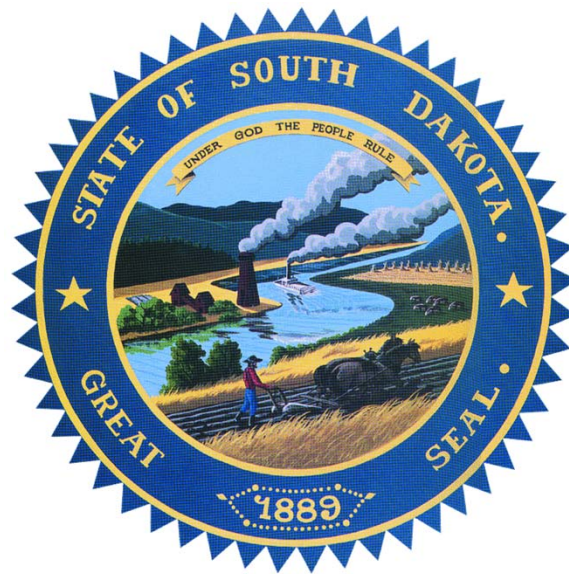


Governor Dennis Daugaard's FY2020 Budget Recommendations



December 4, 2018

Budget Recommendation Overview

- **Not budgeting for “new” e-commerce sales tax revenue**
- **Economic and revenue outlook is generally positive**
- **Includes 2.3% inflationary increases for key groups**
- **Changes to the state employee health insurance plan**
- **FY2019 one-time budget adjustments & emergency special appropriations**

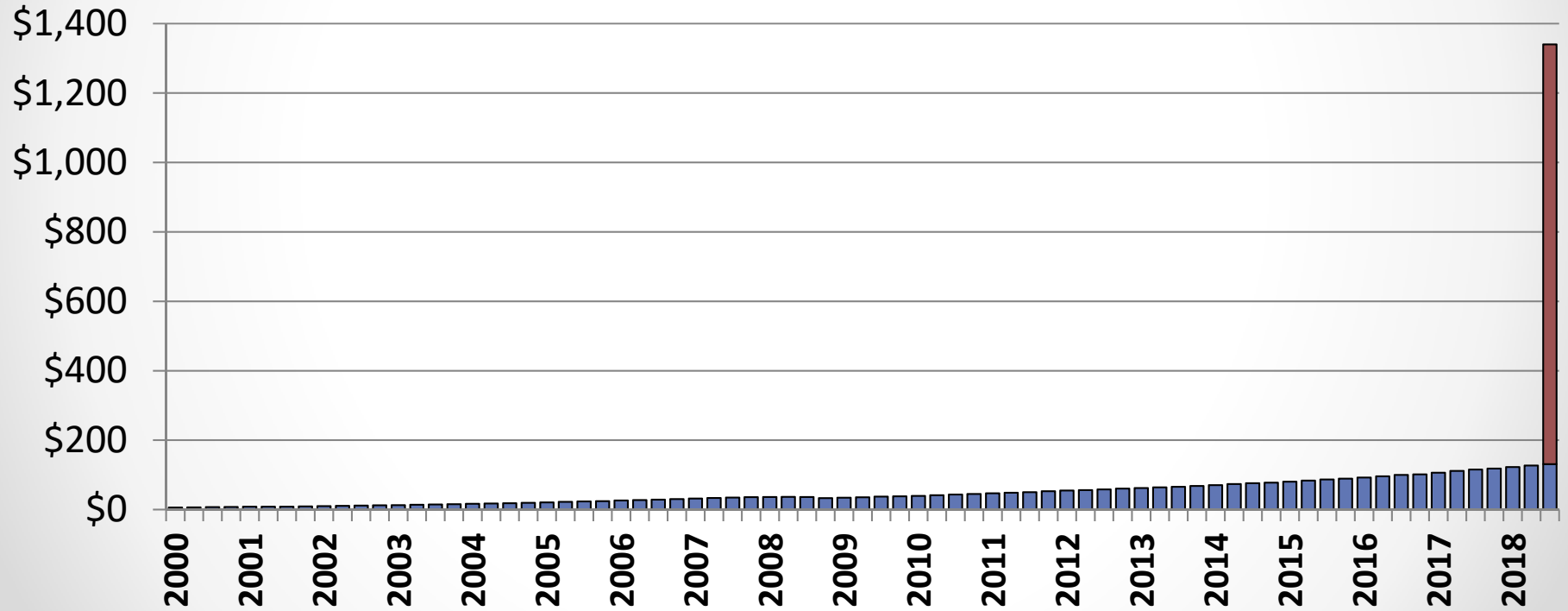
Growth of E-Commerce Sales in US



E-Commerce vs. Total Retail Sales in US

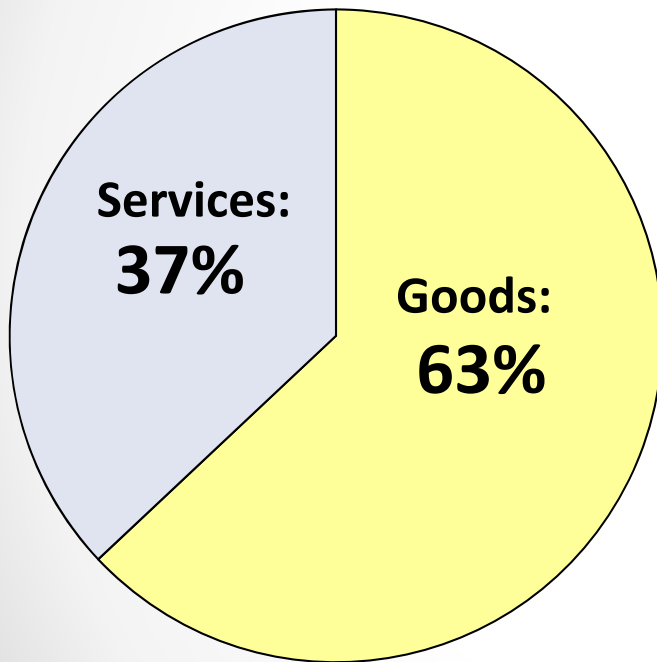
Billions

■ E-commerce ■ Total Retail Sales



Sales Tax from E-Commerce?

SD Taxable Sales



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

E-Commerce Impact to the Budget?

- **Additional uncertainties**
 - Amount of small seller exemption is unknown
 - Marketplace seller compliance is uncertain
- **Prudent course is to budget for \$0**

How Much “New” Sales Tax from E-Commerce?

- **Top Down Method:** Using CY2017 US Census e-commerce retail sales, assumes 0.25% market share, less current collections.

US E-Commerce \$424 B	X	Est. SD Market Share 0.25%	=	SD E-Commerce \$1.06 B
SD E-Commerce \$1.06 B	X	Sales Tax Rate 4.5%	=	Sales Tax Est. \$48 M
Sales Tax Est. \$48 M	-	Already collected \$25 M	=	Uncollected Tax* \$23 M

* Assumes 100% compliance & ignores small seller exemption

How Much “New” Sales Tax from E-Commerce?

- **Bottom Up Method:** Use top 2 unlicensed marketplaces & top 10 unlicensed remote sellers primarily in e-commerce
- From available natl. data, apply SD market share based on experience of a currently licensed marketplace (0.11%) and avg. of top 10 licensed remote e-commerce sellers (0.15%)

2 unlicensed MP \$242.3 B	X	Market Share 0.11%	X	Tax Rate 4.5%	=	\$11.6 M
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10 unlicensed RS \$23.1 B	X	Market Share 0.15%	X	Tax Rate 4.5%	=	\$1.5 M
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\$13.1 M

FY2019 Adopted vs. FY2019 Revised Ongoing Receipts

(millions)

Source	Adopted FY2019	Revised FY2019	Adopted vs. Rev.
Sales and Use Tax	\$1,029.1	\$1,033.4	+ 4.3
Lottery	120.7	121.2	+ 0.5
Contractor's Excise Tax	111.4	113.1	+ 1.7
Insurance Company Tax	90.2	91.1	+ 0.9
Unclaimed Property	49.5	43.0	(6.5)
Licenses, Permits, & Fees	67.9	69.0	+ 1.1
Tobacco Taxes	54.5	52.4	(2.1)
Bank Franchise Tax	13.7	14.0	+ 0.3
Other Ongoing Receipts	<u>104.5</u>	<u>102.0</u>	(2.5)
Total Ongoing Receipts	\$1,641.5	\$1,639.2	(2.3)

FY2019 Adopted vs. FY2020 Recommended Ongoing Receipts (millions)

Source	Adopted FY2019	Revised FY2019	Recommended FY2020	FY20 vs. Adopted
Sales and Use Tax	\$1,029.1	\$1,033.4	\$1,073.3	+ 44.2
Lottery	120.7	121.2	124.1	+ 3.4
Contractor's Excise Tax	111.4	113.1	117.8	+ 6.4
Insurance Company Tax	90.2	91.1	94.9	+ 4.7
Unclaimed Property	49.5	43.0	43.0	(6.5)
Licenses, Permits, & Fees	67.9	69.0	70.5	+ 2.6
Tobacco Taxes	54.5	52.4	52.0	(2.5)
Bank Franchise Tax	13.7	14.0	14.5	+ 0.8
Other Ongoing Receipts	<u>104.5</u>	<u>102.0</u>	<u>104.5</u>	<u>+ 0.0</u>
Total Ongoing Receipts	\$1,641.5	\$1,639.2	\$1,694.6	+ 53.1

FY2020 EXPENSES

FY2020 Expense Overview

- **2.3% increase for medical provider reimbursement rates**
- **2.3% increase for state aid to K-12 schools and technical institutes**
- **2.3% state employee salary policy increase, and funding to structurally balance the state employee health insurance plan**
- **Funding for maintenance and repair budgets to keep pace with construction costs and the phase-in of new buildings**
- **Expense reductions due to an increase in the Federal Medical Assistance Percentage (FMAP)**

FY2020 Recommended Expense Summary

Major Increases/Decreases	General Funds
Medical Provider Inflation	\$13,408,193
Consumer Expansion	\$10,394,263
State Aid to Education	\$9,422,480
State Employee Salary Policy	\$8,685,355
State Employee Health Insurance	\$6,890,099
Maintenance & Repair	\$5,163,319
Title XIX Medicaid FMAP Savings	(\$6,203,245)
Miscellaneous Increase/Decreases	<u>\$5,173,811</u>
TOTAL GENERAL FUND INCREASES	\$52,934,275

State Employee Health Insurance

- Plan Design Changes
- Infused One-Time Cash
- Our Costs Trend Lower than National Average
- Healthcare Costs Continue to Rise
- Recommending to Structurally Balance the Plan

	General Fund Cost	Total Funds Realized
Employee Premium/Changes		\$4,125,240
Employer Increase	\$6,890,099	<u>\$15,353,315</u>
Need for Structural Balance		\$19,478,555

FY2020 Recommended Expense Summary

Major Increases/Decreases	General Funds
Medical Provider Inflation	\$13,408,193
Consumer Expansion	\$10,394,263
State Aid to Education	\$9,422,480
State Employee Salary Policy	\$8,685,355
State Employee Health Insurance	\$6,890,099
Maintenance & Repair	\$5,163,319
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Miscellaneous Increase/Decreases	<u>\$5,173,811</u>
TOTAL GENERAL FUND INCREASES	\$52,934,275

FY2020 Bottom Line

	FY2020
Increased Ongoing Revenues vs Base	\$53,121,567
FY2020 Expense Increases	<u>(\$52,934,275)</u>
FY2020 Bottom Line	\$187,292

**FY2019
MID-YEAR
ADJUSTMENTS**

Mid-Year FY2019 Expense Adjustments

	General Funds
Department of Social Services Utilization	(\$8,816,090)
State Aid to K-12 Education	(\$6,903,895)
Miscellaneous Increases/Decreases	<u>\$65,642</u>
Total Mid-Year Adjustments	(\$15,654,343)

Emergency Special Appropriations

	General Funds
Jameson Annex Expansion	\$7,392,235
National Guard Readiness Center	\$3,884,885
Extraordinary Litigation Fund	\$2,300,000
Metrology Lab	\$1,660,000
Healthcare Recruitment Assistance Programs	\$979,849
Wildland Fire Suppression Fund	\$906,658
Emergency and Disaster Fund	\$550,596
Elm Lake Dam	\$521,403
Tax Refunds for the Elderly	<u>\$450,000</u>
Total Emergency Special Appropriations	\$18,645,626

FY2019 Bottom Line

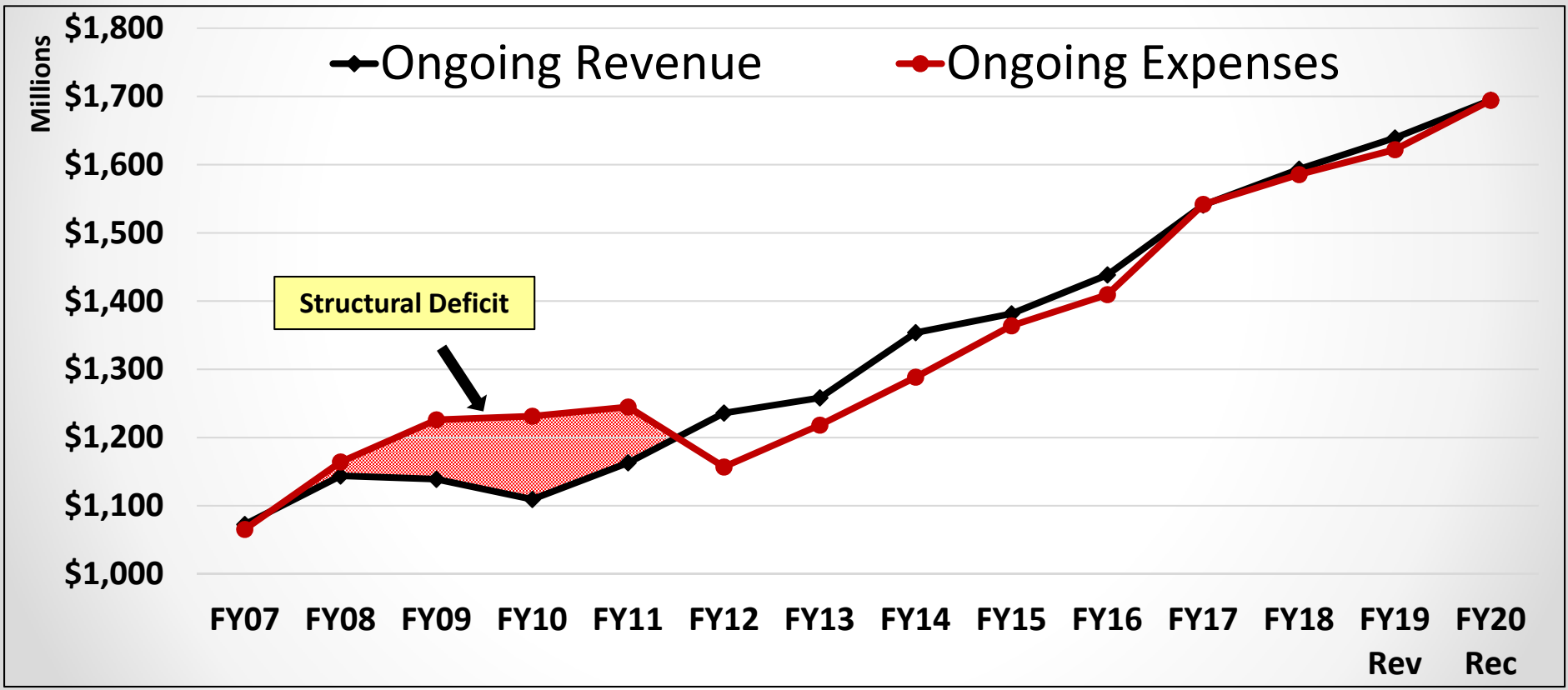
	FY2019
Decreased Ongoing Revenues vs. Adopted	(\$2,296,222)
Transfer of Remaining Mtn. Pine Beetle Cash	\$705,101
Transfer from Reserves in excess of 10%	\$7,279,931
Mid-Year expense adjustments (lower expenses)	\$15,654,343
Emergency Special Appropriations	<u>(\$18,645,626)</u>
FY2019 Bottom Line	\$2,697,527

Total Recommended Budget

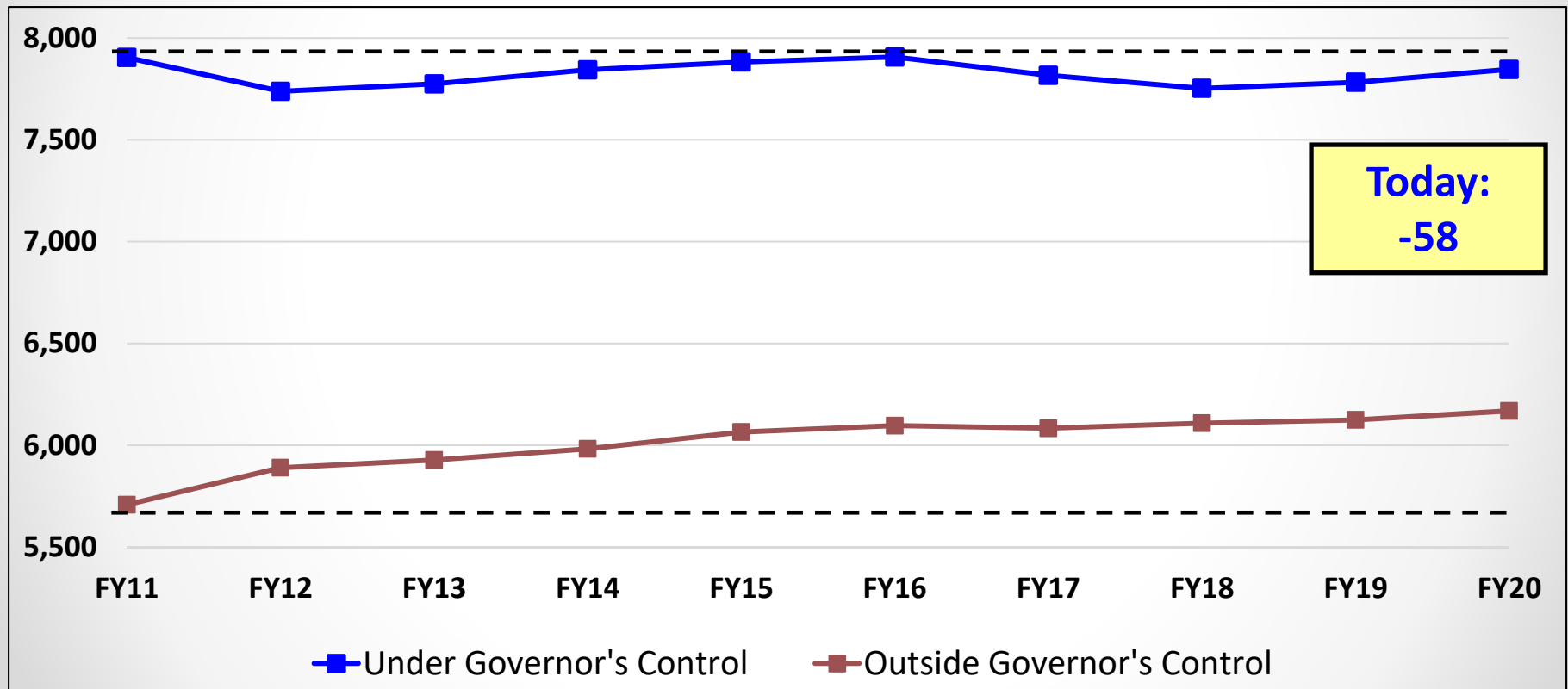
	FY2019 Adopted	FY2019 Revised	FY2020 Recommended
General	\$1,641,545,684	\$1,644,536,967	\$1,694,479,959
Federal	\$1,693,947,992	\$1,722,786,562	\$1,748,968,282
Other	<u>\$1,418,360,081</u>	<u>\$1,462,573,179</u>	<u>\$1,404,669,341</u>
Total	\$4,753,853,757	\$4,829,896,708	\$4,848,117,582

Budgeting in South Dakota

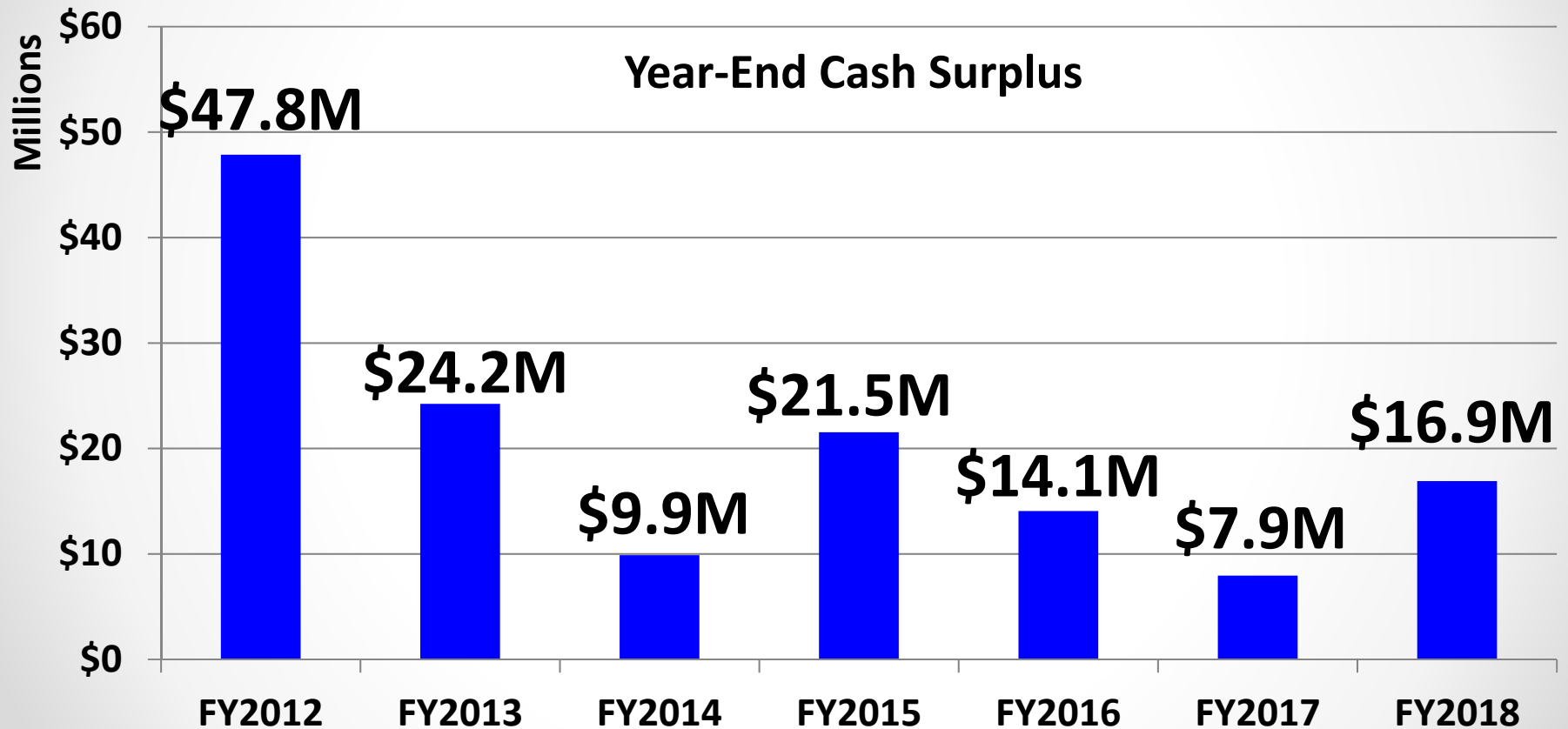
Making Structurally Balanced Budgets The Norm



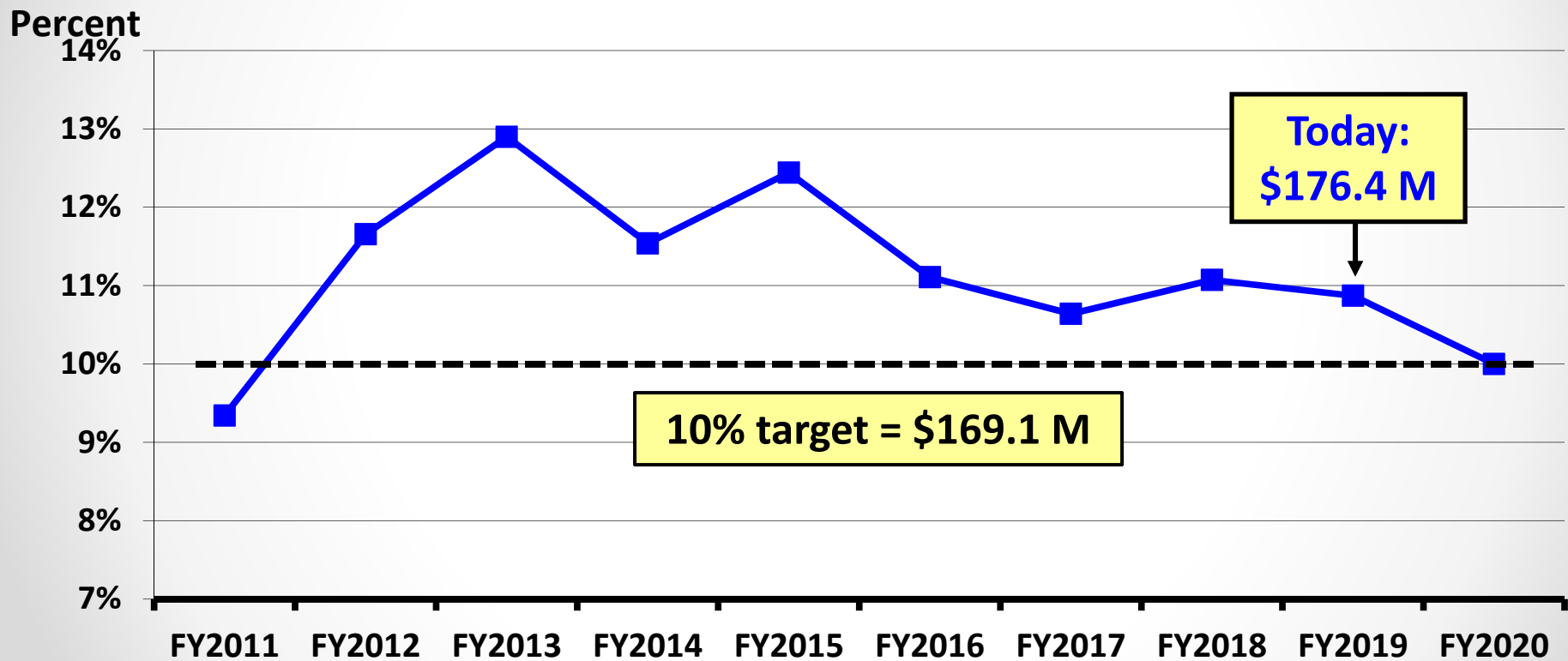
Limiting Growth of State Government: Budgeted FTE



Seven Straight Years of Year-End Surplus

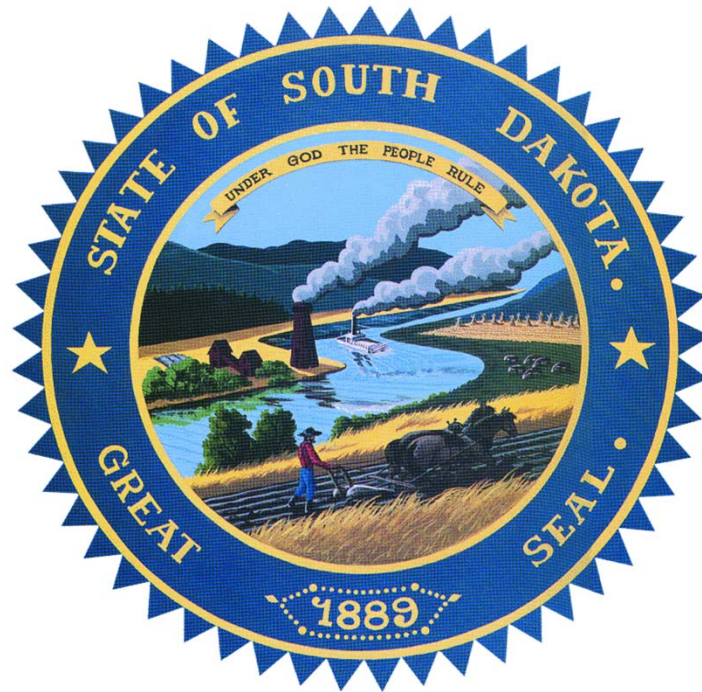


Maintaining Strong Reserve Balances to Address Emergencies

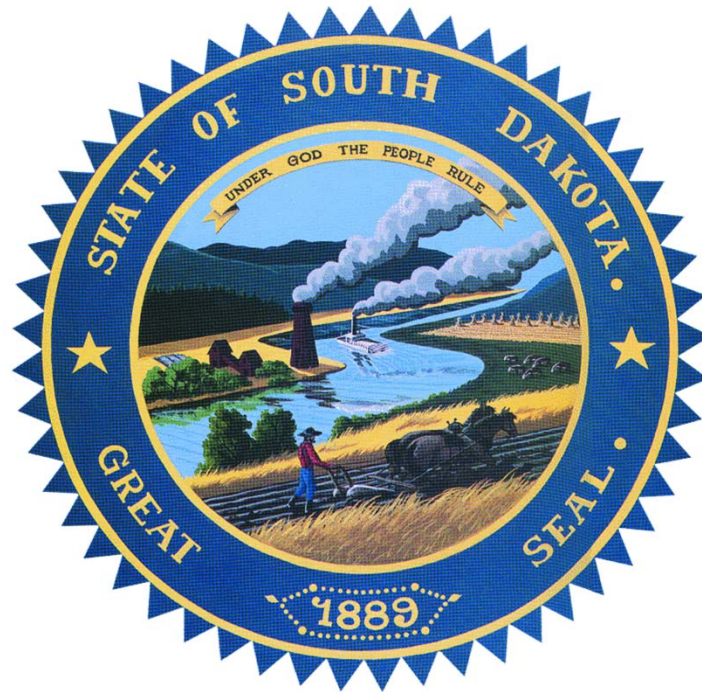


South Dakota's Path to AAA Credit Rating

- **Balanced budget constitutional amendment (2012)**
- **More frequent revenue estimates (2014)**
- **Weekly financial metrics (2014)**
- **Eliminated liabilities (2014, 2015, 2016)**
- **Long-term financial plans & debt limitations (2015)**
- **Audited financial statements complete in 6 months (2016)**
- **Fully funded & proactively managed SD Retirement System**



Ellie Bailey	Travis Dovre	Marcia Hultman	Will Mortenson	Kelsey Smith
Grace Beck	Linda Dykstra	Mike Jaspers	Morgan Ness	Pat Snow
Darin Bergquist	Jim Edman	Dusty Johnson	Nila Novotny	Jim Soyer
Dom Bianco	Steve Emery	Trevor Jones	Dustin Oedekoven	Lonnie Soyer
Scott Bollinger	Kris Erickson	Denny Kaemingk	Kim Olson	Mary Stadick
Walt Bones	A. J. Franken	Joe Kafka	Gloria Pearson	Smith
Sheila Bonrud	Linda Fridley	Doreen Kayser	Steve Pirner	Kim Stahl
Deb Bowman	Andy Gerlach	Paul Kinsman	Kelsey Pritchard	Scott Stern
Keith Bradley	Laurie Gill	Don Kirkegaard	Tim Reisch	Sadie Stevens
Ryan Budmayr	Jason Glodt	Matt Konenkamp	Laura Ringling	Lynne Valenti
Bailey Carlsen	Rachel Graves	J. R. LaPlante	Hunter Roberts	Tony Venhuizen
Liza Clark	Jim Hagen	Mark Lauseng	Pam Roberts	Jeff Vonk
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Jason Dilges	Jeff Holden	Laura Mehlhaff	Jim Seward	Sandy Zinter
Steve Doohen	Doneen Hollingsworth	Matt Michels	Cleo Shroyer	Dave Zolnowsky



A Stronger South Dakota

