakota State University, and the University of South Dakota). Within the university budgets is funding for the University Center Sioux Falls, the University Center Rapid City, and Capital University Center Pierre. The state's two special schools, the South Dakota School for the Deaf and the South Dakota School for the Blind and Visually Impaired, are also included in the Regental system.

Board of Regents



The budget for the Board of Regents contains a net decrease of \$4,374,794 in total funds and an increase of 20.0 FTE over the FY2015 budget. The changes consist of increases of \$4,474,331 in general funds and \$1,350,875 in other fund expenditure authority, as well as a decrease of \$10,200,000 in federal fund expenditure authority. The total FY2016 recommended budget for the Board of Regents consists of \$198,503,922 in general funds, \$161,244,374 in federal fund expenditure authority, and \$454,148,394 in other fund expenditure authority, for a total FY2016 budget of \$813,896,690 and 5,162.4 FTE.

The Governor is proposing to increase the South Dakota Opportunity Scholarship for a four year term per recipient from \$5,000 to \$6,500, for a cost of \$1,274,001 in general funds. Also included in the recommendation are increases of \$1,230,803 in general funds for increased costs in utilities and \$2,055,512 in general funds for maintenance and repair (M&R). This is the third year of a four year plan to reach an M&R budget which is 2% of the replacement value of the buildings. The Governor is also recommending an increase of \$80,800 in general funds to pay for Nurse Practitioner Preceptors, a funding change of \$200,000 from federal fund expenditure authority to other fund expenditure authority for the summer program within the South Dakota School for the Blind and Visually Impaired, a decrease of \$159,120 in general funds due to adjustments related to insurance costs, a decrease of \$10,000,000 in federal fund expenditure authority due to reductions in grant awards, and increases of \$1,150,875 in other fund authority and 20.0 FTE due to growth in self-support classes.

EDUCATION

The Governor's recommendation for the Department of Education, including the State Aid to Education formula, reflects increases of

\$10,951,155 in general funds and 2.0 FTE and a decrease of \$2,273,238 in federal fund expenditure authority. The total recommended budget for FY2016 is \$449,647,270 in general funds, \$189,625,038 in federal fund expenditure authority, \$6,074,128 in other fund expenditure authority, and 137.0 FTE.

GENERAL ADMINISTRATION

The Governor recommends increases of \$114,637 in general funds and 1.0 FTE, along with a decrease of \$224,881 in federal fund expenditure authority. An increase of \$82,101 in general funds is to fund a portion of the two positions currently dedicated to the Longitudinal Data System project. Increases of \$32,537 in general funds and 1.0 FTE are for a management analyst position reducing the need for contracted services. A decrease of \$224,881 in federal fund expenditure authority is recommended due to the elimination of the statewide Longitudinal Data System grant. The total recommended FY2016 budget for this division is \$2,575,709 in general funds, \$8,900,494 in federal fund expenditure authority, \$209,052 in other fund expenditure authority, and 40.0 FTE.

EDUCATION SERVICES AND RESOURCES

This includes the Division of Assessment and Accountability, the Division of Educational Services and Support, the Division of Career and Technical Education and the Division of Curriculum and Instruction. The Governor recommends an increase of 1.0 FTE and decreases of \$660,500 in general funds and \$2,048,357 in federal fund expenditure authority. The total recommended FY2016 budget is \$6,468,213 in general funds, \$179,508,611 in federal fund expenditure authority, \$1,674,647 in other fund expenditure authority, and 69.5 FTE. An increase of \$802,500 in general funds will expand the number of dual credit classes offered to high school students throughout the state. Increases of \$71,094 in federal fund expenditure authority and 1.0 FTE are for a special education data position, which will ensure special education data is accurately collected and reported. An increase of \$258,831 in federal fund expenditure authority is for a 2.0% provider inflation increase for birth to three direct service providers and to align the budget with anticipated expenditures. A decrease of \$1,463,000 in general funds is due to including the statewide assessment budget as a component of the State Aid to General Education formula. A decrease of \$2,378,282 in federal fund expenditure authority is due to the end of the American Recovery and Reinvestment Act.

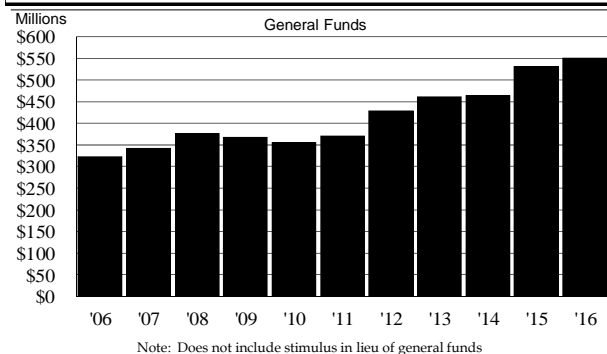
STATE LIBRARY

The Governor's recommendation for the State Library's FY2016 budget is \$1,838,764 in general funds, \$1,215,933 in federal fund expenditure authority, \$186,083 in other fund expenditure authority, and 27.5 FTE.

HEALTH, HUMAN, AND SOCIAL SERVICES

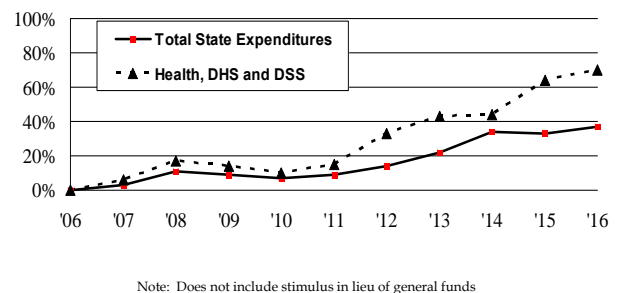
The budgets included in this category are the Department of Health, Department of Human Services, and Department of Social Services. General funds account for a \$17.1 million increase out of the \$49.2 million in total ongoing general fund increases. This budget comprises of \$8.5 million of the \$61.2 million in total ongoing fund increases for FY2016. In terms of the total ongoing budget, this category is 38.3% of the general funds and 32.3% of the total ongoing funds, which amounts to nearly \$1.4 billion in total ongoing funding.

Health, Human, and Social Services



Health, Human, and Social Services

General Funds : Indexed Expenditures (FY2006 = 0)



HEALTH

The total recommended budget is \$7,914,934 in general funds, \$42,236,140 in federal fund expenditure authority, and \$41,747,867 in other fund expenditure authority, for a total of \$91,898,941 and 423.2 FTE. This includes a decrease of \$10,584 in general funds and increases of \$580,378 in other fund expenditure authority and 4.0 FTE.

ADMINISTRATION

The total recommended budget for Administration is \$905,111 in general funds, \$1,803,500 in federal fund expenditure authority, \$1,460,126 in other fund expenditure authority, and 32.0 FTE. This includes decreases of \$320,842 in general funds and \$345,029 in other fund expenditure authority due to the final Health Laboratory bond payment being made in FY2015.

HEALTH SYSTEMS DEVELOPMENT AND REGULATION

The total recommended budget for Health Systems Development and Regulation is \$2,856,573 in general funds, \$9,898,990 in federal fund expenditure authority, \$3,147,746 in other fund expenditure authority, and 62.5 FTE. This includes an increase of \$70,000 in general funds to allow health profession students to participate in a four week program in rural communities. Also included is an increase of \$90,258 in general funds for Health Protection inspections.

HEALTH AND MEDICAL SERVICES

The total recommended budget for Health and Medical Services is \$4,153,250 in general funds, \$25,518,844 in federal fund expenditure authority, \$5,930,750 in other fund expenditure authority, and 188.5 FTE. This includes increases of \$150,000 in general funds for an immunization billing system and 4.0 FTE for nurses to work on disease prevention and infectious disease control activities.

LABORATORY SERVICES

The total recommended budget for Laboratory Services is \$3,270,082 in federal fund expenditure authority, \$3,282,203 in other fund expenditure authority, and 28.0 FTE.

CORRECTIONAL HEALTH

The total recommended budget for Correctional Health is \$19,564,654 in other fund expenditure authority and 87.0 FTE. This includes increases in other fund expenditure authority of \$21,755 for a

2.0% provider inflation increase, \$312,030 for other inflationary costs, and \$500,000 for costs related to anticipated Hepatitis C treatment.

TOBACCO PREVENTION

The total recommended budget for Tobacco Prevention is \$1,542,413 in federal fund expenditure authority, \$4,500,038 in other fund expenditure authority, and 3.0 FTE.

PROFESSIONAL AND OCCUPATIONAL LICENSING - INFORMATIONAL

This division is comprised of the informational budgets of the professional and occupational licensing boards. There are twelve boards including the Board of Chiropractic Examiners, Board of Dentistry, Board of Hearing Aid Dispensers, Board of Funeral Service, Board of Medical and Osteopathic Examiners, Board of Nursing, Board of Nursing Home Administrators, Board of Optometry, Board of Pharmacy, Board of Podiatry Examiners, Board of Massage Therapy, and Board of Speech-Language Pathology. The Governor is recommending increases in other fund expenditure authority of \$6,000 in the Board of Dentistry, \$41,500 in the Board of Nursing, \$1,894 in the Board of Nursing Home Administrators, \$33,350 in the Board of Pharmacy, \$4,778 in the Board of Massage Therapy, and \$4,100 in the Board of Speech-Language Pathology. The total recommended budget for the Boards is \$202,311 in federal fund expenditure authority, \$3,862,350 in other fund expenditure authority, and 22.2 FTE.

HUMAN SERVICES

The Governor is recommending increases of \$4,147,419 in general funds, \$2,965,403 in federal fund expenditure authority, and \$466,311 in other fund expenditure authority. The recommendation includes an increase of \$675,997 in general funds with a corresponding decrease in federal fund expenditure authority due to the change in the Federal Medical Assistance Percentage (FMAP). For FY2016, a total budget consisting of \$78,284,764 in general funds, \$104,817,342 in federal fund expenditure authority, \$15,571,732 in other fund expenditure authority, and 550.4 FTE is recommended.

SECRETARIAT

The total recommended budget is \$858,079 in general funds, \$646,146 in federal fund expenditure authority, \$1,421 in other fund expenditure authority, and 16.0 FTE.

DEVELOPMENTAL DISABILITIES

The recommendation for the Division of Developmental Disabilities includes increases of \$3,910,130 in general funds, \$3,027,441 in federal fund expenditure authority, and \$346,311 in other fund expenditure authority. Increases of \$1,104,220 in general funds, \$1,348,441 in federal fund expenditure authority, and \$227,579 in other fund expenditure authority are for a 2.0% provider inflation increase. Also, increases of \$2,091,729 in general funds and \$2,231,813 in federal fund expenditure authority are to address growth in individuals needing services who have developmental disabilities. Increases of \$180,914 in general funds and \$99,186 in federal fund expenditure authority are to add two additional Family Support Services programs to serve 80 more people in southeastern South Dakota. The total recommended budget for the Developmental Disabilities division is \$59,938,237 in general funds, \$72,845,482 in federal fund expenditure authority, \$11,607,096 in other fund expenditure authority, and 20.5 FTE.

SOUTH DAKOTA DEVELOPMENTAL CENTER

The recommendation for the South Dakota Developmental Center includes an increase of \$161,163 in general funds and a decrease of \$82,541 in federal fund expenditure authority. The Governor's recommendation includes increases of \$38,037 in general funds and \$40,585 in federal fund expenditure authority for utility cost adjustments. The total recommended budget is \$12,105,254 in general funds, \$12,986,403 in federal fund expenditure authority, \$792,145 in other fund expenditure authority, and 385.6 FTE.

REHABILITATION SERVICES

The Governor's recommended budget for Rehabilitation Services includes increases of \$76,126 in general funds, \$20,503 in federal fund expenditure authority, and \$70,000 in other fund expenditure authority. The Governor's recommendation includes increases of \$56,522 in general funds and \$40,107 in federal fund expenditure authority for a 2.0% provider inflation increase. This also includes an increase of \$70,000 in other fund expenditure authority for an increase in the Communication Assistance Program contract. The total recommended budget is \$4,444,550 in general funds, \$15,773,637 in federal fund expenditure authority, \$1,493,424 in other fund expenditure authority, and 99.1 FTE.

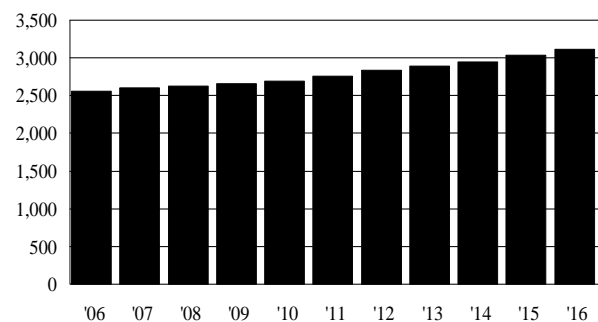
TELECOMMUNICATION DEVICES FOR THE DEAF

The Governor's recommended budget for Telecommunication Devices for the Deaf includes an increase of \$50,000 in other fund expenditure authority for purchases of new technology and related services. The total FY2016 budget is \$1,301,680 in other fund expenditure authority.

SERVICE TO THE BLIND AND VISUALLY IMPAIRED

The Governor is not recommending any changes to the Service to the Blind and Visually Impaired division. The total recommended budget is \$938,644 in general funds, \$2,565,674 in federal fund expenditure authority, \$375,966 in other fund expenditure authority, and 29.2 FTE.

Developmental Disabilities Clients



SOCIAL SERVICES

The Governor's recommended budget for the Department of Social Services is \$464,734,833 in general funds, \$627,974,633 in federal fund expenditure authority, and \$10,090,977 in other fund expenditure authority, for a total FY2016 budget of \$1,102,800,443 and 1,656.3 FTE. This recommendation is an increase of \$13,008,722 in general funds, a decrease of \$12,665,941 in federal fund expenditure authority, and an increase of \$16,806 in other fund expenditure authority over the FY2015 operating budget. This budget includes a funding swap of \$3,141,428 from federal fund expenditure authority to general funds due to the increase in the state's share in the Federal Medical Assistance Percentage (FMAP).

ADMINISTRATION

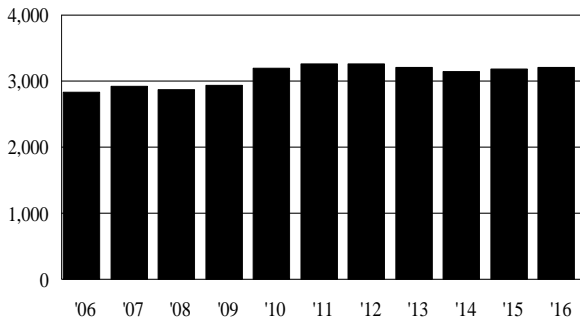
The Governor's recommended changes within Administration include an increase of \$2,896 in general funds along with a decrease of a like

amount in federal fund expenditure authority. The total recommended budget is \$8,695,703 in general funds, \$21,046,720 in federal fund expenditure authority, \$19,095 in other fund expenditure authority, and 182.7 FTE.

ECONOMIC ASSISTANCE

The Governor's recommended budget for Economic Assistance includes increases of \$244,569 in general funds and \$7,609 in federal fund expenditure authority. Increases of \$241,582 in general funds and \$10,596 in federal fund expenditure authority are for a provider inflation increase of 2.0%. The total recommended budget is \$25,117,558 in general funds, \$60,546,943 in federal fund expenditure authority, \$340,303 in other fund expenditure authority, and 320.5 FTE.

TANF Case Load in South Dakota

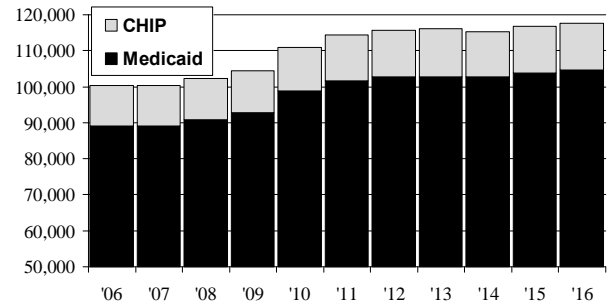


MEDICAL AND ADULT SERVICES

The Governor's recommended budget for Medical and Adult Services includes an increase of \$7,549,694 in general funds and a decrease of \$10,471,639 in federal fund expenditure authority. The FY2016 recommended budget is \$311,325,303 in general funds, \$459,657,439 in federal fund expenditure authority, \$1,788,170 in other fund expenditure authority, and 151.0 FTE. Increases of \$1,379,522 in general funds and \$727,416 in federal fund expenditure authority are for inflationary increases required by federal regulations. The Governor's recommendation also includes \$5,715,288 in general funds and \$5,876,800 in federal fund expenditure authority for a 2.0% provider inflation increase. Increases of \$1,133,113 in general funds and \$3,245,916 in federal fund expenditure authority are due to changes in utilization and the projected number of participants in the Medicaid program. Also included in this recommendation is a funding swap of \$1,211,255 from federal fund expenditure authority to general funds due to the enhanced match rate for the Health Homes program ending. Another funding

swap of \$4,665,641 in general funds to federal fund expenditure authority is due to receiving a temporary enhancement to the Children's Health Insurance Program (CHIP) match rate. A decrease in \$21,000,000 in federal fund expenditure authority is recommended as it is not needed for the Health Information and Technology program.

Medical Assistance Case Loads in South Dakota



CHILDREN'S SERVICES

The Governor's recommended FY2016 budget for Children's Services includes decreases of \$30,699 in general funds and \$2,007,754 in federal fund expenditure authority, along with an increase of \$10,152 in other fund expenditure authority. This includes increases of \$593,634 in general funds and \$62,718 in federal fund expenditure authority for additional subsidized adoptions and guardianships. In addition, increases of \$485,455 in general funds, \$272,726 in federal fund expenditure authority, and \$10,152 in other fund expenditure authority are recommended for a provider inflation increase of 2.0%. Decreases of \$867,854 in general funds and \$1,700,000 in federal fund expenditure authority are due to reduced caseloads in the Child Care subsidies program. Also, decreases of \$428,227 in general funds and \$456,905 in federal fund expenditure authority in psychiatric residential treatment services will be reinvested per the Juvenile Justice Reinvestment Initiative. The total recommended budget for Children's Services is \$45,455,649 in general funds, \$48,403,601 in federal fund expenditure authority, \$4,650,658 in other fund expenditure authority, and 353.8 FTE.

BEHAVIORAL HEALTH

The Governor recommends an increase of \$5,242,262 in general funds, a decrease of \$191,261 in federal fund expenditure authority, and an increase of \$6,654 in other fund expenditure authority. Increases of \$803,170 in general funds, \$245,220 in federal fund expenditure authority, and \$6,654 in other fund expenditure authority are

recommended for a 2.0% provider inflation increase. An increase of \$194,032 in general funds is for increased consumers within community behavioral health. Also, an increase of \$300,000 in general funds is to align rates closer to costs for Alcohol and Drug Abuse Addiction Low Intensity providers. Recommended increases at the Human Services Center (HSC) include \$325,147 in general funds for utility cost adjustments, \$218,390 in general funds for medical supplies and increased operating expenses, and \$34,053 in general funds for the worker's compensation rate increase. Also included in the HSC budget is a funding shift of \$263,386 from federal fund expenditure authority to general funds due to a decrease of federal revenue. An increase of \$2,930,540 in general funds is also recommended for the Juvenile Justice Reinvestment Initiative. The total recommended FY2016 budget is \$74,140,620 in general funds, \$38,319,930 in federal fund expenditure authority, and \$2,859,065 in other fund expenditure authority for a total of \$115,319,615 and 647.0 FTE.

BOARDS – INFORMATIONAL

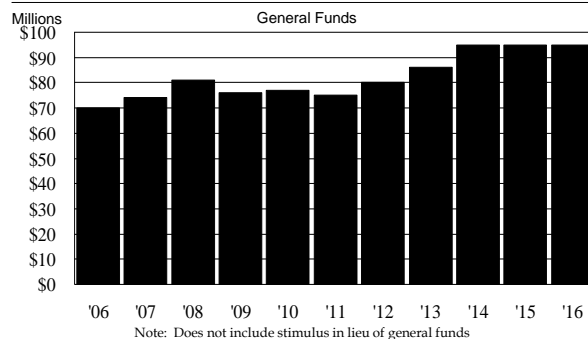
Included in the Department of Social Services are the informational budgets of four boards. The boards are the Board of Counselor Examiners, Board of Psychology Examiners, Board of Social Work Examiners, and the Board of Addiction and Prevention Professionals. The total recommended budget for FY2016 for the Boards is \$433,686 in other fund expenditure authority and 1.3 FTE.

CORRECTIONS

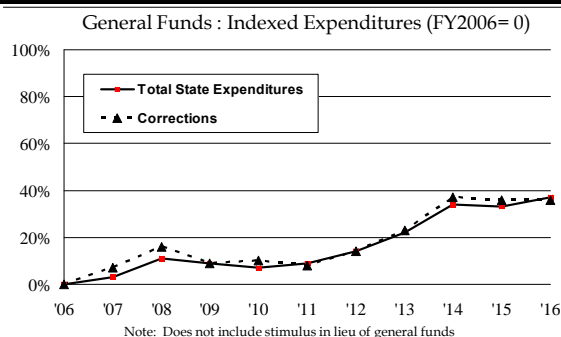
The Governor's FY2016 budget recommendation for the Department of Corrections includes \$95,275,023 in general funds, \$8,332,594 in federal fund expenditure authority, and \$12,716,933 in other fund expenditure authority, for a total FY2016 budget of \$116,324,550 and 877.2 FTE. This budget recommendation consists of increases of \$571,244 in general funds and 3.0 FTE, as well as decreases of \$882,549 in federal fund expenditure authority and \$222,699 in other fund expenditure authority.

The average daily population (ADP) of adult inmates is projected to be 3,598 in FY2016. This represents a decrease of 29 inmates over the actual FY2014 ADP of 3,627 inmates and a decrease of 24 inmates over the budgeted FY2015 ADP of 3,622. The ADP of juveniles is projected to be 608 in FY2015 and FY2016. This represents a decrease of 33 juveniles when compared to the actual FY2014 ADP of 641.

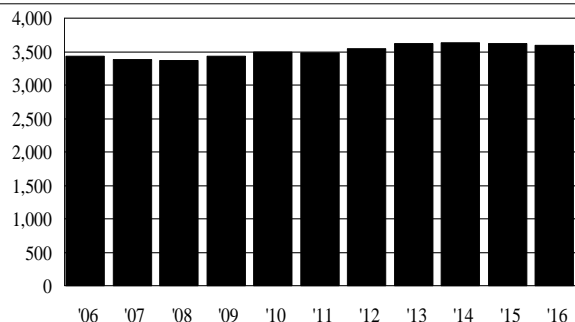
Corrections



Corrections



Average Daily Population of Adult Inmates



ADMINISTRATION

The Governor is recommending a net decrease of \$10,015 in total funds. This is attributed to an increase of \$47,841 in general funds relating to the Comprehensive Offender Management System maintenance contract and a decrease of \$57,856 in federal fund expenditure authority due to reduced federal grant awards. The FY2016 recommended budget for Administration is \$2,025,007 in general funds, \$961,385 in federal fund expenditure authority, \$333,781 in other fund expenditure authority, and 22.0 FTE.

MIKE DURFEE STATE PRISON

The Governor is recommending a net increase of \$45,248 in total funds. Included in this budget are increases of \$98,554 in general funds for utilities and \$25,543 in general funds for clothing and bedding, as well as a decrease of \$127,283 in general funds for food services. The FY2016 recommended budget for Mike Durfee State Prison is \$15,861,495 in general funds, \$119,080 in federal fund expenditure authority, \$1,389,627 in other fund expenditure authority, and 210.0 FTE.

STATE PENITENTIARY

The Governor is recommending a net increase of \$213,570 in total funds. Included in this budget are increases of \$165,771 and 4.0 FTE for Correctional Officers, \$117,701 in general funds for utilities, and \$73,197 for a unit pay differential within Restrictive Housing, as well as a decrease of \$112,107 in general funds for food services. The FY2016 recommended budget for the State Penitentiary is \$20,644,775 in general funds, \$595,803 in federal fund expenditure authority, \$1,252,106 in other fund expenditure authority, and 310.0 FTE.

WOMEN'S PRISON

The Governor is recommending a net decrease of \$24,350 in total funds. Included in this budget is an increase of \$16,200 in general funds for utilities, as well as a decrease of \$43,082 in general funds for food services. The FY2016 recommended budget for the Women's Prison is \$4,957,548 in general funds, \$77,288 in federal fund expenditure authority, \$316,050 in other fund expenditure authority, and 70.0 FTE.

PHEASANTLAND INDUSTRIES

The FY2016 recommended budget for Pheasantland Industries is \$6,047,394 in other fund expenditure authority and 14.0 FTE.

INMATE SERVICES

The Governor is recommending a net increase of \$657,093 in total funds. Included in this budget is an increase of \$500,000 in general funds due to treating inmates with Hepatitis C, as well as an increase of \$136,404 in general funds for a maintenance contract associated with the Electronic Management Record System. Also included are decreases of \$243,940 in federal fund expenditure authority, \$113,283 in other fund expenditure authority, and 1.0 FTE due to an Adult Reentry grant expiring. The FY2016 recommended budget for Inmate Services is \$22,041,361 in general funds, \$127,751 in federal fund expenditure

authority, \$1,611,904 in other fund expenditure authority, and 24.0 FTE.

PAROLE SERVICES

The Governor is recommending an increase of \$78,222 in general funds. Included in this budget are increases of \$28,722 in general funds for the Community Transition Program and \$20,000 in general funds for returning absconders. The FY2016 recommended budget for Parole Services is \$4,205,656 in general funds, \$990,137 in other fund expenditure authority, and 55.0 FTE.

JUVENILE COMMUNITY CORRECTIONS

The Governor is recommending a net decrease of \$1,535,217 in total funds. Included in this budget are decreases of \$1,395,094 in general funds and \$603,285 in federal fund expenditure authority due to decreases in the juvenile average daily population. Also included is an increase of \$51,524 in general funds and a decrease of a like amount in federal fund expenditure authority due to the change in the Federal Medical Assistance Percentage (FMAP). The FY2016 recommended budget for Juvenile Community Corrections is \$15,688,394 in general funds, \$5,795,773 in federal fund expenditure authority, \$567,369 in other fund expenditure authority, and 47.5 FTE.

YOUTH CHALLENGE CENTER

The Governor is recommending an increase of \$23,584 in general funds for a shift pay differential. The FY2016 recommended budget for the Youth Challenge Center is \$1,770,377 in general funds, \$14,942 in other fund expenditure authority, and 29.0 FTE.

PATRICK HENRY BRADY ACADEMY

The Governor is recommending an increase of \$23,584 in general funds for a shift pay differential. The FY2016 recommended budget for the Patrick Henry Brady Academy is \$1,762,993 in general funds, \$14,280 in other fund expenditure authority, and 29.0 FTE.

STATE TREATMENT AND REHABILITATION ACADEMY

The Governor is recommending a net decrease of \$20,884 in total funds. Included in this budget are increases of \$12,854 in general funds for a shift pay differential, \$13,500 in general funds for contract agreements, as well as a decrease of \$4,293 in general funds for food services. The FY2016 recommended budget for the State Treatment and Rehabilitation Academy is \$5,025,553 in general

funds, \$655,514 in federal fund expenditure authority, \$166,050 in other fund expenditure authority, and 45.7 FTE.

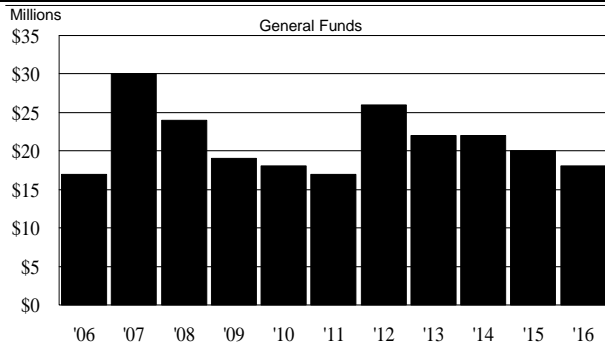
QUEST

The Governor is recommending an increase of \$15,161 in general funds for a shift pay differential. The FY2016 recommended budget for QUEST is \$1,291,864 in general funds, \$13,293 in other fund expenditure authority, and 21.0 FTE.

AGRICULTURE; ENVIRONMENT AND NATURAL RESOURCES; AND, GAME, FISH, AND PARKS

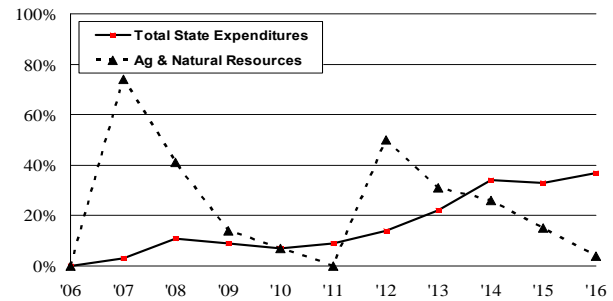
The budgets included in this category are the Department of Agriculture, Department of Environment and Natural Resources, and Department of Game, Fish, and Parks. General funds account for an increase of \$0.1 million out of the \$49.2 million in total ongoing general fund increases. This budget represents an increase of \$1.3 million out of the \$61.2 million in total ongoing fund increases for FY2016. In terms of the total ongoing state budget, this category is 1.2% of the general funds and 3.5% of the total ongoing funds, which amounts to \$150.3 million in total ongoing funding.

Agriculture, Natural Resources and Game, Fish, and Parks



Agriculture, Natural Resources and Game, Fish, and Parks

General Funds : Indexed Expenditures (FY2006 = 0)



AGRICULTURE

The total recommended budget for the Department of Agriculture is \$44,710,309, consisting of \$6,667,233 in general funds, \$7,269,252 in federal fund expenditure authority, \$30,773,824 in other fund expenditure authority, and 225.9 FTE. The Governor is recommending total increases of \$5,325 in general funds and \$4,475 in federal fund expenditure authority, along with a decrease of \$1,364,200 in other fund expenditure authority.

OFFICE OF THE SECRETARY

The total recommended budget for the Office of the Secretary is \$1,062,441, consisting of \$835,404 in general funds, \$58,124 in federal fund expenditure authority, \$168,913 in other fund expenditure authority, and 9.5 FTE.

AGRICULTURAL SERVICES AND ASSISTANCE

The total recommended budget for Agricultural Services and Assistance includes \$1,896,786 in general funds, \$3,854,292 in federal fund expenditure authority, and \$3,083,100 in other fund expenditure authority, for a total budget of \$8,834,178 and 83.1 FTE

AGRICULTURAL DEVELOPMENT AND PROMOTION

The Governor's recommended budget for Agricultural Development and Promotion is \$4,288,219, consisting of \$1,668,700 in general funds, \$1,696,593 in federal fund expenditure authority, \$922,926 in other fund expenditure authority, and 27.8 FTE.

ANIMAL INDUSTRY BOARD

The total recommended budget for the Animal Industry Board is \$3,927,686 and 41.0 FTE. This

budget is comprised of \$1,996,498 in general funds, \$1,660,243 in federal fund expenditure authority, and \$270,945 in other fund expenditure authority. This includes increases of \$5,325 in general funds and \$4,475 in federal fund expenditure authority for food safety programs and telecommunications expenses.

BOARDS AND COMMISSIONS – INFORMATIONAL

The Agricultural Boards and Commissions are as follows: the American Dairy Association, the Wheat Commission, the Oilseeds Council, the Soybean Research and Promotion Council, the Brand Board, the Corn Utilization Council, the Board of Veterinary Medical Examiners, and the Pulse Crops Council. The total recommended budget for the Agricultural Boards and Commissions is \$23,536,486 in other fund expenditure authority and 45.0 FTE. The Governor is recommending increases in other fund expenditure authority of \$221,237 in the American Dairy Association, \$868,759 in the Wheat Commission, and \$61,072 in the Oilseeds Council. The Governor is also recommending decreases in other fund expenditure authority of \$2,751,485 in the Soybean Research and Promotion Council, \$30,239 in the Brand Board, and \$8,544 in the Pulse Crops Council. The total decrease in other fund expenditure authority for the boards and commissions is \$1,639,200.

STATE FAIR

The total recommended budget for the State Fair is \$269,845 in general funds and \$2,791,454 in other fund expenditure authority for a total budget of \$3,061,299 and 19.5 FTE. This includes an increase of \$275,000 in other fund expenditure authority to reflect anticipated expenditures.

ENVIRONMENT AND NATURAL RESOURCES

The total recommended budget for the Department of Environment and Natural Resources totals \$23,300,008 and consists of \$6,171,692 in general funds, \$7,876,965 in federal fund expenditure authority, \$9,251,351 in other fund expenditure authority, and 180.5 FTE.

FINANCIAL AND TECHNICAL ASSISTANCE

The total recommended budget for Financial and Technical Assistance is \$5,497,369 and 56.5 FTE, consisting of \$2,363,458 in general funds, \$2,065,361 in federal fund expenditure authority, and \$1,068,550 in other fund expenditure authority.

ENVIRONMENTAL SERVICES

The total recommended budget for Environmental Services is \$12,732,774 and 119.0 FTE, consisting of \$3,808,234 in general funds, \$5,811,604 in federal fund expenditure authority, and \$3,112,936 in other fund expenditure authority.

REGULATED RESPONSE FUND – INFORMATIONAL

The Regulated Response Fund budget is informational and continuously appropriated with \$1,750,002 in other fund expenditure authority.

LIVESTOCK CLEANUP FUND – INFORMATIONAL

The Livestock Cleanup Fund budget is informational and continuously appropriated with \$765,000 in other fund expenditure authority.

PETROLEUM RELEASE COMPENSATION

The total recommended budget for Petroleum Release Compensation is \$2,554,863 in other fund expenditure authority and 5.0 FTE.

GAME, FISH, AND PARKS

The total recommended budget for the Department of Game, Fish, and Parks totals \$82,296,805, including \$5,076,347 in general funds, \$26,121,681 in federal fund expenditure authority, \$51,098,777 in other fund expenditure authority, and 568.4 FTE. This budget reflects an overall increase of \$2,637,403, including increases of \$135,557 in general funds, \$2,583,093 in federal fund expenditure authority, and 1.0 FTE, and a decrease of \$81,247 in other fund expenditure authority.

ADMINISTRATION

The total recommended budget for Administration includes \$946,064 in general funds, \$2,275,721 in other fund expenditure authority, and 20.1 FTE, for a total budget of \$3,221,785. This includes a decrease of \$2,030 in general funds resulting from changes in bond payments related to the Division of Wildlife's fish hatcheries. This recommendation also includes a decrease of \$1,124,475 of other fund expenditure authority and 5.0 FTE to reflect the movement of the License Office from the Division of Administration to the Division of Wildlife.

WILDLIFE – INFORMATIONAL

The total recommended budget for the Division of Wildlife is \$46,529,960, composed of \$17,286,759 in federal fund expenditure authority, \$29,243,201 in other fund expenditure authority, and 295.0 FTE. Included in this budget is an increase of \$1,205,509 in federal fund expenditure authority and a decrease of \$84,759 in other fund expenditure authority to align the budget with anticipated expenditures that include a Walk-In Area program, program spending for elk, bighorn sheep, and mountain goats, and machinery purchases. This also includes an increase of \$1,124,475 of other fund expenditure authority and 5.0 FTE to reflect the movement of the License Office from the Division of Administration to the Division of Wildlife.

WILDLIFE DEVELOPMENT AND IMPROVEMENT – INFORMATIONAL

The total recommended budget for the Wildlife Development and Improvement Division is \$1,130,000, including \$868,750 in federal fund expenditure authority and \$261,250 in other fund expenditure authority. This includes decreases of \$225,000 in federal fund expenditure authority and \$157,000 in other fund expenditure authority to align the budget with anticipated costs from the capital development project list.

STATE PARKS AND RECREATION

The total recommended budget for the Division of State Parks and Recreation is \$21,841,228 and 244.2 FTE, consisting of \$4,130,283 in general funds, \$3,401,559 in federal fund expenditure authority, and \$14,309,386 in other fund expenditure authority. This includes an increase of \$137,587 in general funds due to changes in bond payments related to the Custer State Park, the Angostura Recreation Area, the Cedar Shore Resort marina, and Good Earth State Park. A like amount of the State Parks and Recreation other funds are transferred into the general fund resulting in a net zero impact to the general fund. Increases of \$99,721 in federal fund expenditure authority, \$302,075 in other fund expenditure authority and 1.0 FTE are for daily operational functions within the statewide park system.

STATE PARKS AND RECREATION DEVELOPMENT AND IMPROVEMENT

The total recommended budget for the State Parks and Recreation Development and Improvement Division is \$8,212,500, composed of \$4,388,613 in federal fund expenditure authority and \$3,823,887 in other fund expenditure authority. This includes an increase of \$1,558,863 in federal fund expenditure authority and a decrease of \$132,563 in other fund

expenditure authority to align the budget with anticipated costs from the capital development project list.

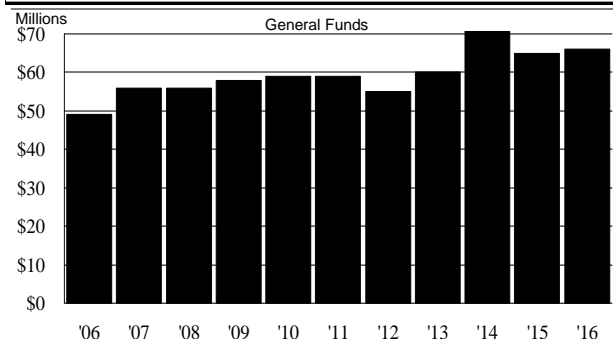
SNOWMOBILE TRAILS – INFORMATIONAL

The total recommended budget for the Snowmobile Trails Program is \$1,361,332, consisting of \$176,000 in federal fund expenditure authority, \$1,185,332 in other fund expenditure authority, and 9.1 FTE. The Governor is recommending decreases of \$56,000 in federal fund expenditure authority and \$9,000 in other fund expenditure authority to reflect changes in the capital asset budget.

LEGISLATURE, UNIFIED JUDICIAL SYSTEM, PUBLIC UTILITIES COMMISSION, AND ELECTED OFFICIALS

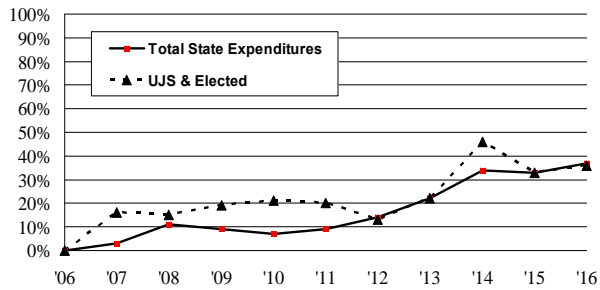
The budgets included in this category are the Legislature, Unified Judicial System, Public Utilities Commission, Office of the Attorney General, Secretary of State, School and Public Lands, Office of the State Auditor, and Office of the State Treasurer. General funds account for an increase of \$1.8 million out of the \$49.2 million in total ongoing increases. This budget represents a \$1.7 million increase out of the \$61.2 million in total ongoing fund increases for FY2016. In terms of the total ongoing state budget, this category is 4.5% of the general funds and 2.7% of the total ongoing funds, which amounts to \$118.1 million in total ongoing funding.

UJS, Legislature and Elected Officials



UJS, Legislature and Elected Officials

General Funds : Indexed Expenditures (FY2006= 0)



LEGISLATURE

The FY2016 budget for the Legislature is \$9,184,811 in general funds, \$6,000 in other fund expenditure authority, and 70.3 FTE.

The Legislative Research Council's budget includes a decrease of \$29,000 in other fund expenditure authority. The overall FY2016 budget for the Legislative Research Council is \$5,724,065 in general funds, \$6,000 in other fund expenditure authority, and 31.3 FTE.

A general fund increase of \$82,340 for the Auditor General is recommended to meet the anticipated needs for ongoing costs related to salaries and benefits. The overall FY2016 budget for Legislative Audit is \$3,460,746 in general funds and 39.0 FTE.

UNIFIED JUDICIAL SYSTEM

The Governor's recommended changes for the Unified Judicial System include increases of \$1,101,665 in general funds, \$31,818 in federal fund expenditure authority, and 7.3 FTE, as well as a decrease of \$2,201,483 in other fund expenditure authority.

This recommendation includes increases of \$676,471 in general funds, \$31,818 in federal fund expenditure authority, \$3,000 in other fund expenditure authority, and 7.0 FTE for Drug/DUI Courts. This consists of 1.0 FTE for a Magistrate Judge, 3.0 FTE for Court Services Officers, 2.0 FTE for Drug/DUI Court Coordinators, and 1.0 FTE for a Drug/DUI Court Specialist. Also recommended is an increase of \$85,805 in general funds and a decrease of a like amount in other fund expenditure authority to move towards structurally balancing the Law Enforcement Officers Training Fund. Increases of \$18,769 in general funds and \$701 in federal fund expenditure authority are for a 2.0% provider inflation increase. Also, a decrease of

\$2,118,678 in other fund expenditure authority is primarily due to reduced contractual services.

The total recommended budget for the Unified Judicial System is \$50,604,595, consisting of \$40,553,814 in general funds, \$785,081 in federal fund expenditure authority, \$9,265,700 in other fund expenditure authority, and 571.7 FTE.

PUBLIC UTILITIES COMMISSION

The total recommended budget for the Public Utilities Commission is \$4,363,184, consisting of \$555,963 in general funds, \$330,588 in federal fund expenditure authority, \$3,476,633 in other fund expenditure authority, and 31.2 FTE. This includes a decrease of 3.0 FTE and \$221,637 in American Recovery and Reinvestment Act (ARRA) federal fund expenditure authority which is no longer needed. Also included is an increase of \$20,419 in other fund expenditure authority for Do Not Call activities.

ATTORNEY GENERAL

The Governor's FY2016 budget recommendation for the Office of the Attorney General consists of \$10,567,088 in general funds, \$4,279,116 in federal fund expenditure authority, and \$9,238,087 in other fund expenditure authority, for a total FY2016 budget of \$24,084,291 and 178.0 FTE. This budget recommendation includes increases of \$645,885 in general funds and 1.0 FTE, as well a decrease of \$521,996 in other fund expenditure authority.

LEGAL SERVICES

The FY2016 recommended budget for the Legal Services Program is \$8,076,353 in total funds and 68.0 FTE. Included in this budget recommendation are increases of \$101,425 in general funds and 1.0 FTE for an attorney to assist county and local jurisdictions with violent crime and drug prosecutions.

CRIMINAL INVESTIGATION

The FY2016 recommended budget for the Department of Criminal Investigation is \$13,385,400 in total funds and 93.5 FTE. Included in this budget is an increase of \$257,041 in general funds and a decrease of a like amount in other fund expenditure authority to move towards structurally balancing the Law Enforcement Officers Training Fund.

LAW ENFORCEMENT TRAINING

The FY2016 recommended budget for the Law Enforcement Training Program is \$2,148,210 in total funds and 11.5 FTE. Included in this budget is an increase of \$264,955 in general funds and a decrease of a like amount in other fund expenditure authority to move towards structurally balancing the Law Enforcement Officers Training Fund.

911 TRAINING

The FY2016 recommended budget for the 911 Training Program is \$220,061 in total funds and 2.0 FTE.

INSURANCE FRAUD UNIT - INFORMATIONAL

The FY2016 budget for the Insurance Fraud Unit is \$254,267 in total funds and 3.0 FTE.

SECRETARY OF STATE

The Governor's recommendation for the Secretary of State's FY2016 budget is \$962,591 in general funds, \$3,148,284 in federal fund expenditure authority, \$478,529 in other fund expenditure authority, and 15.6 FTE.

SCHOOL AND PUBLIC LANDS

The Governor's recommendation for the FY2016 School and Public Lands' budget is \$536,026 in general funds, \$325,000 in other fund expenditure authority, and 6.0 FTE.

STATE AUDITOR

The Governor's recommendation for the State Auditor's FY2016 budget is \$1,213,958 in general funds, \$100,000 in other fund expenditure authority, and 16.0 FTE.

STATE TREASURER

The total recommended FY2016 budget is \$23,133,603, consisting of \$522,864 in general funds, \$22,610,739 in other fund expenditure authority, and 41.3 FTE. This includes a total increase of \$2,817,046 in other fund expenditure authority and 2.3 FTE.

TREASURY MANAGEMENT

The total budget within Treasury Management is \$522,864 in general funds and 5.2 FTE for FY2016.

UNCLAIMED PROPERTY - INFORMATIONAL

The total recommended budget for Unclaimed Property is \$5,797,117 in other fund expenditure authority and 3.8 FTE. This includes an increase of \$1,502,342 in other fund expenditure authority to align the budget with anticipated expenditures for claim payments and capital outlay expenses.

INVESTMENT OF STATE FUNDS

The Governor is recommending an increase of \$517,900 in other fund expenditure authority and 2.3 FTE within Investment of State Funds for the South Dakota Investment Council (SDIC). This includes \$147,454 in other fund expenditure authority and 2.0 FTE for two entry level investment positions. This represents the second step to add six new positions over several years in accordance with the SDIC's long term plan. The remaining expenditure authority and 0.3 FTE is for promotional development and salary adjustments, for a part-time attorney to continue legal services needed by the SDIC, and miscellaneous adjustments to align the budget with anticipated expenses. The total recommended budget for the Investment of State Funds is \$7,670,336 in other fund expenditure authority and 32.3 FTE.

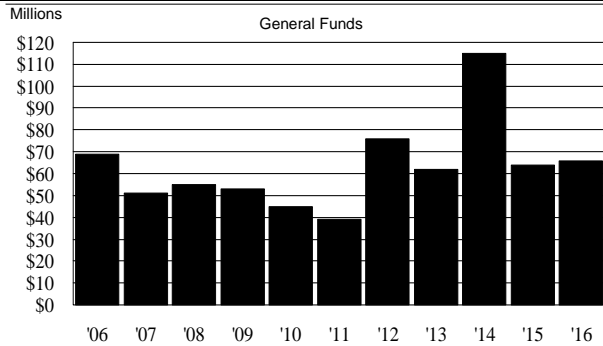
PERFORMANCE BASED COMPENSATION

The Governor is recommending an increase of \$796,804 in other fund expenditure authority within Performance Based Compensation for the SDIC. The total recommended budget for the Performance Based Compensation is \$9,143,286 in other fund expenditure authority.

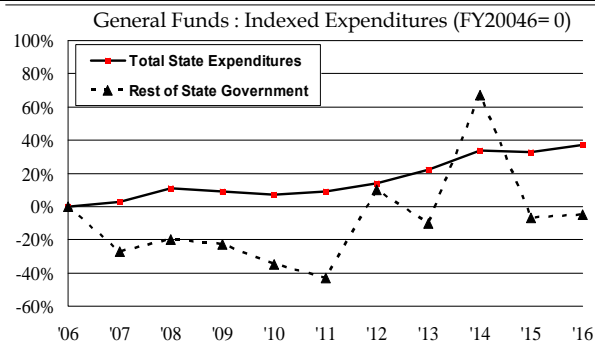
REMAINDER OF STATE GOVERNMENT

The budgets included in this category are the Departments of Executive Management, Military, Veterans' Affairs, Revenue, Tourism, Tribal Relations, Transportation, Labor and Regulation, and Public Safety. General funds account for an increase of \$14.1 million out of the \$49.2 million in total ongoing increases. This budget represents an increase of \$45.9 million out of the \$61.2 million in total ongoing fund increases for FY2016. Included in this category is the Employee Compensation pool budgeted in Executive Management, totaling \$11.1 million in general funds and \$28.8 million in total funds. In terms of the total ongoing state budget, this category is 4.3% of the general funds and 25.0% of the total ongoing funds, which amounts to \$1.1 billion in total ongoing funding.

Remainder of State Government



Remainder of State Government



EXECUTIVE MANAGEMENT

The Governor's recommendation for the Department of Executive Management includes increases of \$14,999,414 in general funds, \$5,396,653 in federal fund expenditure authority, \$9,610,253 in other fund expenditure authority, and 23.0 FTE. The total FY2016 budget includes \$45,883,696 in general funds, \$22,746,425 in federal fund expenditure authority, \$153,658,576 in other fund expenditure authority, and 831.6 FTE.

GOVERNOR'S OFFICE

The total recommended budget for the Governor's Office including the Lt. Governor is \$2,326,105 in general funds, \$278,621 in federal fund expenditure authority, and 22.0 FTE.

OFFICE OF ECONOMIC DEVELOPMENT

The Governor's total recommended FY2016 budget is \$6,363,143 in general funds, \$13,823,659 in federal fund expenditure authority, \$48,651,796 in other fund expenditure authority, and 140.6 FTE. This includes a decrease of \$100,000 in federal fund expenditure authority along with an increase of

\$6,656,520 in other fund expenditure authority. This recommendation includes an increase of \$1,607,971 in other fund expenditure authority due to changes in the Governor's House program. A federal program being decreased, increases in insurance, and increases in the staff workloads result in a net increase of \$270,886 in other fund expenditure authority along with a decrease of \$100,000 in federal fund expenditure authority in the South Dakota Housing Authority budget. Also recommended is an increase of \$2,677,683 in other fund expenditure authority to reflect anticipated expenses for various construction projects for the South Dakota Science and Technology Authority. An increase of \$2,100,000 in other fund expenditure authority is to align the Building South Dakota budget with anticipated disbursements.

BUREAU OF FINANCE AND MANAGEMENT

The total recommended FY2016 budget is \$17,711,651 in general funds, \$6,469,142 in federal fund expenditure authority, \$22,645,494 in other fund expenditure authority, and 42.0 FTE. This includes increases of \$11,799,858 in general funds, \$6,468,401 in federal fund expenditure authority, \$10,984,392 in other fund expenditure authority, and 2.0 FTE. Increases of 2.0 FTE and \$165,707 in other fund expenditure authority are recommended for an aggressive initiative to complete the comprehensive annual financial reports within a required 6-month timeframe. A general fund decrease of \$530,000 is attributable to the Bureau of Finance and Management's sale-leaseback payment schedule.

The Governor recommends net increases to the employee compensation pool for state employees of \$11,134,753 in general funds, \$5,569,406 in federal fund expenditure authority, and \$12,084,389 in other fund expenditure authority. Also recommended are increases to the bureau billings pool of \$603,058 in general funds, \$513,792 in federal fund expenditure authority, and \$1,544,347 in other fund expenditure authority to be distributed to agency budgets. Also, increases to the captive insurance pool of \$592,982 in general funds, \$385,944 in federal fund expenditure authority, and \$751,224 in other fund expenditure authority are due to the implementation of a captive insurance plan and will also be distributed to agencies.

An increase of \$169,329 in other fund expenditure authority is recommended for financial systems software maintenance. Decreases in other fund expenditure authority of \$88,958 for the South Dakota Building Authority and \$47,537 for the Health and Educational Facilities Authority are to align the budget with anticipated expenditures.

BUREAU OF ADMINISTRATION

The Governor recommends an increase of \$3,199,556 in general funds and a decrease of \$1,518,172 in other fund expenditure authority. This recommendation includes an increase of \$3,239,806 in general funds for the maintenance and repair (M&R) of state buildings. This is the third year of a four year plan to reach an M&R budget which is 2% of the replacement value of the buildings. A decrease of \$1,600,000 in other fund expenditure authority is due to the end of the Statewide M&R fund. A decrease of \$40,250 in general funds are for the Bureau of Administration's sale-leaseback payments. An increase of \$81,828 in other fund expenditure authority is recommended for increased utility costs based on estimates for the Capital Complex. The FY2016 recommended budget is \$12,551,140 in general funds, \$500,000 in federal fund expenditure authority, \$30,016,452 in other fund expenditure authority, and 163.0 FTE.

BUREAU OF INFORMATION AND TELECOMMUNICATIONS

The Governor recommends increases of \$2,380,750 in other fund expenditure authority and 18.0 FTE, along with a decrease of \$520,783 in federal fund expenditure authority. An increase of \$575,000 in other fund expenditure authority is recommended to allow BIT to purchase Microsoft Core and Remote Desktop Client Access Licenses for all state government users. Increases of \$1,444,600 in other fund expenditure authority and 16.0 FTE are for additional specialty application developers. An additional 4.0 FTE and \$361,150 in other fund expenditure authority are for data center staff to support the work being completed by the additional development staff. A decrease of \$520,783 in federal fund expenditure authority and 2.0 FTE is related to the completion of the American Recovery and Reinvestment Act Broadband Mapping grant. The Governor's total recommended FY2016 budget for the Bureau of Information and Telecommunications is \$6,668,898 in general funds, \$1,625,003 in federal fund expenditure authority, \$45,555,492 in other fund expenditure authority, and 390.5 FTE.

BUREAU OF HUMAN RESOURCES

The Governor recommends an increase of 3.0 FTE along with decreases of \$450,965 in federal fund expenditure authority and \$8,893,237 in other fund expenditure authority. Increases of \$167,119 in other fund expenditure authority and 3.0 FTE is for a compensation specialist, trainer, and management analyst to assist in the conversion and ongoing support of the new state compensation system. Decreases of \$450,965 in federal fund expenditure authority and \$9,060,356 in other fund

expenditure authority are due to the end of the Risk Pool. The total FY2016 budget consists of \$262,759 in general funds, \$50,000 in federal fund expenditure authority, \$6,789,342 in other fund expenditure authority, and 73.5 FTE.

MILITARY

The Governor's FY2016 budget recommendation for the Department of Military includes \$4,014,748 in general funds, \$19,109,162 in federal fund expenditure authority, \$28,602 in other fund expenditure authority, and 104.4 FTE. The budget reflects increases of \$255,127 in general funds and \$996,531 in federal fund expenditure authority.

OFFICE OF THE ADJUTANT GENERAL

The Governor's FY2016 budget recommendation for the Office of the Adjutant General includes \$919,493 in general funds, \$10,306 in federal fund expenditure authority, \$28,544 in other fund expenditure authority, and 5.3 FTE.

ARMY GUARD

The Governor's recommendation for the Army Guard includes increases of \$246,297 in general funds and \$970,042 in federal fund expenditure authority. The Governor is recommending increases of \$209,800 in general funds and \$839,196 in federal fund expenditure authority for statewide maintenance and repair (M&R) on South Dakota National Guard armories. This is the third year of a four year plan to reach an M&R budget which is 2% of the replacement value of the buildings. The remainder of the increases due to utilities costs. The overall FY2016 budget for the Army Guard division is \$16,480,302 in total funds and 52.1 FTE.

AIR GUARD

The Governor's FY2016 budget recommendation is \$424,178 in general funds and \$5,289,689 in federal fund expenditure authority. The increases of \$8,830 in general funds and \$26,489 in federal fund expenditure authority are for increased utility rates. The overall FY2016 budget for the Air Guard division is \$5,713,867 in total funds and 47.0 FTE.

VETERANS' AFFAIRS

The Governor's FY2016 budget recommendation for the Department of Veterans' Affairs includes \$2,402,868 in general funds, \$1,315,630 in federal fund expenditure authority, and \$5,943,245 in other fund expenditure authority, for a total of \$9,661,743 and 105.7 FTE. This budget recommendation consists of a decrease of \$1,451,277 in general

funds and increases of \$174,986 in federal fund expenditure authority and \$186,920 in other fund expenditure authority.

VETERANS' BENEFITS AND SERVICES

The recommended FY2016 budget for Veterans' Benefits and Services is \$1,418,701 in general funds, \$265,553 in federal fund expenditure authority, and \$61,000 in other fund expenditure authority. Included in this budget recommendation is an increase of \$3,750 in general funds related to the County Veterans Service Officers program. The overall FY2016 budget for Veterans' Benefits and Services is \$1,745,254 in total funds and 20.0 FTE.

STATE VETERANS' HOME

The Governor's recommendation for the State Veterans' Home includes a decrease of \$1,455,027 in general funds and increases of \$174,986 in federal fund expenditure authority and \$186,920 in other fund expenditure authority. The Governor is recommending a decrease of \$1,589,069 in general funds which was related to the bond payment for the new State Veterans' Home construction in Hot Springs. The overall FY2016 budget for the State Veterans' Home is \$7,916,489 in total funds and 85.7 FTE.

REVENUE

The Governor's recommended FY2016 budget for the Department of Revenue totals \$73,638,880, consisting of \$1,228,995 in general funds, \$72,409,885 in other fund expenditure authority, and 248.5 FTE. The Governor is recommending total increases of \$60,594 in general funds, \$1,307,125 in other fund expenditure authority, and 1.0 FTE for the Department.

SECRETARIAT

The total FY2016 Governor's recommended budget for the Secretariat division consists of \$3,558,148 in other fund expenditure authority and 28.0 FTE.

BUSINESS TAX

The total FY2016 Governor's recommended budget for Business Tax consists of \$4,319,774 in other fund expenditure authority and 57.5 FTE.

MOTOR VEHICLES

The total FY2016 Governor's recommended budget for Motor Vehicles consists of \$8,642,597 in other fund expenditure authority and 46.0 FTE. An increase of \$1,017,000 in other fund expenditure

authority will pay for costs related to the new license plate production. An increase of \$268,000 in other fund expenditure authority is recommended for postage and mailing service costs for the Plate on Demand system, which allows direct shipment of license plates to citizens without having to drive to county courthouses. The total recommended increase for Motor Vehicles is \$1,285,000 in other fund expenditure authority.

PROPERTY AND SPECIAL TAXES

The total FY2016 Governor's recommended budget for Property and Special Taxes consists of \$1,228,995 in general funds and 15.0 FTE. Increases of \$49,229 and 1.0 FTE are for an additional revenue agent in the special taxes area to address the increase in current licenses and anticipated new licenses related to direct wine shipments. An increase of \$11,365 in general funds is due to the reclassification of a position within the division. The total recommended increase for FY2016 is \$60,594 in general funds and 1.0 FTE.

AUDITS

The total FY2016 Governor's recommended budget consists of \$4,424,253 in other fund expenditure authority and 55.0 FTE. An increase of \$22,125 in other fund expenditure authority is to align the travel budget with anticipated expenses for FY2016 including new lodging rates.

LOTTERY

The total FY2016 Governor's recommended budget for Lottery is \$40,855,689 of other fund expenditure authority and 31.0 FTE.

COMMISSION ON GAMING – INFORMATIONAL

The total FY2016 Governor's recommended budget for the Commission on Gaming is \$10,609,424 in other fund expenditure authority and 16.0 FTE.

TOURISM

The Governor's recommended budget for the Department of Tourism consists of \$1,939,058 in general funds, \$1,808,585 in federal fund expenditure authority, \$17,224,473 in other fund expenditure authority, and 72.0 FTE.

TOURISM

The Tourism budget is funded by revenues generated from Deadwood Gaming, a gross

receipts tax on hotel rooms and other tourist activities, and the Co-op Revolving Fund. The total FY2016 recommended budget consists of \$13,655,321 in other fund expenditure authority and 25.0 FTE.

ARTS

The total recommended FY2016 Arts budget consists of \$878,000 in federal fund expenditure authority, \$821,821 in other fund expenditure authority, and 3.0 FTE.

HISTORY

The total recommended FY2016 History budget consists of \$1,939,058 in general funds, \$930,585 in federal fund expenditure authority, \$2,747,331 in other fund expenditure authority, and 44.0 FTE.

TRIBAL RELATIONS

The Governor's recommended change to the FY2016 budget consists of an increase of \$5,000 in general funds along with decreases of \$100,000 in federal fund expenditure authority and \$80,000 in other fund expenditure authority. This includes an increase of \$5,000 in general funds related to the Juvenile Justice Reinvestment Initiative. The decreases in federal and other fund expenditure authority are recommended as this budgeted expenditure authority is not needed. The total recommended FY2016 budget for the Department of Tribal Relations budget is \$442,451 in general funds, \$20,000 in other fund expenditure authority, and 5.0 FTE.

TRANSPORTATION

The recommended FY2016 budget for the Department of Transportation is \$615,715,814 consisting of \$524,954 in general funds, \$389,390,750 in federal fund expenditure authority, \$225,800,110 in other fund expenditure authority, and 1,026.3 FTE. The FY2016 budget includes increases of \$8,686,089 in federal fund expenditure authority and \$5,600,000 in other fund expenditure authority.

GENERAL OPERATIONS

The Governor's total FY2016 recommended budget for General Operations includes \$524,954 in general funds, \$42,321,877 in federal fund expenditure authority, \$149,705,825 in other fund expenditure authority, and 1,026.3 FTE. This includes increases of \$8,686,089 in federal fund expenditure authority and \$5,600,000 in other fund expenditure authority for railroad projects.

CONSTRUCTION CONTRACTS - INFORMATIONAL

The total budget for Construction Contracts is \$423,163,158, consisting of \$347,068,873 in federal fund expenditure authority and \$76,094,285 in other fund expenditure authority. The Construction Contracts division makes up 69% of the Department of Transportation's budget.

LABOR & REGULATION

The Governor's FY2016 recommendation for the Department of Labor and Regulation is \$1,451,741 in general funds, \$37,698,661 in federal fund expenditure authority, and \$13,952,438 in other fund expenditure authority, for \$53,102,840 in total funds and 484.7 FTE. This includes increases of \$166,391 in general funds and \$73,000 in other expenditure authority.

ADMINISTRATION

The recommended budget is \$605,033 in general funds, \$18,943,818 in federal fund expenditure authority, and \$239,157 in other fund expenditure authority. The FY2016 budget for Administration is \$19,788,008 in total funds and 53.5 FTE.

UNEMPLOYMENT INSURANCE

The recommended FY2016 budget is \$5,698,124 in federal fund expenditure authority and 92.0 FTE.

EMPLOYMENT SERVICES

The recommended budget is \$166,391 in general funds, \$11,856,569 in federal fund expenditure authority, and 184.0 FTE. This includes an increase of \$166,391 in general funds for the Dakota Roots program.

STATE LABOR LAW ADMINISTRATION

The total recommended budget is \$680,317 in general funds, \$460,951 in federal fund expenditure authority, \$481,471 in other fund expenditure authority, and 19.0 FTE.

PROFESSIONAL AND OCCUPATIONAL LICENSING - INFORMATIONAL

This division is comprised of the informational budgets of nine professional and occupational licensing boards including: Board of Accountancy, Board of Barber Examiners, Cosmetology Commission, Plumbing Commission, Board of Technical Professions, the Electrical Commission, the Abstractors Board of Examiners, the Real

Estate Commission, and the South Dakota Athletic Commission. The Governor's FY2016 recommendation for the Boards and Commissions include other fund expenditure authority increases to match projected expenditures within the Board of Accountancy for \$50,000, the Cosmetology Commission for \$13,000, and the Plumbing Commission for \$10,000. The recommended FY2016 budget is \$3,823,001 in other fund expenditure authority and 43.0 FTE.

BANKING

The recommended FY2016 budget is \$2,502,619 in other fund expenditure authority and 24.5 FTE.

SECURITIES

The FY2016 recommended budget consists of \$494,897 in other fund expenditure authority and 5.7 FTE.

INSURANCE

The Governor's FY2016 recommended budget consists of \$739,199 in federal fund expenditure authority and \$2,208,125 in other fund expenditure authority, for \$2,947,324 in total funds and 30.0 FTE.

SOUTH DAKOTA RETIREMENT SYSTEM

The Governor's FY2016 recommended budget for the South Dakota Retirement System is \$4,203,168 in other fund expenditure authority and 33.0 FTE. Included in this recommendation is an increase of \$31,000 in other fund expenditure authority to reflect anticipated expenditures for travel, contractual services, and capital assets.

PUBLIC SAFETY

The Governor's FY2016 budget recommendation for the Department of Public Safety includes \$3,864,634 in general funds, \$23,055,134 in federal fund expenditure authority, and \$36,557,452 in other fund expenditure authority, for \$63,477,220 in total funds and 419.0 FTE. This includes an increase of \$21,380 in general funds.

ADMINISTRATION

The Governor's FY2016 budget recommendation for Administration is \$133,725 in general funds, \$141,657 in federal fund expenditure authority, and \$712,278 in other fund expenditure authority, for \$987,660 in total funds and 8.5 FTE.

HIGHWAY PATROL

The Division of Highway Patrol includes the South Dakota Highway Patrol, Accident Records, Highway Safety, and State Radio. The FY2016 recommendation includes \$1,352,978 in general funds, \$7,802,916 in federal fund expenditure authority, and \$22,870,162 in other fund expenditure authority. The overall FY2016 budget for Highway Patrol is \$32,026,056 in total funds and 278.0 FTE.

EMERGENCY SERVICES AND HOMELAND SECURITY

The Division of Emergency Services and Homeland Security includes Emergency Management, Emergency Medical Services, the State Fire Marshal, and the Office of Homeland Security. The FY2016 budget recommendation for the Division of Emergency Services and Homeland Security includes \$1,659,899 in general funds, \$15,014,942 in federal fund expenditure authority, and \$344,310 in other fund expenditure authority, for \$17,019,151 in total funds and 36.0 FTE.

LEGAL AND REGULATORY SERVICES

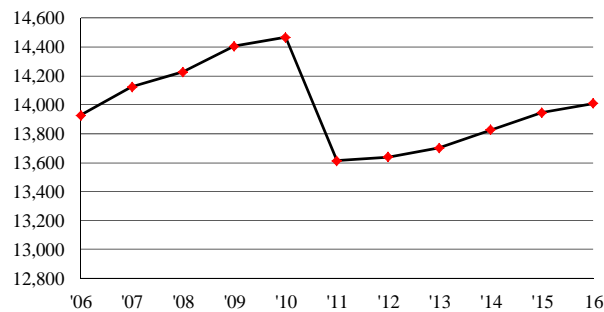
The Division of Legal and Regulatory Services includes Weights and Measures, Driver Licensing, and Inspections. The FY2016 recommended budget includes \$718,032 in general funds, \$95,619 in federal fund expenditure authority, and \$7,727,791 in other fund expenditure authority. The Governor is recommending increases of \$21,380 in general funds due to increased fees in Weights and Measures. The overall FY2016 budget for Legal and Regulatory Services is \$8,541,442 in total funds and 95.5 FTE.

911 COORDINATION BOARD - INFORMATIONAL

The FY2016 budget for the 911 Coordination Board is \$4,902,911 in other fund expenditure authority and 1.0 FTE.

FTE CHANGE

FTE History All of State Government



The total appropriated FTE increased from 13,861.6 in FY2006 to a recommended level of 14,008.6 for FY2016. This is an increase of 147.0 FTE, or 1.1%, over the decade. The recommended change in FTE for FY2016 is an increase of 61.6 across state government.

FTE History for Offices Outside Control of Governor



For offices outside the control of the Governor, total appropriated FTE changed from 6,092.8 in FY2006 to a recommended level of 6,092.5 for FY2016 for a net decrease of 0.3 FTE. The recommended changes for these offices in the FY2016 budget are a net increase of 27.6 FTE. This includes increases of 20.0 FTE for the Board of Regents, 7.3 FTE within the Unified Judicial System, 2.3 FTE in the Investment Council, and 1.0 FTE in the Office of the Attorney General. Also included is a decrease of 3.0 FTE in the Public Utilities Commission.

FTE History for Offices Under Control of Governor



The agencies under direct control of the Governor had total appropriated FTE of 7,768.8 in FY2006. The FY2016 budget recommendation brings the FTE to a level of 7,916.1. This is an increase of 147.3 FTE, or 1.9%, over the decade. The recommended increase of 34.0 FTE in the FY2016 budget includes increases of 18.0 FTE in the Bureau of Information and Telecommunications, 4.0 FTE in the Department of Health, 3.0 FTE in the Department of Corrections, 3.0 FTE in the Bureau of Human Resources, 2.0 FTE in the Bureau of Finance and Management, 2.0 FTE in the Department of Education, 1.0 FTE in the Department of Game, Fish and Parks, and 1.0 FTE in the Department of Revenue.

SPECIAL APPROPRIATION RECOMMENDATIONS

FY2015 EMERGENCY SPECIAL APPROPRIATIONS	FTE	GENERAL FUNDS	FEDERAL FUNDS	OTHER FUNDS	TOTAL
Emergency and Disaster Fund		\$ 7,994,449			\$ 7,994,449
Provider Direct Care Workforce Funding		\$ 4,125,000	\$ 2,984,392		\$ 7,109,392
Captive Capitalization Fund for Property and Casualty		\$ 4,000,000			\$ 4,000,000
Sanford Underground Lab Ross Shaft Upgrades		\$ 3,950,000			\$ 3,950,000
Captive Insurance for Directors and Officers and Liability		\$ 2,000,000			\$ 2,000,000
South Dakota Conservation Fund for Wildlife Habitat		\$ 1,500,000			\$ 1,500,000
Jobs For America's Graduates Start-up Funding		\$ 925,000			\$ 925,000
River Flow Study		\$ 500,000			\$ 500,000
Tax Refunds for Elderly and Disabled		\$ 450,000			\$ 450,000
Rural Healthcare Recruitment Assistance Program		\$ 381,766			\$ 381,766
Rural Healthcare Facility Recruitment Assistance Program		\$ 302,500			\$ 302,500
Omnibus Water Bill			\$ 200,000	\$ 28,300,000	\$ 28,500,000
Conservation Grant				\$ 500,000	\$ 500,000
Governor's Houses for Highway Patrol Offices				\$ 196,850	\$ 196,850
DSS Eliminate Obsolete Appropriation				\$ (347,910)	\$ (347,910)
TOTAL FY2015 EMERGENCY SPECIAL APPROPRIATIONS	0.0	\$ 26,128,715	\$ 3,184,392	\$ 28,648,940	\$ 57,962,047

NOTE: FY2015 emergency special appropriations become available for expenditure upon passage of the bill and are included in the FY2015 column of the General Fund Condition Statement.

Governor Dugaard is recommending total emergency special appropriations of \$26,128,715 in general funds, \$3,184,392 in federal fund expenditure authority, and \$28,648,940 in other fund expenditure authority. The following paragraphs highlight each recommended emergency special appropriation.

- ◆ **Emergency and Disaster Fund:** The Governor is recommending \$7,994,449 in general funds be transferred into the Emergency and Disaster Special Fund for costs related to emergencies and disasters in South Dakota.
- ◆ **Provider Direct Care Workforce Funding:** The Governor is recommending \$4,125,000 in general funds and \$2,984,392 in federal fund expenditure authority to be allocated to community based providers throughout South Dakota to enhance their ability to hire and retain direct care staff.
- ◆ **Captive Capitalization Fund for Property and Casualty:** The Governor is recommending \$4,000,000 in general funds be used for establishing a property and casualty captive insurance cell.
- ◆ **Ross Shaft Upgrades:** The Governor is recommending \$3,950,000 in general funds be used to upgrade the Ross Shaft as part of the long-term plan at the Sanford Underground Research Facility.
- ◆ **Captive Insurance for Directors and Officers and Liability:** The Governor is recommending \$2,000,000 in general funds be used to establish a captive insurance cell to fund liability and directors and officers insurance.
- ◆ **South Dakota Conservation Fund for Wildlife Habitat:** The Governor is recommending \$1,500,000 in general funds be used to help establish the South Dakota Conservation Fund to help enhance conservation efforts, including wildlife habitat development, in South Dakota.
- ◆ **Jobs For America's Graduates Start-up Funding:** The Governor is recommending \$925,000 in general funds to carry out two additional years of the Jobs for America's Graduates Program at 26 new school districts throughout the state.
- ◆ **River Flow Study:** The Governor is recommending \$500,000 in general funds be used to assist in modeling river flow conditions and produce inundation maps on the lower Big Sioux River.
- ◆ **Tax Refunds for Elderly and Disabled Persons:** The Governor is recommending \$450,000 in general funds for tax refunds for elderly and disabled individuals who meet income guidelines.
- ◆ **Rural Healthcare Recruitment Assistance Program:** The Governor is recommending \$381,766 in general funds to reimburse six participants who have complied with the requirements of the Rural Healthcare Recruitment Assistance Program per SDCL 34-12G.
- ◆ **Rural Healthcare Facility Recruitment Assistance Program:** The Governor is recommending \$302,500 in general funds to reimburse 43 participants who have complied with the requirements of the Rural Healthcare Facility Recruitment Assistance Program per SDCL 34-12G.
- ◆ **Omnibus Water Bill:** The Governor is recommending \$200,000 in federal fund expenditure authority and \$28,300,000 in other fund expenditure authority for water development, solid waste, and water quality improvement projects throughout the state.

- ◆ **Conservation Grant:** The Governor is recommending \$500,000 in other fund expenditure authority for the continued assistance of promoting conservation practices to reduce erosion, improve cropland and grazing conditions, improve surface water, and enhance habitat.
- ◆ **Governor's Houses for Highway Patrol Offices:** The Governor is recommending \$196,850 in other fund expenditure authority for the Department of Public Safety to construct patrol offices in Butte and Roberts counties.
- ◆ **DSS Eliminate Obsolete Appropriation:** The Governor is recommending to eliminate an appropriation for a program which no longer exists. This results in \$347,910 in other fund expenditure authority being reverted.

FY2015 GENERAL BILL AMENDMENTS	FTE	GENERAL FUNDS	FEDERAL FUNDS	OTHER FUNDS	TOTAL
DOE Dual Credit		\$ 577,500			\$ 577,500
Statewide Utilities		\$ 546,793	\$ 105,006	\$ 31,695	\$ 683,494
DENR Computer System Upgrade		\$ 350,000			\$ 350,000
Custer State Park and Good Earth State Park Bonding		\$ 184,896			\$ 184,896
Supplemental Retirement Plan				\$ 204,297	\$ 204,297
TIGER Grant for Railroads			\$ 4,000,000	\$ 145,600	\$ 4,145,600
Correctional Healthcare Revision		\$ (143,960)		\$ (143,960)	\$ (287,920)
Technical Institutes Revision		\$ (1,057,341)			\$ (1,057,341)
Child Care Subsidies and Psychiatric Residential Treatment Services		\$ (1,296,081)	\$ (2,156,905)		\$ (3,452,986)
Juvenile Placement Revision		\$ (1,395,094)			\$ (1,395,094)
DSS Medicaid Eligibles		\$ (2,647,655)	\$ (601,422)		\$ (3,249,077)
State Aid Revision		\$ (6,933,797)			\$ (6,933,797)
BOR FTE	20.0				\$ -
BHR FTE	1.5				\$ -
TOTAL FY2015 GENERAL BILL AMENDMENTS	21.5	\$ (11,814,739)	\$ 1,346,679	\$ 237,632	\$ (10,230,428)

NOTE: FY2015 general bill amendments are changes needing to be made to the FY2015 General Appropriations Act and are included in the FY2015 column of the General Fund Condition Statement.

Governor Dugaard is recommending total general bill amendments of (\$11,814,739) in general funds, \$1,346,679 in federal fund expenditure authority, \$237,632 in other fund expenditure authority, and 20.0 FTE. The following paragraphs highlight the recommended changes to the FY2015 General Bill.

- ◆ **DOE Dual Credit:** The Governor is recommending \$577,500 in general funds to pay for additional dual credit courses, based on increased interest in the dual credit program.
- ◆ **Statewide Utilities:** The Governor is recommending \$546,793 in general funds, \$105,006 in federal fund expenditure authority, and \$31,695 in other fund expenditure authority due to increased utilities cost projections.
- ◆ **DENR Computer System Upgrade:** The Governor is recommending \$350,000 in general funds for the Department of Environment and Natural Resources to finalize a computer system upgrade by the Bureau of Information and Telecommunications.
- ◆ **Custer State Park and Good Earth State Park Bonding:** The Governor is recommending \$184,896 in general funds to make the first payment of a new bond for Custer State and Good Earth State Parks.
- ◆ **Supplemental Retirement Plan:** The Governor is recommending \$204,297 in other fund expenditure authority for the South Dakota Retirement System to transfer residual balances from the state's accounting system to the 3rd party administrator, Nationwide Retirement.
- ◆ **TIGER Grant for Railroads:** The Governor is recommending \$4,000,000 in federal fund expenditure authority and \$145,600 in other fund expenditure authority for the Department of Transportation to begin the upgrade project on the railroad line that runs between Chamberlain and Presho.
- ◆ **Correctional Healthcare Revision:** The Governor is recommending a decrease of \$143,960 in general funds and a decrease of \$143,960 in other fund expenditure authority related to the stabilizing of cost trends in the correctional healthcare system.
- ◆ **Technical Institutes Revision:** The Governor is recommending a decrease of \$1,057,341 in general funds for the Technical Institutes due to actual student numbers being less than budgeted for in FY2015 and a lower bond payment than anticipated.
- ◆ **Child Care Subsidies and Psychiatric Residential Treatment Services Revision:** The Governor is recommending reductions of \$1,296,081 in general funds and \$2,156,905 in federal fund expenditure authority due to decreases in child care subsidies and psychiatric residential treatment services caseloads.
- ◆ **Juvenile Placement Revision:** The Governor is recommending a decrease of \$1,395,094 in general funds due to updated projections which estimate the juvenile population within the Department of Corrections to be fewer than previously anticipated.
- ◆ **DSS Medicaid Eligibles Revision:** The Governor is recommending decreases of \$2,647,655 in general funds and \$601,422 in federal fund expenditure authority due to changes in Medicaid eligibles, utilization, and cost.
- ◆ **DOE State Aid Revision:** The Governor is recommending a decrease of \$6,933,797 in general funds in state aid to general education due to fewer students and higher property valuation growth than budgeted in FY2015.
- ◆ **BOR FTE:** The Governor is recommending 20.0 FTE due to growth in self-support classes in the Board of Regents.
- ◆ **BHR FTE:** The Governor is recommending 1.5 FTE to meet the increased workload needs in the Bureau of Human Resources due to the implementation of a market-based compensation system.

GOVERNOR DAUGAARD'S RECOMMENDATION FOR THE FY2016 STATE EMPLOYEE COMPENSATION PLAN

	GENERAL FUNDS	FEDERAL FUNDS	OTHER FUNDS	TOTAL FUNDS
MARKET ADJUSTMENT	\$ 6,718,056	\$ 3,073,351	\$ 7,662,490	\$ 17,453,897

The Governor is recommending all permanent state employees receive a 2.0% pay increase or market adjustment. Employees in the career bands will receive market adjustments based on actual market movement of the job family.

Permanent Employees (excluding Career Band Employees)	Annual Adjustment	2.0%
Career Band Employees	Actual Market Adjustments	
	Nursing	0.0%
	Information Technology	1.1%
	Accountants / Auditors	1.7%
	Engineers	2.0%
	Environmental Scientists	6.6%

MOVEMENT TOWARD MARKET VALUE:	\$ 3,858,561	\$ 2,040,320	\$ 3,265,492	\$ 9,164,373
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As a result of the market analysis developed by the Total Compensation Work Group, the Governor is recommending moving all permanent employees under his control that are not currently in career bands from the Performance and Compensation Equity (PACE) system established in FY1990 into a new market-based General Pay Structure. The employees in the General Pay Structure are recommended to receive 2.5% movement towards their new market values. Employees remaining in the PACE system are recommended to receive 2.5% movement towards the job worth of their current pay grade.

CAREER BAND PAY FOR PERFORMANCE:	\$ 558,136	\$ 455,735	\$ 1,156,407	\$ 2,170,278
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The Governor is also recommending the continuation of the 0% to 4.5% performance based adjustments to employees in the Career Band families established in FY2010 to move them towards market value.

General Pay Structure Employees *	Movement Towards Market Value	2.5%
Career Band Employees	Performance-Based Adjustment	0% to 4.5%
Unclassified Employees		0%
<i>* includes PACE and other offices with established classifications and assigned pay grades</i>		

HEALTH INSURANCE INCREASE:	\$ -	\$ -	\$ -	\$ -
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No budget increase is recommended by the Governor for the employer-paid portion of the state employee's health insurance plan for FY2016.

TOTAL COST OF RECOMMENDED STATE EMPLOYEE COMPENSATION PLAN:	\$ 11,134,753	\$ 5,569,406	\$ 12,084,389	\$ 28,788,548
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REMAINING FY2015 COMPENSATION POOL:	\$ (935)	\$ (741)	\$ (3,595,785)	\$ (3,597,461)
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TOTAL INCREASE FOR RECOMMENDED STATE EMPLOYEE COMPENSATION PLAN:	\$ 11,133,818	\$ 5,568,665	\$ 8,488,604	\$ 25,191,087
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For FY2016, the state employee compensation plan was recommended as a pool in the Bureau of Finance and Management to be distributed to the agencies after moving PACE employees into the new General Pay Structure and the preliminary career band pay-for-performance scores and percentages have been calculated.

**GOVERNOR'S FY2016 GENERAL FUND
BASE BUDGET RECOMMENDATIONS**

GENERAL BILL	FTE EXPANSION/ (REDUCTION)	GENERAL FUND EXPANSION/ (REDUCTION)	TOTAL GENERAL FUND RECOMMENDATION
Administration	0.0	3,199,556	12,551,140
Agriculture	0.0	5,325	6,667,233
Attorney General	1.0	645,885	10,567,088
Corrections	3.0	571,244	95,275,023
Education (Excluding State Aid and Technical Institutes)	2.0	(1,461,783)	10,882,686
State Aid to Education		10,813,206	413,815,266
Technical Institutes		1,599,732	24,949,318
Environment and Natural Resources	0.0	0	6,171,692
Finance and Management (excl emp comp pkg)	2.0	665,105	6,576,898
Employee Compensation Package		11,134,753	11,134,753
Game, Fish, and Parks	1.0	135,557	5,076,347
Gubernatorial Division (Excluding GOED)	0.0	0	2,326,105
Governor's Office of Economic Development	0.0	0	6,363,143
Health	4.0	(10,584)	7,914,934
Human Resources	3.0	0	262,759
Human Services	0.0	4,147,419	78,284,764
Information and Telecommunications	18.0	0	6,668,898
Labor and Regulation (Includes SD Retirement System)	0.0	166,391	1,451,741
Legislature	0.0	82,340	9,184,811
Military	0.0	255,127	4,014,748
Public Safety	0.0	21,380	3,864,634
Public Utilities Commission	(3.0)	0	555,963
Regents	20.0	4,474,331	198,503,922
Revenue	1.0	60,594	1,228,995
School and Public Lands	0.0	0	536,026
Secretary of State	0.0	0	962,591
Social Services	0.0	13,008,722	464,734,833
State Auditor	0.0	0	1,213,958
State Treasurer (Including Investment Council)	2.3	0	522,864
Tourism	0.0	0	1,939,058
Transportation	0.0	0	524,954
Tribal Relations	0.0	5,000	442,451
Unified Judicial System	7.3	1,101,665	40,553,814
Veterans' Affairs	0.0	(1,451,277)	2,402,868
TOTAL FY2016 GENERAL BILL RECOMMENDATIONS	61.6	49,169,688	1,438,126,278
BREAKDOWN			
Executive Branch	34.0	19,317,776	723,299,799
Unified Judicial System and Other Elected Officials	7.6	1,829,890	66,423,220
State Aid		10,813,206	413,815,266
Technical Institutes		1,599,732	24,949,318
Board of Regents	20.0	4,474,331	198,503,922
Employee Compensation Package		11,134,753	11,134,753
TOTAL FY2016 GENERAL BILL RECOMMENDATIONS	61.6	49,169,688	1,438,126,278

GENERAL FUND CONDITION STATEMENT

	ACTUAL FY2013	ACTUAL FY2014	PROJECTED FY2015	PROJECTED FY2016
RECEIPTS				
Sales and Use Tax	\$ 776,095,539	\$ 823,401,593	\$ 844,828,546	\$ 879,581,671
Lottery	7,735,976	6,296,600	6,852,306	105,801,639
Contractor's Excise Tax	84,466,868	90,409,495	94,927,448	99,940,035
Insurance Company Tax	70,291,028	75,110,734	79,256,436	83,430,980
Unclaimed Property Receipts	13,912,329	59,761,191	54,230,300	56,730,300
Tobacco Taxes	30,000,000	30,000,000	30,000,000	53,526,233
Bank Franchise Tax	17,537,046	10,782,035	10,177,974	11,036,706
Property Tax Reduction Fund	107,261,166	106,529,196	110,106,101	N/A
Other	150,877,265	151,506,401	150,706,887	151,195,343
One-Time Receipts	29,931,989	77,590,390	25,126,412	-
Transfer from Property Tax Reserves	-	19,626,221	-	-
Obligated Cash Carried Forward	75,655,964	25,216,171	9,876,349	-
TOTAL RECEIPTS	\$ 1,363,765,170	\$1,476,230,027	\$1,416,088,759	\$1,441,242,907
EXPENDITURES				
General Bill Excl. State Aid to Education	\$ 849,777,970	\$ 897,015,578	\$ 981,404,468	\$1,024,311,012
State Aid to Education	371,944,344	388,886,137	395,737,383	413,815,266
Special Appropriations	27,806,110	5,183,800	-	-
Emergency Special Appropriations	31,990,554	141,217,725	26,128,715	-
Continuous Appropriations	2,435,167	2,617,916	2,941,844	3,116,629
Expenditure Transfers	6,745,000	7,200,000	-	-
TOTAL EXPENDITURES	\$ 1,290,699,145	\$1,442,121,156	\$1,406,212,410	\$1,441,242,907
TRANSFERS				
Budget Reserve Fund	\$ 47,849,854	\$ 24,232,522	\$ 9,876,349	\$ -
TOTAL TRANSFERS	\$ 47,849,854	\$ 24,232,522	\$ 9,876,349	\$ -
Beginning Unobligated Cash Balance	\$ -	\$ -	\$ -	\$ -
Net (Receipts less Expend./Transfers)	\$ 25,216,171	\$ 9,876,349	\$ -	\$ -
OBLIGATIONS AGAINST CASH				
Budget Reserve Fund	\$ (24,232,522)	\$ (9,876,349)	\$ -	\$ -
Cash Committed for Following Budget	(983,649)			
Total Obligations Against Cash	(25,216,171)	(9,876,349)	-	-
Ending Unobligated Cash Balance	\$ -	\$ -	\$ -	\$ -

SOURCE: State of South Dakota Bureau of Finance and Management

NOTE: This document was prepared on a cash basis for budgeting purposes and reflects obligations against cash. The totals may not add due to rounding.

TOTAL STATE GOVERNMENT BUDGET (Excluding Information Budgets)

GENERAL APPROPRIATIONS BILL

	ACTUAL FY 2013	ACTUAL FY 2014	BUDGETED FY 2015	REQUESTED FY 2016	GOVERNOR'S RECOMMENDED FY 2016	RECOMMENDED INC/(DEC) FY 2016
FUNDING SOURCE:						
General Funds	\$ 1,221,722,313	\$ 1,285,901,715	\$ 1,388,956,590	\$ 1,469,220,541	\$ 1,438,126,278	\$ 49,169,688
Federal Funds	1,071,161,052	1,018,998,562	1,299,323,768	1,281,891,273	1,291,998,411	(7,325,357)
Other Funds	683,429,745	721,643,437	866,132,147	887,931,064	876,270,150	10,138,003
Total	<u>\$ 2,976,313,110</u>	<u>\$ 3,026,543,714</u>	<u>\$ 3,554,412,505</u>	<u>\$ 3,639,042,878</u>	<u>\$ 3,606,394,839</u>	<u>\$ 51,982,334</u>
EXPENDITURE DETAIL:						
Personal Services	\$ 749,000,807	\$ 795,108,714	\$ 861,979,391	\$ 870,174,474	\$ 891,054,174	\$ 29,074,783
Operating Expenses	2,227,312,303	2,231,434,999	2,692,433,114	2,768,868,404	2,715,340,665	22,907,551
Total	<u>\$ 2,976,313,110</u>	<u>\$ 3,026,543,714</u>	<u>\$ 3,554,412,505</u>	<u>\$ 3,639,042,878</u>	<u>\$ 3,606,394,839</u>	<u>\$ 51,982,334</u>
Staffing Level FTE:	11,739.6	11,801.8	12,651.5	12,730.3	12,708.1	56.6

SPECIAL APPROPRIATIONS AND GENERAL FUND CONTINUING APPROPRIATIONS

FUNDING SOURCE:	REVISED BUDGETED FY 2015	GOVERNOR'S RECOMMENDED FY 2016	RECOMMENDED INC/(DEC) FY 2016
General Funds	\$ 17,255,820	\$ 3,116,629	(\$ 14,139,191)
Federal Funds	10,531,071	6,000,000	(4,531,071)
Other Funds	33,338,543	1,283,270	(32,055,273)
Total	<u>\$ 61,125,434</u>	<u>\$ 10,399,899</u>	<u>(\$ 50,725,535)</u>
Staffing Level FTE:	21.5	0.0	(21.5)

TOTAL STATE GOVERNMENT BUDGET

FUNDING SOURCE:	REVISED BUDGETED FY 2015	GOVERNOR'S RECOMMENDED FY 2016	RECOMMENDED INC/(DEC) FY 2016
General Funds	\$ 1,406,212,410	\$ 1,441,242,907	\$ 35,030,497
Federal Funds	1,309,854,839	1,297,998,411	(11,856,428)
Other Funds	899,470,690	877,553,420	(21,917,270)
Total	<u>\$ 3,615,537,939</u>	<u>\$ 3,616,794,738</u>	<u>\$ 1,256,799</u>
Staffing Level FTE:	12,673.0	12,708.1	35.1

INFORMATION BUDGETS CONTAINED IN THE GENERAL APPROPRIATIONS BILL

	ACTUAL FY 2013	ACTUAL FY 2014	BUDGETED FY 2015	REQUESTED FY 2016	GOVERNOR'S RECOMMENDED FY 2016	RECOMMENDED INC/(DEC) FY 2016
FUNDING SOURCE:						
General Funds	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Federal Funds	380,960,819	377,107,782	385,350,072	387,167,024	387,167,024	1,816,952
Other Funds	335,314,334	318,123,768	318,929,466	326,314,018	326,299,302	7,369,836
Total	\$ 716,275,153	\$ 695,231,550	\$ 704,279,538	\$ 713,481,042	\$ 713,466,326	\$ 9,186,788
EXPENDITURE DETAIL:						
Personal Services	\$ 103,809,812	\$ 111,815,433	\$ 117,394,813	\$ 118,013,077	\$ 117,998,361	\$ 603,548
Operating Expenses	612,465,342	583,416,117	586,884,725	595,467,965	595,467,965	8,583,240
Total	\$ 716,275,153	\$ 695,231,550	\$ 704,279,538	\$ 713,481,042	\$ 713,466,326	\$ 9,186,788
Staffing Level FTE:	1,414.5	1,442.8	1,295.5	1,300.5	1,300.5	5.0

INFORMATION BUDGETS

South Dakota Building Authority
 South Dakota Health and Educational Facilities Authority
 Public Entity Pool for Liability (PEPL) Administration
 PEPL Fund Claims
 Insurance Fraud Unit
 Petroleum Release Fund
 Lottery Instant and On-Line Operations
 Real Estate Commission
 Abstractors Board of Examiners
 South Dakota Athletic Commission
 Commission on Gaming
 American Dairy Association
 Wheat Commission
 Oilseeds Council
 Soybean Research and Promotion Council
 Brand Board
 Corn Utilization Council
 Board of Veterinary Medical Examiners
 South Dakota Pulse Crops Council
 South Dakota Housing Development Authority
 South Dakota Science and Technology Authority
 South Dakota Energy Infrastructure Authority
 South Dakota Ellsworth Development Authority
 Building South Dakota Fund
 Division of Wildlife
 Wildlife Development and Improvement
 Snowmobile Trails Program
 Board of Chiropractic Examiners
 Board of Dentistry
 Board of Hearing Aid Dispensers
 Board of Funeral Service
 Educational Enhancement Funding Corporation

Board of Medical and Osteopathic Examiners
 Board of Nursing
 Board of Nursing Home Administrators
 Board of Examiners in Optometry
 Board of Pharmacy
 Board of Podiatry Examiners
 Board of Massage Therapy
 Board of Speech-Language Pathology
 Board of Accountancy
 Board of Barber Examiners
 Cosmetology Commission
 Plumbing Commission
 Board of Technical Professions
 Electrical Commission
 Highway Construction Contracts
 911 Coordination Board
 Tuition and Fee Fund
 Army/Air National Guard
 Board of Counselor Examiners
 Board of Psychology Examiners
 Board of Social Work Examiners
 Board of Addiction and Prevention Professionals
 Regulated Response Fund
 Livestock Cleanup
 Public Utilities Commission Administration
 Grain Warehouse
 Fixed Utilities
 Pipeline Safety
 One-Call Notification Board
 State Bar Association
 Unclaimed Property Fund

TOTAL STATE GOVERNMENT BUDGET (Including Information Budgets)

GENERAL APPROPRIATIONS BILL

	ACTUAL FY 2013	ACTUAL FY 2014	BUDGETED FY 2015	REQUESTED FY 2016	GOVERNOR'S RECOMMENDED FY 2016	RECOMMENDED INC/(DEC) FY 2016
FUNDING SOURCE:						
General Funds	\$ 1,221,722,313	\$ 1,285,901,715	\$ 1,388,956,590	\$ 1,469,220,541	\$ 1,438,126,278	\$ 49,169,688
Federal Funds	1,452,121,871	1,396,106,343	1,684,673,840	1,669,058,297	1,679,165,435	(5,508,405)
Other Funds	1,018,744,079	1,039,767,205	1,185,061,613	1,214,245,082	1,202,569,452	17,507,839
Total	<u>\$ 3,692,588,263</u>	<u>\$ 3,721,775,264</u>	<u>\$ 4,258,692,043</u>	<u>\$ 4,352,523,920</u>	<u>\$ 4,319,861,165</u>	<u>\$ 61,169,122</u>
EXPENDITURE DETAIL:						
Personal Services	\$ 852,810,619	\$ 906,924,148	\$ 979,374,204	\$ 988,187,551	\$ 1,009,052,535	\$ 29,678,331
Operating Expenses	2,839,777,644	2,814,851,116	3,279,317,839	3,364,336,369	3,310,808,630	31,490,791
Total	<u>\$ 3,692,588,263</u>	<u>\$ 3,721,775,264</u>	<u>\$ 4,258,692,043</u>	<u>\$ 4,352,523,920</u>	<u>\$ 4,319,861,165</u>	<u>\$ 61,169,122</u>
Staffing Level FTE:	13,154.1	13,244.5	13,947.0	14,030.8	14,008.6	61.6

SPECIAL APPROPRIATIONS AND GENERAL FUND CONTINUING APPROPRIATIONS

FUNDING SOURCE:	REVISED BUDGETED FY 2015	GOVERNOR'S RECOMMENDED FY 2016	RECOMMENDED INC/(DEC) FY 2016
General Funds	\$ 17,255,820	\$ 3,116,629	(\$ 14,139,191)
Federal Funds	10,531,071	6,000,000	(4,531,071)
Other Funds	33,338,543	1,283,270	(32,055,273)
Total	<u>\$ 61,125,434</u>	<u>\$ 10,399,899</u>	<u>(\$ 50,725,535)</u>
Staffing Level FTE:	21.5	0.0	(21.5)

TOTAL STATE GOVERNMENT BUDGET

FUNDING SOURCE:	REVISED BUDGETED FY 2015	GOVERNOR'S RECOMMENDED FY 2016	RECOMMENDED INC/(DEC) FY 2016
General Funds	\$ 1,406,212,410	\$ 1,441,242,907	\$ 35,030,497
Federal Funds	1,695,204,911	1,685,165,435	(10,039,476)
Other Funds	1,218,400,156	1,203,852,722	(14,547,434)
Total	<u>\$ 4,319,817,477</u>	<u>\$ 4,330,261,064</u>	<u>\$ 10,443,587</u>
Staffing Level FTE:	13,968.5	14,008.6	40.1