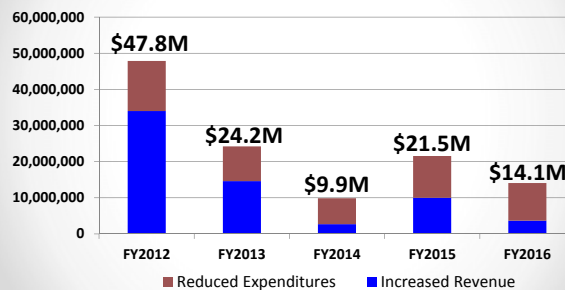


Governor Dennis Daugaard's FY2018 Budget Recommendations

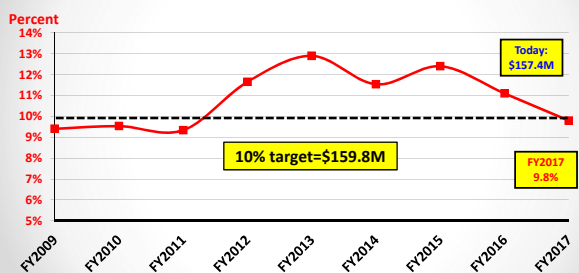


December 6, 2016

Conservative Budgeting Results



Rainy Day Funds as a Percentage of Budget

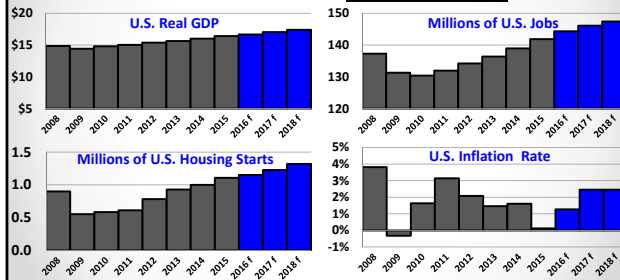


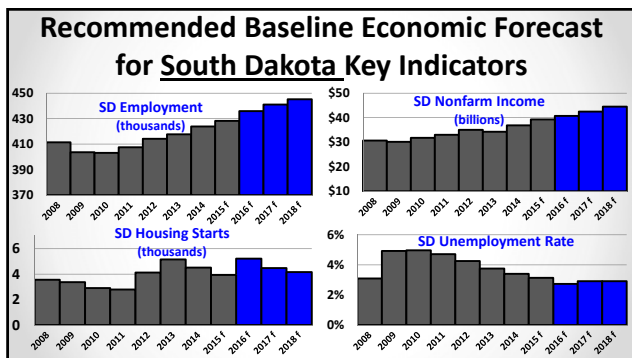
SOUTH DAKOTA'S ECONOMY

Economic and Revenue Assumptions

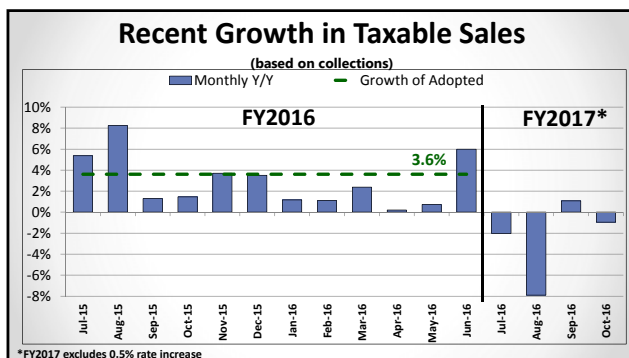
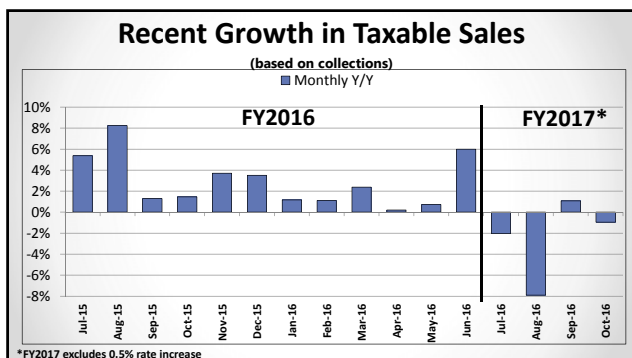
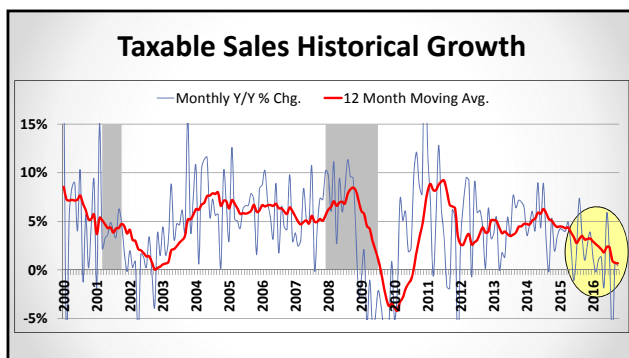
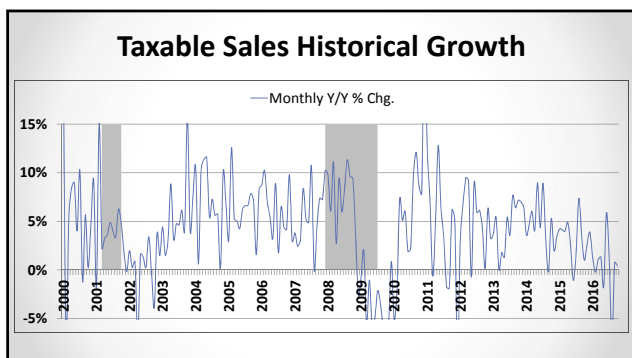
- IHS Economics US baseline forecast of 2.2% real GDP growth in 2017 & 2018 is consistent with views of Council of Economic Advisors
- SD forecast has been moderated. Slow, stable growth is anticipated, similar to growth the past two years
- Inflation anticipated to firm over the next two years (1.5%-2.5%)
- Assumes no major economic disruptions from abroad
- Housing and construction activity remains steady
- 2017 & 2018 farm income at lower levels, suggesting less spending in the agriculture sector

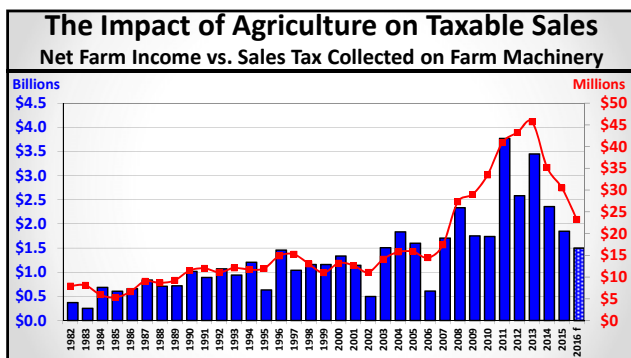
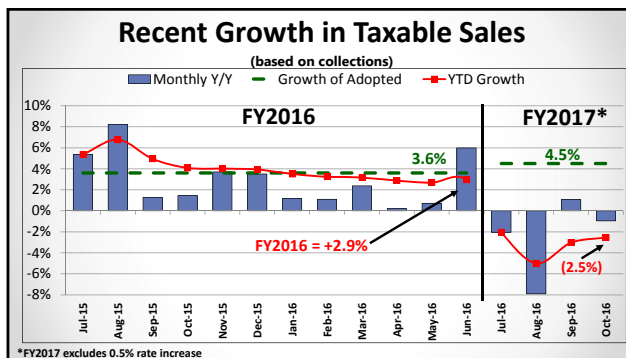
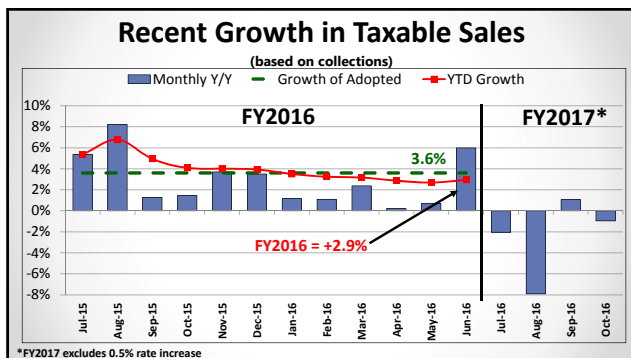
IHS Economics Most Recent Forecast for the US Economy





RECENT SALES TAX ACTIVITY





- ### Recent Weakness in Sales Tax Collections
- Less spending in agriculture equipment
 - Low inflation is providing little price increase in sales tax base
 - Lower tourism spending compared to a record year in 2015
 - Cautious, uncertain consumers
 - Online purchasing continues to erode sales tax collections



REVENUES

FY2017 Adopted vs. FY2017 Revised Ongoing Receipts
(millions)

Source	Adopted FY2017	Revised FY2017	Adopted vs. Rev.
Sales and Use Tax	\$1,006.7	\$974.7	- 32.0
Lottery	112.0	113.1	+ 1.1
Contractor's Excise Tax	107.4	109.4	+ 2.0
Insurance Company Tax	85.4	88.4	+ 3.0
Unclaimed Property	54.0	53.0	- 1.0
Licenses, Permits, & Fees	66.0	64.2	- 1.8
Tobacco Taxes	56.5	55.3	- 1.2
Bank Franchise Tax	11.5	11.4	- 0.1
Other Ongoing Receipts	98.6	102.5	+ 3.9
Total Ongoing Receipts	\$1,598.1	\$1,572.0	- 26.1

FY2017 Adopted vs. FY2018 Recommended Ongoing Receipts
(millions)

Source	Adopted FY2017	Revised FY2017	Recommended FY2018	FY18 vs. Adopted
Sales and Use Tax	\$1,006.7	\$974.7	\$1,013.1	+ 6.4
Lottery	112.0	113.1	116.4	+ 4.4
Contractor's Excise Tax	107.4	109.4	110.5	+ 3.1
Insurance Company Tax	85.4	88.4	91.7	+ 6.3
Unclaimed Property	54.0	53.0	52.8	- 1.2
Licenses, Permits, & Fees	66.0	64.2	66.1	+ 0.1
Tobacco Taxes	56.5	55.3	55.0	- 1.5
Bank Franchise Tax	11.5	11.4	11.8	+ 0.3
Other Ongoing Receipts	98.6	102.5	100.4	+ 1.8
Total Ongoing Receipts	\$1,598.1	\$1,572.0	\$1,617.8	+ 19.7

FY2018 EXPENSES

- Expense Overview**
- Increase K-12 Education and Technical Institutes 1.0%
 - Increase healthcare providers 1.0% + targeted investments
 - Increase State workforce salary 1.0%, no pay for performance
 - Reductions:
 - Federal Medical Assistance Percentage (FMAP) savings
 - Fewer Juveniles = STAR Academy Closure
 - Completion of Sale-leaseback Program
 - Utility costs

FY2018 Recommended Ongoing Expense Summary

Major Increases/Decreases	General Funds
Education Increases	\$6,436,308
Medical & Provider Assistance Increases	\$9,329,326
State Employee Compensation Package	\$6,250,029
Remainder of State Government	(\$2,294,468)
TOTAL GENERAL FUND INCREASES	\$19,721,195

- Initiated Measure 22**
- Appropriates \$9 per registered voter from the general fund every year, starting in FY2018
 - \$5 million general fund impact
 - Would consume nearly 25% of revenue growth
 - 1.0% for Education, Medical Providers, and State Workforce would need to be reduced to 0.6%

**FY2018 Recommended Ongoing Expense
Education**

Major Increases/Decreases	General Funds
State Aid to Education	\$6,846,447
Maintenance and Repair (BOR)	\$918,737
SD Opportunity Scholarship	\$412,798
Board of Regent Utilities	(\$2,589,441)
Miscellaneous Increases/Decreases	\$847,767
TOTAL GENERAL FUND INCREASES	\$6,436,308

**FY2018 Recommended Ongoing Expense
Medical & Provider Assistance**

Major Increases/Decreases	General Funds
Growth and Utilization	\$6,339,659
Mandatory Inflation (Various Percentages)	\$5,486,989
Provider Inflation at 1.0%	\$4,337,677
Provider Enhancement to 90% (Complete Year 2)	\$709,252
State Savings Due to FMAP Increase	(\$9,524,819)
Miscellaneous Increases/Decreases	\$1,980,568
TOTAL GENERAL FUND INCREASES	\$9,329,326

**FY2018 Recommended Ongoing Expense
State Workforce**

Major Increases/Decreases	General Funds
Salary Increase of 1.0%	\$3,650,333
Pay Range Minimum Improvement	\$779,087
Health Insurance	\$1,820,609
TOTAL GENERAL FUND INCREASES	\$6,250,029

**FY2018 Recommended Ongoing Expense
Remainder of State Government**

Major Increases/Decreases	General Funds
Correctional Healthcare	\$2,950,598
Drug/DUI and Mental Health Courts	\$474,609
State Treatment and Rehabilitation Academy	(\$3,841,560)
Sale-Leaseback	(\$4,289,450)
Miscellaneous Increases/Decreases	\$2,411,335
TOTAL GENERAL FUND INCREASES	(\$2,294,468)

FY2018 Ongoing Increases and Decreases

Major Increases/Decreases	General Funds
Mandatory and Provider Inflation	\$9,824,666
State Aid to Education	\$6,846,447
Growth and Utilization	\$6,339,659
State Employee Workforce	\$6,250,029
Correctional Healthcare	\$2,950,598
Miscellaneous Increases/Decreases	\$8,102,079
Utilities	(\$2,936,454)
STAR Academy Closure	(\$3,841,560)
Sale-Leaseback	(\$4,289,450)
Federal Medical Assistance Percentage (FMAP)	(\$9,524,819)
TOTAL GENERAL FUND INCREASES	\$19,721,195

**FY2017
MID-YEAR
ADJUSTMENTS**

Addressing the FY2017 Shortfall

Reduced Revenue and Reduced Expenses	FY2017
Decreased Ongoing Revenues vs. Adopted	(\$26,069,731)

Addressing the FY2017 Shortfall

Reduced Revenue and Reduced Expenses	FY2017
Decreased Ongoing Revenues vs. Adopted	(\$26,069,731)
Reduction of Annual Appropriations	\$34,730,775

Reduction of Annual Appropriations

	General Funds
State Aid to Education	\$20,348,774
Department of Social Services - Utilization	\$6,481,265
State Treatment and Rehabilitation Academy	\$3,660,132
Utility Rate Adjustments	\$3,546,444
Technical Institute Lower Enrollment	\$694,160
Total Reductions of Annual Appropriations	\$34,730,775

Addressing the FY2017 Shortfall

Reduced Revenue and Reduced Expenses	FY2017
Decreased Ongoing Revenues vs. Adopted	(\$26,069,731)
Reduction of Annual Appropriations	\$34,730,775
Unclaimed Property Stock Portfolio (One-time)	\$13,027,523

Addressing the FY2017 Shortfall

Reduced Revenue and Reduced Expenses	FY2017
Decreased Ongoing Revenues vs. Adopted	(\$26,069,731)
Reduction of Annual Appropriations	\$34,730,775
Unclaimed Property Stock Portfolio (One-time)	\$13,027,523
Reversion of Special Appropriations	\$1,028,900

Addressing the FY2017 Shortfall

Reduced Revenue and Reduced Expenses	FY2017
Decreased Ongoing Revenues vs. Adopted	(\$26,069,731)
Reduction of Annual Appropriations	\$34,730,775
Unclaimed Property Stock Portfolio (One-time)	\$13,027,523
Reversion of Special Appropriations	\$1,028,900
Total One-time Funds Available in FY2017	\$22,717,467

One-time Proposed Expenses – General Funds

Replenish Reserves to 10%	\$2,434,132
State Animal Disease Research and Diagnostic Laboratory	\$5,000,000
Fire Suppression Fund	\$3,300,000
Spearfish Canyon	\$2,500,000
Correctional Healthcare Shortfall	\$1,755,707
USD Law School	\$1,200,000
Extraordinary Litigation Fund	\$1,004,242
DOC Security and Operations	\$907,641
Rural Recruitment Assistance for Healthcare Workforce	\$843,081
Veterans Home	\$830,466
Miscellaneous Remaining One-time Expenses	\$2,942,198
Total One-time Proposed Expenses	\$22,717,467

State Animal Disease Research and Diagnostic Laboratory

- Comprehensive design study with funds authorized in 2016
- Original cost estimate of \$68.8M; with planning, cuts, and funds already expended, project cost reduced to \$58.7M
- \$6M from SDSU + \$5M state one-time + \$1.5M in operations funding leaves \$46.2M left to fund
- Will continue to work with agriculture industry to completely fund project

General Fund Budget

	FY2017 Adopted	FY2017 Revised	FY2018 Recommended
On-going Expenditures	\$1,598,139,847	\$1,569,281,344	\$1,617,861,042
One-time Expenditures	\$0	\$14,411,063	\$0
Total	\$1,598,139,847	\$1,583,692,407	\$1,617,861,042

Total Recommended Budget

	FY2017 Adopted	FY2017 Revised	FY2018 Recommended
General	\$1,598,139,847	\$1,583,692,407	\$1,617,861,042
Federal	\$1,667,085,225	\$1,661,469,624	\$1,646,077,610
Other	\$1,327,642,689	\$1,420,943,865	\$1,347,240,448
Total	\$4,592,867,761	\$4,666,105,896	\$4,611,179,100
FTEs	13,900.4	13,863.4	13,862.0

Setting a Good Fiscal Example

- Balancing our budget for 128 years
- Maintaining a rainy day fund balance of 10%
- Building structural soundness
- Making wise investments
- One of the strongest pension plans in nation
- Strong financial practices
- All major bond rating agencies have SD at AAA

A Stronger South Dakota

