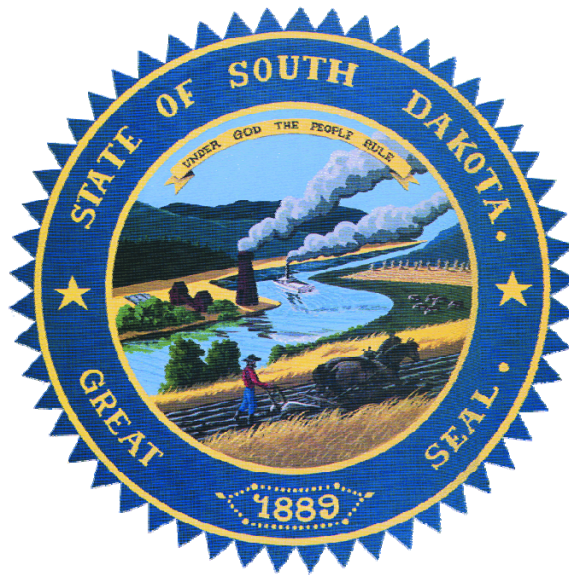
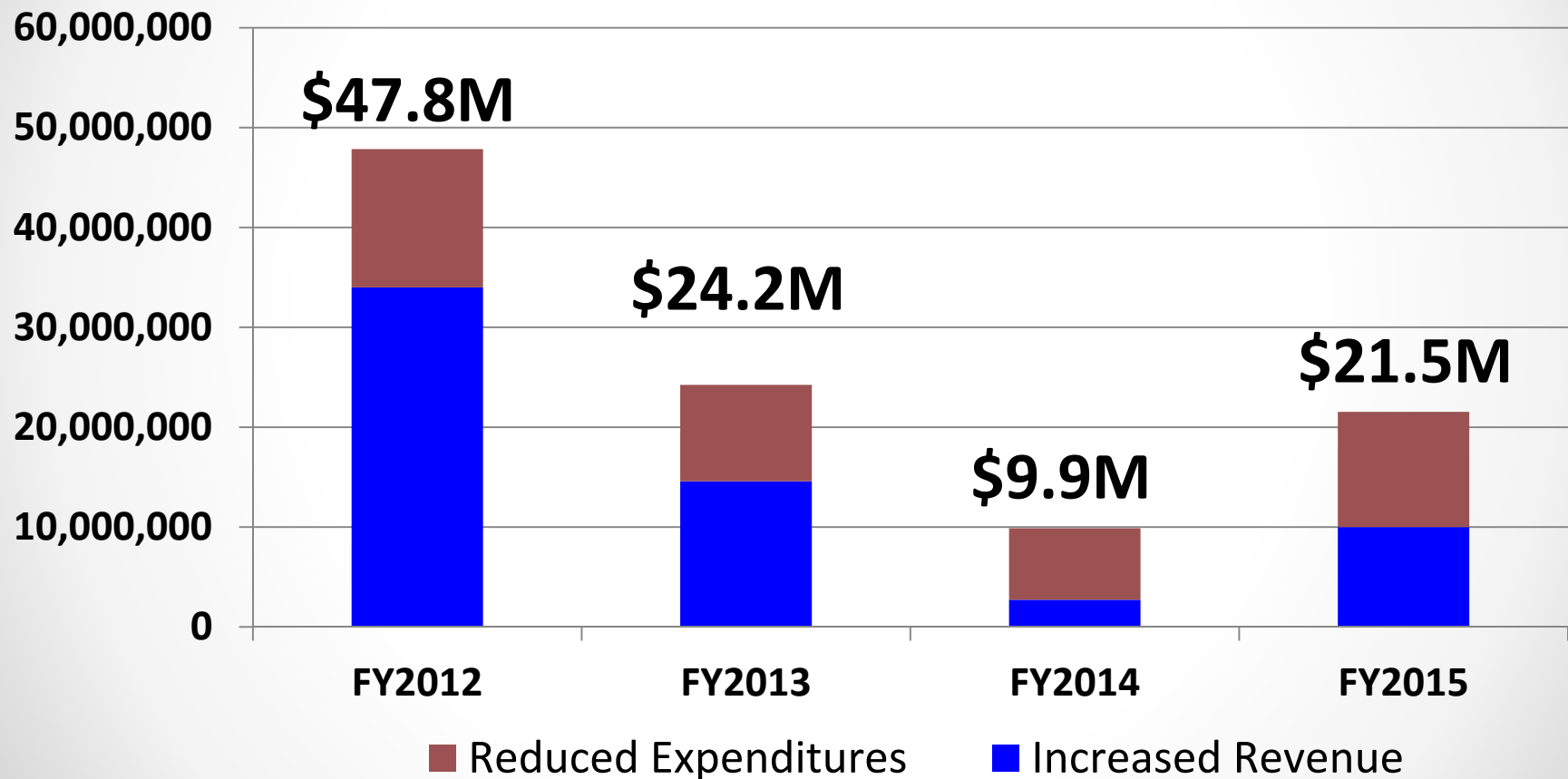


Governor Dennis Daugaard's FY2017 Budget Recommendations

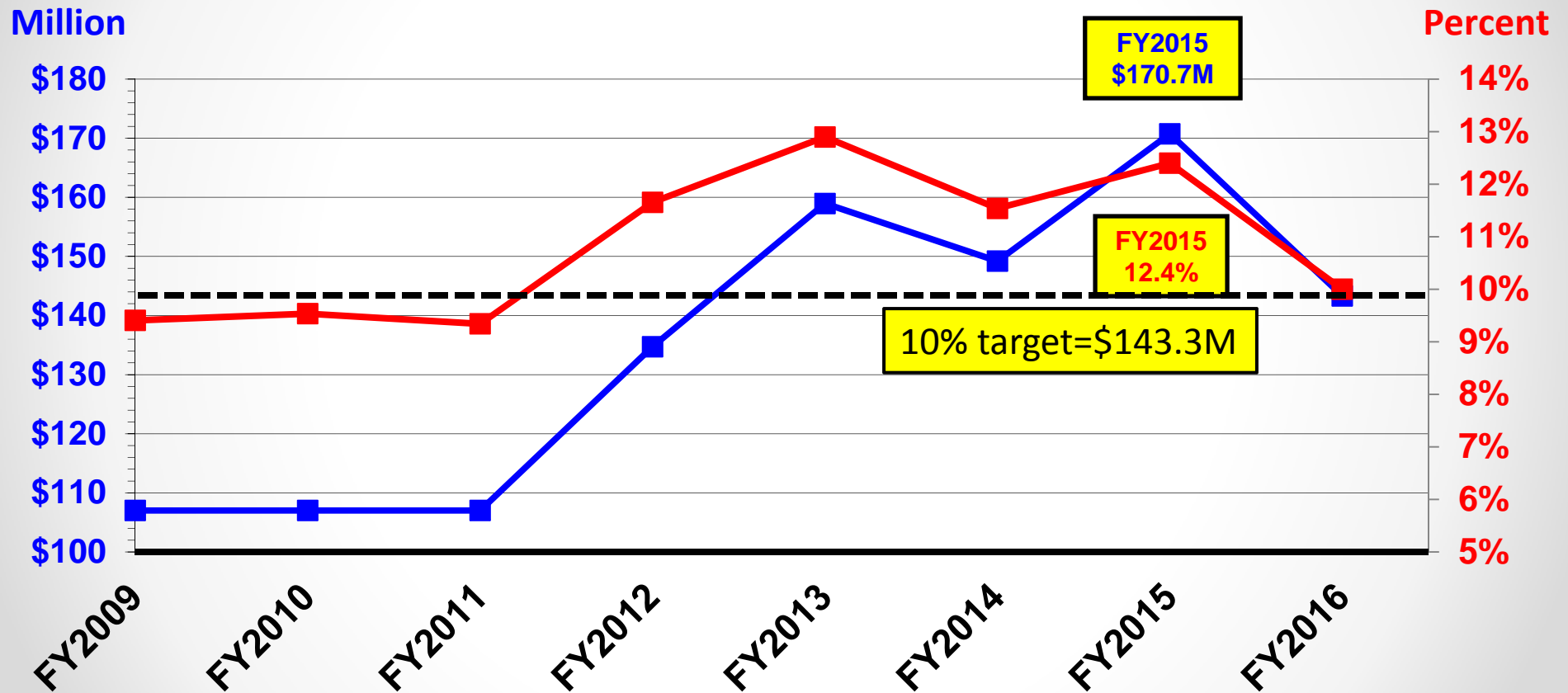


December 8, 2015

Conservative Budgeting Results



Rainy Day Fund Balances

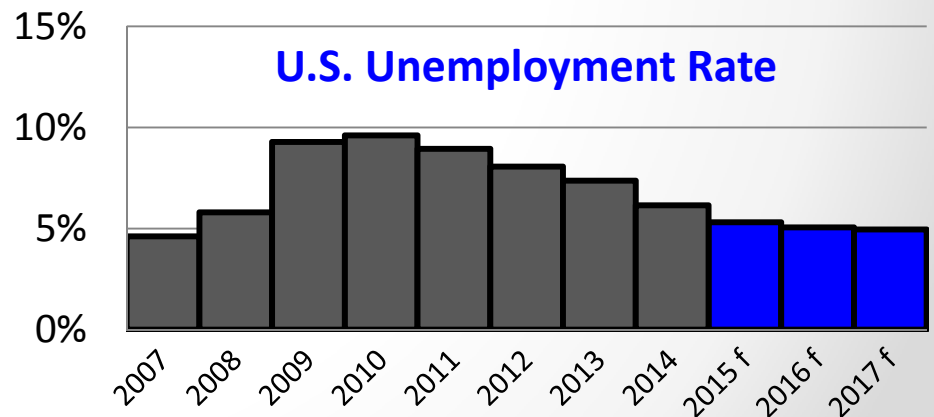
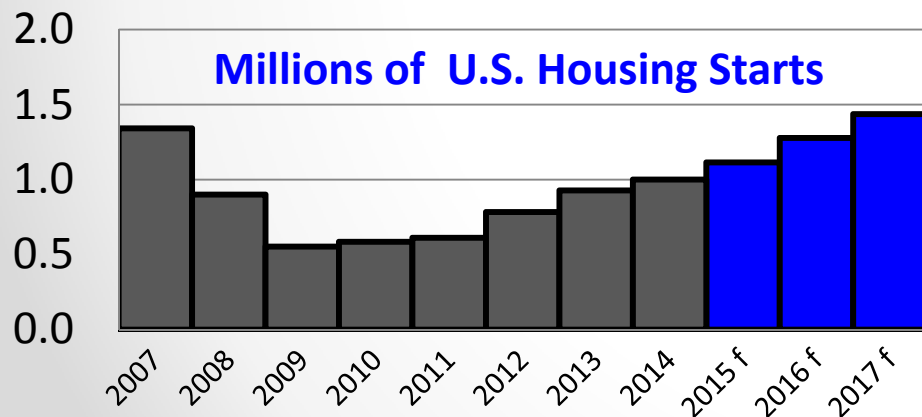
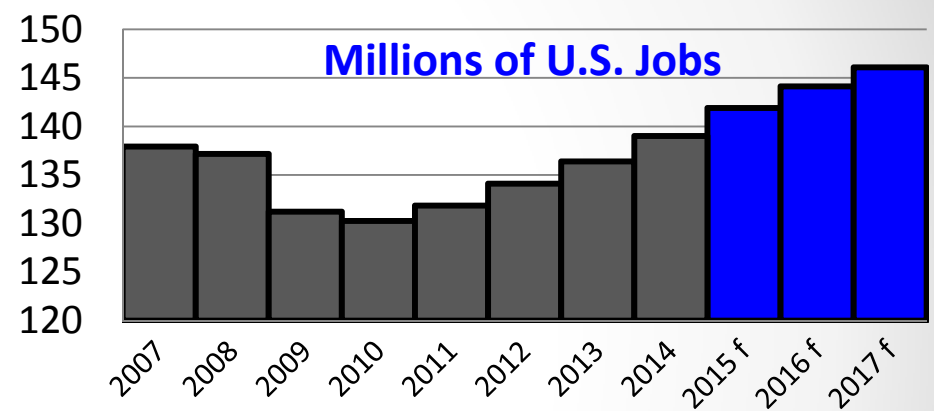
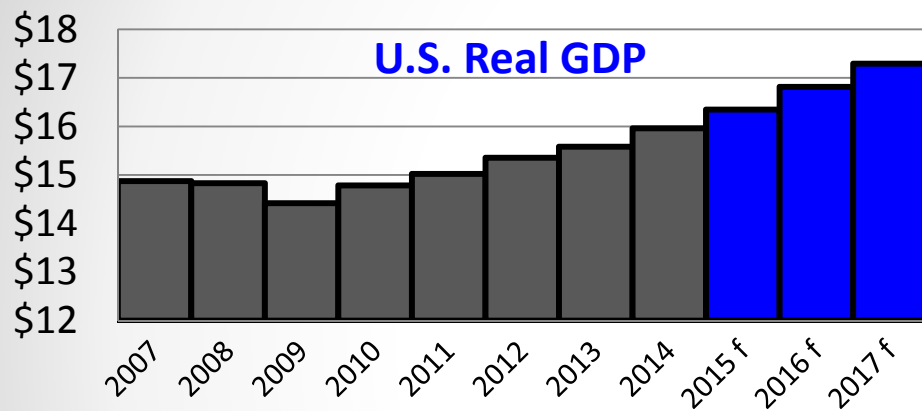


SOUTH DAKOTA'S ECONOMY

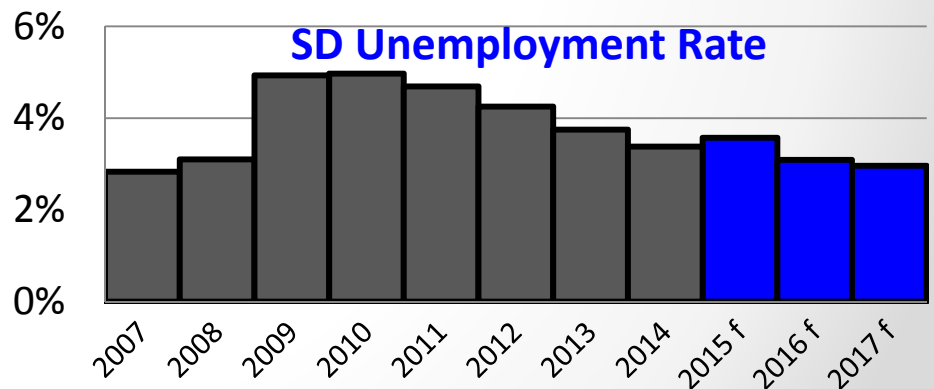
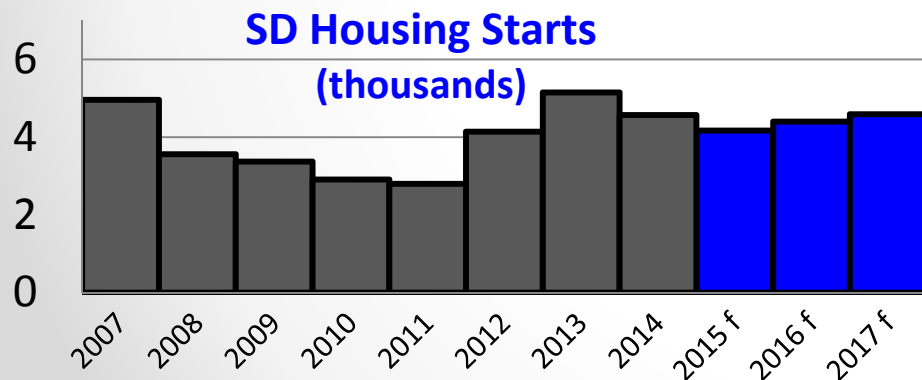
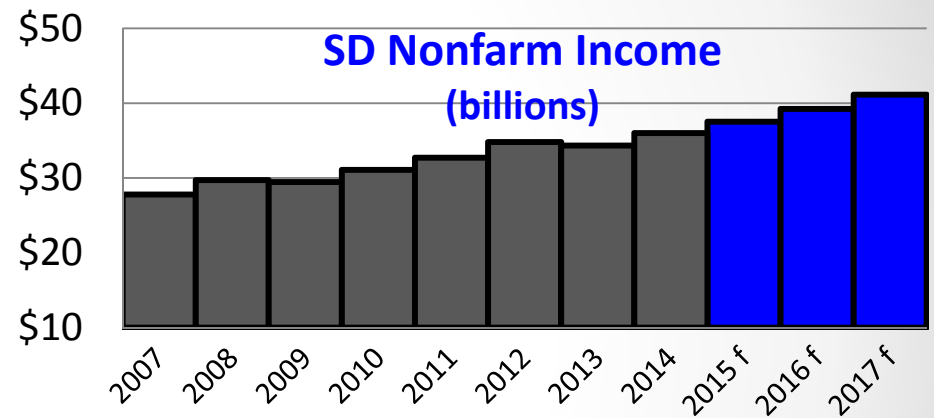
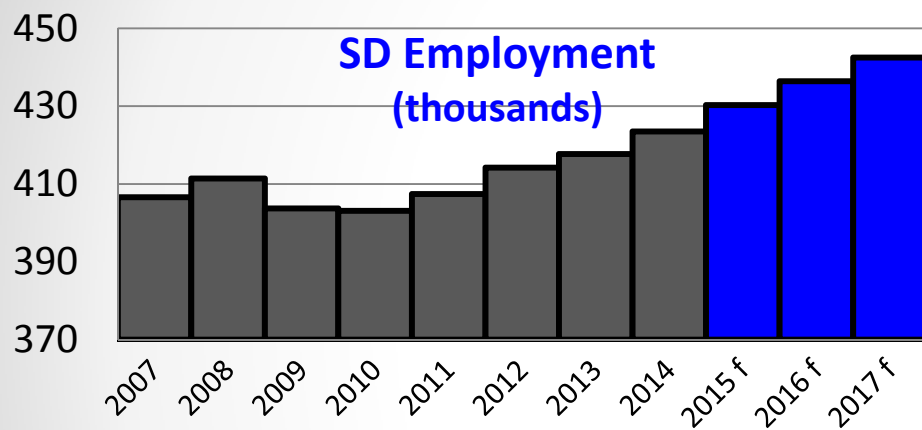
Economic and Revenue Assumptions

- ☐ IHS Economics US baseline forecast of 2.9% - 3.0% GDP growth in 2016 & 2017 deemed too optimistic by Council of Economic Advisors
- ☐ SD forecast has been moderated closer to recent trends. No more than slow, stable economic growth over the next two years
- ☐ Low inflation expected the next two years (0.0%-2.4%)
- ☐ Assumes no major economic disruptions from abroad
- ☐ Housing and construction activity remains healthy
- ☐ 2015 & 2016 farm income lower than recent highs

IHS Economics Most Recent Forecast for the US Economy

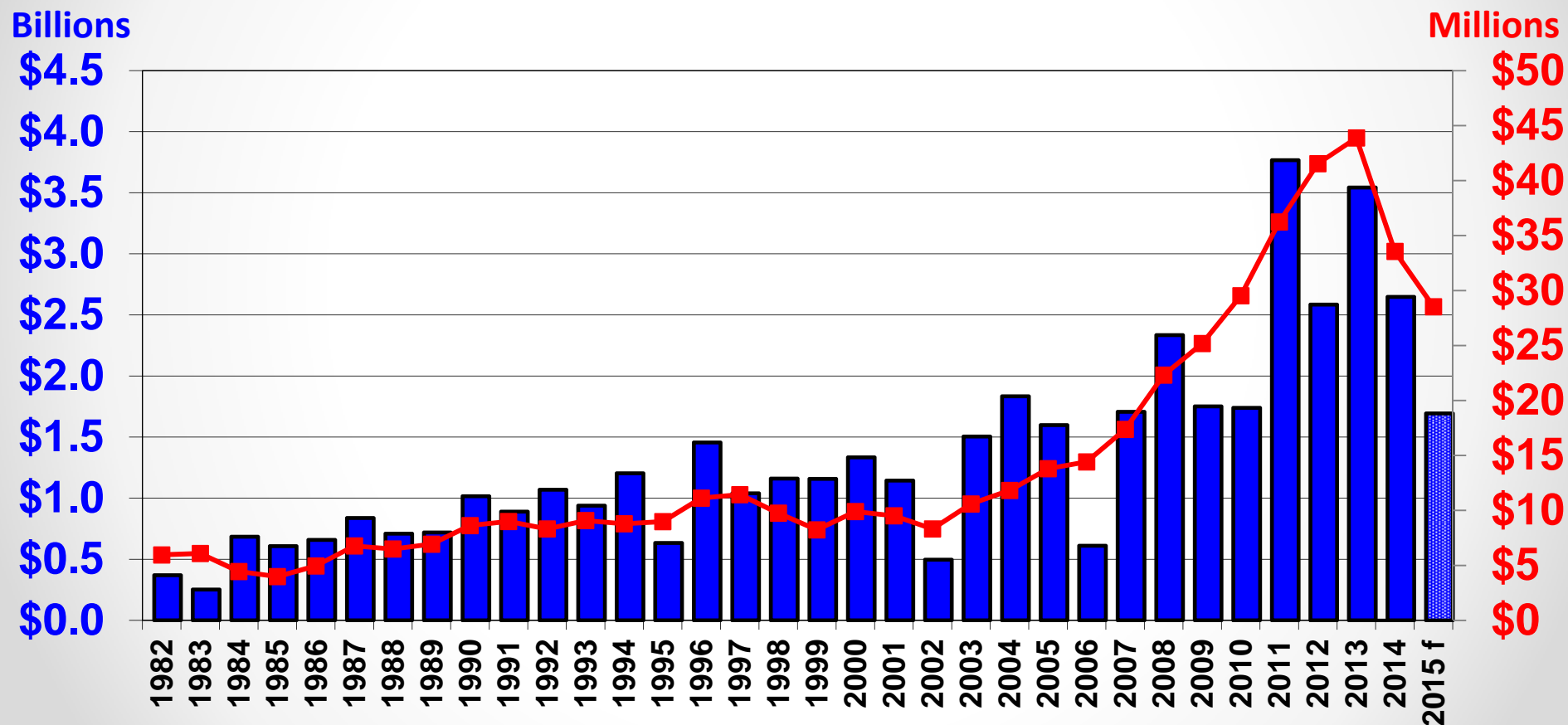


Recommended Baseline Economic Forecast for South Dakota Key Indicators



The Impact of Agriculture

Net Farm Income vs. Sales tax collected on farm machinery



REVENUES

A History of Ongoing Revenue Estimating

Year	Adopted	Actual Receipts	Difference
FY2006*	\$1,001,797,801	\$1,013,115,062	\$11,317,261
FY2007*	\$1,065,991,069	\$1,061,350,024	(\$4,641,045)
FY2008*	\$1,148,973,257	\$1,143,748,223	(\$5,225,034)
FY2009	\$1,195,459,836	\$1,138,901,445	(\$56,558,391)
FY2010*	\$1,130,101,479	\$1,109,359,945	(\$20,741,534)
FY2011	\$1,154,744,209	\$1,163,046,393	\$8,302,184
FY2012	\$1,165,379,488	\$1,235,903,897	\$70,524,409
FY2013	\$1,233,473,042	\$1,258,177,217	\$24,704,175
FY2014	\$1,320,558,795	\$1,353,797,245	\$33,238,450
FY2015	\$1,391,836,433	\$1,381,384,943	(10,451,490)
FY2016	\$1,433,117,085	\$1,441,501,024	\$8,383,939

*includes adjustments

FY2016 Adopted vs. Revised Ongoing Receipts

(millions)

Source	Adopted FY2016	Revised FY2016	Change
Sales and Use Tax	\$868.9	\$872.6	+ 3.7
Lottery	108.0	109.1	+ 1.1
Contractor's Excise Tax	101.0	104.1	+ 3.1
Insurance Company Tax	81.0	83.8	+ 2.8
Unclaimed Property	57.0	58.0	+ 1.0
Licenses, Permits, and Fees	56.1	56.6	+ 0.5
Tobacco Taxes	52.9	56.3	+ 3.4
Bank Franchise Tax	10.9	5.4	- 5.5
Other Ongoing Receipts	<u>97.3</u>	<u>95.6</u>	<u>- 1.7</u>
Total Ongoing Receipts	\$1,433.1	\$1,441.5	+ 8.4

FY2016 & FY2017 Receipts & Forecasts

(millions)

Source	Revised FY2016	Estimated FY2017	Change
Sales and Use Tax	\$872.6	\$904.9	+ 32.2
Lottery	109.1	111.3	+ 2.2
Contractor's Excise Tax	104.1	108.4	+ 4.1
Insurance Company Tax	83.8	88.9	+ 5.1
Unclaimed Property	58.0	50.5	- 7.4
Licenses, Permits, and Fees	56.6	58.6	+ 2.0
Tobacco Taxes	56.3	55.9	- 0.4
Bank Franchise Tax	5.4	11.4	+ 6.0
Other Ongoing Receipts*	<u>95.6</u>	<u>102.7</u>	<u>+ 7.1</u>
Total Ongoing Receipts	\$1,441.5	\$1,492.6	+ 51.1

Revenue Growth Available to Fund Expenses

(Ongoing)

	<u>2 Yrs Ago</u>	<u>Last Yr</u>	<u>Today</u>
Structural Surplus left by Legislature	\$6M	\$0M	\$0M
Current Year Revised Ongoing Revenue Growth	\$33M	-\$11M	\$8M
Budgeted Year Projected Ongoing Revenue Growth	\$40M	\$60M	\$51M
Total Ongoing Revenue Growth Available	\$79M	\$49M	\$59M

EXPENSES

Expense Overview

- ☐ Use one-time funds in FY16 to repay debt and freeze tuition
- ☐ Fund statewide priorities at 2.1% + additional 0.6% + targeted investments
- ☐ Fix volatile federal and other fund revenue streams:
 - Attorney General
 - Department of Education
 - Secretary of State
 - Department of Corrections
 - Department of Labor and Regulation
 - Department of Veterans' Affairs
- ☐ FMAP savings will augment revenue growth ($\$22\text{M} + \$59\text{M} = \$81\text{M}$)
- ☐ Expand Medicaid if there is no general fund cost
- ☐ Work with Legislature to propose dedicated funding to implement the Blue Ribbon Task Force recommendations

FY2017 Ongoing General Fund Proposals

- | | |
|---|---|
| <input type="checkbox"/> Board of Regents | +2.5% plus tuition freeze |
| <input type="checkbox"/> Technical Institutes | +2.7% plus tuition freeze |
| <input type="checkbox"/> Provider Inflation | +2.7% plus targeted rate
adj. based on costs |
| <input type="checkbox"/> State Workforce COLA | +2.7% plus MTMV |
| <input type="checkbox"/> K-12 Education | +0.3% (Blue Ribbon) |

FY2017 Recommended Ongoing Expense - Summary

Major Increases/Decreases	General Funds
Education Increases	\$21,781,104
State Employee Compensation Package	\$12,099,592
Medical & Provider Assistance Increases	\$9,018,963
All the Rest	<u>\$16,404,380</u>
TOTAL GENERAL FUND INCREASES	\$59,304,039

FY2017 Recommended Ongoing Expense - Education

Major Increases/Decreases	General Funds
State Aid to Special Education + Rebase	\$8,763,479
State Aid to General Education	\$4,166,565
BOR Maintenance and Repair	\$3,274,464
Technical Institute Formula	\$1,188,044
Dual Credit Increased Demand	\$565,954
SD Opportunity Scholarships	\$434,369
Tuition Freeze	\$424,678
Miscellaneous Increases/Decreases	<u>\$2,963,551</u>
TOTAL GENERAL FUND INCREASES	\$21,781,104

Debt Reduction

Project	Amount of Bonds to Be Paid in Full	Ongoing Savings	Interest Savings	Fee Savings	Average Yield
BOR Science Labs Series 2008 A-2	\$26,892,774	\$2,200,613	\$9,553,855	\$991,047	4.74%
BOR Science Labs Series 2008 A-3	\$8,612,640	\$704,077	\$3,058,970	\$317,443	4.74%
Tech. Institutes Series 2007	\$5,262,972	\$811,125	\$603,931	\$5,378	5.03%
Tech. Institutes Series 2014 A	<u>\$1,543,698</u>	Preserves coverage ratios	<u>\$47,545</u>	<u>\$914</u>	<u>2.21%</u>
Total	\$42,312,084	\$3,715,815	\$13,264,301	\$1,314,782	

Tuition Freeze

Agency	Amount
Regental Institutions Cost	\$3,228,711
Technical Institutes Cost	<u>\$915,900</u>
Tuition Freeze Cost	\$4,144,611
Savings from Debt Reduction	\$3,715,815
Net General Fund Cost of Tuition Buy Down	\$428,796

National Guard Tuition Change

- ☐ **Abolish University Support Fee**
- ☐ **Raise regular tuition rate by same amount**
- ☐ **Leverages additional federal tuition reimbursement**
- ☐ **Savings of \$141 per course for Guard members**
- ☐ **\$315K annual impact to Board of Regents**
- ☐ **Regents and Technical Institutes directly manage**

Blue Ribbon Task Force

- ☐ **Detailed proposals in State of the State**
- ☐ **Agree with need to increase teacher salaries**
- ☐ **New money to increase salaries and shape reforms**
- ☐ **Reforms must address inequities and inefficiencies**

FY2017 Recommended Ongoing Expense - State Workforce

Major Increases/Decreases	General Funds
Market Adjustment	\$9,236,940
Movement towards Market Value	\$4,316,305
Health Insurance	<u>(\$1,453,652)</u>
TOTAL GENERAL FUND INCREASES	\$12,099,592

FY2017 Salary Policy

- ☐ **Follow True Market Adjustments**

 - General Pay Structure (2.7%)

 - Career Bands Family Specific (0 to 2.7%)

- ☐ **Movement Toward Market Value**

 - General Pay Structure (2.5%)

 - Career Band Pay for Performance (0-4.5%)

- ☐ **Adjust Minimums of Some Paygrades**

FY2017 Recommended Ongoing Expense – Medical & Provider Assistance

Major Increases/Decreases	General Funds
Provider Inflation	\$16,936,928
Growth and Utilization	\$6,797,433
Juvenile Justice Reinvestment Initiative	\$3,318,509
Provider Enhancement to 90%	\$1,354,115
Federal Medical Assistance Percentage	(\$21,931,473)
Miscellaneous Increases/Decreases	<u>\$2,543,451</u>
TOTAL GENERAL FUND INCREASES	\$9,018,963

Provider Rate Analysis

- ☐ State Government workgroup created in Summer of 2015
- ☐ Analyzed 866 providers serving 48,900 individuals against their latest cost reports (2010-2014)
- ☐ Findings were organized into a spreadsheet based on their reimbursement against their cost reports
- ☐ Three tiers were created
- ☐ Less than 85% = Red (5 service categories)
- ☐ 85%-99% = Yellow (7 service categories)
- ☐ 100% or greater = Green (5 service categories)

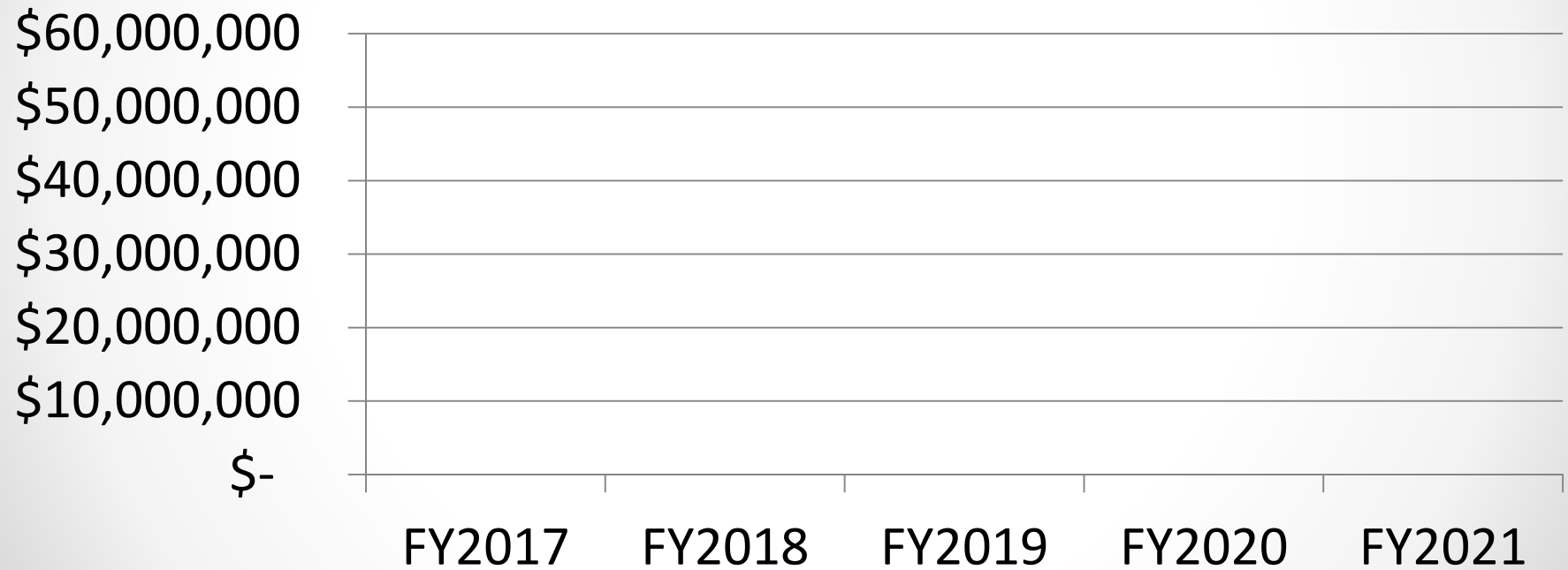
Budget Recommendation

Get all providers to at least 90% over 3 years

	2.1%	0.6%	1/3 To 90%	Total
Less than 85%	\$478,608	\$108,334	\$1,287,387	\$1,874,329
85% to 99%	\$3,900,644	\$1,142,881	\$66,729	\$5,110,254
100% or greater	\$13,531	\$3,871	\$0	\$17,402
TOTAL	\$4,392,783	\$1,255,086	\$1,354,116	\$7,001,985

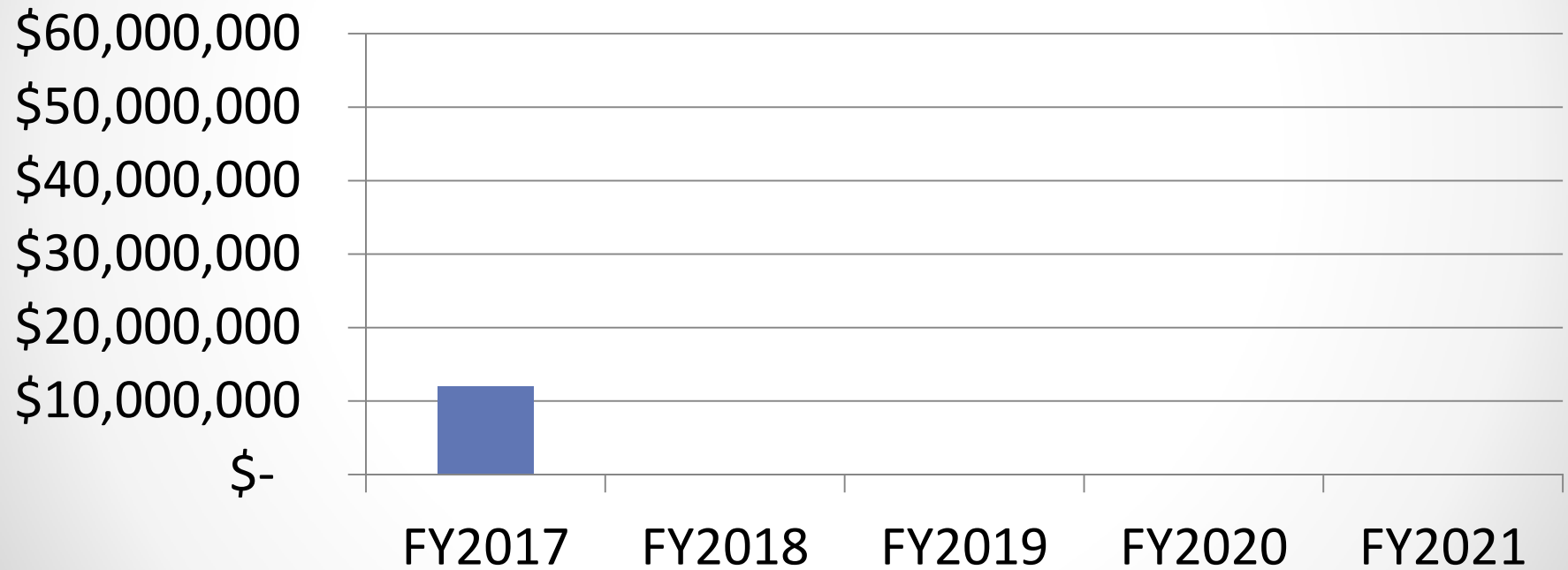
Medicaid Expansion

General Fund Costs



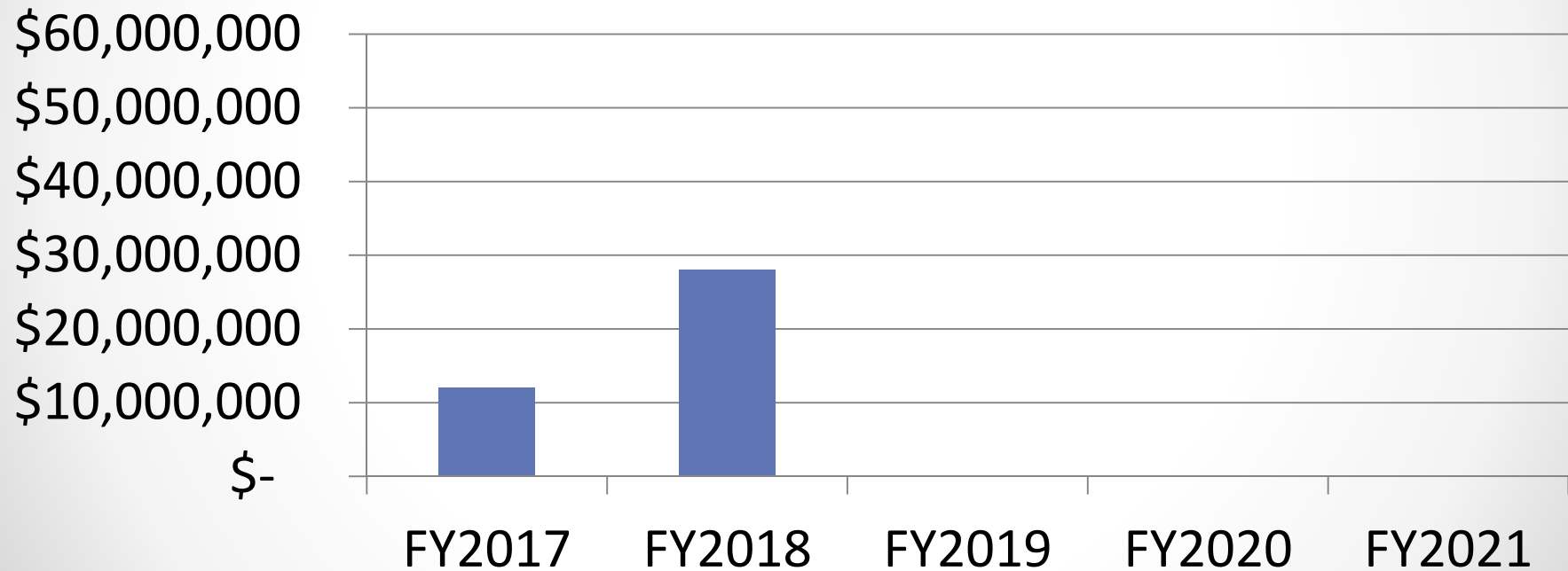
Medicaid Expansion

General Fund Costs



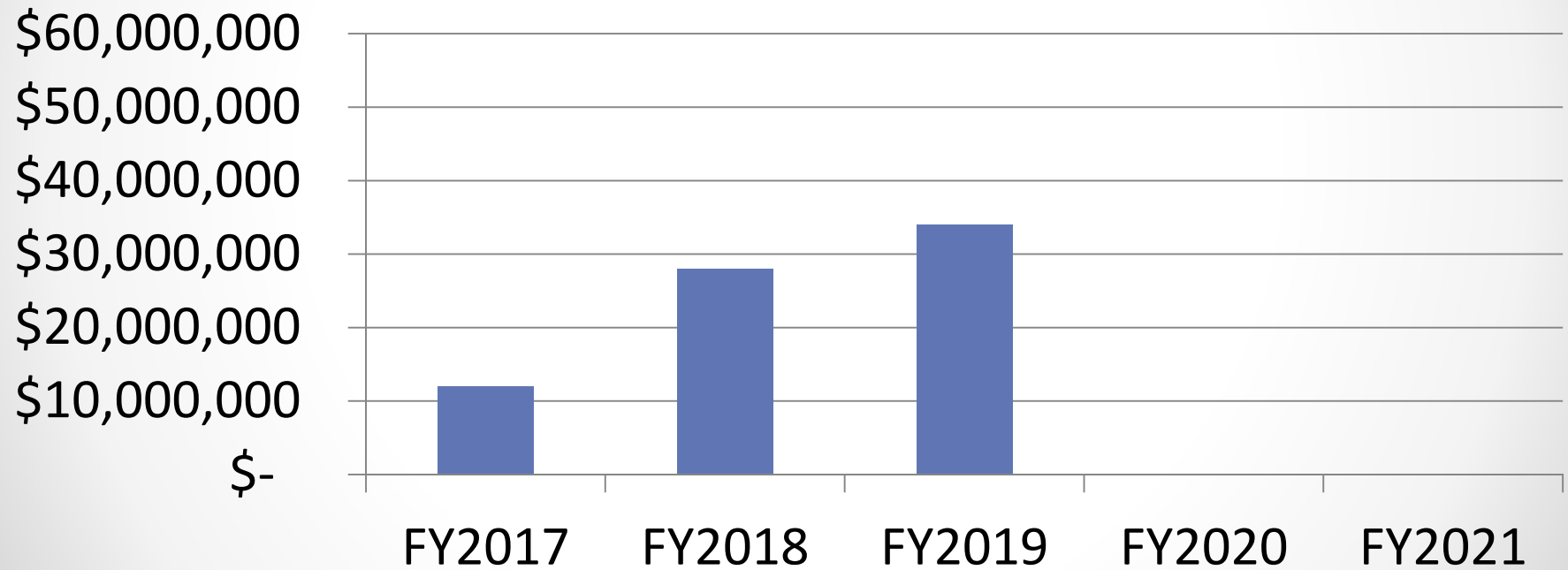
Medicaid Expansion

General Fund Costs



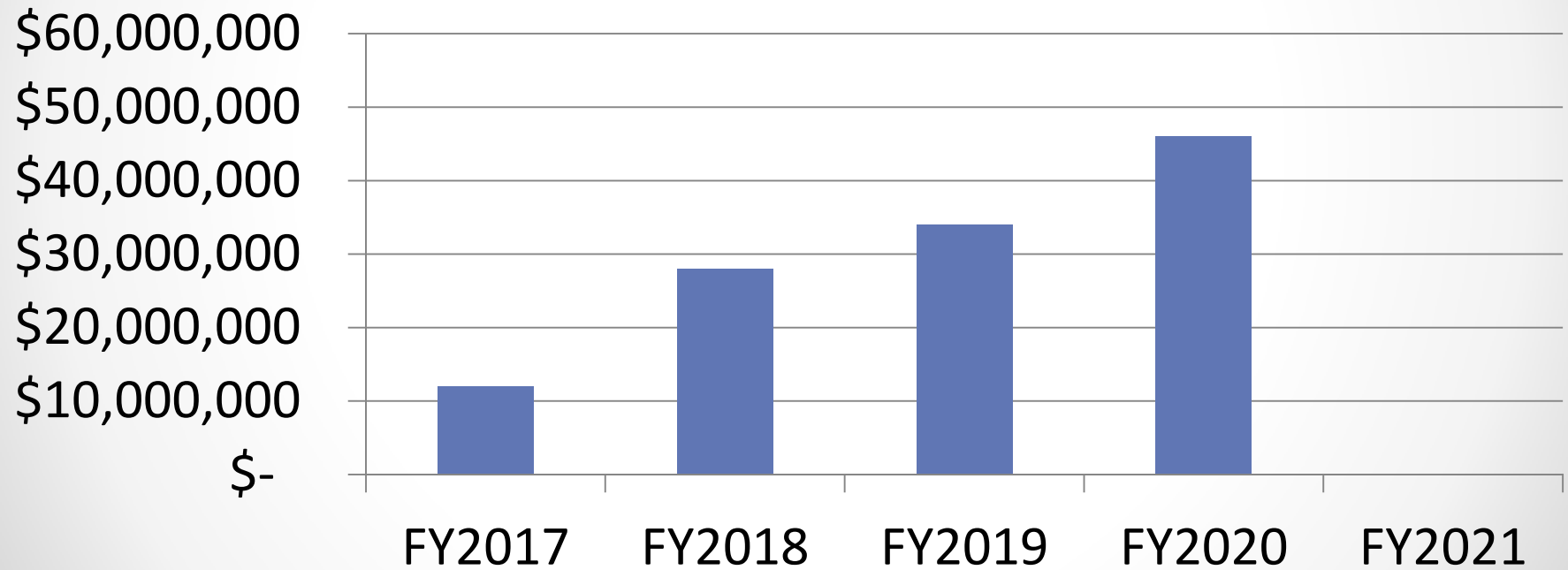
Medicaid Expansion

General Fund Costs



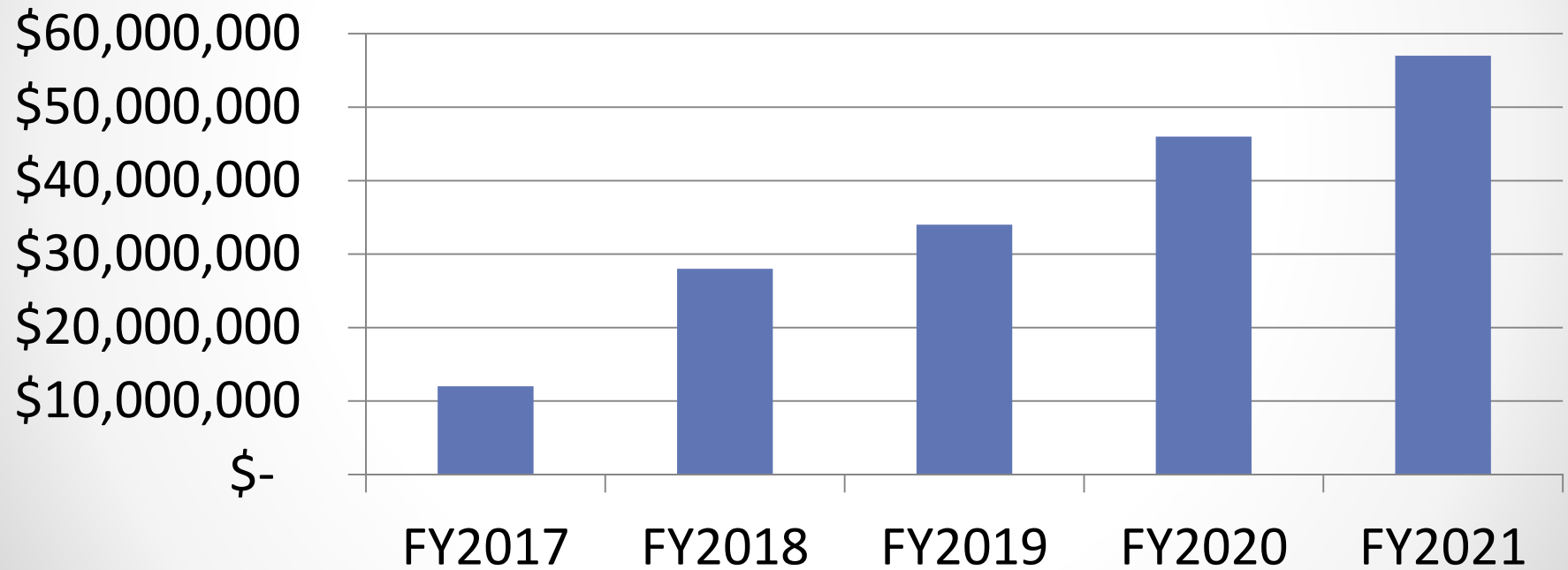
Medicaid Expansion

General Fund Costs



Medicaid Expansion

General Fund Costs



IHS Reimbursement at 100% FMAP

- ☐ Medicaid Indian Health Services spend = \$69.2 million
- ☐ Medicaid spend = \$139M, including \$67M state funds
- ☐ \$67M is enough to cover all state costs for expansion
- ☐ Working with HHS to convert part or all of Medicaid spend to 100% federal, to save at least \$57M (SFY 2021 expense)
- ☐ Only possible if linked to Medicaid expansion
- ☐ Better healthcare for Native Americans through IHS
- ☐ Solve the longstanding IHS reimbursement problem

Medicaid Expansion – Who benefits?

- ☐ Adults who cannot earn enough to gain subsidized coverage
- ☐ Tribal members, because IHS will expend money saved after expansion on better access
- ☐ Counties, through some poor relief expense savings
- ☐ Sheriffs with jails, and state prisons, through avoiding medical costs for indigent prisoners hospitalized longer than 24 hours
- ☐ Hospitals, through some charity care expense relief
- ☐ Nursing homes, community support providers, group homes, and others through opportunity for improved rates, if ongoing general funds are saved beyond expansion costs

Medicaid Expansion – Budget Implications

- ☐ Budget proposes \$373 million in additional federal fund expenditure authority
- ☐ Budget proposes 55 new FTE to handle over 50,000 additional eligibles
- ☐ No general fund increase required
- ☐ Expansion costs must be covered by current general fund budget or I will not support
- ☐ Tribes must support
- ☐ Legislature must support
- ☐ This is not a done deal

FY2017 Recommended Ongoing Expense - All Others

Major Increases/Decreases	General Funds
State Buildings Maintenance and Repair	\$7,178,182
Corrections Funding Change	\$5,501,033
Correctional Health	\$1,555,168
Drug/DUI Courts	\$933,544
Miscellaneous Increases/Decreases	<u>\$1,236,453</u>
TOTAL GENERAL FUND INCREASES	\$16,404,380

Fix Volatile Federal and Other Revenue Streams

	Amount
Special Education Rebase	\$8,612,453
Corrections Funding Change	\$5,501,033
Secretary of State Funding Change	\$847,693
Labor and Regulation Reduced Federal Funds	\$524,472
Veterans' Affairs Vet's Home Right Sizing	\$500,000
Attorney General Salaries and Overtime	<u>\$389,519</u>
TOTAL FUND INCREASES	\$16,375,170

ONE-TIME

Where did the One-time Funds Come From?

Reduced Revenue and Reduced Expenses	FY2016
Nominal FY16 Surplus left by Legislature	\$10,000
Increased Ongoing Revenues	\$8,383,939
Cash from DOC, PRCF, and Risk Pool	\$11,832,509
Transfer from reserves to 10% target	\$27,426,643
Reduction of Annual Appropriations	<u>\$12,606,312</u>
Total One-time Funds Available in FY2016	\$60,259,403

Reduction of Annual Appropriations

	General Funds
State Employee Health Insurance Premiums	(\$8,255,823)
State Aid	(\$3,100,000)
Utility Rate Adjustments	<u>(\$1,250,489)</u>
Total	(\$12,606,312)

One-time Proposed Expenses – General Funds

Bond Repayment	\$42,312,084
Extraordinary Litigation Fund	\$2,449,502
Native American Student Achievement	\$2,200,000
Fire Suppression Fund	\$2,100,000
Need Based Scholarship Endowment	\$2,100,000
SD Developmental Center Building Demolition	\$1,808,000
GFP Bond Payment Obligations	\$1,006,573
Railroad Development	\$1,000,000
Medicare Part B Premium	\$954,128
Correctional Healthcare	\$736,395
Miscellaneous Remaining One-time Expenses	<u>\$3,543,912</u>
Total One-time Proposed Expenses	\$60,210,594

Other Non-General Fund Proposed Special Appropriations

	Fed/Other Funds
Water Omnibus Bill	\$16,311,500
Animal Disease Research and Diagnostic Laboratory Design Study	\$1,575,000
Coordinated Natural Resource Conservation Fund	<u>\$1,000,000</u>
Total Non-General Fund Proposed Specials	\$18,886,500

Total Recommended Budget

	FY2016	FY2017
General Funds	\$1,480,711,367	\$1,492,578,431
Federal Funds	\$1,674,108,537	\$2,037,741,829
Other Funds	<u>\$1,263,724,097</u>	<u>\$1,307,317,151</u>
Total Recommended Budget	\$4,418,544,001	\$4,837,637,411
FTE's	14,003.6	13,940.2

Setting a Good Fiscal Example

- ☐ **Balancing our budget for 127 years**
- ☐ **Using our rainy day funds responsibly**
- ☐ **Building structural soundness**
- ☐ **Making wise investments**
- ☐ **Repaying more debt**
- ☐ **Fully funded pensions**
- ☐ **Strong financial practices**
- ☐ **S&P upgrades SD to AAA**

A Stronger South Dakota

