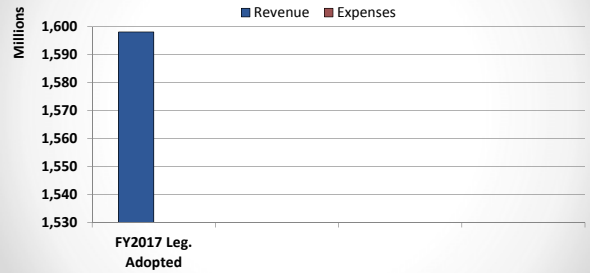


Governor Dennis Daugaard's FY2019 Budget Recommendations

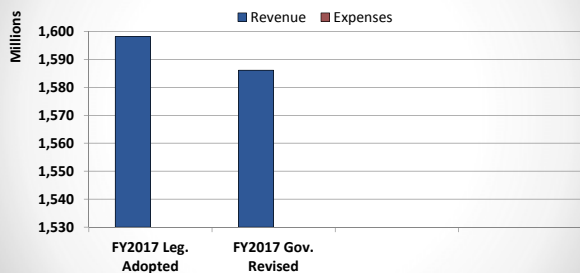


December 5, 2017

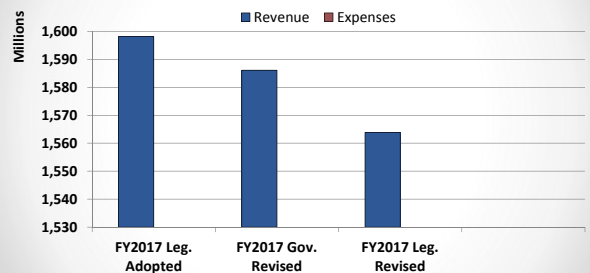
FY2017 was a Challenging Budget Year



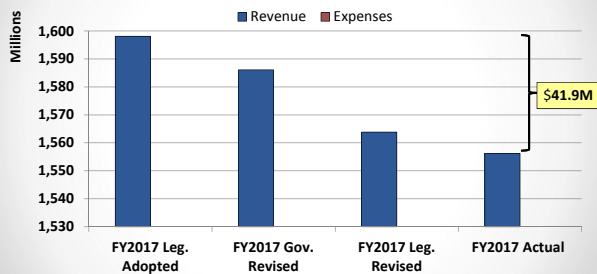
FY2017 was a Challenging Budget Year



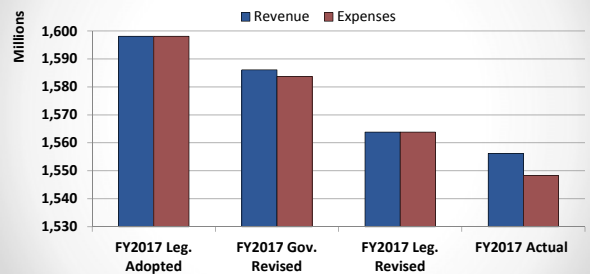
FY2017 was a Challenging Budget Year

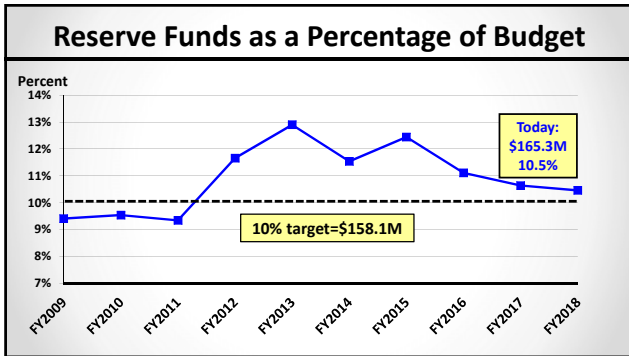


FY2017 was a Challenging Budget Year



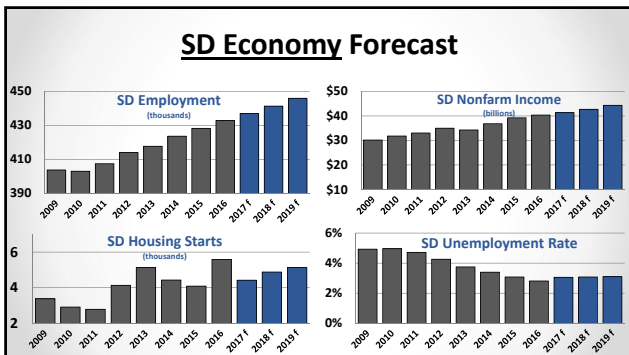
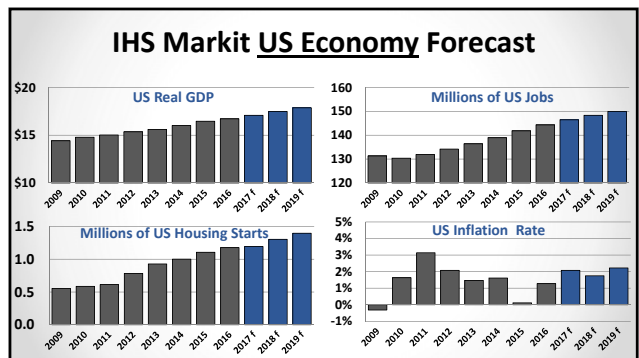
Expenses Were Cut



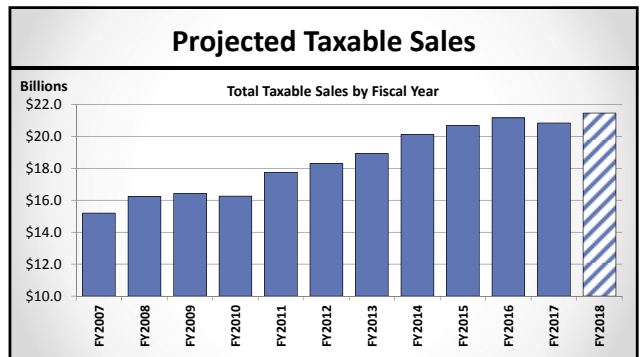
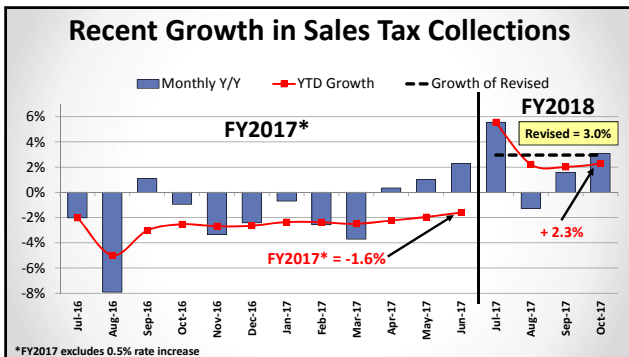
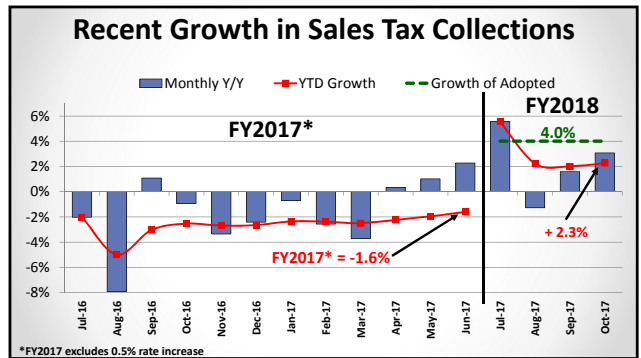
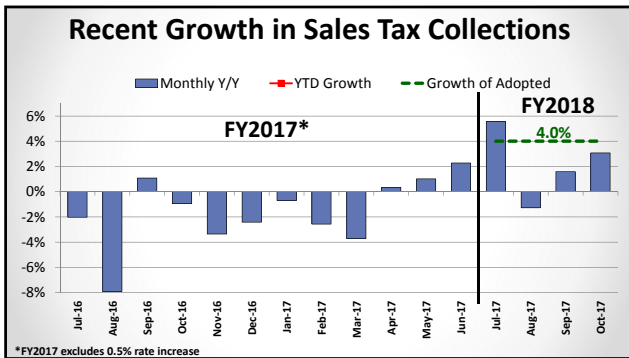
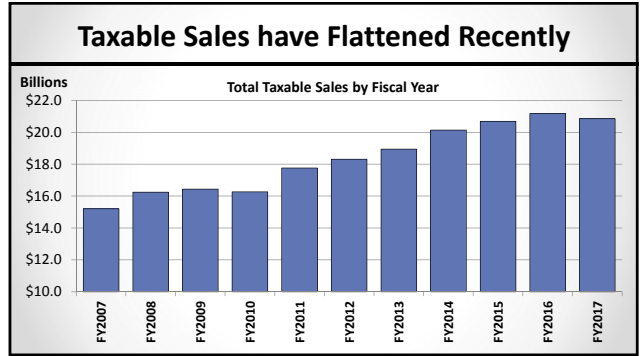
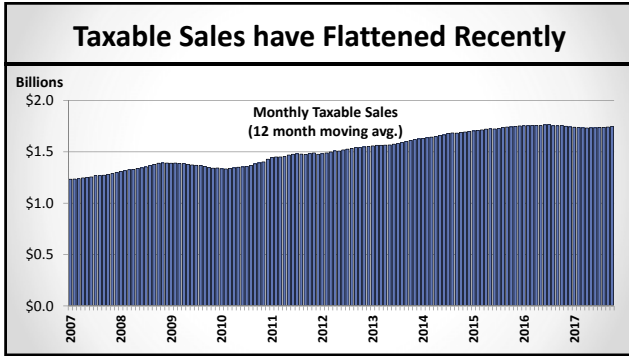


SOUTH DAKOTA'S ECONOMY

- ### Economic and Revenue Assumptions
- US real GDP growth forecast: 2.4% in 2018 and 2.2% in 2019
 - SD forecast is more conservative; consistent with views of the SD Council of Economic Advisors
 - Inflation is expected to be lower than historical levels
 - Assumes no economic recession or major disruptions from abroad
 - Housing and construction activity remains steady
 - SD farm income at or near low in 2017



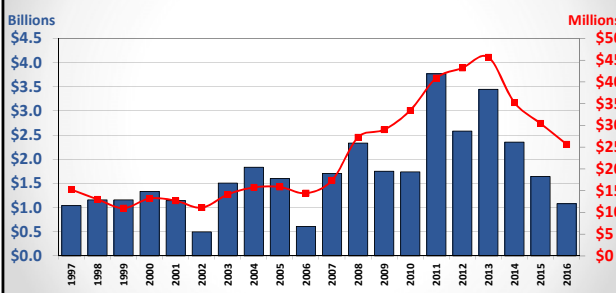
RECENT SALES TAX ACTIVITY



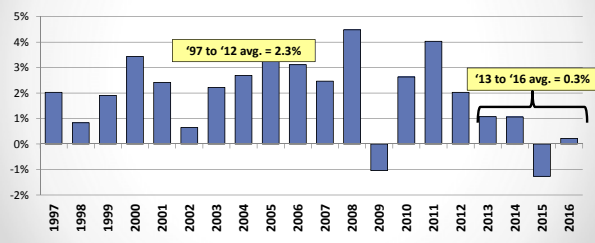
Contributing Factors to Weakness in Sales Tax

- Low farm income
- Low inflation
- E-commerce sales
- Increased health care costs

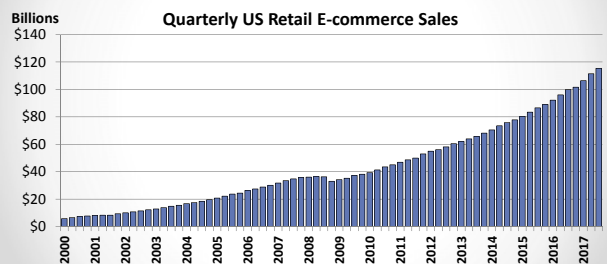
SD Net Farm Income vs. Sales Tax on Farm Machinery



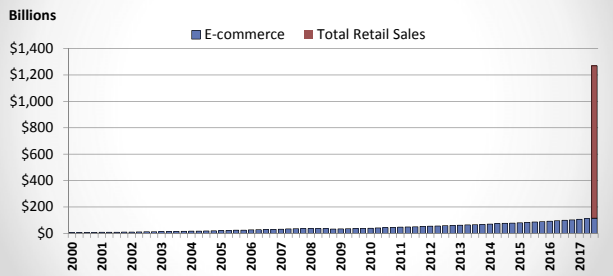
Change in Consumer Price Index (excluding housing/rent prices)



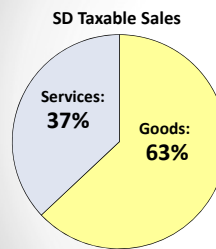
Growth of E-Commerce Sales in US



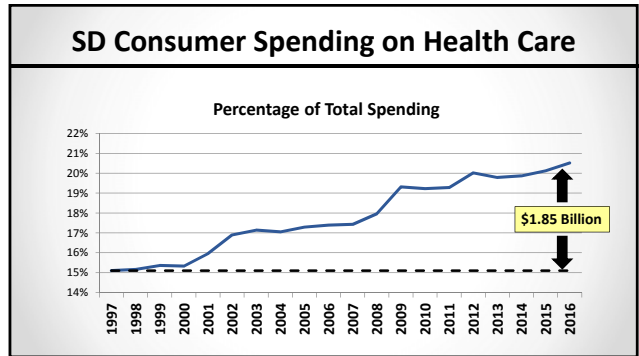
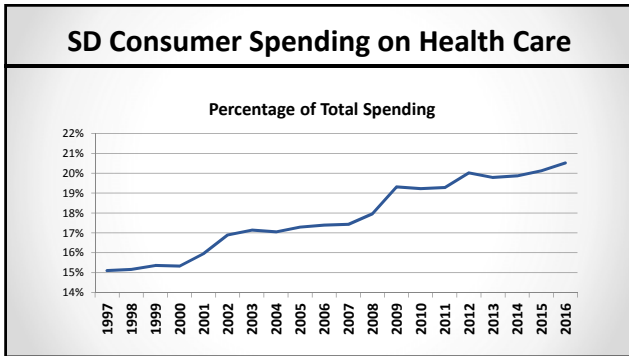
E-Commerce vs. Total Retail Sales



Sales Tax Loss from E-Commerce?



- Services likely being taxed
- Of taxable goods, what share is purchased via e-commerce?
- Which e-commerce sales are taxed today?
 - Voluntary payers
 - In-state sellers



REVENUES

FY2018 Adopted vs. FY2018 Revised Ongoing Receipts (millions)

Source	Adopted FY2018	Revised FY2018	Adopted vs. Rev.
Sales and Use Tax	\$989.0	\$979.3	(9.7)
Lottery	115.3	115.4	+ 0.1
Contractor's Excise Tax	110.6	102.7	(7.9)
Insurance Company Tax	93.0	86.9	(6.1)
Unclaimed Property	51.5	48.6	(2.9)
Licenses, Permits, & Fees	64.0	66.6	+ 2.6
Tobacco Taxes	55.0	55.4	+ 0.4
Bank Franchise Tax	10.9	11.6	+ 0.7
Other Ongoing Receipts	100.8	103.3	+ 2.5
Total Ongoing Receipts	\$1,590.1	\$1,569.8	(20.3)

FY2018 Adopted vs. FY2019 Recommended Ongoing Receipts (millions)

Source	Adopted FY2018	Revised FY2018	Recommended FY2019	FY19 vs. Adopted
Sales and Use Tax	\$989.0	\$979.3	\$1,016.9	+ 27.9
Lottery	115.3	115.4	118.6	+ 3.3
Contractor's Excise Tax	110.6	102.7	108.8	(1.8)
Insurance Company Tax	93.0	86.9	90.1	(2.9)
Unclaimed Property	51.5	48.6	46.8	(4.7)
Licenses, Permits, & Fees	64.0	66.6	68.9	+ 4.9
Tobacco Taxes	55.0	55.4	55.3	+ 0.3
Bank Franchise Tax	10.9	11.6	11.9	+ 1.0
Other Ongoing Receipts	100.8	103.3	105.2	+ 4.4
Total Ongoing Receipts	\$1,590.1	\$1,569.8	\$1,622.5	+ 32.4

FY2019 EXPENSES

Expense Overview

- **No inflationary increases**
 - Enrollment increases for education
 - Community based providers toward 90% of cost
 - Addressing market minimums for state employees

FY2019 Recommended Expense Summary

Major Increases/Decreases	General Funds
Education	\$20,331,660
Medical & Provider Assistance	\$11,336,127
Protecting People	\$2,576,185
State Employee Market Minimums	\$631,981
Title XIX Medicaid FMAP Savings	(\$9,764,332)
Miscellaneous Increase/Decreases	\$2,379,084
Building South Dakota (<i>Cost Neutral</i>)	\$4,900,000
TOTAL GENERAL FUND INCREASES	\$32,390,705

FY2019 Recommended Expense Summary

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**FY2019 Recommended Ongoing Expense
Education**

Major Increases/Decreases	General Funds
State Aid to Education K-12 Enrollment Growth	\$16,144,060
Maintenance and Repair (BOR/Tech Inst.)	\$1,020,366
Board of Regents Utilities	\$893,832
SD Opportunity Scholarship (Year 4)	\$614,038
Technical Institute Enrollment Growth	\$557,982
Dual Credit Enrollment Growth	\$398,957
Miscellaneous Increases/Decreases	\$702,425
TOTAL GENERAL FUND INCREASES	\$20,331,660

FY2019 Recommended Expense Summary

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Building South Dakota (<i>Cost Neutral</i>)	\$4,900,000
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**FY2019 Recommended Ongoing Expense
Medical & Provider Assistance**

Major Increases/Decreases	General Funds
Mandatory Inflation (Various Percentages)	\$5,403,935
Enrollment and Utilization Growth	\$4,839,459
Rural Family Physician Residency	\$179,666
Mental Health Court - Treatment	\$138,500
Miscellaneous Increases/Decreases	\$774,567
SD Health Care Solutions Coalition	(\$4,586,090)
SD Health Care Solutions Coalition	\$4,586,090
TOTAL GENERAL FUND INCREASES	\$11,336,127

FY2019 Recommended Expense Summary

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Education	\$20,331,660
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Building South Dakota (<i>Cost Neutral</i>)	<u>\$4,900,000</u>
TOTAL GENERAL FUND INCREASES	\$32,390,705

FY2019 Recommended Ongoing Expense Protecting People

Major Increases/Decreases	General Funds
Correctional Healthcare	\$1,336,398
DOC Community Transition Program	\$1,144,640
Mental Health Court	\$109,947
Miscellaneous Increases/Decreases	(\$14,800)
TOTAL GENERAL FUND INCREASES	\$2,576,185

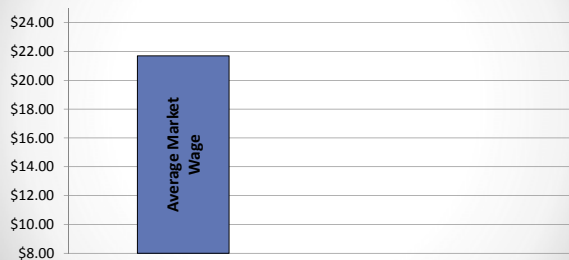
FY2019 Recommended Expense Summary

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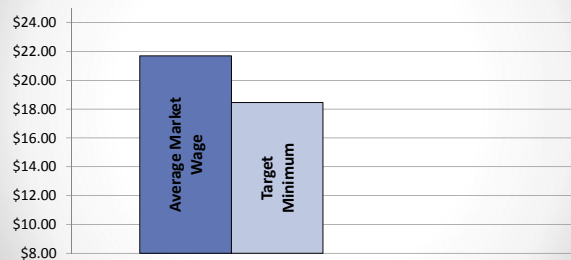
FY2019 Recommended Ongoing Expense State Workforce

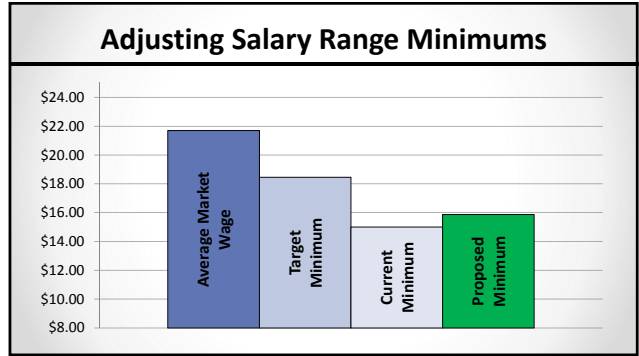
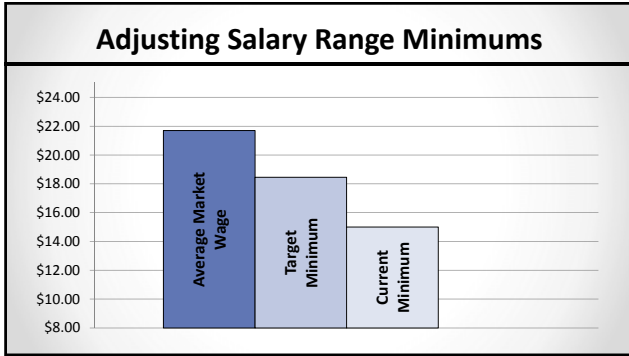
Major Increases/Decreases	General Funds
No Market Adjustment Increases (2 nd Year)	\$0
No Increase to State's Share of Health Insurance	\$0
Address Employee Market Minimums	<u>\$631,981</u>
TOTAL GENERAL FUND INCREASES	\$631,981

Adjusting Salary Range Minimums



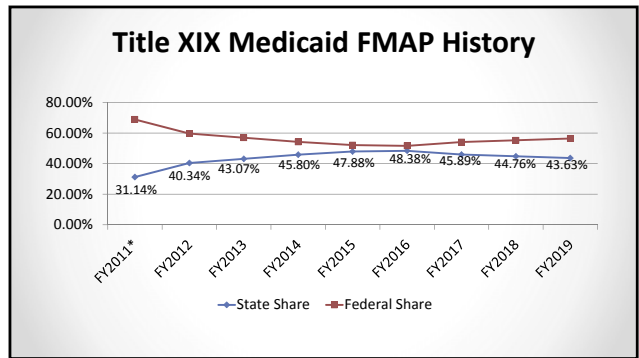
Adjusting Salary Range Minimums





FY2019 Recommended Expense Summary

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TOTAL GENERAL FUND INCREASES	\$32,390,705

- ### Building South Dakota (*Cost Neutral*)
- **Volatile and Unreliable Revenue Sources**
 - Project-based Contractor's Excise Tax
 - Year End Transfers to the Budget Reserve
 - **Fund Building South Dakota Programs with General Funds**
 - Housing Opportunity: \$1,900,000
 - Local Infrastructure Improvement Grant: \$1,500,000
 - Workforce Education: \$1,125,000
 - Economic Development Partnership: \$375,000

FY2019 Recommended Expense Summary

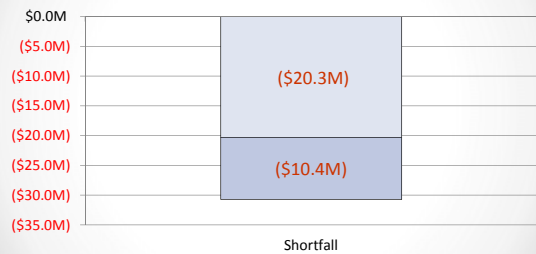
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TOTAL GENERAL FUND INCREASES	\$32,390,705

FY2018 MID-YEAR ADJUSTMENTS

FY2018 Shortfall



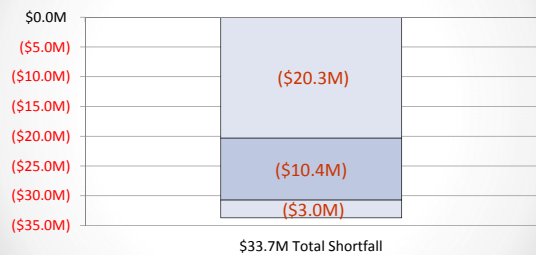
FY2018 Shortfall



Increased Expenses

	General Funds
State Aid to K-12 Education	\$9,045,639
Statewide Utilities and Food Services	\$616,896
Technical Institute Enrollment Growth	\$358,469
Miscellaneous Increases	\$393,720
Total Increased Expenses	\$10,414,724

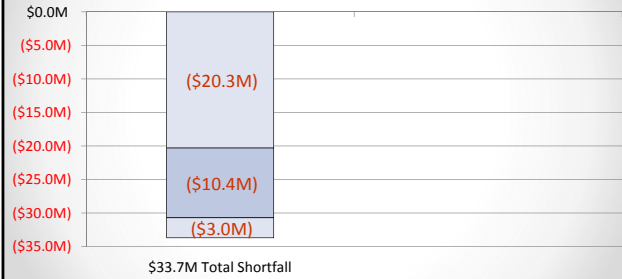
FY2018 Shortfall



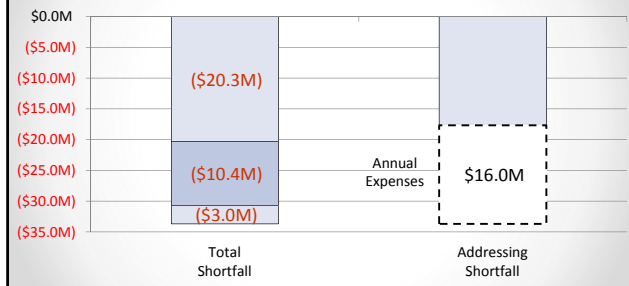
Emergency Special Appropriations

	General Funds
Healthcare Recruitment Assistance Programs	\$837,972
Wildland Fire Suppression Fund	\$766,157
Military Army Aviation Support Facility	\$500,000
Tax Refunds for the Elderly	\$450,000
Extraordinary Litigation Fund	\$423,598
Total Emergency Special Appropriations	\$2,977,727

Addressing the FY2018 Shortfall



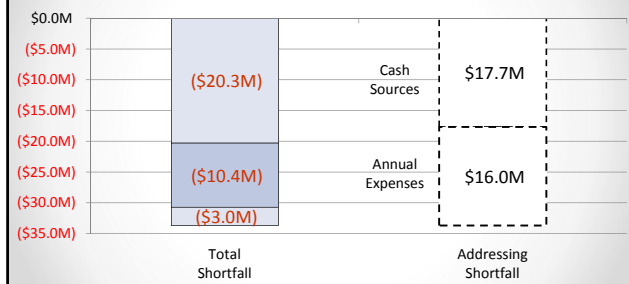
Addressing the FY2018 Shortfall



Reduction of Expenses

	General Funds
Department of Social Services Utilization	\$5,874,536
Department of Social Services Program Funds	\$5,770,599
Department of Human Services Utilization	\$3,563,048
Department of Corrections Juveniles Utilization	\$708,448
Department of Public Safety State Radio	\$100,000
Fire Premium Refund Update	\$20,166
Total Reduction of Expenses	\$16,036,797

Addressing the FY2018 Shortfall



Cash Sources	FY2018
Budget Reserve to 10%	\$7,210,593
Health And Education Facilities Authority	\$2,500,000
Department of Human Services Homemaker Fees	\$2,000,000
Petroleum Release Compensation Fund	\$1,300,000
Department of Education Workforce Education Fund	\$792,729
Department of Human Services Telecommunications Relay Services	\$750,000
Department of Human Services Prescription Drug Fund	\$750,000
Department of Education E-Rate Fund	\$500,000
Video Lottery Fund	\$500,000
Unified Judicial System Court Automation Fund	\$500,000
Private Activity Bond Fee	\$480,743
Finance and Management Budgetary Accounting Fund	\$261,396
Veterans' Home Operating Fund	\$120,000
Total One-time Proposed Cash Sources	\$17,665,461

Addressing the FY2018 Shortfall

Reduced Revenue and Increased Expenses	FY2018
FY2018 Shortfall	(33,702,258)
FY2018 Reduced Expenses	\$16,036,797
FY2018 Cash Sources	<u>\$17,665,461</u>
FY2018 Balanced Budget	\$0

Total Recommended Budget

	FY2018 Adopted	FY2018 Revised	FY2019 Recommended
General	\$1,590,098,880	\$1,587,454,534	\$1,622,489,585
Federal	\$1,636,562,445	\$1,641,148,653	\$1,687,171,355
Other	<u>\$1,388,382,343</u>	<u>\$1,419,207,077</u>	<u>\$1,359,763,219</u>
Total	\$4,615,043,668	\$4,647,810,264	\$4,669,424,159
FTEs	13,858.8	13,862.8	13,905.9

Setting a Good Fiscal Example

- A structurally balanced budget
- Maintaining a budget reserve balance of 10%
- One of the strongest pension plans in nation
- Strong financial practices
- All major bond rating agencies have SD at AAA

A Stronger South Dakota

