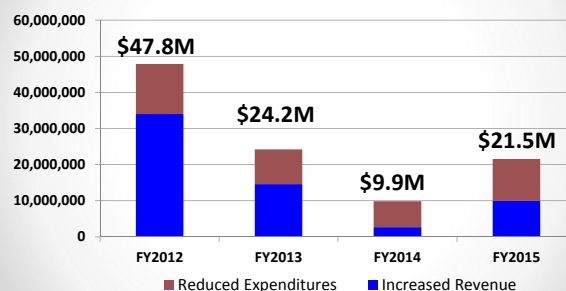


Governor Dennis Daugaard's FY2017 Budget Recommendations

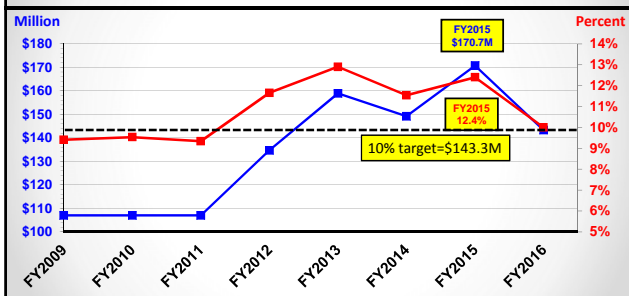


December 8, 2015

Conservative Budgeting Results



Rainy Day Fund Balances

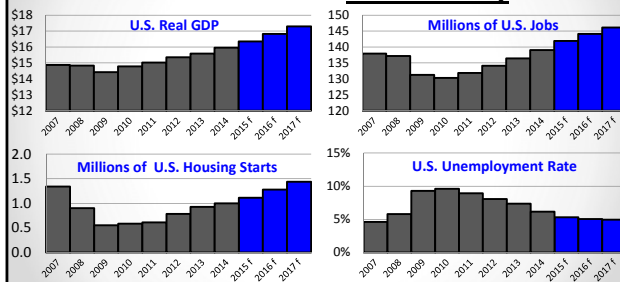


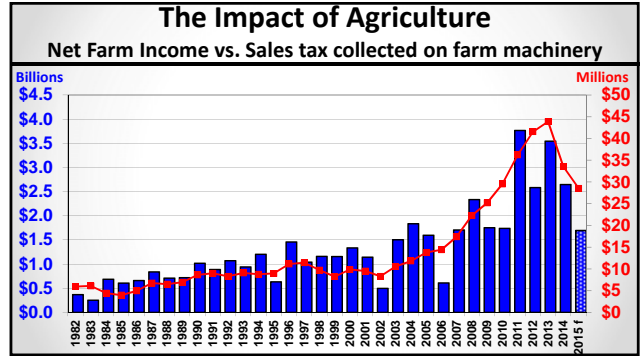
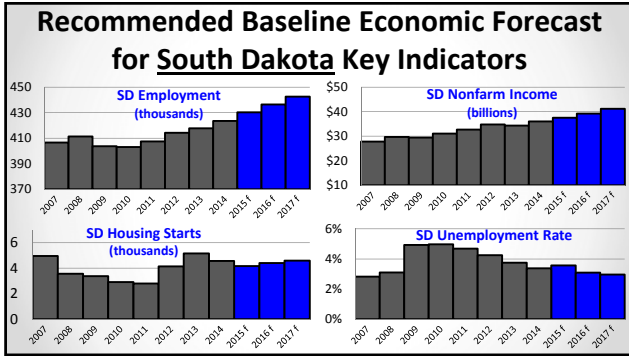
SOUTH DAKOTA'S ECONOMY

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





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	97.3	95.6	- 1.7
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*	95.6	102.7	+ 7.1
Total Ongoing Receipts	\$1,441.5	\$1,492.6	+ 51.1

Revenue Growth Available to Fund Expenses			
(Ongoing)			
	2 Yrs Ago	Last Yr	Today
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	
<input type="checkbox"/>	Use one-time funds in FY16 to repay debt and freeze tuition
<input type="checkbox"/>	Fund statewide priorities at 2.1% + additional 0.6% + targeted investments
<input type="checkbox"/>	Fix volatile federal and other fund revenue streams: <ul style="list-style-type: none"> - Attorney General - Department of Corrections - Department of Education - Department of Labor and Regulation - Secretary of State - Department of Veterans' Affairs
<input type="checkbox"/>	FMAP savings will augment revenue growth (\$22M + \$59M = \$81M)
<input type="checkbox"/>	Expand Medicaid <u>if</u> there is no general fund cost
<input type="checkbox"/>	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	\$1,543,698	Preserves coverage ratios	\$47,545	\$914	2.21%
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	\$2,543,451
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)

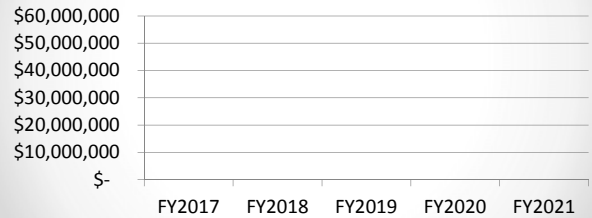
Budget Recommendation

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

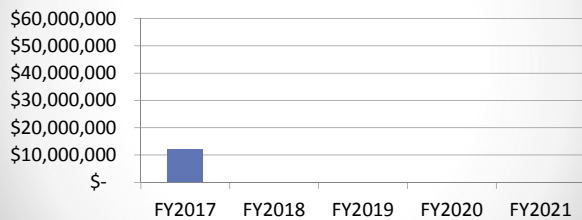
Medicaid Expansion

General Fund Costs



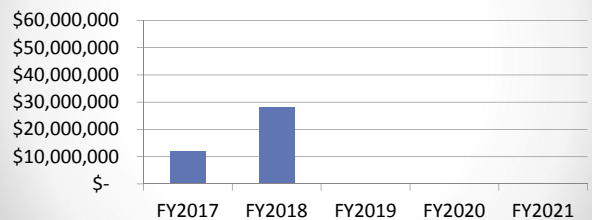
Medicaid Expansion

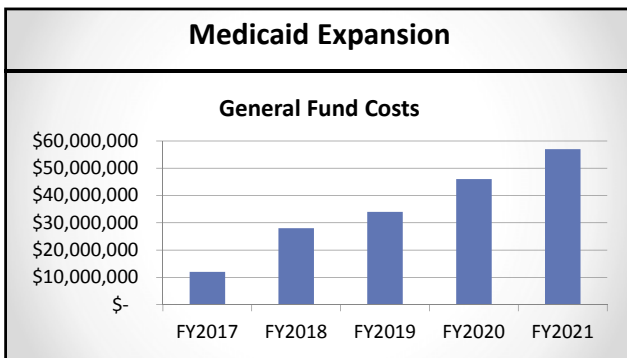
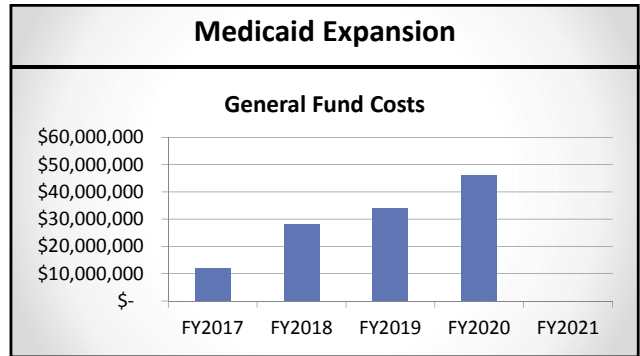
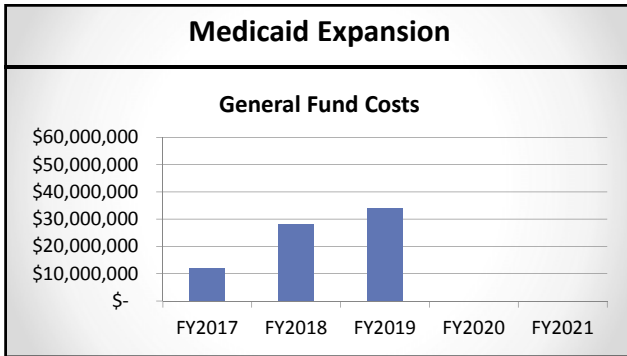
General Fund Costs



Medicaid Expansion

General Fund Costs





- ### 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

