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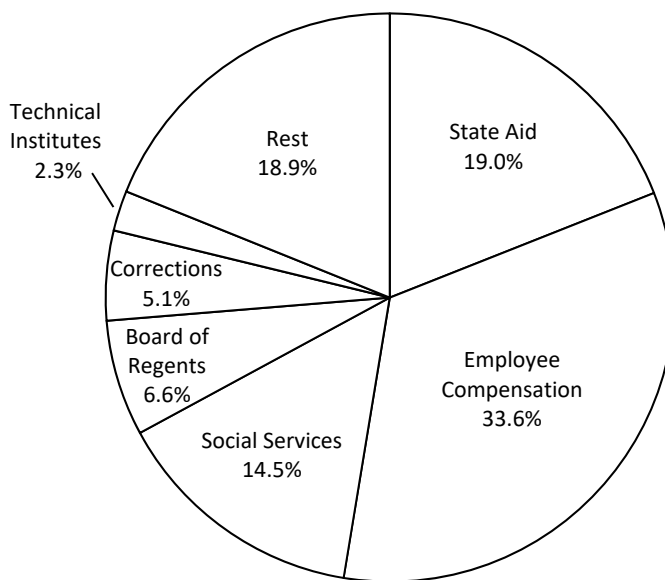
## SUMMARY OVERVIEW

Governor Noem is recommending a budget (including special and continuing appropriations) for FY2020 totaling \$4,865,298,720 and 14,012.7 FTE. This represents an overall increase of \$100,218,969 in total funds and an increase of 90.8 FTE over the base FY2019 budget. For FY2020, the Governor is proposing a general fund budget of \$1,695,678,403 which is an increase of \$54,132,719 over the adopted FY2019 budget. This includes an increase of \$148,102 in continuing appropriations. The proposed FY2020 general fund budget is distributed as follows:

- \$590.3 million, or 34.8% for State Aid to Education
- \$589.6 million, or 34.8% for Health, Human, and Social Services
- \$217.8 million, or 12.9% for Higher Education
- \$105.7 million, or 6.2% for Corrections
- \$74.8 million, or 4.4% for the Legislature, Unified Judicial System, Public Utilities Commission, and Elected Officials
- \$23.6 million, or 1.4% for Agriculture, Environment and Natural Resources, and Game, Fish & Parks
- \$93.9 million, or 5.5% for the Remainder of State Government

The table below outlines the FY2020 recommended general fund increases, excluding special and continuing appropriations.

### FY2020 General Fund Increases



#### TOTAL INCREASE: \$53,984,617

State Aid	\$10.3M
Employee Compensation	\$18.2M
Social Services	\$7.8M
Board of Regents	\$3.6M
Corrections	\$2.8M
Technical Institutes	\$1.2M
Rest of State Government	\$10.2M

# **U.S. AND SOUTH DAKOTA ECONOMIC FORECASTS**

## **U.S. ECONOMY**

### **RECENT ECONOMIC ACTIVITY**

US economic growth strengthened throughout 2018 as the second and third quarter growth rates were more than 3% and registered the highest two quarter consecutive growth rates in terms of GDP growth in four years. The robust growth rates realized thus far in 2018 are due to many factors including stimulus from the tax cuts and jobs act, low interest rates, employment and income gains, high levels of consumer and business confidence, and increased federal government spending. After slowing temporarily in the first quarter, consumer spending accelerated in the second and third quarter, fueling the US economy in mid-2018. The US economy continues to add jobs at a healthy pace during 2018. The average monthly gain in US payroll employment in 2018 has been 213,000 jobs through October and is currently 1.7% higher than a year ago. The stimulated economy continues to support job growth and consumer spending in 2018 which is expected to continue into 2019, albeit at a slower rate. Economic growth is anticipated to slow in 2020 as the stimulus measures from the tax cuts and increased spending begin to fade.

At the federal level, the Tax Cuts and Jobs Act of 2017 and the Bipartisan Budget Act of 2018 fueled consumer spending and provided a boost to federal spending due to increased defense and nondefense discretionary spending through federal fiscal year 2019. Over the next year, there are challenges that will need to be addressed at the federal level. The debt ceiling will likely need to be addressed by Congress in mid-2019 and the federal budget for 2020 contains automatic spending cuts that may present challenges to the economy.

The Federal Reserve continues to gradually increase interest rates, transitioning to a neutral position on monetary policy over the next couple of years. The federal funds target rate is currently in the 2.00% - 2.25% range, which was last increased by 0.25% in September of 2018. Since December of 2015, the Federal Reserve has increased the rate by 2.00%, reflecting steady growth and confidence in the economy by the Federal Reserve. The Federal Reserve is currently lowering the size of its balance sheet by gradually allowing securities to mature each month, reducing the amount of assets that were purchased during and after the Great Recession. Currently, an additional 0.25% rate increase in the federal funds target rate is anticipated in December 2018.

Recent economic data releases indicate the economy with strong momentum thus far in 2018. The following are recent key national economic statistics:

- Advance estimates indicate real GDP grew 3.5% in the third quarter of 2018, which followed a strong 4.2% growth rate in the second quarter. The third quarter growth was led by robust spending on durable and nondurable goods.
- The unemployment rate was 3.7% in October, the same as the prior month. The current rate is 0.4% lower than October of 2017.
- The Institute of Supply Management's (ISM) manufacturing report on business was 57.7 in October, down from 59.8 in September. The index has been above 50 for the 26<sup>th</sup> consecutive month. A reading above 50 indicates the manufacturing sector is expanding.
- The ISM non-manufacturing report on business was 60.3 in October, down from 61.6 in September. This was the 105<sup>th</sup> consecutive monthly reading above 50, indicating continued expansion.
- US personal income increased at an annual rate of 4.2% in both the second and third quarter of 2018. Personal income grew 4.9% in 2015, 2.6% in 2016, and 4.4% in 2017.
- Real total consumption increased 3.8% in the second quarter and 4.0% in the third quarter of 2018. Both quarters were driven by strong spending increases in durable goods of 8.6% and 6.9%, respectively.

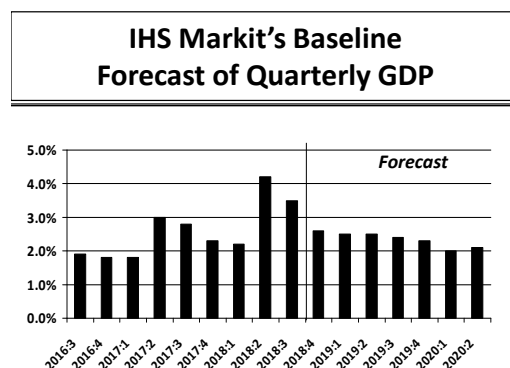
- Total construction spending was similar in September compared to August. Private construction was up 0.3%, while public construction was 0.9% lower compared to the prior month. Year-to-date through September 2018, total construction spending is up 5.5% compared to the same time period in 2017.

### NATIONAL FORECAST HIGHLIGHTS

*This section summarizes IHS Markit's forecast as of November 2018 for various categories of the US economy. IHS Markit is a leader in providing analytics and expertise to business and government worldwide.*

**GDP:** Since mid-2017 the US economy has been experiencing above trend economic growth, with growth accelerating the past two quarters. Robust consumer spending in both goods and services have been fueled by a reduction in federal taxes. At the same time, increases in federal government spending and business fixed investment have helped to accelerate economic growth over the past several quarters. Real GDP was relatively steady in the fourth quarter of 2017 at 2.3% through the first quarter of 2018, which registered 2.2% growth. Growth accelerated in the second quarter of 2018 to 4.2%, followed by 3.5% growth in the third quarter. High consumer and business confidence, healthy consumer balance sheets, steady employment gains, and income growth contributed to the growth realized the past two quarters of 2018. IHS Markit is currently assigning a slightly higher probability of negative (25%) vs. positive (15%) risks in the US economic outlook at this time. IHS Markit's baseline forecast is for steady economic growth over the next several quarters, then gradually slowing towards trend growth of approximately 2.0% by 2020 as the stimulus from tax cuts and increased government spending begin to fade.

In the first three quarters of this year, real GDP grew 2.2%, 4.2%, and 3.5%, respectively. In the fourth quarter, GDP is forecast to grow 2.6%. In the four quarters in 2019, IHS Markit is projecting GDP growth of 2.5%, 2.5%, 2.4%, and 2.3%. In 2020, GDP is forecast to increase 2.0% and 2.1% in the first two quarters.



On an annual basis, GDP grew 1.8% in 2013, 2.5% in 2014, 2.9% in 2015, 1.6% in 2016, and 2.2% in 2017. IHS Markit's latest forecast projects real GDP to grow 2.9% in 2018, 2.7% in 2019, and 2.1% in 2020.

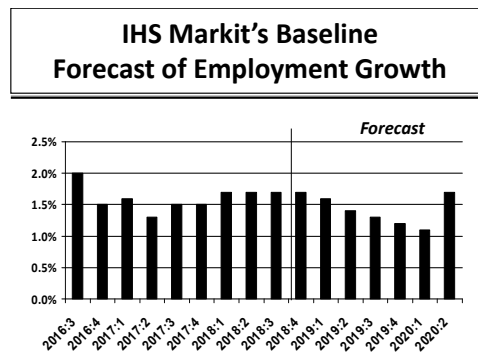
**CONSUMERS:** Consumer spending is a key component contributing to economic growth, as consumption accounts for over two-thirds of economic activity as measured by GDP. In 2008 and 2009, real consumer spending declined in both years as the recession caused major job losses leading to depressed consumer spending. Over the next seven years, consumer spending improved with growth averaging 2.3% per year. In 2018, real consumption growth has been 0.5%, 3.8%, and 4.0% the first three quarters, and is anticipated to be 2.7% in the fourth quarter. The growth of 4.0% realized in the third quarter was led by an 6.9% increase in spending on durable goods, while nondurable goods spending grew 5.2% and spending on services grew 3.2%. Recent news on consumer spending and confidence has been positive. The University of Michigan's index of consumer confidence in November registered a strong 98.3 reading, just down slightly from October's 98.6 level. The index has registered healthy readings throughout 2018, a positive sign heading into the holiday shopping season. IHS Markit expects 2018 holiday sales in November and December to increase 4.7%, slightly lower than last year's growth of 5.3%. However, changes in gasoline prices or volatile financial markets may have a negative impact on this outlook. On an annual basis, real consumption is projected to increase by 2.7% in 2018, 2.8% in 2019, and 2.4% in 2020.

The personal savings rate (as a percentage of disposable income) was 6.4% in the third quarter of 2018. This compares to the 7.2% and 6.8% savings rate registered in the first and second quarter. In 2015, 2016, and 2017 the savings rate was 7.6%, 6.7%, and 6.7%, respectively. The savings rate is projected to be 6.6% in 2018, 5.9% in 2019, and 6.3% in 2020.

**EMPLOYMENT:** The latest US payroll employment report indicated total nonfarm employment grew by 250,000 jobs in October, stronger than the 118,000 jobs added in the month of September. In October, private sector employment increased by 246,000, which increased the total gains for private employment payrolls to slightly more than 2.0 million so far in 2018. Nearly all employment sectors have been adding jobs over the past several months, with the exception of retail trade. In the fourth quarter of 2018, nonfarm employment is expected to be 2.5 million jobs higher than the fourth quarter of 2017, representing a 1.7% year-over-year growth rate. Slower growth is anticipated in 2019 and 2020 as the US economy approaches full employment. The current forecast shows total employment growing 2.4 million jobs in 2018 on an annual basis compared to 2017. In 2019 and 2020, employment growth is estimated to be 2.3 million and 1.7 million jobs, registering growth rates of 1.5% and 1.1%, respectively.

The unemployment rate in October was 3.7%, which was the same as September, and 0.4% lower than a year ago. The unemployment rate is expected to stabilize near 3.4% during 2019 and 2020 as the US economy approaches full employment. On an annual basis, the unemployment rate was 5.3% in 2015, 4.9% in 2016, and 4.4% in 2017. In 2018, the unemployment rate is projected to be 3.9% on an annual basis. In 2019 and 2020, the unemployment rate is projected to average 3.4% each year.

In the first three quarters of 2018, nonfarm payroll employment realized growth rates of 1.7% for each quarter, (seasonally adjusted annual rate). Employment growth is projected at 1.7% in the fourth quarter of 2018. Employment growth is expected to slow in 2019 with growth rates of 1.6%, 1.4%, 1.3%, and 1.2% in each of the four quarters. In the first two quarters of 2020, payroll employment growth is projected at 1.1% and 1.7%, respectively.



On an annual basis, payroll employment in the US increased 2.1% in 2015, 1.8% in 2016, and 1.6% in 2017. Payroll employment is forecasted to grow 1.6% in 2018, 1.5% in 2019, and 1.1% in 2020.

**HOUSING:** Recent data indicate temporary challenges in the housing market due to rising interest costs and home prices impacting affordability. After peaking in the fourth quarter of 2017, real spending on residential construction was lower in the first three quarters of 2018. IHS Markit anticipates the recent slowdown in housing is temporary and will begin to gain momentum in early 2019. Home builders continue to be optimistic given the tight supply of homes as evidenced by relatively strong readings of the National Association of Home Builders index over the course of 2018. Existing home sales in September were at a 5.15 million unit annual rate, which was 4.1% lower than the same month a year ago. Housing starts in the third quarter were at a rate of 1.22 million units, slightly lower than the second quarter of 1.26 million units. In terms of prices, the median sales price of existing single-family homes was up 4.8% year-over-year in the third quarter. The S&P/Case-Shiller National Home Price Index was up 3.6% year-over-year in August, registering an all-time high, a sign of a tight housing market. After a challenging year in 2018, the housing sector is anticipated to be a positive contributor to US economic growth in 2019 and 2020. Residential investment in housing is expected to contribute 0.01% and 0.17% growth to real GDP in 2019 and 2020, respectively.

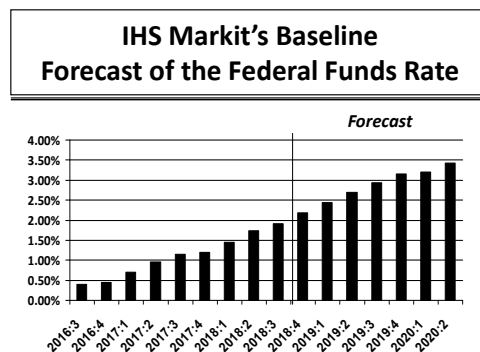
Total housing starts are projected to be 1.26 million units in 2018 and 1.32 million units in 2019, then grow to 1.42 million units in 2020. In 2015, 2016, and 2017, total housing starts were 1.11 million, 1.18 million, and 1.21 million units, respectively. IHS Markit forecasts the median price of existing homes to increase by 3.9% in 2018. In 2019 and 2020 prices are expected to grow 1.0% and 2.8%, respectively.

**INFLATION:** The Consumer Price Index (CPI) grew 0.3% in October as increases in gasoline prices helped push the index higher for October. The October 2018 CPI was up 2.5% year-over-year. Inflation is anticipated to firm over the forecast period due to price pressure from a tight labor market as well as cost pressures in response to tariffs and other trade measures. The core CPI (excludes food and energy prices) increased at a 2.2% rate year-over-year in October. IHS Markit expects core price increases to firm in the 2.3% - 2.4% range in the next several months.

The CPI increased 0.1% in 2015, 1.3% in 2016, and 2.1% in 2017. The CPI is forecast to grow 2.5% in 2018, 2.5% in 2019, and 1.9% in 2020. The producer price index for finished goods decreased 3.3% and 1.0% in 2015 and 2016, then increased 3.2% in 2017. The current forecast indicates an increase of 3.2% in 2018, 2.7% in 2019, and 1.9% in 2020.

**MONETARY AND FISCAL POLICY:** Monetary and fiscal policies were very aggressive during the economic recession. The Federal Reserve utilized traditional as well as other liquidity and quantitative easing programs in an effort to support financial markets and the economy. The steps taken by the Federal Reserve during the recession to stabilize the financial system and economy increased the Fed's balance sheet from under \$1 trillion in 2008 to a peak of over \$4.5 trillion. Over the past year, the Federal Reserve has gradually reduced the amount of assets held by decreasing its reinvestment of principal payments for Treasury securities and mortgage-backed securities, lowering the total balance sheet to just under \$4.2 trillion presently. This process is expected to be gradual over several years, with the end goal of lowering the Federal Reserve's balance sheet to normal levels.

Currently, the federal funds target rate is current at the range of 2.00%-2.25%, which has been increased by 1.0% over the past year. IHS Markit expects the Federal Reserve will increase rates again in December of 2018 and gradually raise rates over the course of 2019 and 2020, which is reflective of strong economic fundamentals in the US economy.



Federal fiscal policy has been accommodative over the past year due to the passage of the tax cuts and jobs act as well as the 2018 budget act. Both measures are acting as a stimulus for the economy thus far in 2018. Automatic spending cuts are set to take place in federal fiscal year 2020 absent action by policy makers. IHS Markit anticipates these spending cuts will be avoided, but they do present downside risks to the forecast.

The unified federal deficit for federal fiscal year 2018 was \$779 billion, which is \$113 billion higher than fiscal year 2017. The fiscal year 2018 deficit represents approximately 3.8% of GDP, an increase from 3.5% of GDP in fiscal 2017. IHS Economics forecasts a larger deficit of \$950 billion for federal fiscal year 2019 or 4.5% of GDP.

Real federal government purchases declined 2.6% in 2014, were flat in 2015 and grew 0.4% and 0.7% in 2016 and 2017, respectively. Real federal government purchases are expected to increase 3.0% in 2018, 4.9% in 2019, and 0.5% in 2020.

**INTERNATIONAL:** Global economic growth was relatively strong the past two years as growth in most key foreign economies held steady in 2018. Global GDP growth is estimated to be 3.2% in 2018. Canada, Japan, Europe, Asia and China have all realized increases in their economies in the second and third quarters of 2018, while South American economies have struggled with volatility over the course of the year. The fundamentals in the Chinese economy suggest a path of slower, yet steady growth over the next several years. Real GDP growth in China was 6.5% in the third quarter and is anticipated to be similar in the fourth quarter of 2018. The Chinese economy grew 6.9% in 2017 and is forecast for growth of 6.7% in 2018 and 6.1% in 2019.

In terms of GDP, global economic growth is projected to be 3.2% in 2018, 3.1% in 2019, and 2.9% in 2020.

Trade issues between the US and China dominated the headlines over the past several months as tensions continue to build regarding international trade. The US enacted a 10% levy on \$200 billion of Chinese imported goods, effective in September, with the rate set to increase to 25% effective January 2019. China retaliated with tariffs on an additional \$60 billion of imports from the US. The trade issues throughout 2018 caused exports of goods to surge in the second quarter and then decline in the third quarter. The increase in trade tensions creates a great deal of uncertainty for future demand of exports, cost pressures and supply chains, and presents a downside risk to the current economic outlook with respects to business confidence.

The US trade deficit increased in September to \$54.0 billion compared to \$53.3 billion in August as exports increased by \$3.1 billion and imports increased by \$3.8 billion. After growing 3.0% in 2017, real exports are expected to grow 4.3% in 2018 and 4.1% in 2019. Overall, IHS Markit forecasts net exports to be -\$615 billion in 2018, -\$727 billion in 2019, and -\$729 billion in 2020.

#### ***RISKS TO THE FORECAST***

The US economy has been expanding for 112 months, the second-longest economic expansion since the National Bureau of Economic Research began dating the United States' business cycle in 1854. Through mid-2018, the US economy has been growing at a strong pace, as robust consumer spending pushed GDP growth to 4.2% and 3.5% in the second and third quarters. Solid macroeconomic fundamentals suggest economic growth will continue in 2019. IHS Markit is assigning a slightly higher probability of negative risks versus positive risks in the current economic outlook.

A 15% probability exists of US economic growth being stronger than the baseline forecast. In IHS Markit's optimistic scenario, GDP is projected to grow 2.9% in 2018, followed by strong growth of 3.1% in 2019 and 2.9% in 2020. The optimistic scenario assumes stronger productivity growth averaging 2.7% over the next several years, 1.1% higher than the baseline scenarios. This increased productivity drives wages, consumer finances, and employment higher, increasing household formation rates and spurring a rise in housing starts. An improving economy combined with strong consumer and business confidence drive consumer spending higher than the baseline scenario. This leads to consumption gains, higher earnings, and gains in financial markets. In the optimistic scenario, foreign economic growth is robust, leading to stronger export growth.

While the US economic expansion appears on solid ground, it would take an unforeseen shock to end the current economic expansion. IHS Markit's pessimistic scenario is currently assigned a 25% probability of occurring. In the pessimistic scenario, the US economy experiences a three-quarter economic recession beginning in the fourth quarter of 2019. In this scenario, the US economy is pulled down by declines in commercial real estate prices, low business and consumer confidence, and declining financial markets. Unemployment rises throughout 2019, while employment growth stalls. In the pessimistic forecast, GDP grows 2.9% in 2018, with growth slowing to 2.7% in 2019, then decreases 0.4% in 2020. Peak to trough, real GDP declines 1.2% over a three quarter time period in 2020.



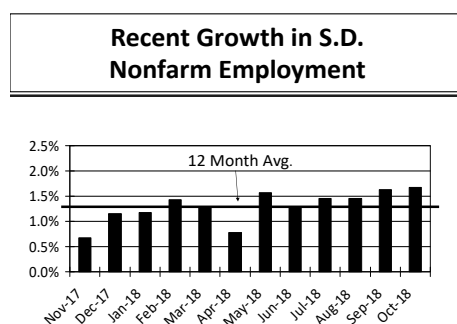
## ***SOUTH DAKOTA ECONOMY***

### ***RECENT ECONOMIC ACTIVITY***

*This section briefly summarizes recent economic activity in South Dakota. An important indicator of a state's economic health is the growth rate of nonfarm employment, as it is considered by many economists as the most timely and comprehensive measure of the performance of a state's economy.*

Nonfarm employment growth in South Dakota increased at an average rate of 1.4% from 2002 through 2008, approximately 0.6% higher than the U.S. nonfarm employment growth rate of 0.8% over the same time period. However, the 2007 to 2009 economic recession caused declines of 1.9% and 0.1% during 2009 and 2010 in South Dakota's employment. In 2011 through 2017, positive growth returned with growth rates averaging 1.1% per year. So far in 2018, employment growth has been positive, with the growth rate strengthening throughout the year.

South Dakota had relatively strong employment growth in 2006, 2007, and 2008, adding 8,500, 7,900 and 4,900 jobs, respectively; however, the national recession led to 7,700 job losses during 2009 and 500 job losses in 2010. In 2011 through 2017, nonfarm employment added an average of 4,500 jobs per year. In October 2018, nonfarm employment was up 1.7% from a year ago.



The following are some recent key South Dakota economic statistics:

- In the last twelve months (November 2017 through October 2018), nonfarm employment (seasonally adjusted) in South Dakota grew by 1.3% over the same period a year ago. The major employment sectors that experienced growth in the last twelve months are as follows: professional and business services (4.37%); manufacturing (4.02%); other services (2.99%); mining, logging, and construction (2.74%); education and health services (1.48%); financial activities (0.91%); and government (1.13%). The sectors that experienced a decline in the past twelve months were leisure and hospitality (-0.28%) and trade, transportation, and utilities (-0.75%).
- The unemployment rate in South Dakota in October of 2018 was 3.0%. This was 0.7% below the national rate of 3.7% in October and 0.4% lower compared to a year ago.
- During the twelve-month period from November 2017 through October 2018, the number of titles issued for new noncommercial vehicles was 41,974, which was up 489, or 1.2%, compared to the prior twelve-month period.
- The total number of residential units authorized by building permits issued January through September of 2018 was 3,989, which was down 145 units from the same time period in 2017. The value of residential building permits issued year-to-date in 2018 was \$665.7 million. This is a decrease of \$7.0 million from the first nine months of 2017.

### ***COUNCIL OF ECONOMIC ADVISORS***

*The Council of Economic Advisors, which has been in existence since 1991, consists of twelve members that encompass economics professors and business people from South Dakota. The purpose of the Council is to assist in the development of the best possible forecast of South Dakota's economy. This section summarizes the Council's view of South Dakota's economy.*

**TOURISM:** The economic impact in South Dakota from tourism totaled \$2.59 billion in 2017, a record high in South Dakota. In 2017, the number of visitors in South Dakota totaled more than 13.9 million, spending more than \$3.88 billion statewide, an increase of 1.2%. The growth experienced in 2017 was largely due to increases in both spending and the number of visitors compared to 2016.

Tourism activity in 2018 is up compared to a year ago. Hotel occupancy rates are up slightly, and the number of room nights has increased by 2.0% so far in 2018. Total visitor spending through October is up an estimated 4.0% compared to last year. Park visitation, which includes both national and state parks in South Dakota is down 3.8% through October but compares to a record year in 2017. Tourism tax so far in calendar year 2018 is up 3.1% through October, indicating increases in tourism activity across the state. Recent declines in gas prices and overall lower cost of visitation in South Dakota makes the state an affordable travel destination. The outlook for the South Dakota tourism industry is for steady growth in 2019.

**AGRICULTURE:** In 2017, the agricultural economy in South Dakota produced cash receipts of \$9.04 billion, which was a decrease of \$0.27 billion from 2016's cash receipts. Crops generated \$5.13 billion and livestock generated \$3.91 billion in 2017. Lower crop production and lower prices were the primary reasons for the decrease in cash income compared to 2016.

Overall, crop production in 2017 was down due to dry conditions in certain areas of the state. In 2017, corn for grain production totaled 736.6 million bushels, down from the 825.9 million bushels in 2016 due to fewer acres harvested and lower yields. The average yield of 145 bushels per acre was down from 2016's yield of 161 bushels per acre. Soybean production was 241.2 million bushels, a decrease compared to 2016's production of 255.9 million bushels, with an average yield of 43 bushels per acre. Wheat production in 2017 was 41.7 million bushels compared to 111.3 million bushels the prior year, due to lower yields and fewer acres harvested. Livestock production in 2017 was up compared to 2016 levels. The 2017 calf crop totaled 1.84 million head, up 9% compared to the prior year. The pig crop in 2017 was 4.69 million head, higher than 2016's production of 4.18 million head.

Overall, crop production levels are higher for South Dakota producers in 2018 due to improved growing conditions compared to 2017. According to the National Agricultural Statistics Service, as of November 1, corn production is projected to be 821.7 million bushels, up 85 million bushels compared to 2017. The corn yield is estimated to be 166 bushels per acre, up 21 bushels from last year's yield. Soybean production is expected to be a record high 274.9 million bushels, up 14.0% from a year ago, with a yield of 49 bushels per acre, up 6 bushels from the 2017 yield. Both winter wheat and spring wheat production in 2018 was higher compared to 2017. Overall, net farm income for 2018 is anticipated to be up slightly from 2017 as lower crop prices are offset by higher crop production, while livestock prices are similar to a year ago.

The Council's outlook for the agricultural economy is cautious for 2019 and 2020. Recent issues with international trade regarding tariffs between the US and China have put downward pressure on crop prices. That combined with still elevated input costs has led to smaller profit margins in the Agriculture sector. The Council expects marginal improvement in 2019, but is specifically concerned with ongoing trade disputes with China and the negative impact it could have on exports of agriculture products.

**CONSTRUCTION:** So far in 2018, construction activity has been relatively strong. Contractor's excise tax, which is a good indicator of overall construction activity, is up 7.6% so far through the first nine months of activity in calendar year 2018 compared to the prior year. The housing market remains at relatively healthy levels, although higher interest rates have translated into less housing activity as reflected by housing permits. Total housing units authorized by residential building permits through October 2018 were lower by 145 units, with the value of permits was \$7.0 million lower than the same time period a year earlier.

Interest rates continue to be historically low, although credit conditions and lack of labor continue to be a challenge in the construction sector. The Council anticipates steady growth in construction and housing activity as long as the economy continues to expand in 2019 and 2020.

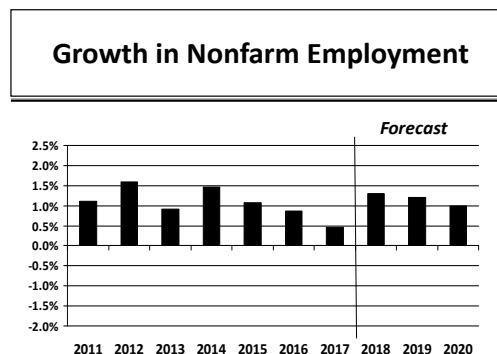
### ***SOUTH DAKOTA FORECAST HIGHLIGHTS***

*IHS Markit's forecast of the national and state economy and the input of the Council of Economic Advisors were incorporated into the forecast of South Dakota's economy. This section summarizes various categories of the latest forecast for the South Dakota economy.*

The South Dakota economy has been in a growth phase for nearly nine years as increases in employment, income, and overall spending have been growing since early 2010. However, the pace of the recovery has been lower than the national growth rate in recent years. The agriculture sector supported overall economic growth directly and indirectly in the early portion of the recovery, but farm income has been lower the past several years. Overall, South Dakota's economy is expected to continue to grow at a modest pace in 2019 and into 2020 , similar to the national economy.

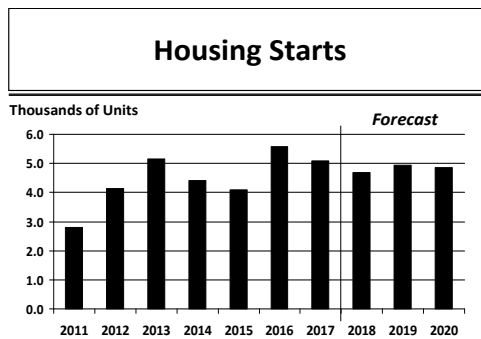
**EMPLOYMENT:** South Dakota has several advantages over other states which account for its ability to grow employment. Some of these advantages include a pro-business environment, a central geographic location, a low cost of doing business, and a high quality of life. A challenge the state continues to face now and over the long term is the size and skill level of a qualified labor force to fill current and future jobs.

Over the past ten years, South Dakota's employment situation has been volatile due to the most recent national economic recession experienced in 2007-2009. In 2008, when the U.S. economy was officially in a recession, South Dakota still obtained a 1.2% growth in employment. However, in 2009 and 2010, employment declined 1.9% and 0.1%, respectively, as the national recession caused major job losses in manufacturing, construction, professional and business services, and financial services. South Dakota's employment declined approximately 3.1% peak to trough during this cycle, about half of the 6.3% decline realized nationally. The past seven years (2011-2017) employment growth has been modest, averaging 1.1% growth. For 2018, the employment levels are expected to grow 1.3% compared to 2017 on an annual basis. In 2019 and 2020, nonfarm employment growth is projected to be 1.2% and 1.0%, respectively.

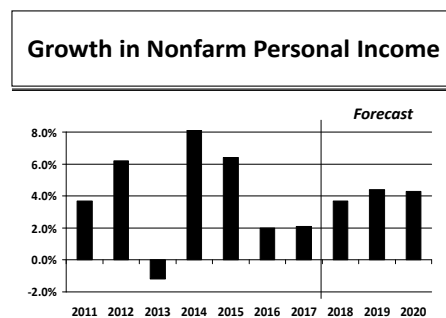


**HOUSING/CONSTRUCTION:** In recent years, housing starts in South Dakota have been at healthy levels after rebounding from multi-year lows reached in 2008-2011 during the economic recession and national housing crisis. From 2012 through 2016, housing starts in South Dakota averaged approximately 4,700 per year, compared to just 3,200 starts from the previous four years. Thus far in 2018, the number of housing starts are slightly lower compared to 2017 due to fewer single family units.

After a strong year in 2017, the housing market is anticipated to pull back slightly in 2018 and remain at healthy levels in 2019 and 2020. Although long term interest rates remain historically attractive, recent increases in rates and higher prices continue to be a challenge in the housing sector in South Dakota and nationally. However, steady economic and job growth in the state is expected to lead to healthy construction activity in 2019 and 2020. Housing starts were 5,080 in 2017 and are projected to be 4,680 in 2018, 4,930 in 2019, and 4,850 in 2020.



**INCOME:** Leading up to the great recession, South Dakota nonfarm income was strong. From 2004-2008, South Dakota’s nonfarm income growth averaged 7.2% per year. The higher growth rates during this timeframe was due to strong employment increases and a growing economy. However, in 2009, the national economic recession caused nonfarm personal income to decline 1.6%. This was the first annual decrease in nonfarm personal income in South Dakota since 1937. From 2010-2012, the average growth of nonfarm personal income rebounded to 5.4% as the economy recovered from the economic recession. In 2013, nonfarm income decreased 1.2%, reflecting slower job growth and higher federal payroll taxes reinstated in January 2013. Income growth rebounded to 8.3% in 2014 and 6.4% in 2015. In 2016 and 2017, nonfarm income in South Dakota grew just 2.0% and 2.1%, respectively, reflecting slower employment growth and the indirect impacts of lower farm income in the state. In 2018, nonfarm income growth is expected to improve to 3.7%. In 2019 and 2020, nonfarm income in South Dakota is forecast to grow 4.4% and 4.3%, respectively.



#### ***RISKS TO THE FORECAST***

The Council of Economic Advisors sees some key risks to the current forecast. The primary risk to South Dakota’s economy would be the national or global economy weakening during 2019. National economic fundamentals appear to be on solid footing, but an unforeseen shock from specific sectors, such as commercial real estate, or from geopolitical events from abroad could change the national and state economic outlook.

Another downside risk is the uncertainty surrounding trade policy, specifically the recent trade disputes and tariffs enacted and between the US and China. South Dakota exports, which are primarily agriculture related, totaled more than \$1.3 billion in 2017. These recent trade disputes have had negative impacts on crop prices over the past several months. Fair trade is vital to the economy, and any additional barriers to trade over the long term could have further negative impacts in South Dakota.

Positive developments potentially improving the economic outlook in South Dakota include a stronger US economy as well as stronger foreign economic growth. Stronger economic growth outside of South Dakota can strengthen exports of goods and services produced within our state and improve the overall economic outlook.

## REVENUE ESTIMATE SUMMARY

General fund receipts for FY2019 are forecast at \$1,668.5 million. Ongoing receipts comprise \$1,641.9 million of the total. One-time revenues comprise \$26.6 million of the total, which includes a \$7.2 million transfer from the budget reserve fund, a \$1.8 million prior period adjustment related to a bank franchise tax audit, a \$0.7 million transfer from the Department of Agriculture, and \$16.9 million of obligated cash carried forward from FY2018. The ongoing estimate for FY2019 includes an increase of \$48.5 million from actual FY2018 ongoing receipts. Categories forecasted to show major increases in FY2019 include the sales and use tax (+\$46.5M), contractor's excise tax (+\$5.1M), lottery (+\$4.8M), and the transfer from trust funds (+\$1.5M). Categories forecast for major decreases from FY2018 actual receipts are ongoing unclaimed property (-\$7.0M), severance taxes (-\$2.0M), and tobacco taxes (-\$2.0M).

The revised ongoing estimate for FY2019 is \$0.3 million higher than the ongoing estimate adopted during the 2018 legislative session. Major negative adjustments for the revised FY2019 estimate compared to the adopted FY2019 estimate are for unclaimed property (-\$3.8M), severance taxes (-\$2.4M), and tobacco taxes (-\$2.4M). The most significant positive revisions compared to the adopted FY2019 estimate are for sales and use tax (+\$6.2M) and contractor's excise tax (+\$1.3M).

General fund receipts for FY2020 are projected to be \$1,695.7 million, of which all receipts are considered ongoing. The forecast for ongoing receipts in FY2020 is an increase of \$53.8 million from the revised FY2019 projection. The significant sources of growth are from sales and use tax (+\$38.4M), contractor's excise tax (+\$4.8M), insurance company tax (+\$3.8M), lottery (+\$3.0M), trust fund transfers (+\$1.3M), and licenses, permits, and fees (+\$1.2M). The only category forecast for a major decrease in FY2019 is tobacco taxes (-\$0.5M).

### CURRENT REVENUE FORECAST (Dollars in Millions)

	<u>FY2019</u>	<u>FY2020</u>
Sales and Use Tax	1,035.4	1,073.8
Lottery	121.5	124.4
Contractor's Excise Tax	112.7	117.6
Insurance Company Tax	91.0	94.8
Unclaimed Property	45.7	45.7
Tobacco Taxes	52.1	51.7
Other Ongoing Revenues	183.5	187.7
One-Time Receipts	2.5	0.0
Transfer from Budget Reserve Fund	7.2	0.0
Obligated Cash Carried Forward	<u>16.9</u>	<u>0.0</u>
<b>Total Revenue</b>	<b><u>1,668.5</u></b>	<b><u>1,695.7</u></b>

### SALES AND USE TAX

The sales and use tax is the single largest revenue source for the state's general fund and accounts for approximately 63% of ongoing general fund revenue. Between FY1993 and FY2018, the sales and use tax grew from \$279.1 million to \$988.8 million, which was an average annual increase of 5.2%. Over the past ten years, growth rates of the sales tax have varied from year to year. In FY2009 and FY2010, growth was weak (2.3% and -1.2%) due to a severe national recession causing declines in employment. In FY2011, growth was robust (8.9%) due to a strong agriculture sector combined with a recovering nonfarm economy. In FY2012 and FY2013, growth was slightly below average (4.8% and 4.3%), reflecting lower inflation and a moderate economic recovery. FY2014 realized a 6.1% growth due to large audit collections and strong agriculture income. In FY2015 and FY2016, the growth was soft (1.6% and 2.9%) due to lower farm income, low inflation, and cautious consumer spending. In FY2017, growth was 10.5%, which reflects the 0.5% sales and use tax rate increase. Excluding the rate increase in FY2017, sales tax would have declined by 1.6%, reflecting

lower farm income, low inflation, and slower economic growth. In FY2018, growth rebounded to 4.0% due to improved consumer spending.

Net collections from the sales and use tax in FY2018 were \$988.8 million, which was an increase of \$37.6 million compared to FY2017. Through the first six months of FY2019, sales and use tax collections to the general fund were \$542.3 million, which is an increase of 5.4% from the first six months of FY2018. For the revised FY2019 estimate, the sales and use tax is forecast at \$1,035.4 million, which is an increase of \$46.5 million, or 4.7%, compared to FY2018. For FY2020, the sales and use tax is forecast at \$1,073.8 million, which is an increase of \$38.4 million, or 3.7%, over the revised FY2019 estimate.

### ***LOTTERY***

Collections from lottery activities account for approximately 7% of ongoing general fund revenues. In FY2019, lottery collections are anticipated at \$121.5 million, which includes the general fund's share of instant lottery ticket sales of \$6.8 million, 25% or \$2.1 million from the online lottery net income, and \$112.3 million in video lottery receipts. In FY2020, lottery receipts are projected at \$124.4 million, which includes \$6.8 million from instant lottery income, 35% or \$2.8 million from online lottery net income, and \$114.8 million from the state's share of video lottery receipts. In FY2017 and FY2018, video lottery receipts were \$104.8 million and \$109.0 million, respectively. So far in FY2019, video lottery receipts are up 4.3% through the first six months compared to the prior year.

### ***CONTRACTOR'S EXCISE TAX***

Collections from the contractor's excise tax account for approximately 7% of ongoing general fund revenues. Construction activity has a direct impact on the growth in the contractor's excise tax collections. Expansion in this activity contributed to the increase in contractor's excise tax collections from \$25.5 million in FY1993 to \$107.6 million in FY2018, representing an average annual increase of 5.9%. In FY2018, net collections to the general fund from the contractor's excise tax grew \$0.8 million, or 0.8%, from FY2017. Through the first six months of FY2019, net contractor's excise tax collections were \$66.3 million, an increase of 6.9% compared to the first six months of FY2018. Contractor's excise tax collections for FY2019 are forecast to be \$112.7 million, which is an increase of \$5.1 million, or 4.8%, compared to FY2018 collections. FY2020 collections are forecast at \$117.6 million, which is an increase of \$4.8 million, or 4.3%, compared to the revised FY2019 estimate.

### ***INSURANCE COMPANY TAX***

Collections from the insurance company tax account for approximately 6% of ongoing general fund revenues. From FY1993 to FY2018, insurance company tax collections grew from \$29.9 million to \$91.0 million, which was an average annual increase of 4.6%. In FY2018, insurance company tax collections grew \$7.7 million, or 9.3%, compared to FY2017. During the first six months of FY2019, insurance company tax collections were \$41.8 million, which is a decrease of 0.9% over the same period in FY2018. For FY2019, insurance company tax collections are forecast at \$91.0 million, which is a decrease of less than \$0.1 million, or 0.03%, over FY2018 collections. For FY2020, insurance company tax collections are forecast to be \$94.8 million, which is an increase of \$3.8 million, or 4.1%, over the revised FY2019 estimate. These estimates are affected by the passage of SB 159 during the 2016 legislative session which allows tax credits for insurance companies dedicated to scholarships for students attending private schools. These credits are estimated to be \$0.3 million in both FY2019 and FY2020.

### ***UNCLAIMED PROPERTY***

Historically, collections from unclaimed property have been relatively small but now represent approximately 3% of ongoing general fund revenues. Unclaimed property has been remitted to the state since the 1980's. Collections to the general fund ranged from \$0.4 million in FY1997 to \$8.0 million in FY2010. In FY2011 through FY2013, ongoing

collections increased to \$12.9 million, \$13.9 million, and \$13.9 million, respectively, due to mergers within the banking industry. Continued consolidation combined with the migration of home office locations to South Dakota led to an increase in ongoing collections in FY2014 through FY2018 ranging from \$44 million to more than \$55 million, net of property claims. Through December of FY2019, unclaimed property collections to the general fund were \$55.4 million. For the full FY2019, ongoing unclaimed property revenue is forecast at \$45.7 million after projected claims are paid through the remainder of the fiscal year. This is a decrease of \$7.0 million, or 13.4%, compared to FY2018. For FY2020, ongoing unclaimed property collections are forecast to be \$45.7 million, identical to the FY2019 revised estimate.

#### ***TOBACCO TAXES***

The tobacco taxes include the cigarette excise tax of \$1.53 per pack of cigarettes and the tax on other tobacco products, which is assessed at 35.0% of the wholesale price. In FY2018, cigarette taxes totaled \$49.9 million, while the other tobacco products tax totaled \$9.3 million. The first \$30.0 million collected in tobacco taxes is allocated to the general fund and the next \$5.0 million is allocated to the tobacco prevention and reduction trust fund. Any collections in excess of \$35.0 million are deposited directly into the general fund in the tobacco tax category. The general fund's portion totaled \$54.2 million in FY2018. General fund receipts from tobacco taxes are projected at \$52.1 million in FY2019 and \$51.7 million in FY2020.

#### ***OTHER ONGOING REVENUES***

Receipts included in this category come from licenses, permits, and fees; trust funds; net transfers in; alcohol beverage tax; the bank franchise tax; the alcohol beverage 2.0% wholesale tax; charges for goods and services; telecommunications tax; severance tax; and investment income and interest. For FY2019, collections from other ongoing revenues are projected to be \$183.5 million, which is approximately 11% of total ongoing general fund revenues. In FY2020, collections from other ongoing revenues are projected at \$187.7 million. In FY2020, increases are projected in transfers from the trust funds (+\$1.3M); licenses, permits, and fees (+\$1.2M); and severance taxes (+\$0.6M).

#### ***ONE-TIME RECEIPTS***

In FY2019, collections from one-time receipts are projected to be \$2.5 million. \$0.7 million from the Department of Agriculture is remaining cash that was previously appropriated for mountain pine beetle mitigation that is no longer needed. Additionally, this amount includes a \$1.8 million prior period adjustment related to a bank franchise tax audit. In FY2020, there are no one-time receipts projected at this time.

#### ***TRANSFER FROM BUDGET RESERVE FUND***

In FY2019, the Governor is recommending \$7.2 million be transferred from the Budget Reserve Fund to the general fund. This \$7.2 million represents the amount of reserves in excess of ten percent of the FY2020 budget as recommended by the Governor.

#### ***OBLIGATED CASH CARRIED FORWARD***

This is the amount of prior year cash carried forward to meet obligations existing at the end of the previous year. For FY2019, the total amount of obligated cash carried forward was \$16.9 million. This was obligated to the Budget Reserve Fund from the budget surplus at the end of FY2018.

## **BUDGET RESERVE & GENERAL REVENUE REPLACEMENT FUNDS**

During the 1991 Legislative Session, the Budget Reserve Fund was created to place resources into a reserve which would only be used to address emergency situations without having to raise taxes or cut spending. Currently, the maximum funding level of the Budget Reserve Fund is 10% of the general fund appropriations from the General Appropriations Act for the prior fiscal year. At the end of FY2016, FY2017 and FY2018, unobligated general fund cash in the amounts of \$14.1 million, \$7.9 million, and \$16.9 million, respectively, was obligated to the Budget Reserve Fund. These funds were transferred into the reserve at the beginning of FY2017, FY2018, and FY2019, respectively. In FY2019, the Governor recommends transferring \$7.2 million from the Budget Reserve Fund to the general fund, leaving a projected ending balance of \$125.2 million.

During the 2015 Legislative Session, the General Revenue Replacement Fund was established to replace the Property Tax Reduction Fund to assist in balancing the annual budget in the event of an unforeseen revenue shortfall. The maximum level of funding can be up to 15% of the general fund appropriations in the General Appropriations Act for the prior fiscal year. The cash balance of the General Revenue Replacement Fund is \$44.0 million, which was the cash balance when the fund was created.

### **BUDGET RESERVE FUND & GENERAL REVENUE REPLACEMENT FUND CONDITION STATEMENT**

	ACTUAL FY2017	ACTUAL FY2018	ESTIMATED FY2019	ESTIMATED FY2020
Budget Reserve Fund Beginning Balance	\$ 99,310,660	\$ 113,379,805	\$ 115,467,507	\$ 125,206,248
Calculations for Maximum Balance in the Fund:				
General Bill Appropriation for Prior Year	\$ 1,416,790,757	\$ 1,554,021,368	\$ 1,592,841,544	\$ 1,619,502,466
Budget Reserve Fund Percentage	10%	10%	10%	10%
Maximum Amount in the Fund	<u>\$ 141,679,076</u>	<u>\$ 155,402,137</u>	<u>\$ 159,284,154</u>	<u>\$ 161,950,247</u>
Maximum Transferable Amount	<u>\$ 42,368,416</u>	<u>\$ 42,022,332</u>	<u>\$ 43,816,647</u>	<u>\$ 36,743,999</u>
Transferred in from General Fund	\$ 14,069,144	\$ 7,943,412	\$ 16,898,828	\$ 0
Transferred out to General Fund	<u>\$ 0</u>	<u>\$ (5,855,710)</u>	<u>\$ (7,160,087)</u>	<u>\$ 0</u>
<b>Ending Budget Reserve Fund Balance</b>	<u>\$ 113,379,805</u>	<u>\$ 115,467,507</u>	<u>\$ 125,206,248</u>	<u>\$ 125,206,248</u>
General Revenue Replacement Fund Balance	\$ 44,000,048	\$ 44,000,048	\$ 44,000,048	\$ 44,000,048
General Funds Obligated to Budget Reserve	<u>\$ 7,943,412</u>	<u>\$ 16,898,828</u>	<u>\$ 0</u>	<u>\$ 0</u>
<b>ENDING TOTAL RESERVES BALANCE</b>	<u><u>\$ 165,323,265</u></u>	<u><u>\$ 176,366,383</u></u>	<u><u>\$ 169,206,296</u></u>	<u><u>\$ 169,206,296</u></u>

**NOTE:** The totals may not add due to rounding.



# COMPARISON BETWEEN LEGISLATIVE ADOPTED AND REVISED ESTIMATE FOR FY2019

	LEG. ADOPTED FY2019	REVISED FY2019	DOLLAR CHANGE	PERCENT CHANGE
<b>ONGOING RECEIPTS</b>				
Sales and Use Tax	\$1,029,090,230	\$1,035,338,915	\$ 6,248,685	0.61
Lottery	120,659,812	121,476,169	816,357	0.68
Contractor's Excise Tax	111,415,004	112,746,581	1,331,577	1.20
Insurance Company Tax	90,176,480	90,997,833	821,353	0.91
Unclaimed Property Receipts	49,505,508	45,717,206	(3,788,302)	(7.65)
Licenses, Permits, and Fees	67,934,656	68,081,386	146,730	0.22
Tobacco Taxes	54,514,454	52,132,028	(2,382,426)	(4.37)
Trust Funds	38,618,079	38,538,267	(79,812)	(0.21)
Net Transfers In	21,006,868	20,899,725	(107,143)	(0.51)
Alcohol Beverage Tax	8,159,825	7,868,302	(291,523)	(3.57)
Bank Franchise Tax	13,708,579	14,036,446	327,867	2.39
Charges for Goods and Services	17,000,000	16,014,872	(985,128)	(5.79)
Telecommunications Tax	4,385,195	5,325,615	940,420	21.45
Severance Taxes	7,082,431	4,641,755	(2,440,676)	(34.46)
Investment Income and Interest	6,050,000	5,977,210	(72,790)	(1.20)
Alcohol Bev 2% Wholesale Tax	2,238,563	2,101,698	(136,865)	(6.11)
<b>TOTAL (ONGOING RECEIPTS)</b>	<b>\$1,641,545,684</b>	<b>\$1,641,894,008</b>	<b>\$348,324</b>	<b>0.02</b>
<b>ONE-TIME RECEIPTS</b>				
Transfer from Dept. of Agriculture	\$ 0	\$ 705,101	\$ 705,101	100.00
Prior Period Adjustments	0	1,827,079	1,827,079	100.00
Transfer from Budget Reserve Fund	0	7,160,087	7,160,087	100.00
Obligated Cash Carried Forward	0	16,898,828	16,898,828	100.00
<b>SUBTOTAL (ONE-TIME RECEIPTS)</b>	<b>\$ 0</b>	<b>\$ 26,591,095</b>	<b>\$ 26,591,095</b>	<b>100.00</b>
<b>GRAND TOTAL</b>	<b>\$1,641,545,684</b>	<b>\$1,668,485,103</b>	<b>\$26,939,419</b>	<b>1.64</b>

NOTE: The totals may not add due to rounding.

# COMPARISON BETWEEN ACTUAL FY2018 AND REVISED FY2019 REVENUE COLLECTIONS

	ACTUAL FY2018	REVISED FY2019	DOLLAR CHANGE	PERCENT CHANGE
<b>ONGOING RECEIPTS</b>				
Sales and Use Tax	\$ 988,823,603	\$1,035,338,915	\$ 46,515,312	4.70
Lottery	116,675,440	121,476,169	4,800,729	4.11
Contractor's Excise Tax	107,626,628	112,746,581	5,119,953	4.76
Insurance Company Tax	91,021,843	90,997,833	(24,010)	(0.03)
Unclaimed Property Receipts	52,766,031	45,717,206	(7,048,825)	(13.36)
Licenses, Permits, and Fees	67,492,051	68,081,386	589,335	0.87
Tobacco Taxes	54,157,663	52,132,028	(2,025,635)	(3.74)
Trust Funds	37,035,528	38,538,267	1,502,739	4.06
Net Transfers In	20,941,048	20,899,725	(41,323)	(0.20)
Alcohol Beverage Tax	7,668,288	7,868,302	200,014	2.61
Bank Franchise Tax	13,494,940	14,036,446	541,506	4.01
Charges for Goods and Services	16,094,652	16,014,872	(79,780)	(0.50)
Telecommunications Tax	4,931,125	5,325,615	394,490	8.00
Severance Taxes	6,602,808	4,641,755	(1,961,053)	(29.70)
Investment Income and Interest	6,053,274	5,977,210	(76,064)	(1.26)
Alcohol Bev 2% Wholesale Tax	2,020,940	2,101,698	80,758	4.00
<b>TOTAL (ONGOING RECEIPTS)</b>	<b>\$1,593,405,861</b>	<b>\$1,641,894,008</b>	<b>\$48,488,147</b>	<b>3.04</b>
<b>ONE-TIME RECEIPTS</b>				
Transfer from Dept. of Agriculture	\$ 0	\$ 705,101	\$ 705,101	100.00
Transfer from DOR agency fund	3,871,437	0	(3,871,437)	(100.00)
Transfer from Petroleum Release Fund	1,300,000	0	(1,300,000)	(100.00)
Transfer from Workforce Education Fund	792,729	0	(792,729)	(100.00)
Transfer from Prescription Drug Plan Fund	750,000	0	(750,000)	(100.00)
Transfer from Telecommunication Fund	750,000	0	(750,000)	(100.00)
Transfer from Video Lottery Fund	500,000	0	(500,000)	(100.00)
Transfer from Court Automation Fund	500,000	0	(500,000)	(100.00)
Transfer from Technology Fund	500,000	0	(500,000)	(100.00)
Transfer from Private Activities Bond Fee Fund	480,743	0	(480,743)	(100.00)
Transfer from Budgetary Accounting Fund	261,396	0	(261,396)	(100.00)
Transfer from Veterans' Home Operating Fund	120,000	0	(120,000)	(100.00)
Prior Period Adjustments	(1,309,473)	1,827,079	3,136,552	(239.53)
Unexpended Carryovers and Specials	204,351	0	(204,351)	(100.00)
Transfer from Budget Reserve Fund	5,855,710	7,160,087	1,304,377	22.28
Obligated Cash Carried Forward	7,943,412	16,898,828	8,955,416	112.74
<b>SUBTOTAL (ONE-TIME RECEIPTS)</b>	<b>\$ 22,520,305</b>	<b>\$ 26,591,095</b>	<b>\$ 4,070,790</b>	<b>18.08</b>
<b>GRAND TOTAL</b>	<b>\$1,615,926,166</b>	<b>\$1,668,485,103</b>	<b>\$52,558,937</b>	<b>3.25</b>

**NOTE:** The totals may not add due to rounding.

## COMPARISON BETWEEN REVISED FY2019 AND FY2020 REVENUE COLLECTIONS

	REVISED FY2019	PROJECTED FY2020	DOLLAR CHANGE	PERCENT CHANGE
<b>ONGOING RECEIPTS</b>				
Sales and Use Tax	\$ 1,035,338,915	\$ 1,073,785,445	\$ 38,446,530	3.71
Lottery	121,476,169	124,426,492	2,950,323	2.43
Contractor's Excise Tax	112,746,581	117,575,682	4,829,101	4.28
Insurance Company Tax	90,997,833	94,763,267	3,765,434	4.14
Unclaimed Property Receipts	45,717,206	45,717,206	0	0.00
Licenses, Permits, and Fees	68,081,386	69,244,701	1,163,315	1.71
Tobacco Taxes	52,132,028	51,676,427	(455,601)	(0.87)
Trust Funds	38,538,267	39,819,384	1,281,117	3.32
Net Transfers In	20,899,725	21,289,150	389,425	1.86
Alcohol Beverage Tax	7,868,302	8,006,881	138,579	1.76
Bank Franchise Tax	14,036,446	14,471,640	435,194	3.10
Charges for Goods and Services	16,014,872	16,182,137	167,265	1.04
Telecommunications Tax	5,325,615	5,325,615	0	0.00
Severance Taxes	4,641,755	5,201,824	560,069	12.07
Investment Income and Interest	5,977,210	6,015,500	38,290	0.64
Alcohol Bev 2% Wholesale Tax	2,101,698	2,177,052	75,354	3.59
<b>TOTAL (ONGOING RECEIPTS)</b>	<b>\$ 1,641,894,008</b>	<b>\$ 1,695,678,403</b>	<b>\$ 53,784,395</b>	<b>3.28</b>
<b>ONE-TIME RECEIPTS</b>				
Transfer from Dept. of Agriculture	\$ 705,101	\$ 0	\$ (705,101)	(100.00)
Prior Period Adjustments	1,827,079	0	(1,827,079)	(100.00)
Transfer from Budget Reserve Fund	7,160,087	0	(7,160,087)	(100.00)
Obligated Cash Carried Forward	16,898,828	0	(16,898,828)	(100.00)
<b>SUBTOTAL (ONE-TIME RECEIPTS)</b>	<b>\$ 26,591,095</b>	<b>\$ 0</b>	<b>(26,591,095)</b>	<b>(100.00)</b>
<b>GRAND TOTAL</b>	<b>\$ 1,668,485,103</b>	<b>\$ 1,695,678,403</b>	<b>\$27,193,300</b>	<b>1.63</b>

**NOTE:** The totals may not add due to rounding.

## GENERAL FUND RECEIPTS

	ACTUAL FY2017	ACTUAL FY2018	REVISED FY2019	PROJECTED FY2020
<b>ONGOING RECEIPTS</b>				
Sales and Use Tax	\$ 951,223,081	\$ 988,823,603	\$ 1,035,338,915	\$ 1,073,785,445
Lottery	111,827,256	116,675,440	121,476,169	124,426,492
Contractor's Excise Tax	106,828,537	107,626,628	112,746,581	117,575,682
Insurance Company Tax	83,271,532	91,021,843	90,997,833	94,763,267
Unclaimed Property Receipts	44,386,220	52,766,031	45,717,206	45,717,206
Licenses, Permits, and Fees	64,730,175	67,492,051	68,081,386	69,244,701
Tobacco Taxes	56,809,149	54,157,663	52,132,028	51,676,427
Trust Funds	35,194,697	37,035,528	38,538,267	39,819,384
Net Transfers In	21,897,071	20,941,048	20,899,725	21,289,150
Alcohol Beverage Tax	7,617,533	7,668,288	7,868,302	8,006,881
Bank Franchise Tax	14,688,771	13,494,940	14,036,446	14,471,640
Charges for Goods and Services	15,562,672	16,094,652	16,014,872	16,182,137
Telecommunications Tax	5,329,876	4,931,125	5,325,615	5,325,615
Severance Taxes	8,968,233	6,602,808	4,641,755	5,201,824
Sale-Leaseback	4,138,575	0	0	0
Investment Income and Interest	6,366,142	6,053,274	5,977,210	6,015,500
Alcohol Beverage 2% Wholesale Tax	1,954,454	2,020,940	2,101,698	2,177,052
<b>SUBTOTAL (ONGOING RECEIPTS)</b>	<b>\$ 1,540,793,973</b>	<b>\$ 1,593,405,861</b>	<b>\$ 1,641,894,008</b>	<b>\$ 1,695,678,403</b>
<b>ONE-TIME RECEIPTS</b>				
Transfer from Dept. of Agriculture	\$ 0	\$ 0	\$ 705,101	\$ 0
Transfer from DOR agency fund	0	3,871,437	0	0
Transfer from Petroleum Release Fund	0	1,300,000	0	0
Transfer from Workforce Education Fund	0	792,729	0	0
Transfer from Prescription Drug Plan Fund	0	750,000	0	0
Transfer from Telecommunication Fund	800,000	750,000	0	0
Transfer from Video Lottery Fund	500,000	500,000	0	0
Transfer from Court Automation Fund	500,000	500,000	0	0
Transfer from Technology Fund	0	500,000	0	0
Transfer from Private Activities Bond Fee Fund	911,625	480,743	0	0
Transfer from Budgetary Accounting Fund	0	261,396	0	0
Transfer from Veterans' Home Operating Fund	0	120,000	0	0
One-Time Unclaimed Property Receipts	12,714,729	0	0	0
Transfer from General Militia Fund	180,000	0	0	0
Transfer from SD Certified Beef Fund	104,000	0	0	0
Prior Period Adjustments	(1,712,184)	(1,309,473)	1,827,079	0
Unexpended Carryovers and Specials	1,449,345	204,351	0	0
Transfer from Budget Reserve Fund	0	5,855,710	7,160,087	0
Obligated Cash Carried Forward	14,069,144	7,943,412	16,898,828	0
<b>SUBTOTAL (ONE-TIME RECEIPTS)</b>	<b>\$ 29,516,659</b>	<b>\$ 22,520,305</b>	<b>\$ 26,591,095</b>	<b>\$ 0</b>
<b>GRAND TOTAL</b>	<b>\$ 1,570,310,632</b>	<b>\$ 1,615,926,166</b>	<b>\$ 1,668,485,103</b>	<b>\$ 1,695,678,403</b>

**NOTE:** The totals may not add due to rounding.

# TAX EXPENDITURES

## Sales and Use Tax Exemptions

**Annual Est. General  
Fund Revenue Loss**

### **Agriculture Group**

10-45-18, 10-45-18.2, 10-46-16, 10-46-16.2: Livestock, live poultry, ostriches, emus, or rheas, if such sales are part of a series of transactions incident to producing a finished product intended to be offered for an ultimate retail sale. Also includes live cattle, buffalo, sheep, goats, swine, poultry, and horses.	\$257,134,663
10-45-18.3: Feed for cattle, buffalo, sheep, goats, swine, poultry, ostriches, emus, rheas, and domesticated fur-bearing animals defined in chapter 40-35, if such feed is used by farmers or ranchers who are regularly engaged in the business of raising and feeding such animals, or producing milk for sale for human consumption, and horses and other animals with the family equidae. Poultry does not include any fowl other than domestic fowl kept and raised for the market or the production of eggs for human consumption.	\$107,570,811
10-45-16: Commercial fertilizer, either liquid or solid, when sold in quantities of five hundred pounds or more in a single sale to be used exclusively for agricultural purposes.	\$71,749,063
10-45-15: Seed legumes, seed grasses, and seed grains sold in quantities of 25 pounds or more in a single sale to be used exclusively for agricultural purposes.	\$35,552,835
10-45-3.4: (1) Parts or repairs on machinery or equipment which are clearly identifiable as used primarily for agricultural purposes, including irrigation equipment, if the part replaces a farm machinery or irrigation equipment part assigned a specific or generic part number by the manufacturer of the farm machinery or irrigation equipment; and (2) Maintenance items and maintenance services used on machinery or equipment which are clearly identifiable as used primarily for agricultural purposes, including irrigation equipment.	\$32,760,506
10-45-16.1, 10-46-17.5: Pesticides (including insecticides, herbicides, pesticides, rodenticides, and fumigants) and products or substances used in conjunction with application of the pesticides used exclusively for agricultural purposes. (Sales tax applies to endoparasitides and ectoparasitides)	\$21,831,525
10-45-19, 10-46-17: Motor fuel, including kerosene, tractor fuel, liquefied petroleum gas, natural and artificial gas, diesel fuels, and distillate, when used for agricultural purposes. Agricultural purposes includes hay grinding but does not include the lighting or heating of any farm residence.	\$33,621,350
10-45-12.1: Farm Product Warehousing & Storage	\$9,225,000
10-45-12.1: Agricultural Services, except: Veterinary Services and Animal Specialty Services.	\$8,285,625
10-45-93: Sale of agricultural and industrial production equipment in international commerce where physical delivery of the goods takes place in South Dakota if the property is to be shipped to a point outside the United States not to be returned to a point within the United States. (also 10-46E)	\$365,625
10-45-12.1: Forestry Services	\$160,515
10-45-18.6, 10-46-16.6: The sale of swine or cattle semen used for agricultural purposes.	\$219,375
10-45-16.2, 10-45-16.3: Rental of devices primarily used to apply fertilizers, pesticides, herbicides, and insecticides for agricultural purposes if sales or use tax was paid on the original purchase of the device.	\$2,260,620
10-45-18.4, 10-46-16.4: Live nondomestic animal regulated by the animal industry board pursuant to 40-3-26 if the animal is to be used by a farmer or rancher who is regularly engaged in the breeding and raising of such animals.	\$29,250
10-45-19.1, 10-46-17.2: Electricity used to power irrigation pumps and horsepower charge on electric motors powering irrigation pumps when the purchase is exclusively for agricultural purposes.	\$472,010
10-45-18.5, 10-46-16.5: Feed for nondomestic animals exempted in 10-45-18.4	\$5,625

# TAX EXPENDITURES

## Sales and Use Tax Exemptions

**Annual Est. General  
Fund Revenue Loss**

### Healthcare Group

10-45-12.1: Health Services; 10-45-14, 10-45-15: Purchases by nonprofit hospitals; 10-45-14.10: Drugs to the extent used by humans that are prescribed, dispensed, or administered by a physician, chiropractor, optometrist, dentist, podiatrist, or audiologist; 10-45-14.9: Insulin that is not sold by prescription; 10-45-14.11: Durable medical equipment, mobility enhancing equipment, and prosthetic devices used by humans when prescribed by prescription, dispensed, or administered for a specific patient by a physician, chiropractor, optometrist, dentist or podiatrist; 10-45-14.12: Medical devices used by humans when prescribed by prescription, dispensed, or administered for a specific patient by a physician, chiropractor, optometrist, dentist or podiatrist; 10-45-14.6: Hospital meals paid for by a public entity.	\$315,405,000
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### Government

10-45-10: Purchases by the Federal Government, State Government, Public or Municipal Corporations, and Indian tribes. Estimate includes purchases by Educational Institutions and 10-45-14: purchases by Religious or Private Educational Institutions.	\$186,385,500
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### Business Group

10-45-7: Lodging or campsites provided to any person for 28 or more consecutive days. Occasional rental of sleeping accommodations or camp sites, which is 10 or less days/year.	\$35,241,937
10-45-11.1, 10-46-17.3: Goods and services furnished to meet warranty obligation.	N/A
10-45-20.6, 10-46-9.6: Replacement parts sold to retailers that will be installed in tangible personal property that will ultimately be for resale.	N/A
10-45-12.1: Exempts advertising services, which is the preparing and placement of ads. Exempts charges by media for placement of an ad in that media.	\$35,640,000
10-45-68, 10-46-56: Sale of credit card processing services to retailers.	\$2,433,195
10-45-12.1: Water Supply	\$6,841,013
10-45-9.1: Personal Property sold for lease.	\$25,555,424
10-45-13.1: Membership fees to membership organizations and services provided by membership organizations.	\$8,033,805
10-45-5.2: Sanitary services except for the collection and disposal of solid waste which is specifically listed as subject to sales tax.	\$968,162
10-45-20.1: Payments made by one member of a controlled group to another member of a controlled group which represent an allocation, reimbursement, or charge for services provided by or rendered by the members of the controlled group. The exemption provided in this section does not apply to the lease of tangible personal property unless the sales or use tax has been paid on the property by the lessor. (estimate also includes 10-45-20.2)	N/A
10-45-29.1 Allows deduction from gross receipts charges to clients for tangible personal property or services purchased by the attorney or accountant on behalf of a client, provided the purchase was not a resale purchase.	N/A
10-45-12.5, 10-46-9.5: Fees or commissions received for rendering a service which provides for the sale of tangible personal property or services. 10-45-84, 10-45-90 Fees or commissions received by a retailer for arranging a loan for a customer to pay for property sold by that retailer.	N/A
10-45-12.1: Motion picture rentals to a commercially operated theater primarily engaged in the exhibition of motion pictures.	\$810,709
10-45-5.2: Research, development, and testing services (SIC 8733)	\$6,655,320

# TAX EXPENDITURES

**Annual Est. General  
Fund Revenue Loss**

## Sales and Use Tax Exemptions

### **Business Group (Continued)**

10-45-7.1, 10-46-68: Membership fees paid to a lodging house or hotel membership organization operated for the benefit of its members.	N/A
10-45-96: Deduction allowed for actual disbursements, including appropriate reserves, for the wages, salaries, payroll taxes, payroll deductions, workers' compensation costs, insurance premiums, welfare benefits, retirement benefits, and other employee benefits of its co-employees.	\$369,461
10-45-5.2: Radio & Television Broadcasting	N/A
10-45-5: Leases of tangible personal property between one telephone company and another telephone company.	N/A
10-45-5.2: Goods or services with money advanced as an accommodation are retail purchases and are not included in gross receipts for funeral services, and fees paid or donated for religious ceremonies are not included in gross receipts for funeral services.	N/A
10-45-5.5, 10-46-2.5: Chemicals purchased for use by Lawn & Garden Services.	N/A
10-45-92: Deduction allowed from auction's gross receipts for expenses for tangible personal property or services purchased by the auctioneer for that client, provided the purchase was not a resale purchase.	N/A
10-45-14.2, 10-46-9.1: Ink and newsprint used to produce shoppers' guides.	N/A
10-45-94: Postage by a mailing service provided the cost of postage is itemized on the customer's bill and the cost of the postage is no greater than the cost of the postage to the mailing service.	N/A
10-45-12.4: Services provided to a rural water system by a wholly owned cooperative or nonprofit corporation.	Included in water estimate
10-45-110: Exempts coins, currency, or bullion.	N/A
10-45-12.7: Any person officiating an amateur sporting event. However, this exemption does not apply to any person officiating any sporting event sponsored and operated by any elementary, secondary, or postsecondary school.	\$77,888
10-45-90, 10-46-63: Services performed for rodeos by promoters, stock contractors, stock handlers, announcers, judges, and clowns.	\$1,268,721
10-45-18.1, 10-46-16.1: Live gamebirds sold by the producer to nonprofit organizations which release such birds or to commercial hunting operators who charge fees to hunt such birds.	\$554,715
10-45-12.1: Consumer Credit Reporting Agencies and Mercantile Reporting Agencies.	\$63,227

### **Educational Services**

10-45-12.1: Educational Services - Exempt schools: Continuing education programs, tutoring, and vocational counseling not including Rehabilitation counseling (See Social Services exemption for Rehabilitation counseling).	\$2,713,785
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# TAX EXPENDITURES

## Sales and Use Tax Exemptions

**Annual Est. General  
Fund Revenue Loss**

### **Financial Group**

10-45-12.1: Commissions earned or service fees paid by an insurance company to an agent or representative for the sale of a policy. 10-44-8 Insurance companies are exempt from all other taxes, except sales or use tax on tangible personal property and taxes on real property. Insurance companies do not owe use tax on the purchase of services, if the service provider does not collect the applicable sales tax.	\$3,955,050
10-44-8: Insurance companies are exempt from all other taxes, except sales or use tax on tangible personal property and taxes on real property. Insurance companies do not owe use tax on the purchase of services, if the service provider does not collect the applicable sales tax.	\$117,162,001
10-45-20.5, 10-46-2.1: Services by a related corporation to a financial institution or services by a financial institution to a related corporation if they are part of a controlled group of corporations.	N/A
10-45-12.1: Commodity Contracts Brokers & Dealers; 10-45-12.1: Brokers, Dealers, and Flotation Companies; 10-46-9.2: Brokers licensed under Title 47.	\$8,162,010
10-43-5: Bank franchise tax is paid in lieu of other taxes, except sales or use tax on tangible personal property. Financial institutions do not owe use tax on services, if the service provider does not collect the applicable sales tax.	N/A
10-45-12.1: Financial services of institutions subject to the tax under Chapter 10-43 (Bank Franchise) including loan origination fees, late payment charges, nonsufficient fund check charges, stop payment charges, safe deposit box rent, exchange charges, commission on travelers checks, charges for administration of trusts, interest charges, and "points" charged on loans.	\$77,475,934
10-45-12.6, 10-46-6.2: Sale of credit services by credit bureaus to financial institutions that are paying bank franchise taxes.	N/A
10-45-13.5: Exempts receipts received by the state and political subdivisions from management services provided to a revolving loan fund operated by a nonprofit entity.	N/A

### **Transportation Group**

10-45-12.1: Railroad Transportation & Rental of Railroad Cars.	\$9,011,250
10-45-12.1: Arrangement of Passenger Transportation; Arrangement of Transportation of Freight & Cargo; Local and Suburban Passenger Transportation, except Limousine Services; Trucking and Courier services, except air, except collection and disposal of solid waste; Pipelines, except Natural Gas; Transportation on rivers and canals; and school buses. 10-45-67, 10-46-55: Natural gas transportation by pipeline.	\$14,185,620

### **Social Services**

10-45.12.1: Social services and credit counseling services provided by individual and family social services.	\$4,754,250
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### **Manufacturing Group**

10-46-5: Excludes the fabrication costs from the fair market value of tangible personal property fabricated by a contractor or subcontractor for use in the contract. The fair market value is subject to use tax.	N/A
10-46-3: Tangible personal property not originally purchased for use in this state, but thereafter used, stored, or consumed in this state if the equipment is more than seven years old at the time it is brought into this state.	N/A
10-45-14.4, 10-46-9.3: Packing material used or consumed by manufacturers, processors, or fabricators as raw material. 10-45-14.5, 10-46-9.4 Packing material sold to retailers if the retailer used the article as wrappers or containers to hold other tangible personal property sold by the retail that is subject to sales or use tax and the articles are supplied free by the retailer as a convenience to the customer.	N/A



## **TAX EXPENDITURES**

**Annual Est. General  
Fund Revenue Loss**

### **Sales and Use Tax Exemptions**

#### **Civic & Nonprofit Association Events/Admissions/Donations**

10-45-13: Exempts tax on the gross receipts of various sales and admission for civic and nonprofit associations and purposes.	N/A
10-45-13.2, 10-46-15.4: Donations of tangible personal property or services given without charge to organizations exempt from sales tax.	N/A

#### **Federal Law Prohibition/Subject to Tax/Fees in other Laws**

10-45-14.7, 10-46-15.2: Authorized purchases made with food stamps. 10-45-14.8, 10-46-15.3: Authorized purchases of food under section 17 c of the Child Nutrition Act of 1966.	\$5,940,430
10-45-5.1, 10-45-5.6: Coin operated washers and dryers annual license fee is in lieu of sales tax on receipts.	\$54,600
10-45-13.3: Sale of lottery tickets.	\$2,208,541
10-45-2.1, 10-46-5.1: Mobile homes and manufactured homes are subject to the 4% initial registration tax in lieu of sales, use, and contractor's excise tax.	\$2,011,995

#### **Other Miscellaneous Sales Tax Exemptions**

Mini-storage receipts are not specifically subject to tax and therefore are exempt.	\$1,187,048
10-45-13.4: Library copying charges.	N/A

<b>Total Sales and Use Tax Exemptions</b>	<b>\$1,456,370,989</b>
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### **Other Tax Expenditures**

10-44-4: Tax credit for principal office or regional home office for insurance companies.	\$15,867,552
10-45-27.2: Collection allowance for sales tax of 1.5% of collections with a maximum of \$70 per month.	\$5,017,094
10-50-18: Distributor discount of 1% of cigarette stamp face value.	\$531,389
13-65-2: Tax credit to insurance companies that contribute to an organization providing educational scholarships to certain students. The bill caps credits at two million dollars per year.	\$188,000

<b>Total Other Tax Expenditures</b>	<b>\$21,604,035</b>
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<b>Grand Total Tax Expenditures</b>	<b>\$1,477,975,024</b>
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Sources: Department of Revenue and Department of Labor and Regulation.

## ***RECOMMENDED EXPENDITURES***

Governor Noem's FY2020 budget recommendation maintains a structurally balanced budget while making investments in the areas of providing a quality education for our children, taking care of those who cannot take care of themselves, and protecting us from those who would do us harm. The Governor is also proposing that the state continue to invest in the state employee workforce, which is any organization's greatest resource.

State Aid, the Department of Education, the Board of Regents, and the Postsecondary Technical Institutes are responsible for educating South Dakotans at every level. They account for \$16.0 million of the \$54.0 million in ongoing general fund increases. In terms of the total ongoing budget, this category is 48.9% of the general funds and 33.3% of the total ongoing funds, which amounts to over \$1.6 billion in total ongoing funding.

The Governor recommends an increase of \$10.3 million in general funds for state aid to education. The increase is due to growth in enrollments and inflation on the target teacher salary. The Governor is also recommending the following changes to the Department of Education's budget: an increase of \$1.0 million in general funds for an increase in dual credit course enrollment, \$0.1 million to support projected growth in the National Career Certificate program for high school students, and 1.0 FTE and \$1.7 million in federal fund expenditure authority for a Project AWARE grant.

The ongoing budget for the Board of Regents contains a net increase of \$3.6 million in general funds. Included in this amount is an increase of \$3.7 million to move the maintenance and repair budget closer to 2% of the replacement value of the buildings, an increase of \$0.1 million related to the South Dakota Opportunity Scholarship, and a decrease of \$0.2 million due to projected utility expenses. Also included is an increase of 25.5 FTE and \$4.4 million in other fund expenditure authority for research grants, and tuition and fee projections.

The Governor is recommending that the Postsecondary Technical Institutes receive an additional \$1.2 million in ongoing general funds. This includes an increase of \$0.9 million for an increase in enrollments at the institutes and inflation on the per-student allocation. It also includes an increase of \$0.3 million for year two of a six-year implementation plan for maintenance and repair on buildings that are wholly owned by the State of South Dakota.

The Departments of Social Services, Human Services, and Health are responsible for the majority of the programs which help those who cannot take care of themselves, including the very young and the very old. The Departments of Health, Human Services, and Social Services account for \$13.8 million of the \$54.0 million in ongoing general fund increases. In terms of the total ongoing budget, this category is 34.9% of the general funds and 32.6% of the total ongoing funds, which amounts to nearly \$1.6 billion in total ongoing funding.

The Department of Social Services ongoing budget will increase by \$7.8 million in general funds and \$20.2 million in federal fund expenditure authority. This includes increases of \$6.0 million in general funds and \$6.5 million in federal fund expenditure authority for discretionary provider inflation.

Increases of \$3.7 million in general funds and \$4.6 million in federal fund expenditure authority are due to inflationary adjustments required by the federal government, such as Medicare and certain federally qualified rural health clinics. An increase of \$3.0 million is due to additional methamphetamine prevention and treatment services. A decrease of \$2.7 million in general funds, with a corresponding increase in federal fund expenditure authority, is due to the Federal Medical Assistance Percentage (FMAP) rate change.

The Department of Human Services ongoing budget will increase by \$5.9 million in general funds and \$23.6 million in federal fund expenditure authority. This includes increases of \$4.1 million in general funds, \$5.2 million in federal fund expenditure authority, and \$0.1 million in other fund expenditure authority due to discretionary provider inflation. Increases of \$2.2 million in general funds and \$7.0 million in federal fund expenditure authority are due to projected expenses in the Division of Long Term Services and Support. Increases of \$1.5 million in general funds and \$2.0 million in federal fund expenditure authority are due to an increase in eligibles under the Division of Developmental Disabilities. Decreases of \$3.4 million in general funds and \$0.1 million in other fund expenditure authority, along with a corresponding increase in federal fund expenditure authority, are due to the FMAP rate change. Increases of \$1.5 million in general funds and \$6.0 million in federal fund expenditure authority for provider rate increases in the Divisions of Development Disabilities and Long Term Services and Supports due to savings from Care Coordination agreements.

The ongoing budget for the Department of Health includes increases of \$0.1 million in general funds, \$3.1 million in federal fund expenditure authority, and \$0.9 million in other fund expenditure authority. This includes increases of \$0.1 million in general funds and \$0.1 million in federal fund expenditure authority to support the second year of a rural family medicine residency track in Pierre. An increase of \$2.4 million in federal fund expenditure authority is opioid crisis grants. Also included is an increase of 1.0 FTE and \$0.1 million in federal fund expenditure authority for a health program specialist to manage the department's opioid grant response, as well as an increase of 4.0 FTE and \$0.8 million in other fund expenditure authority to provide healthcare to adult inmates within the Department of Corrections.

To address the safety of our state's citizens, a progressive criminal justice system is in place. The ongoing budget for the Department of Corrections includes increases of 21.5 FTE and \$2.8 million in general funds, as well as a decrease of \$0.3 million in federal fund expenditure authority. The increases throughout the department include: \$0.9 million for correctional healthcare, \$0.8 million for security staff, and \$0.6 million for operating expenses in the adult division. Also included are decreases of \$0.1 million in general funds and \$0.2 million in federal fund expenditure authority due to FMAP rate changes and the overall decrease in the juvenile population.

The Governor is recommending an increase of \$18.2 million in general funds, \$8.6 million in federal fund expenditure authority, and \$21.0 million in other fund expenditure authority for a market adjustment for state employees' salaries and to structurally balance the state employee health plan.

## **SUMMARY OF RECOMMENDED BUDGET ADJUSTMENTS**

### **State Aid, Technical Institutes, Higher Education, and Education**

- Includes State Aid to K-12 Education, Technical Institutes, Higher Education, and the Department of Education.
- \$16.0M increase out of \$54.0M total ongoing general fund increase.
- \$824.9 out of \$1.7B or 48.9% of total ongoing general funds.
- \$1.6B out of \$4.9B or 33.3% of total ongoing funds.

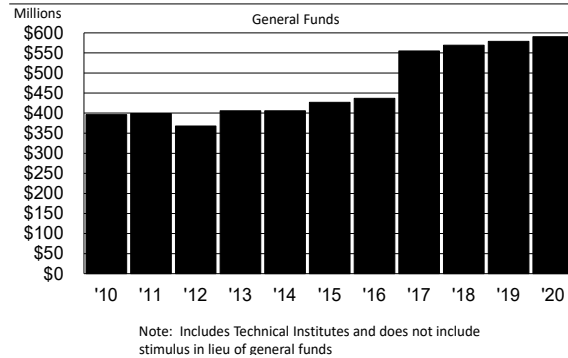
<b>State Aid to K-12 Education</b>	<b>FTE</b>	<b>General</b>	<b>Federal</b>	<b>Other</b>
State Aid to General Education		\$9,922,491		
Technology in Schools		\$329,389		
Sparsity		\$26,805		
<b>Total</b>	<b>0.0</b>	<b>\$10,278,685</b>	<b>\$0</b>	<b>\$0</b>

- Increase of \$9,922,491 in general funds for State Aid to General Education due to 2.5% inflation on the target teacher salary and an increase in enrollments.
- Increase of \$329,389 in general funds for Technology in Schools for 3 technology engineers in the Bureau of Information and Telecommunications to support K-12 network security.
- Increase of \$26,805 in general funds for sparsity payments due to 2.5% inflation and increased enrollment in sparse districts.

<b>State Aid to Technical Institutes</b>	<b>FTE</b>	<b>General</b>	<b>Federal</b>	<b>Other</b>
Technical Institutes Formula		\$881,642		
Maintenance and Repair		\$281,428		
Instructor Salary Enhancement		\$75,750		
Bond Payments		(\$9,694)		
<b>Total</b>	<b>0.0</b>	<b>\$1,229,126</b>	<b>\$0</b>	<b>\$0</b>

- Increase of \$881,642 in general funds for the Technical Institutes formula due to an increased number of students and inflation of 2.5% on the per student allocation.
- Increase of \$281,428 in general funds for year 2 of a 6-year plan to reach 2% of replacement value for maintenance and repair of state owned buildings at the Technical Institutes.
- Increase of \$75,750 for 2.5% inflation of the instructor salary enhancement pool.
- Decrease of \$9,694 in general funds to align funding with bond payment schedules.

## State Aid to Schools

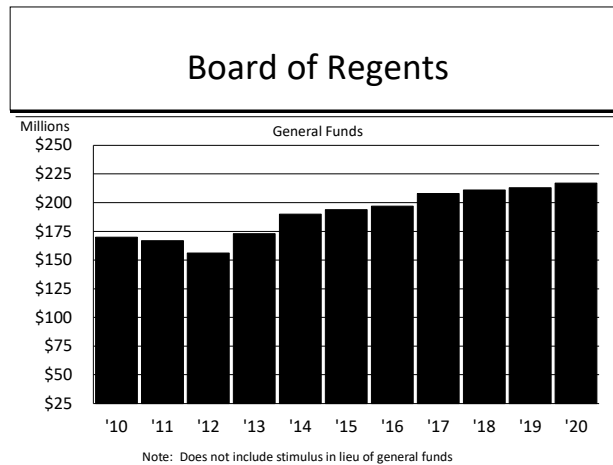


Education	FTE	General	Federal	Other
Dual Credit		\$1,016,956		
National Career Readiness Certificate		\$140,000		
Project AWARE	1.0		\$1,748,826	
Birth to Three		(\$3,223)	\$3,223	
Assessments		(\$35,000)		
Indian Education Reorganization	(1.0)	(\$143,779)		(\$26,000)
<b>Total</b>	<b>0.0</b>	<b>\$974,954</b>	<b>\$1,752,049</b>	<b>(\$26,000)</b>

- Increase of \$1,016,956 in general funds for the Dual Credit program due to an increase in the number of credits taken and projected inflation in the cost per credit hour.
- Increase of \$140,000 in general funds to support projected growth in the National Career Readiness Certificate program for high school students.
- Increase of 1.0 FTE and \$1,748,826 in federal fund expenditure authority for Project AWARE. The department received a 5-year grant designed to promote awareness of youth mental health needs among school personnel and communities, and to improve connections to services for youth.
- Decrease of \$3,223 in general funds and an increase of \$3,223 in federal fund expenditure authority in the Birth to Three program due to the change in the Federal Medical Assistance Percentage (FMAP).
- Decrease of \$35,000 in general funds due to proposed legislation eliminating the requirement for children receiving alternative instruction to take nationally standardized achievement tests.
- Decrease of 1.0 FTE, \$143,779 in general funds, and \$26,000 in other fund expenditure authority due to reorganizing the Office of Indian Education to the Department of Tribal Relations.

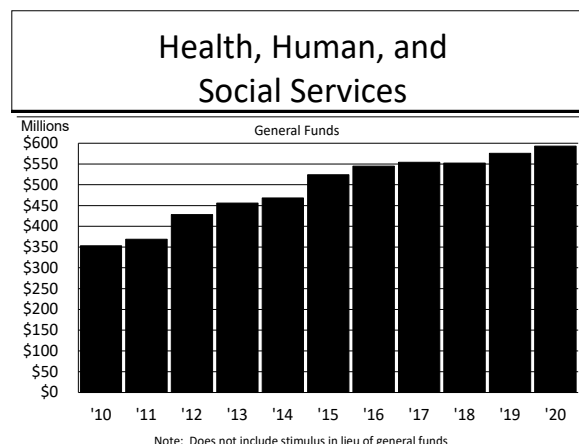
Board of Regents	FTE	General	Federal	Other
Maintenance and Repair		\$3,746,133		
South Dakota Opportunity Scholarship		\$41,839		
Critical Deferred Maintenance Lease Payment		(\$4,873)		
Utilities		(\$223,892)		
FTE/Expenditure Authority Adjustments	25.5		(\$33,470)	\$4,380,500
<b>Total</b>	<b>25.5</b>	<b>\$3,559,207</b>	<b>(\$33,470)</b>	<b>\$4,380,500</b>

- Increase of \$3,746,133 in general funds for maintenance and repair of academic buildings.
- Increase of \$41,839 in general funds for students eligible for the South Dakota Opportunity Scholarship.
- Decrease of \$4,873 in general funds for the lease payment adjustment for Critical Deferred Maintenance.
- Decrease of \$223,892 in general funds for utility expenses.
- Increase of 25.5 FTE and \$4,380,500 in other fund expenditure authority and a decrease of \$33,470 in federal fund expenditure authority for anticipated grant expenses, tuition, and room and board projections.



## Health, Human, and Social Services

- Includes Departments of Health, Human Services, and Social Services.
- \$13.8M increase out of \$54.0M total ongoing general fund increase.
- \$589.6M out of \$1.7B or 34.9% of total ongoing general funds.
- \$1.6B out of \$4.9B or 32.6% of total ongoing funds.



<b>Health</b>	<b>FTE</b>	<b>General</b>	<b>Federal</b>	<b>Other</b>
Rural Residency Track		\$27,331	\$46,669	
Opioid Crisis Grant			\$2,448,900	
Informational Boards			\$475,000	\$212,256
Child and Family Services Authority			\$107,710	(\$107,710)
Health Program Specialist	1.0		\$65,183	
Correctional Healthcare	4.0			\$834,993
<b>Total</b>	<b>5.0</b>	<b>\$27,331</b>	<b>\$3,143,462</b>	<b>\$939,539</b>

- Increases of \$27,331 in general funds and \$46,669 in federal fund expenditure authority for the second year of the Rural Residency Program.
- Increase of \$2,448,900 in federal fund expenditure authority for opioid crisis grants.
- Increases of \$475,000 in federal fund expenditure authority and \$212,256 in other fund expenditure authority in various boards throughout the department.
- Increase of \$107,710 in federal fund expenditure authority and decrease of \$107,710 in other fund expenditure authority due to more time spent doing federally funded programs.
- Increase of 1.0 FTE and \$65,183 in federal fund expenditure authority to hire a Health Program Specialist to manage the department's opioid grant response.
- Increase of 4.0 FTE and \$834,993 in other fund expenditure authority to provide healthcare to adult inmates within the Department of Corrections.

<b>Human Services</b>	<b>FTE</b>	<b>General</b>	<b>Federal</b>	<b>Other</b>
Discretionary Inflation		\$4,120,760	\$5,193,721	\$136,522
Mandatory Inflation		\$37,160		
Long Term Services and Supports		\$2,213,204	\$6,980,891	
Developmental Disabilities		\$1,497,764	\$2,017,289	
South Dakota Developmental Center	(6.0)	(\$81,886)	(\$110,296)	
Division of Rehabilitation Services		\$44,848	\$60,406	
Federal Medical Assistance Percentage		(\$3,367,742)	\$3,498,465	(\$130,723)
Community Based Care Coordination Medicaid Savings Adjustments		\$1,456,549	\$5,998,305	
<b>Total</b>	<b>(6.0)</b>	<b>\$5,920,657</b>	<b>\$23,638,781</b>	<b>\$5,799</b>

- Increases of \$4,120,760 in general funds, \$5,193,721 in federal fund expenditure authority, and \$136,522 in other fund expenditure authority for discretionary provider inflation increases of 2.5%.
- Increase of \$37,160 in general funds for mandatory inflation of 2.5% for certain individuals in Assisted Living.
- Increases of \$2,213,204 in general funds and \$6,980,891 in federal fund expenditure authority based on projected expenses in the Division of Long Term Services and Supports. A portion of this increase is due to savings from the Care Coordination agreements.
- Increases of \$1,497,764 in general funds and \$2,017,289 in federal fund expenditure authority in Developmental Disabilities for an increase in eligibles. A portion of this increase is due to savings from the Care Coordination agreements.

- Decreases of 6.0 FTE, \$81,886 in general funds, and \$110,296 in federal fund expenditure authority for changes in personal services due to the right sizing initiative, utilities, food service, and operating expenses at the South Dakota Developmental Center.
- Increases of \$44,848 in general funds and \$60,406 in other fund expenditure authority in Rehabilitation Services for increased utilization of the Assisted Daily Services Waiver participants.
- Decreases of \$3,367,742 in general funds and \$130,723 in other fund expenditure authority with an offsetting increase in federal fund expenditure authority for the change in FMAP.
- Increases of \$1,456,549 in general funds and \$5,998,305 in federal fund expenditure authority in the Divisions of Developmental Disabilities and Long Term Services and Supports provider rates due to savings from Care Coordination agreements.

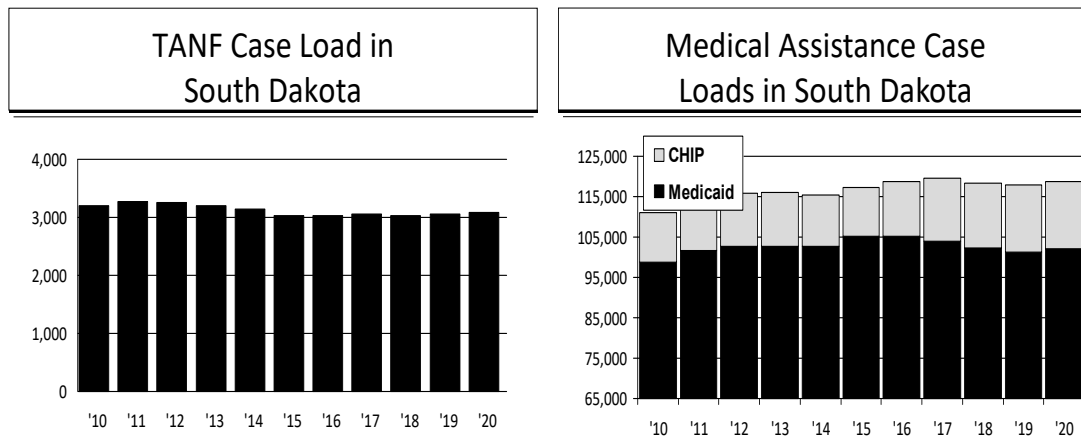


Social Services	FTE	General	Federal	Other
Discretionary Inflation		\$6,010,945	\$6,458,063	\$15,384
Mandatory Inflation		\$3,694,519	\$4,648,555	
Methamphetamine Prevention and Treatment		\$3,054,581		
Criminal Justice Initiative Treatment Services		\$2,203,718		
Child Protection Adoptions, Guardianships and Placements		\$1,773,192	\$2,930,639	
Child Protection FTE	15.0	\$647,212	\$114,213	
Substance Use Disorder Services		\$562,164	\$131,341	
Mental Health Services		\$351,370		
Suicide Prevention		\$222,038	(\$701,000)	
Mental Health Courts		\$277,000		
Child Support Fee		\$68,810		
Care Coordination Savings		(\$3,992,741)	\$3,992,741	
Health Care Solutions Coalition Initiatives		\$547,050	\$736,804	
Provider Rate Increases		\$1,682,675	\$1,747,922	
Human Services Center		(\$18,233)		
Juvenile Justice Reinvestment Initiative		(\$500,000)		
Federal Medical Assistance Percentage		(\$2,716,799)	\$2,716,799	
Medicaid Eligibles, Utilization and Cost Changes		(\$6,051,685)	(\$6,599,864)	
Opioid Response Grant			\$4,000,000	
Informational Budgets				\$9,301
<b>Total</b>	<b>15.0</b>	<b>\$7,815,816</b>	<b>\$20,176,213</b>	<b>\$24,685</b>



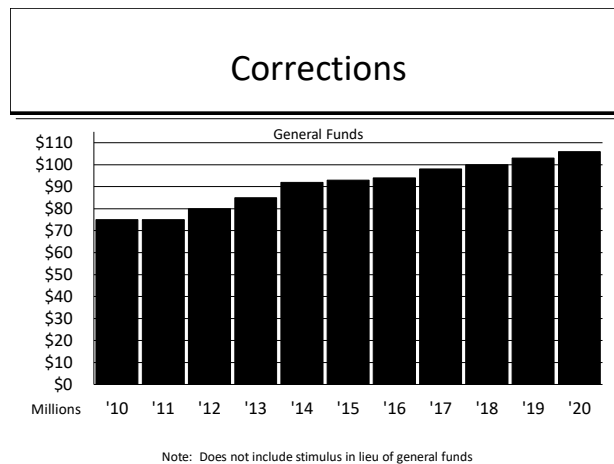
- Increases of \$6,010,945 in general funds, \$6,458,063 in federal fund expenditure authority, and \$15,384 in other fund expenditure authority for discretionary provider inflation increases of 2.5%.
- Increases of \$3,694,519 in general funds and \$4,648,555 in federal fund expenditure authority for mandatory increases for Federally Qualified Health Centers, Rural Health Clinics, Prescription Drugs, Medicare Parts A, B, D and crossover co-pays, and Human Services Center prescription drugs.
- Increase of \$3,054,581 in general funds for methamphetamine prevention and treatment services, including a school-based prevention program, substance use disorder treatments and supports, and a methamphetamine prevention campaign.
- Increase of \$2,203,718 in general funds for an increase in the number of individuals receiving substance use disorder treatment services through the criminal justice initiative.
- Increases of \$1,773,192 in general funds and \$2,930,639 in federal fund expenditure authority for an additional 46 adoption and 39 guardianship subsidies, as well as increased paid placements in Child Protection Services.
- Increases of 15.0 FTE, \$647,212 in general funds, and \$114,213 in federal fund expenditure authority for 10 Family Service Specialists and 5 Social Service Aides in Child Protection Services.
- Increases of \$562,164 in general funds and \$131,341 in federal fund expenditure authority to support substance use disorder treatment services for pregnant women and women with dependent children.
- Increase of \$351,370 in general funds for school based mental health coordinators.
- Increase of \$222,038 in general funds and decrease of \$701,000 in federal fund expenditure authority to continue suicide prevention efforts when federal funding is no longer available.
- Increase of \$277,000 in general funds for the remaining one-half year of treatment services for the current Mental Health Court, as well as one-half year of treatment services for starting a new Mental Health Court.
- Increase of \$68,810 in general funds to cover the child support federally mandated fee due to increased caseloads.
- Decrease of \$3,992,741 in general funds with an offsetting increase in federal fund expenditure authority for savings from care coordination agreements.
- Increases of \$547,050 in general funds and \$736,804 in federal fund expenditure authority to fund the remaining portion of the recommendations of the Health Care Solutions Coalition.
- Increase of \$1,682,675 in general funds and \$1,747,922 in federal fund expenditure authority to increase provider rates who are under 100% of methodology.
- Decrease of \$18,233 in general funds at the Human Services Center due to operational costs, food services, and utilities adjustments.
- Decrease of \$500,000 in general funds due to anticipated utilization of juvenile justice reinvestment initiative treatment services.
- Decrease of \$2,716,799 in general funds with an offsetting increase in federal fund expenditure authority for the change in FMAP.
- Decreases of \$6,051,685 in general funds and \$6,599,864 in federal fund expenditure authority due to changes in Medicaid eligibles, as well as costs and utilization.

- Increase of \$4,000,000 in federal fund expenditure authority for an increase in the Opioid Response Grant.
- Increases of \$9,301 in other fund expenditure authority to align informational budgets with anticipated expenditures.



## Corrections

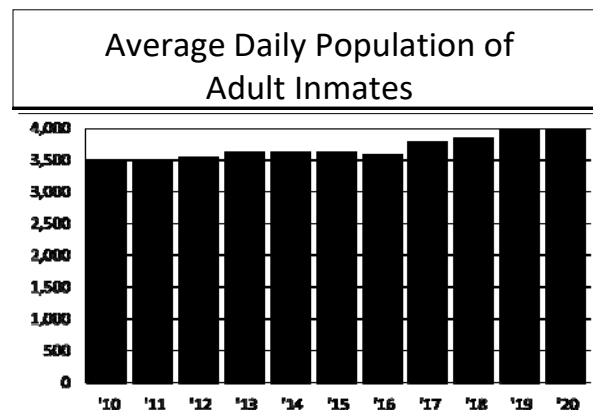
- Includes the Department of Corrections.
- \$2.8M increase out of \$54.0M total ongoing general fund increase.
- \$105.7M out of \$1.7B or 6.3% of total ongoing general funds.
- \$114.9M out of \$4.9B or 2.4% of total ongoing funds.



Corrections	FTE	General	Federal	Other
Correctional Healthcare		\$894,474		
Security Staff	18.0	\$789,897		
Adult Division Operating Expenses		\$619,358	\$640	
Community Transition Program Placements		\$264,625		
Various Positions	3.5	\$232,165	(\$130,344)	
Board of Pardons and Parole Per Diem		\$54,000		

Juvenile Community Corrections		(\$100,195)	(\$170,055)	
<b>Total</b>	<b>21.5</b>	<b>\$2,754,324</b>	<b>(\$299,759)</b>	<b>\$0</b>

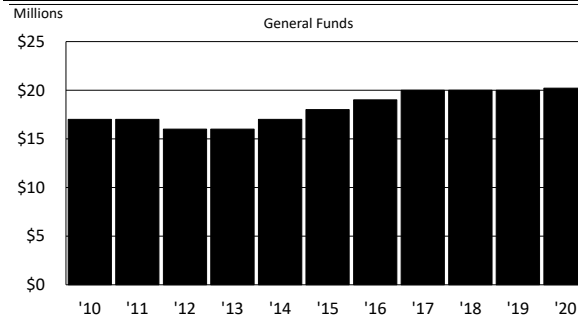
- Increase of \$894,474 in general funds for Correctional Healthcare costs.
- Increase of 18.0 FTE and \$789,897 in general funds to increase security staff at the State Penitentiary and Jameson Prison Annex.
- Increase of \$619,358 in general funds and an increase of \$640 in federal fund expenditure authority for utilities, food services, jail costs for parolees, GPS expansion, parole equipment and supplies, and operational expenses at the South Dakota Women's Prison.
- Increase of \$264,625 in general funds for 16 parolees in the Community Transition Program to be housed in community placements.
- Increase of 3.5 FTE and \$232,165 in general funds and decrease of \$130,344 in federal fund expenditure authority for three Corrections Specialists, two Parole agents, and a reduction of a Juvenile Community Corrections secretary and Corrections Specialist.
- Increase of \$54,000 in general funds to increase the per diem for the Board of Pardons and Parole from \$75/day to \$200/day.
- Decreases of \$100,195 in general funds and \$170,055 in federal fund expenditure authority due to changes in FMAP, reductions due to the overall decrease in the juvenile population, and provider inflation.



## Agriculture, Natural Resources, and Game, Fish, and Parks

- Includes Departments of Agriculture, Environment and Natural Resources, and Game, Fish, and Parks.
- \$215K decrease out of \$54.0M total ongoing general fund increase.
- \$20.2M out of \$1.7B or 1.2% of total ongoing general funds.
- \$169.8M out of \$4.9B or 3.5% of total ongoing funds.

## Agriculture, Natural Resources and Game, Fish, and Parks



Agriculture	FTE	General	Federal	Other
Administrative Support	1.0	\$77,439		
Wildland Fire		\$39,384	\$390,000	
Informational Budgets				\$783,678
ADRDL Bond Payment				\$2,577
Animal Damage Control		\$225,000		
Ag Development/Value Added Finance Authority Reorganization	(6.0)	(\$563,119)		(\$460,981)
<b>Total</b>	<b>(5.0)</b>	<b>(\$221,296)</b>	<b>\$390,000</b>	<b>\$325,274</b>

- Increase of 1.0 FTE and \$77,439 in general funds for an accounting manager position in the Office of the Secretary.
- Increases of \$39,384 in general funds and \$390,000 in federal fund expenditure authority for operating expenses and an increase in the 2018 Consolidated Payment Grant in the Division of Wildland Fire.
- Increase of \$783,678 in other fund expenditure authority to align the informational budgets with anticipated expenditures.
- Increase of \$2,577 in other fund expenditure authority for the annual bond payment for the Animal Disease Research Diagnostic Lab (ADRDL).
- Increase of \$225,000 in general funds for the department's share in the animal damage control program.
- Decreases of 6.0 FTE, \$563,119 in general funds, and \$460,981 in other fund expenditure authority due to the reorganization of Ag Development and Value Added Finance Authority into the Governor's Office of Economic Development.

Environment and Natural Resources	FTE	General	Federal	Other
No changes				
<b>Total</b>	<b>0.0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

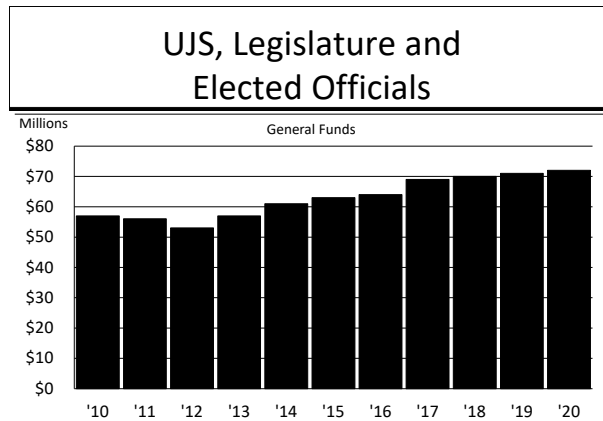
- No recommended changes to the FY20 budget.

<b>Game, Fish, and Parks</b>	<b>FTE</b>	<b>General</b>	<b>Federal</b>	<b>Other</b>
Bond Payments		\$5,865		
Division of Parks & Recreation Capital Development			\$561,500	\$240,625
Division of Wildlife Operations			\$353,730	(\$248,973)
Division of Parks & Recreation Operations	2.0		\$257,938	\$735,337
Snowmobile Trails Program				\$14,000
Division of Wildlife Capital Development			(\$1,348,320)	(\$304,025)
<b>Total</b>	<b>2.0</b>	<b>\$5,865</b>	<b>(\$175,152)</b>	<b>\$436,964</b>

- Increase of \$5,865 in general funds based on changes in bond payments.
- Increases of \$561,500 in federal fund expenditure authority and \$240,625 in other fund expenditure authority to align the budget with anticipated costs from the capital development project list in the Division of Parks and Recreation.
- Increase of \$353,730 in federal fund expenditure authority and decrease of \$248,973 in other fund expenditure authority to reflect activity-based cost increases in the Division of Wildlife maintenance and operations budget.
- Increases of 2.0 FTE, \$257,938 in federal fund expenditure authority, and \$735,337 in other fund expenditure authority to reflect activity-based cost increases in the maintenance and operations budget of the state parks system. Also included is the personal services expenses for two conservation technician positions.
- Increase of \$14,000 in other fund expenditure authority to align the budget with anticipated expenditures in the Snowmobile Trails Program.
- Decreases of \$1,348,320 in federal fund expenditure authority and \$304,025 in other fund expenditure authority to align the budget with anticipated costs from the capital development project list in the Division of Wildlife.

### **Legislature, Unified Judicial System, Public Utilities Commission, and Elected Officials**

- Includes the Legislature, Unified Judicial System, Public Utilities Commission, Office of the Attorney General, Secretary of State, School and Public Lands, Office of the State Auditor, and Office of the State Treasurer.
- \$880K increase out of \$54.0M total ongoing general fund increase.
- \$72.3M out of \$1.7B or 4.3% of total ongoing general funds.
- \$154.8M out of \$4.9B or 3.2% of total ongoing funds.



Legislature	FTE	General	Federal	Other
Legislative Travel		\$21,598		
Legislative Audit Operating Expenses		\$17,850		
National Organization Membership Dues		\$9,163		
Legislative Interim Member Salary Adjustment		\$8,822		
Legislative Support Staff		\$2,245		
Legislator Salary		(\$19,338)		
<b>Total</b>	<b>0.0</b>	<b>\$40,340</b>	<b>\$0</b>	<b>\$0</b>

- Increase of \$21,598 in general funds in the Legislative Research Council for an increase in the legislative per diem from \$142 to \$149 according to the General Services Administration, as well as a reduction in mileage expenses to align the budget with projected expenditures.
- Increase of \$17,850 in general funds in the Department of Legislative Audit to reflect estimated expenditures in contractual services and supplies.
- Increase of \$9,163 in general funds in the Legislative Research Council for national organization membership dues.
- Increase of \$8,822 in general funds in the Legislative Research Council for salaries for members of an interim legislative committee or task force. The salary increased from \$142/day to \$149/day.
- Increase of \$2,245 in general funds in the Legislative Research Council for legislative support staff. This includes an increase for two I.T. interns during legislative session, and a reduction to the legislative page travel budget to align it with projected expenditures.
- Decrease of \$19,338 in general funds in the Legislative Research Council to align the budget with projected legislator salaries for FY2020. The legislator salary is set to equal one-fifth of South Dakota median household income.

Unified Judicial System	FTE	General	Federal	Other
DUI Court Funding Change		\$308,682	(\$505,298)	
Circuit Court Judge	1.0	\$158,299		
Miscellaneous Operating Expenses		\$66,749		
Rural Attorney Recruitment Program				\$150,000
Various Positions	2.8			
<b>Total</b>	<b>3.8</b>	<b>\$533,730</b>	<b>(\$505,298)</b>	<b>\$150,000</b>

- Increase of \$308,682 in general funds and a decrease of \$505,298 in federal fund expenditure authority due to a funding change of two DUI courts.
- Increase of 1.0 FTE and \$158,299 in general funds for a second circuit court judge.
- Increase of \$66,749 in general funds for provider inflation, travel for the circuit court judge position, and electronic monitoring devices.
- Increase of \$150,000 in other fund expenditure authority for the rural attorney recruitment program.
- Increase of 2.8 FTE to convert various part-time positions to full-time and for a Mental Health Court Services Officer in Minnehaha County. UJS may fund these positions with existing resources.
- UJS may fund the full classification and compensation plan for their employees with existing budget.

<b>Public Utilities Commission</b>	<b>FTE</b>	<b>General</b>	<b>Federal</b>	<b>Other</b>
Budget Alignments			\$11,274	(\$1,920)
<b>Total</b>	<b>0.0</b>	<b>\$0</b>	<b>\$11,274</b>	<b>(\$1,920)</b>

- Increase of \$11,274 in federal fund expenditure authority and decrease of \$1,920 in other fund expenditure authority to align the Public Utilities Commission budget with anticipated expenditures.

<b>Attorney General</b>	<b>FTE</b>	<b>General</b>	<b>Federal</b>	<b>Other</b>
Legal Services Division		\$102,461		
24/7 Alcohol Monitoring System				\$180,000
Meth Interdiction Agents	2.0	\$203,421		
<b>Total</b>	<b>2.0</b>	<b>\$305,882</b>	<b>\$0</b>	<b>\$180,000</b>

- Increase of \$102,461 in general funds for law reference materials, Westlaw Research System, and office lease costs.
- Increase of \$180,000 in other fund expenditure authority for the 24/7 alcohol monitoring system software license fee.
- Increase of 2.0 FTE and \$203,421 in general funds for two DCI agents to specialist in methamphetamine interdiction.

<b>Secretary of State</b>	<b>FTE</b>	<b>General</b>	<b>Federal</b>	<b>Other</b>
No changes				
<b>Total</b>	<b>0.0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

- No recommended changes to the FY20 budget.

<b>School and Public Lands</b>	<b>FTE</b>	<b>General</b>	<b>Federal</b>	<b>Other</b>
No changes				
<b>Total</b>	<b>0.0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

- No recommended changes to the FY20 budget.

State Auditor	FTE	General	Federal	Other
No changes				
<b>Total</b>	<b>0.0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

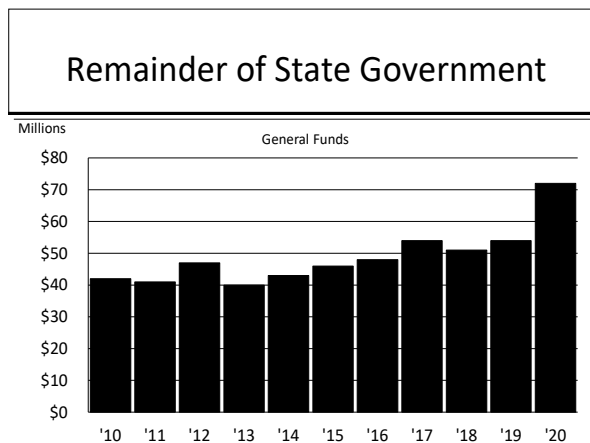
- No recommended changes to the FY20 budget.

State Treasurer	FTE	General	Federal	Other
Investment of State Funds	1.0			\$463,093
Performance-Based Compensation				\$26,672
<b>Total</b>	<b>1.0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$489,765</b>

- Increase 1.0 FTE and \$463,093 in other fund expenditure authority for a staff attorney position, promotional increases, contractual services, and office supplies changes at the South Dakota Investment Council.
- Increase of \$26,672 in other fund expenditure authority for performance-based compensation at the South Dakota Investment Council. Increase will maintain expenditure authority at 200% of prior year base salaries.

### Remainder of State Government

- Includes the Departments of Executive Management, Military, Veterans' Affairs, Revenue, Tourism, Tribal Relations, Transportation, Labor and Regulation, Retirement, and Public Safety.
- \$20.8M increase out of \$54.0M total ongoing general fund increase.
- \$75.2M out of \$1.7B or 4.5% of total ongoing general funds.
- \$1.2B out of \$4.9B or 25.0% of total ongoing funds.



Executive Management	FTE	General	Federal	Other
Employee Compensation and Bureau Billings Pools		\$18,733,783	\$9,130,635	\$22,903,047
Statewide Maintenance and Repair		\$901,209		
Ag Development/Value Added Finance Authority Reorganization	6.0	\$563,119		\$460,981
Rural Broadband				\$5,000,000



K-12 Security Technology Engineers	3.0			\$329,389
SDPB Media Specialists	2.0			\$200,000
Housing Opportunity Program				\$100,000
Ellsworth Development Authority				\$11,621
Revolving Economic Development and Initiative Grants Program				(\$322,776)
Science and Technology Authority	(0.3)			(\$1,299,433)
<b>Total</b>	<b>10.7</b>	<b>\$20,198,111</b>	<b>\$9,130,635</b>	<b>\$27,382,829</b>

- Increases of \$18,733,783 in general funds, \$9,130,635 in federal fund expenditure authority, and \$22,903,047 in other fund expenditure authority to provide a pool of funds to be distributed to state agencies for salary policy, health insurance, and bureau billings.
- Increase of \$901,209 in general funds for statewide maintenance and repair to move toward the goal of 2% of the replacement value of state buildings.
- Increases of 6.0 FTE, \$563,119 in general funds, and \$460,981 in other fund expenditure authority due to the reorganization of Ag Development and Value-Added Finance Authority from the Department of Agriculture to the Governor's Office of Economic Development.
- Increase of \$5,000,000 in other fund expenditure authority to improve broadband services throughout the state.
- Increase of 3.0 FTE and \$329,389 in other fund expenditure authority for the Bureau of Information and Telecommunications to hire three Security Technology Engineers that will support K-12 schools.
- Increase of 2.0 FTE and \$200,000 in other fund expenditure authority for the Bureau of Information and Telecommunications to hire two Media Specialists that will produce and create local content for multiplatform distribution.
- Increase of \$100,000 in other fund expenditure authority to align the Housing Opportunity Program budget with anticipated revenues.
- Increase of \$11,621 in other fund expenditure authority in the South Dakota Ellsworth Development Authority to align the budget with anticipated expenditures.
- Decrease of \$322,776 in other fund expenditure authority to align the Revolving Economic Development and Initiative Grants budget with anticipated expenditures.
- Decrease of 0.3 FTE and \$1,299,433 in other fund expenditure authority in the South Dakota Science and Technology Authority to align the budget with anticipated expenditures.

<b>Military</b>	<b>FTE</b>	<b>General</b>	<b>Federal</b>	<b>Other</b>
Civil Air Patrol		\$8,119		
Utilities		(\$1,470)	(\$4,122)	
<b>Total</b>		<b>\$6,649</b>	<b>(\$4,122)</b>	<b>\$0</b>

- Increase of \$8,119 in general funds in Civil Air Patrol to keep up with rising costs of hangar and office rents and SPOT and Spidertrack fees.
- Decreases of \$1,470 in general funds and \$4,122 in federal fund expenditure authority for utilities per EnergyCAP.

<b>Veterans' Affairs</b>	<b>FTE</b>	<b>General</b>	<b>Federal</b>	<b>Other</b>
Utilities				\$48,304
Food Inflation				\$34,180
Medical Supplies Inflation				\$4,769
FMAP		(\$61,003)	\$61,003	
Veterans Service Officers	2.0	\$128,580		
State Veterans' Home				\$100,000
<b>Total</b>	<b>2.0</b>	<b>\$67,577</b>	<b>\$61,003</b>	<b>\$187,253</b>

- Increase of \$48,304 in other fund expenditure authority for utilities per EnergyCAP.
- Increase of \$34,180 in other fund expenditure authority for food inflation of 0.8%.
- Increase of \$4,769 in other fund expenditure authority for medical supplies inflation of 2.4%.
- Decrease of \$61,003 in general funds and an increase of \$61,003 in federal fund expenditure authority for FMAP adjustment.
- Increase of 2.0 FTE and \$128,580 in general funds for the addition of two Veteran Service Officers.
- Increase of \$100,000 in other fund expenditure authority at the State Veterans' Home for workforce development and quality of life programs.

<b>Revenue</b>	<b>FTE</b>	<b>General</b>	<b>Federal</b>	<b>Other</b>
Sales and Use Tax Auditors	3.0			\$195,083
Revenue Agents	2.0			\$107,086
<b>Total</b>	<b>5.0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$302,169</b>

- Increase of 3.0 FTE and \$195,083 in other fund expenditure authority for three additional auditors that will focus on sales and use tax audits on out-of-state businesses.
- Increase of 2.0 FTE and \$107,086 in other fund expenditure authority for two additional revenue agents that will work on compliance for remote sellers.

<b>Tourism</b>	<b>FTE</b>	<b>General</b>	<b>Federal</b>	<b>Other</b>
Tourism Promotion Tax				\$416,456
Grant Specialist	1.0		\$58,890	
Operating Expenses			(\$58,890)	
<b>Total</b>	<b>1.0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$416,456</b>

- Increase of \$416,456 in other fund expenditure authority to align the budget with anticipated Tourism Promotion Tax revenues.
- Increase of 1.0 FTE and \$58,890 in federal fund expenditure authority for a grant specialist to oversee grant management and monitoring.
- Decrease of \$58,890 in federal fund expenditure authority as the available federal funds would be used for personal services rather than operating expenses.

<b>Tribal Relations</b>	<b>FTE</b>	<b>General</b>	<b>Federal</b>	<b>Other</b>
Indian Education Reorganization	1.0	\$143,779		\$26,000
<b>Total</b>	<b>1.0</b>	<b>\$143,779</b>	<b>\$0</b>	<b>\$26,000</b>

- Increases of 1.0 FTE, \$143,779 in general funds, and \$26,000 in other fund expenditure authority due to reorganizing the Office of Indian Education from the Department of Education.

<b>Transportation</b>	<b>FTE</b>	<b>General</b>	<b>Federal</b>	<b>Other</b>
Infrastructure				\$3,300,000
Utilities				(\$2,398)
<b>Total</b>	<b>0.0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$3,297,602</b>

- Increase of \$3,300,000 in other fund expenditure authority to continue with the repair and replacement of infrastructure.
- Decrease of \$2,398 in other fund expenditure authority for utilities per EnergyCAP.

<b>Labor and Regulation</b>	<b>FTE</b>	<b>General</b>	<b>Federal</b>	<b>Other</b>
Trust Examiner	1.0			\$135,221
Informational Budgets	1.3			\$59,020
Unemployment Insurance	(2.0)		(\$87,072)	
Community Support Services Grants		\$215,000		
<b>Total</b>	<b>0.3</b>	<b>\$215,000</b>	<b>(\$87,072)</b>	<b>\$194,241</b>

- Increase of 1.0 FTE and \$135,221 in other fund expenditure authority for an additional Trust Examiner to keep up with the continued growth in trust assets.
- Increase of 1.3 FTE and \$59,020 in other fund expenditure authority for various changes throughout the department's boards and commissions.
- Decrease of 2.0 FTE and \$87,072 in federal fund expenditure authority for the reduction of two vacant positions within Unemployment Insurance.
- Increase of \$215,000 in general funds to provide family education programs.

<b>Retirement</b>	<b>FTE</b>	<b>General</b>	<b>Federal</b>	<b>Other</b>
Contractual Services				\$140,000
<b>Total</b>	<b>0.0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$140,000</b>

- Increase of \$140,000 in other fund expenditure authority for various contractual services.

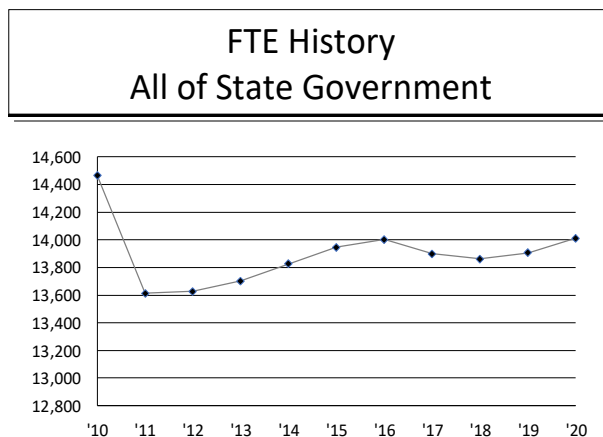
<b>Public Safety</b>	<b>FTE</b>	<b>General</b>	<b>Federal</b>	<b>Other</b>
State Radio Contract		\$130,861		
Provider Inflation		\$13,019		
Driver License Renewal Cards		(\$15,000)		
Motor Carrier Grant			\$480,000	
Highway Patrol Troopers	4.0			\$429,800
Administration			(\$30,000)	\$30,000
Boiler Inspectors	2.0			
<b>Total</b>	<b>6.0</b>	<b>\$128,880</b>	<b>\$450,000</b>	<b>\$459,800</b>

- Increase of \$130,861 in general funds for an increase in the Pennington County State Radio contract.

- Increase of \$13,019 in general funds for a provider inflation increase of 2.5%.
- Decrease of \$15,000 in general funds for the driver license renewal cards.
- Increase of \$480,000 in federal fund expenditure authority due to an increase in the federal Motor Carrier grant.
- Increases of 4.0 FTE and \$429,800 in other fund expenditure authority for highway patrol troopers to focus on methamphetamine enforcement.
- Decrease of \$30,000 in federal fund expenditure authority and increase of \$30,000 in other fund expenditure authority to cover operating expenses in the Administration Division.
- Increase of 2.0 FTE for boiler inspectors that are classified as employees, rather than contractual services.

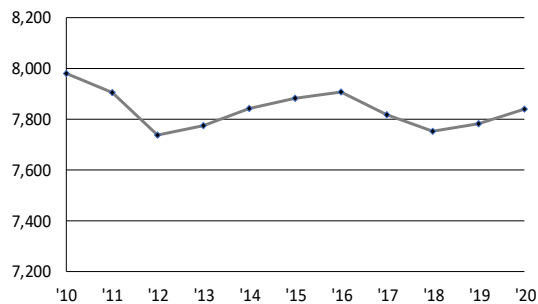
### Full-Time Equivalent Employee Change

- The total appropriated FTE across all of state government decreased from 14,465.6 in FY2010 to a recommended level of 14,012.7 for FY2020.
- This is a decrease of 452.9, or 3.1%, over the decade. The recommended change in FTE for FY2020 is an increase of 90.8 across state government.

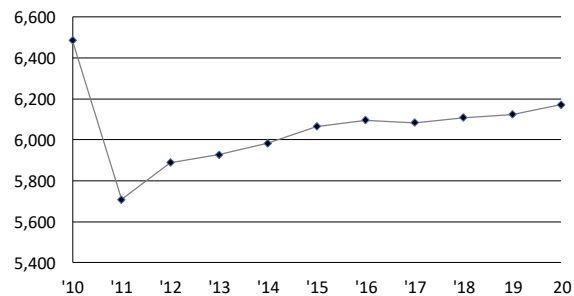


- For offices outside the control of the Governor, total appropriated FTE changed from 6,485.2 in FY2010 to a recommended level of 6,171.6 for FY2020. This is a net decrease of 313.6, or 4.9%, over the decade.
- The recommended changes for these offices in the FY2020 budget are an increase of 32.3 FTE.
- For agencies under direct control of the Governor, total appropriated FTE changed from 7,980.4 in FY2010 to a recommended level of 7,841.1 for FY2020. This is a net decrease of 139.3, or 1.7%, over the decade.
- The recommended changes for these agencies in the FY2020 budget are an increase of 58.5 FTE.

FTE History for Offices  
Under Control of Governor



FTE History for Offices Outside  
Control of Governor



## Summary of Reorganizations

**Department of Social Services:** A reorganization occurred between the Department of Social Services and the Department of Public Safety. The budget reorganization moved the Division of Victims Services from the Department of Social Services to the Department of Public Safety.

**Department of Public Safety:** A reorganization occurred between the Department of Social Services and the Department of Public Safety. The budget reorganization moved the Division of Victims Services from the Department of Social Services to the Department of Public Safety.

**Department of Agriculture:** A reorganization is recommended between the Department of Agriculture and the Governor's Office of Economic Development. The budget reorganization will move Agriculture Development from the Department of Agriculture to the Governor's Office of Economic Development.

**Governor's Office of Economic Development:** A reorganization is recommended between the Department of Agriculture and the Governor's Office of Economic Development. The budget reorganization will move Agriculture Development from the Department of Agriculture to the Governor's Office of Economic Development.

**Department of Education:** A reorganization is recommended between the Department of Education and the Department of Tribal Relations. The budget reorganization will move the Office of Indian Education from the Department of Education to the Department of Tribal Relations.

**Department of Tribal Relations:** A reorganization is recommended between the Department of Education and the Department of Tribal Relations. The budget reorganization will move the Office of Indian Education from the Department of Education to the Department of Tribal Relations.

## SPECIAL APPROPRIATION RECOMMENDATIONS

FY2019 EMERGENCY SPECIAL APPROPRIATIONS	FTE	GENERAL FUNDS	FEDERAL FUNDS	OTHER FUNDS	TOTAL
Jameson Prison Annex Expansion		\$ 7,392,235			\$ 7,392,235
Innovation Grants		\$ 6,000,000			\$ 6,000,000
National Guard Readiness Center		\$ 3,884,885	\$ 11,654,655		\$ 15,539,540
Extraordinary Litigation Fund		\$ 2,300,000			\$ 2,300,000
Readiness and Environmental Protection Integration Program		\$ 1,845,000			\$ 1,845,000
Metrology Lab		\$ 1,660,000			\$ 1,660,000
Second Century Pheasant Habitat		\$ 1,000,000			\$ 1,000,000
Rural Healthcare Recruitment Assistance Programs		\$ 979,849			\$ 979,849
Fire Suppression Fund		\$ 906,658			\$ 906,658
Veteran's Bonus Program		\$ 600,000			\$ 600,000
Emergency and Disaster Fund		\$ 550,596			\$ 550,596
Elm Lake Dam		\$ 521,403			\$ 521,403
Palisades State Park		\$ 500,000			\$ 500,000
Tax Refunds for Elderly and Disabled		\$ 450,000			\$ 450,000
Military Storage Buildings			\$ 1,104,000		\$ 1,104,000
Volkswagen Settlement Funds				\$ 8,125,000	\$ 8,125,000
Omnibus Water Bill			\$ 150,000	\$ 14,350,000	\$ 14,500,000
Resource Conservation Grant				\$ 500,000	\$ 500,000
<b>TOTAL FY2019 EMERGENCY SPECIAL APPROPRIATIONS</b>	<b>0.0</b>	<b>\$ 28,590,626</b>	<b>\$ 12,908,655</b>	<b>\$ 22,975,000</b>	<b>\$ 64,474,281</b>

**NOTE:** FY2019 emergency special appropriations become available for expenditure upon passage of the bill and are included in the FY2019 column of the General Fund Condition Statement.

The Governor is recommending total emergency special appropriations of \$28,590,626 in general funds, \$12,908,655 in federal fund expenditure authority, and \$22,975,000 in other fund expenditure authority. The following paragraphs highlight each recommended emergency special appropriation.

- **Jameson Prison Annex Expansion:** The Governor is recommending \$7,392,235 in general funds to construct a health services building adjacent to Jameson Prison.
- **Innovation Grants:** The Governor is recommending \$6,000,000 in general funds for nursing home and primary and prenatal care innovation grants.
- **National Guard Readiness Center:** The Governor is recommending \$3,884,885 in general funds and \$11,654,655 in federal fund expenditure authority to fund the second and third year costs of construction of a National Guard Readiness Center at the Rapid City Regional Airport.
- **Extraordinary Litigation Fund:** The Governor is recommending \$2,300,000 in general funds be deposited into the Extraordinary Litigation Fund to fund litigation expenses which are not eligible to be paid under SDCL 3-22-1.
- **Readiness and Environmental Protection Integration Program:** The Governor is recommending \$1,845,000 in general funds to help remove land-use conflicts near Ellsworth Air Force Base.
- **Metrology Lab:** The Governor is recommending \$1,660,000 in general funds to renovate a building in Sturgis for the state metrology lab.
- **Second Century Pheasant Habitat:** The Governor is recommending \$1,000,000 in general funds for the protection and enhancement of wildlife habitat across the state.
- **Rural Healthcare Recruitment Assistance Programs:** The Governor is recommending \$979,849 in general funds to recruit medical professionals to rural communities.
- **Fire Suppression Fund:** The Governor is recommending \$906,658 in general funds be deposited into the Fire Suppression Fund for costs related to the suppression of wildfires in South Dakota.
- **Veteran's Bonus Program:** The Governor is recommending \$600,000 to continue the veteran's bonus program within the Department of Veterans Affairs.
- **Emergency and Disaster Fund:** The Governor is recommending \$550,596 in general funds be deposited into the Emergency and Disaster Special Fund for costs related to emergencies and disasters in South Dakota.
- **Elm Lake Dam:** The Governor is recommending \$521,403 in general funds for costs associated with the replacement of the Elm Lake Dam.
- **Palisades State Park:** The Governor is recommending \$500,000 in general funds for the construction of improvements at Palisades State Park.

- ***Tax Refunds for Elderly and Disabled:*** The Governor is recommending \$450,000 in general funds for tax refunds to elderly and disabled individuals who meet income guidelines.
- ***Military Storage Buildings:*** The Governor is recommending \$1,104,000 in federal fund expenditure authority for military motor vehicle storage buildings at West Camp Rapid in Rapid City and Joe Foss Field in Sioux Falls.
- ***Volkswagen Settlement Funds:*** The Governor is recommending \$8,125,000 in other fund expenditure authority to reduce nitrogen oxide air emissions for mobile source throughout South Dakota.
- ***Omnibus Water Bill:*** The Governor is recommending \$150,000 in federal fund expenditure authority and \$14,350,000 in other fund expenditure authority for water development, solid waste, and water quality improvement projects throughout the state.
- ***Resource Conservation Grant:*** The Governor is recommending \$500,000 in other fund expenditure authority for the continued assistance of promoting conservation practices to reduce erosion, improve cropland and grazing conditions, improve surface water, and enhance habitat.

FY2019 GENERAL BILL AMENDMENTS	FTE	GENERAL FUNDS	FEDERAL FUNDS	OTHER FUNDS	TOTAL
Provider Rate Increases		\$ 3,776,805	\$ 4,553,210	\$ 44,631	\$ 8,374,646
Methamphetamine Prevention Campaign		\$ 1,375,000			\$ 1,375,000
Bureau Billings Pool		\$ 426,103	\$ 374,214	\$ 1,450,812	\$ 2,251,129
Dual Credit Enrollment		\$ 358,742			\$ 358,742
Secretary of State Operations		\$ 150,000	\$ 3,253,400		\$ 3,403,400
Attorney General Operations	2.0	\$ 107,406	\$ 2,443,048	\$ 2,923,704	\$ 5,474,158
Department of Agriculture Resource Conservation and Forestry		\$ 100,000			\$ 100,000
DUI Court Funding		\$ 100,000	\$ (100,000)		\$ -
Technical Institute Revision		\$ 81,505			\$ 81,505
Department of Military Civil Air Patrol		\$ 11,244			\$ 11,244
Legislator Pay Changes		\$ (20,140)			\$ (20,140)
Department of Human Services Operations	(6.0)	\$ (305,194)	\$ 3,605,692		\$ 3,300,498
Department of Corrections Operations		\$ (379,639)	\$ (490,494)		\$ (870,133)
Statewide Utilities		\$ (398,820)	\$ (70,240)	\$ (7,407)	\$ (476,467)
Care Coordination Agreements		\$ (6,843,582)	\$ 2,222,914		\$ (4,620,668)
State Aid Revision		\$ (6,903,895)			\$ (6,903,895)
Department of Social Services Operations		\$ (19,832,331)	\$ (7,554,556)		\$ (27,386,887)
Department of Health Operations			\$ 1,894,385	\$ (107,710)	\$ 1,786,675
Department of Education Project AWARE Grant	1.0		\$ 1,532,286		\$ 1,532,286
Department of Labor and Regulation Operations	(2.0)		\$ 759,928		\$ 759,928
Department of Transportation Operations			\$ 720,000	\$ 180,000	\$ 900,000
Department of Public Safety Operations			\$ 450,000	\$ 282,476	\$ 732,476
Governor's Office of Economic Development Operations				\$ 3,376,568	\$ 3,376,568
Animal Industry Board				\$ 3,349,713	\$ 3,349,713
Game, Fish and Parks Capital Development				\$ 1,581,250	\$ 1,581,250
Bush Foundation Grant				\$ 20,000	\$ 20,000
<b>TOTAL FY2019 GENERAL BILL AMENDMENTS</b>	<b>(5.0)</b>	<b>\$ (28,196,796)</b>	<b>\$ 13,593,787</b>	<b>\$ 13,094,037</b>	<b>\$ (1,508,972)</b>

**NOTE:** FY2019 general bill amendments are changes needing to be made to the FY2019 General Appropriations Act and are included in the FY2019 column of the General Fund Condition Statement.

The Governor is recommending total general bill amendments of (5.0) FTE, (\$28,196,796) in general funds, \$13,593,787 in federal fund expenditure authority, and \$13,094,037 in other fund expenditure authority. The following paragraphs highlight the recommended changes to the FY2019 General Bill.

- **Provider Rate Increases:** The Governor is recommending increases of \$3,776,805 in general funds, \$4,553,210 in federal fund expenditure authority, and \$44,631 in other fund expenditure authority to increase provider reimbursement rates. This includes funding for 2.5% discretionary inflation, as well as funding for providers under 100% of methodology.
- **Methamphetamine Prevention Campaign:** The Governor is recommending an increase of \$1,375,000 in general funds for a methamphetamine prevention media campaign.
- **Bureau Billings Pool:** The Governor is recommending increases of \$426,103 in general funds, \$374,214 in federal fund expenditure authority, and \$1,450,812 in other fund expenditure authority throughout state government due to increases in internal service rates charged by the bureaus.
- **Dual Credit Enrollment:** The Governor is recommending an increase of \$358,742 in general funds due to increased Dual Credit enrollments.
- **Secretary of State Operations:** The Governor is recommending an increase of \$150,000 in general funds and \$3,253,400 in federal fund expenditure authority for election system and cybersecurity upgrades.
- **Attorney General Operations:** The Governor is recommending increases of 2.0 FTE, \$107,406 in general funds, \$2,443,048 in federal fund expenditure authority, and \$2,923,704 in other fund expenditure authority for one-time equipment for methamphetamine interdiction agents, DNA supplies, upgrades to the Automated Fingerprint Identification System, an anti-methamphetamine program, and Volkswagen Settlement distributions.
- **Department of Agriculture Resource Conservation and Forestry:** The Governor is recommending an increase of \$100,000 in general funds to evaluate and update the Coordinated Plan for Natural Resource Conservation.
- **DUI Court Funding:** The Governor is recommending an increase of \$100,000 in general funds and a decrease of \$100,000 in federal fund expenditure authority for a funding change for two DUI courts due to the reduction of federal grants.
- **Technical Institute Revision:** The Governor is recommending an increase of \$81,505 in general funds due to updated full-time equivalent student numbers at the Technical Institutes.



- **Department of Military Civil Air Patrol:** The Governor is recommending an increase of \$11,244 in general funds to purchase a drone package used for search and rescue efforts.
- **Legislator Pay Changes:** The Governor is recommending a decrease of \$20,140 in general funds due to lower than projected legislator salaries for FY2019, and an increase in the legislative per diem from \$142 to \$149.
- **Department of Human Services Operations:** The Governor is recommending decreases of 6.0 FTE and \$305,194 in general funds, as well as an increase of \$3,605,692 in federal fund expenditure authority for reductions at the South Dakota Developmental Center and increases in Long Term Services and Supports.
- **Department of Corrections Operations:** The Governor is recommending decreases of \$379,639 in general funds and \$490,494 in federal fund expenditure authority due to the declining juvenile population.
- **Statewide Utilities:** The Governor is recommending decreases of \$398,820 in general funds, \$70,240 in federal fund expenditure authority, and \$7,407 in other fund expenditure authority due to a decrease in utility cost projections.
- **Care Coordination Agreements:** The Governor is recommending a decrease of \$6,843,582 in general funds and an increase of \$2,222,914 in federal fund expenditure authority for new agreements and shared savings related to Care Coordination agreements.
- **State Aid Revision:** The Governor is recommending a decrease of \$6,903,895 in general funds due to lower than projected student numbers and higher than projected property tax valuations in FY2019.
- **Department of Social Services Operations:** The Governor is recommending decreases of \$19,832,331 in general funds and \$7,554,556 in federal fund expenditure authority due to changes in Medicaid eligibles, utilization, and cost; the Human Services Center payer mix; and utilization of the Juvenile Justice Reinvestment Initiative services. Also included are increases for the Child Care Block Grant and State Opioid Response Grant.
- **Department of Health Operations:** The Governor is recommending an increase of \$1,894,385 in federal fund expenditure authority and a decrease of \$107,710 in other fund expenditure authority for the Opioid Crisis Cooperative Agreement and Prescription Drug Monitoring grant programs, as well as funding changes in Child and Family Services.
- **Department of Education Project AWARE Grant:** The Governor is recommending an increase of 1.0 FTE and \$1,532,286 in federal fund expenditure authority for the Project AWARE grant to increase awareness of mental health issues, train educators, and connect children, youth, and families to appropriate services.
- **Department of Labor and Regulation Operations:** The Governor is recommending a decrease of 2.0 FTE and an increase of \$759,928 in federal fund expenditure authority to develop an apprenticeship program. Also included is a decrease in the Unemployment Insurance division.
- **Department of Transportation Operations:** The Governor is recommending increases of \$720,000 in federal fund expenditure authority and \$180,000 in other fund expenditure authority for the replacement of a pavement condition monitoring vehicle.
- **Department of Public Safety Operations:** The Governor is recommending increases of \$450,000 in federal fund expenditure authority and \$282,476 in other fund expenditure authority for increases in the Motor Carrier grant, operating expenses in the administrative offices, and one-time equipment for additional highway patrol.
- **Governor's Office of Economic Development Operations:** The Governor is recommending an increase of \$3,376,568 in other fund expenditure authority for Local Infrastructure Improvement and the South Dakota Housing Opportunity programs.
- **Animal Industry Board:** The Governor is recommending an increase of \$3,349,713 in other fund expenditure authority for the Animal Disease Research Diagnostic Lab bond payment.
- **Game, Fish and Parks Capital Development:** The Governor is recommending an increase of \$1,581,250 in other fund expenditure authority for awards received from the Helmsley Trust for forest rehabilitation in Custer State Park.
- **Bush Foundation Grant:** The Governor is recommending an increase of \$20,000 in other fund expenditure authority for a grant the Department of Tribal Relations received from the Bush Foundation.

<b>FY2019 EXPENDITURE TRANSFERS</b>	<b>FTE</b>	<b>GENERAL FUNDS</b>	<b>FEDERAL FUNDS</b>	<b>OTHER FUNDS</b>	<b>TOTAL</b>
Rural Broadband Expansion		\$ 5,000,000			\$ 5,000,000
State Radio Infrastructure and Systems Upgrade		\$ 4,620,920			\$ 4,620,920
<b>TOTAL FY2019 EXPENDITURE TRANSFERS</b>	<b>0.0</b>	<b>\$ 9,620,920</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 9,620,920</b>

**NOTE:** FY2019 expenditure transfers are included in the FY2019 column of the General Fund Condition Statement.

The Governor is recommending total expenditure transfers of \$9,620,920 in general funds. The following paragraphs highlight the recommended expenditure transfers.

- **Rural Broadband Expansion:** The Governor is recommending \$5,000,000 in general funds be transferred to the Governor's Office of Economic Development to increase access to broadband services throughout South Dakota.
- **State Radio Infrastructure and Systems Upgrade:** The Governor is recommending \$4,620,920 in general funds be transferred to the Bureau of Information and Telecommunications to upgrade the state radio infrastructure and systems.

**GOVERNOR NOEM'S RECOMMENDATION FOR THE  
FY2020 STATE EMPLOYEE COMPENSATION PLAN**

	<u>GENERAL FUNDS</u>	<u>FEDERAL FUNDS</u>	<u>OTHER FUNDS</u>	<u>TOTAL FUNDS</u>
<b>MARKET ADJUSTMENT:</b>	<b>\$ 9,567,792</b>	<b>\$ 4,595,429</b>	<b>\$11,738,748</b>	<b>\$25,901,969</b>

The Governor is recommending 2.5% market adjustment for state employees.

<b>HEALTH INSURANCE:</b>	<b>\$ 8,597,854</b>	<b>\$ 4,036,253</b>	<b>\$ 9,229,884</b>	<b>\$21,863,991</b>
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The Governor is recommending the amount necessary to structurally balance the State Employee Health Plan.

<b>TOTAL COST OF RECOMMENDED STATE EMPLOYEE COMPENSATION PLAN:</b>	<b><u>\$18,165,646</u></b>	<b><u>\$ 8,631,682</u></b>	<b><u>\$20,968,632</u></b>	<b><u>\$47,765,960</u></b>
REMAINING FY2019 POOL:	\$ 0	\$ 0	\$ 0	\$ 0
<b>TOTAL INCREASE FOR RECOMMENDED STATE EMPLOYEE COMPENSATION PLAN:</b>	<b><u>\$18,165,646</u></b>	<b><u>\$ 8,631,682</u></b>	<b><u>\$20,968,632</u></b>	<b><u>\$47,765,960</u></b>

For FY2020, the components of the state employee compensation plan are recommended as a pool in the Bureau of Finance and Management to be distributed to agencies following the passage of the General Appropriations Act.

**GOVERNOR'S RECOMMENDED FY2020  
GENERAL FUND BASE BUDGET**

<b>GENERAL BILL</b>	<b>FTE EXPANSION/ (REDUCTION)</b>	<b>GENERAL FUND EXPANSION/ (REDUCTION)</b>	<b>TOTAL GENERAL FUND RECOMMENDATION</b>
Administration	0.0	901,209	17,174,891
Agriculture	(5.0)	(221,296)	7,303,715
Attorney General	2.0	305,882	11,940,382
Corrections	21.5	2,754,324	105,675,885
Education (Excluding State Aid and Technical Institutes)	0.0	974,954	17,585,019
State Aid to Education		10,278,685	560,607,185
Technical Institutes		1,229,126	29,708,297
Environment and Natural Resources	0.0	0	6,714,350
Finance and Management	0.0	568,137	1,538,838
Employee Compensation Package		18,165,646	18,165,646
Game, Fish, and Parks	2.0	5,865	6,208,568
Office of the Governor (Excluding GOED)	0.0	0	2,505,265
Governor's Office of Economic Development	5.7	563,119	10,370,130
Health	5.0	27,331	9,162,323
Human Resources	0.0	0	284,699
Human Services	(6.0)	5,920,657	172,904,617
Information and Telecommunications	5.0	0	7,285,678
Labor and Regulation	0.3	215,000	2,178,362
Legislature	0.0	40,340	10,635,891
Military	0.0	6,649	4,181,113
Public Safety	6.0	128,880	4,543,008
Public Utilities Commission	0.0	0	583,641
Regents	25.5	3,559,207	216,949,724
Retirement	0.0	0	0
Revenue	5.0	0	1,315,732
School and Public Lands	0.0	0	563,210
Secretary of State	0.0	0	1,062,794
Social Services	15.0	7,815,816	407,528,860
State Auditor	0.0	0	1,301,883
State Treasurer (Including Investment Council)	1.0	0	547,449
Tourism	1.0	0	0
Transportation	0.0	0	554,671
Tribal Relations	1.0	143,779	676,454
Unified Judicial System	3.8	533,730	45,631,520
Veterans' Affairs	2.0	67,577	4,423,159
<b>TOTAL FY2020 GENERAL BILL RECOMMENDATIONS</b>	<b>90.8</b>	<b>53,984,617</b>	<b>1,687,812,959</b>
<b>BREAKDOWN</b>			
Executive Branch	58.5	19,872,001	787,610,072
Unified Judicial System and Other Elected Officials	6.8	879,952	74,772,035
State Aid	0.0	10,278,685	560,607,185
Technical Institutes	0.0	1,229,126	29,708,297
Board of Regents	25.5	3,559,207	216,949,724
Employee Compensation Package	0.0	18,165,646	18,165,646
<b>TOTAL FY2020 GENERAL BILL RECOMMENDATIONS</b>	<b>90.8</b>	<b>53,984,617</b>	<b>1,687,812,959</b>

## GENERAL FUND CONDITION STATEMENT

	ACTUAL FY2017	ACTUAL FY2018	REVISED FY2019	PROJECTED FY2020
<b>RECEIPTS</b>				
Sales and Use Tax	\$ 951,223,081	\$ 988,823,603	\$ 1,035,338,915	\$ 1,073,785,445
Lottery	111,827,256	116,675,440	121,476,169	124,426,492
Contractor's Excise Tax	106,828,537	107,626,628	112,746,581	117,575,682
Insurance Company Tax	83,271,532	91,021,843	90,997,833	94,763,267
Unclaimed Property Receipts	44,386,220	52,766,031	45,717,206	45,717,206
Tobacco Taxes	56,809,149	54,157,663	52,132,028	51,676,427
Bank Franchise Tax	14,688,771	13,494,940	14,036,446	14,471,640
Other	171,759,428	168,839,713	169,448,830	173,262,244
One-Time Receipts	15,447,515	8,721,183	2,532,180	-
Transfer from Budget Reserves	-	5,855,710	7,160,087	-
Obligated Cash Carried Forward	14,069,144	7,943,412	16,898,828	-
<b>TOTAL RECEIPTS</b>	<b>\$ 1,570,310,632</b>	<b>\$ 1,615,926,166</b>	<b>\$ 1,668,485,103</b>	<b>\$ 1,695,678,403</b>
<b>EXPENDITURES</b>				
General Bill Excl. State Aid				
to Education	\$ 1,031,879,138	\$ 1,039,017,280	\$ 1,062,206,941	\$ 1,127,205,774
State Aid to Education	506,575,608	541,473,830	543,424,605	560,607,185
Special Appropriations	-	-	-	-
Emergency Special Appropriations	6,553,563	5,627,727	28,590,626	-
Continuous Appropriations	3,289,767	4,965,089	17,364,103	7,865,444
<b>TOTAL EXPENDITURES</b>	<b>\$ 1,548,298,076</b>	<b>\$ 1,591,083,926</b>	<b>\$ 1,651,586,275</b>	<b>\$ 1,695,678,403</b>
<b>TRANSFERS</b>				
Budget Reserve Fund	\$ 14,069,144	\$ 7,943,412	\$ 16,898,828	\$ -
<b>TOTAL TRANSFERS</b>	<b>\$ 14,069,144</b>	<b>\$ 7,943,412</b>	<b>\$ 16,898,828</b>	<b>\$ -</b>
<b>Beginning Unobligated Cash Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net (Receipts less Expend./Transfers)</b>	<b>\$ 7,943,412</b>	<b>\$ 16,898,828</b>	<b>\$ -</b>	<b>\$ -</b>
<b>OBLIGATIONS AGAINST CASH</b>				
Budget Reserve Fund	\$ (7,943,412)	\$ (16,898,828)	\$ -	\$ -
<b>Total Obligations Against Cash</b>	<b>(7,943,412)</b>	<b>(16,898,828)</b>	<b>-</b>	<b>-</b>
<b>Ending Unobligated Cash Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**SOURCE:** State of South Dakota Bureau of Finance and Management

**NOTE:** This document was prepared on a cash basis for budgeting purposes and reflects obligations against cash.  
The totals may not add due to rounding.

## TOTAL STATE GOVERNMENT BUDGET (Excluding Informational Budgets)

### GENERAL APPROPRIATIONS BILL

	ACTUAL FY 2017	ACTUAL FY 2018	BUDGETED FY 2019	REQUESTED FY 2020	GOVERNOR'S RECOMMENDED FY 2020	RECOMMENDED INC/(DEC) FY 2020
<b>FUNDING SOURCE:</b>						
General Funds	\$ 1,538,454,746	\$ 1,580,491,110	\$ 1,633,828,342	\$ 1,694,472,921	\$ 1,687,812,959	\$ 53,984,617
Federal Funds	1,065,834,840	1,031,980,610	1,217,977,735	1,270,176,735	1,276,138,717	58,160,982
Other Funds	767,937,549	681,924,623	803,384,108	815,569,391	840,352,352	36,968,244
<b>Total</b>	<b>\$ 3,372,227,136</b>	<b>\$ 3,294,396,344</b>	<b>\$ 3,655,190,185</b>	<b>\$ 3,780,219,047</b>	<b>\$ 3,804,304,028</b>	<b>\$ 149,113,843</b>
<b>EXPENDITURE DETAIL:</b>						
Personal Services	\$ 841,550,600	\$ 773,608,466	\$ 824,785,771	\$ 834,363,053	\$ 875,792,438	\$ 51,006,667
Operating Expenses	2,530,676,535	2,520,787,878	2,830,404,414	2,945,855,994	2,928,511,590	98,107,176
<b>Total</b>	<b>\$ 3,372,227,136</b>	<b>\$ 3,294,396,344</b>	<b>\$ 3,655,190,185</b>	<b>\$ 3,780,219,047</b>	<b>\$ 3,804,304,028</b>	<b>\$ 149,113,843</b>
Staffing Level FTE:	10,929.8	10,749.3	11,850.5	11,933.3	11,922.8	72.3

### SPECIAL AND CONTINUING APPROPRIATIONS & MID-YEAR ADJUSTMENTS

FUNDING SOURCE:	REVISED BUDGETED FY 2019	GOVERNOR'S RECOMMENDED FY 2020	RECOMMENDED INC/(DEC) FY 2020
General Funds	\$ 17,757,933	\$ 7,865,444	\$ (9,892,489)
Federal Funds	32,502,442	6,000,000	(26,502,442)
Other Funds	88,225,557	1,283,270	(86,942,287)
<b>Total</b>	<b>\$ 138,485,932</b>	<b>\$ 15,148,714</b>	<b>\$ (123,337,218)</b>
Staffing Level FTE:	(5.0)	0.0	5.0

### TOTAL STATE GOVERNMENT BUDGET

FUNDING SOURCE:	REVISED BUDGETED FY 2019	GOVERNOR'S RECOMMENDED FY 2020	RECOMMENDED INC/(DEC) FY 2020
General Funds	\$ 1,651,586,275	\$ 1,695,678,403	\$ 44,092,128
Federal Funds	1,250,480,177	1,282,138,717	31,658,540
Other Funds	891,609,665	841,635,622	(49,974,043)
<b>Total</b>	<b>\$ 3,793,676,117</b>	<b>\$ 3,819,452,742</b>	<b>\$ 25,776,625</b>
Staffing Level FTE:	11,845.5	11,922.8	77.3

## INFORMATIONAL BUDGETS CONTAINED IN THE GENERAL APPROPRIATIONS BILL

	ACTUAL FY 2017	ACTUAL FY 2018	BUDGETED FY 2019	REQUESTED FY 2020	GOVERNOR'S RECOMMENDED FY 2020	RECOMMENDED INC/(DEC) FY 2020
<b>FUNDING SOURCE:</b>						
General Funds	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Federal Funds	347,612,370	359,306,114	472,985,083	473,486,120	472,472,645	( 512,438 )
Other Funds	428,777,061	569,121,883	571,030,621	571,373,333	573,373,333	2,342,712
<b>Total</b>	<b>\$ 776,389,432</b>	<b>\$ 928,427,997</b>	<b>\$ 1,044,015,704</b>	<b>\$ 1,044,859,453</b>	<b>\$ 1,045,845,978</b>	<b>\$ 1,830,274</b>
<b>EXPENDITURE DETAIL:</b>						
Personal Services	\$ 148,658,274	\$ 232,317,203	\$ 251,622,348	\$ 254,448,992	\$ 254,448,992	\$ 2,826,644
Operating Expenses	627,731,158	696,110,794	792,393,356	790,410,461	791,396,986	( 996,370 )
<b>Total</b>	<b>\$ 776,389,432</b>	<b>\$ 928,427,997</b>	<b>\$ 1,044,015,704</b>	<b>\$ 1,044,859,453</b>	<b>\$ 1,045,845,978</b>	<b>\$ 1,830,274</b>
<b>Staffing Level FTE:</b>	<b>2,365.0</b>	<b>2,542.9</b>	<b>2,071.4</b>	<b>2,089.9</b>	<b>2,089.9</b>	<b>18.5</b>

## INFORMATIONAL BUDGETS

South Dakota Housing Development Authority  
 SD Science & Technology Authority  
 SD Ellsworth Development Authority  
 South Dakota Building Authority  
 SD Health & Educational Facilities Authority  
 Education Enhancement Funding Corporation  
 Risk Management Administration  
 Risk Management Claims  
 Lottery Instant and On-Line Operations  
 Commission on Gaming  
 American Dairy Association  
 Wheat Commission  
 Oilseeds Council  
 Soybean Research and Promotion  
 Brand Board  
 Corn Utilization Council  
 Board of Veterinary Medical Examiners  
 SD Pulse Crops Council  
 Division of Wildlife  
 Wildlife Development and Improvement  
 Snowmobile Trails Program  
 Board of Counselor Examiners  
 Board of Psychology Examiners  
 Board of Social Work Examiners  
 Board of Addiction & Prevention Professionals  
 Board of Chiropractic Examiners  
 Board of Dentistry  
 Board of Hearing Aid Dispensers  
 Board of Funeral Service  
 Board of Medical and Osteopathic Examiners  
 Board of Nursing  
 Board of Nursing Home Administrators

Board of Examiners in Optometry  
 Board of Pharmacy  
 Board of Podiatry Examiners  
 Board of Massage Therapy  
 Board of Language and Speech Pathology  
 Board of Accountancy  
 Board of Barber Examiners  
 Cosmetology Commission  
 Plumbing Commission  
 Board of Technical Professions  
 Electrical Commission  
 Real Estate Commission  
 Abstractors Board of Examiners  
 SD Athletic Commission  
 Trust Captive Insurance Company  
 Highway Construction Contracts  
 911 Coordination Board  
 Tuition and Fee Fund  
 Board of Regents Research  
 Army Guard  
 Air National Guard  
 Regulated Response Fund  
 Livestock Cleanup  
 Petroleum Release Fund  
 PUC Administration  
 Grain Warehouse  
 Fixed Utilities  
 Pipeline Safety  
 One-Call Notification Board  
 State Bar Association  
 Insurance Fraud Unit  
 Unclaimed Property Fund

## TOTAL STATE GOVERNMENT BUDGET (Including Informational Budgets)

### GENERAL APPROPRIATIONS BILL

	ACTUAL FY 2017	ACTUAL FY 2018	BUDGETED FY 2019	REQUESTED FY 2020	GOVERNOR'S RECOMMENDED FY 2020	RECOMMENDED INC/(DEC) FY 2020
<b>FUNDING SOURCE:</b>						
General Funds	\$ 1,538,454,746	\$ 1,580,491,110	\$ 1,633,828,342	\$ 1,694,472,921	\$ 1,687,812,959	\$ 53,984,617
Federal Funds	1,413,447,211	1,391,286,724	1,690,962,818	1,743,662,855	1,748,611,362	57,648,544
Other Funds	1,196,714,611	1,251,046,507	1,374,414,729	1,386,942,724	1,413,725,685	39,310,956
<b>Total</b>	<b>\$ 4,148,616,567</b>	<b>\$ 4,222,824,341</b>	<b>\$ 4,699,205,889</b>	<b>\$ 4,825,078,500</b>	<b>\$ 4,850,150,006</b>	<b>\$ 150,944,117</b>
<b>EXPENDITURE DETAIL:</b>						
Personal Services	\$ 990,208,874	\$ 1,005,925,669	\$ 1,076,408,119	\$ 1,088,812,045	\$ 1,130,241,430	\$ 53,833,311
Operating Expenses	3,158,407,693	3,216,898,672	3,622,797,770	3,736,266,455	3,719,908,576	97,110,806
<b>Total</b>	<b>\$ 4,148,616,567</b>	<b>\$ 4,222,824,341</b>	<b>\$ 4,699,205,889</b>	<b>\$ 4,825,078,500</b>	<b>\$ 4,850,150,006</b>	<b>\$ 150,944,117</b>
Staffing Level FTE:	13,294.8	13,292.2	13,921.9	14,023.2	14,012.7	90.8

### SPECIAL AND CONTINUING APPROPRIATIONS & MID-YEAR ADJUSTMENTS

FUNDING SOURCE:	REVISED BUDGETED FY 2019	GOVERNOR'S RECOMMENDED FY 2020	RECOMMENDED INC/(DEC) FY 2020
General Funds	\$ 17,757,933	\$ 7,865,444	\$ (9,892,489)
Federal Funds	32,502,442	6,000,000	(26,502,442)
Other Funds	88,225,557	1,283,270	(86,942,287)
<b>Total</b>	<b>\$ 138,485,932</b>	<b>\$ 15,148,714</b>	<b>\$ (123,337,218)</b>
Staffing Level FTE:	(5.0)	0.0	5.0

### TOTAL STATE GOVERNMENT BUDGET

FUNDING SOURCE:	REVISED BUDGETED FY 2019	GOVERNOR'S RECOMMENDED FY 2020	RECOMMENDED INC/(DEC) FY 2020
General Funds	\$ 1,651,586,275	\$ 1,695,678,403	\$ 44,092,128
Federal Funds	1,723,465,260	1,754,611,362	31,146,102
Other Funds	1,462,640,286	1,415,008,955	(47,631,331)
<b>Total</b>	<b>\$ 4,837,691,821</b>	<b>\$ 4,865,298,720</b>	<b>\$ 27,606,899</b>
Staffing Level FTE:	13,916.9	14,012.7	95.8