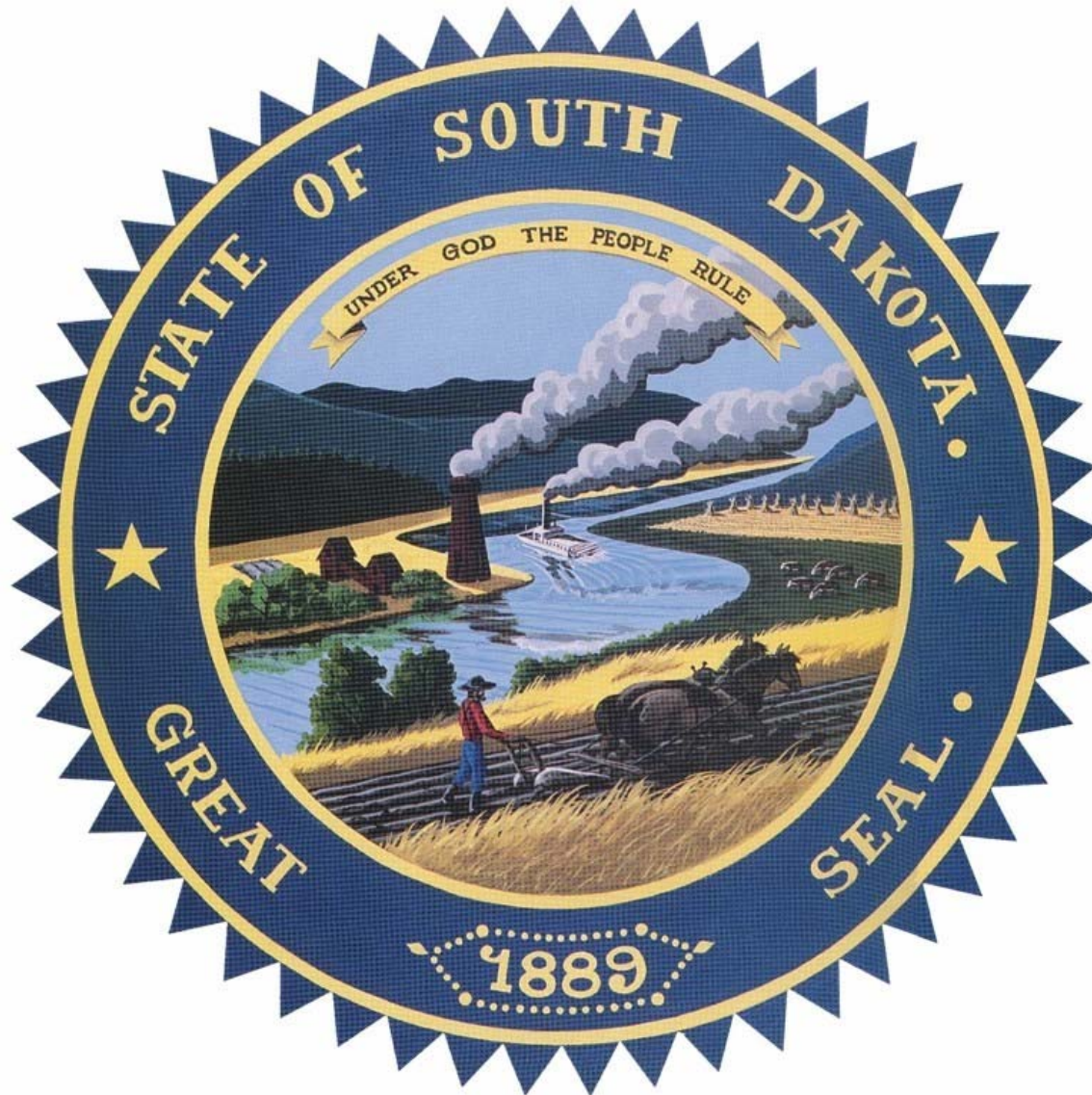


# Governor Mike Rounds' FY2010 Budget Address (Revised)

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# Budget Theme

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A new revised budget  
fraught with

tough

Choices

# FY09 Bottom Line

(Reflects changes in Revenues, not expenses)  
(General Funds in millions)

## December Revised

Projected Revenues	\$1,201.9
Projected Expenses	<u>\$1,228.7</u>
<b>Shortfall</b>	<b>- \$26.8</b>

## January Revised

Projected Revenues	\$1,176.5
Projected Expenses	<u>\$1,228.7</u>
<b>Revised Shortfall</b>	<b>- \$52.2</b>

# FY10 Bottom Line

(Reflects changes in Revenues, not expenses)  
(General Funds in millions)

## December Projected

Projected Revenues	\$1,203.8
Projected Expenses	<u>\$1,236.2</u>
<b>Shortfall</b>	<b>- \$32.4</b>

## January Revised Projected

Projected Revenues	\$1,154.6
Projected Expenses	<u>\$1,236.2</u>
<b>Revised Shortfall</b>	<b>- \$81.6</b>

# Changes to U.S. Economic Forecasts

**Jan. 09 Optimistic**

Source: IHS Global Insight

## U.S. GDP Growth

	<u>2008:4</u>	<u>2009:1</u>	<u>2009:2</u>	<u>2009:3</u>	<u>2009:4</u>	<u>2010:1</u>	<u>2010:2</u>
Oct. 08	-1.5%	-0.7%	1.2%	1.1%	2.1%	2.5%	3.1%
Jan. 09	-4.8%	-4.1%	-0.7%	2.0%	3.7%	3.4%	4.7%
<b>Change</b>	<b>-3.3%</b>	<b>-3.4%</b>	<b>-1.9%</b>	<b>0.9%</b>	<b>1.6%</b>	<b>0.9%</b>	<b>1.6%</b>

## U.S. Nonfarm Employment Growth

Oct. 08	-1.5%	-1.4%	-1.2%	-0.4%	0.5%	1.0%	1.4%
Jan. 09	-3.2%	-3.5%	-1.9%	0.1%	1.6%	2.2%	2.3%
<b>Change</b>	<b>-1.7%</b>	<b>-2.1%</b>	<b>-0.7%</b>	<b>0.5%</b>	<b>1.1%</b>	<b>1.2%</b>	<b>0.9%</b>

## U.S. Unemployment Rate

Oct. 08	6.4%	6.8%	7.2%	7.4%	7.5%	7.5%	7.5%
Jan. 09	6.7%	7.5%	8.1%	8.4%	8.4%	8.3%	8.1%
<b>Change</b>	<b>0.3%</b>	<b>0.7%</b>	<b>0.9%</b>	<b>1.0%</b>	<b>0.9%</b>	<b>0.8%</b>	<b>0.6%</b>

# Changes to S.D. Economic Forecasts

**Jan. 09 Optimistic**

## S.D. Nonfarm Employment Growth

	<u>2008:4</u>	<u>2009:1</u>	<u>2009:2</u>	<u>2009:3</u>	<u>2009:4</u>	<u>2010:1</u>	<u>2010:2</u>
<b>Nov. 08</b>	1.2%	0.5%	0.4%	-0.6%	0.1%	0.6%	1.2%
<b>Jan. 09</b>	1.1%	0.1%	-0.1%	-1.4%	-0.6%	0.2%	1.1%
<b>Change</b>	<b>-0.1%</b>	<b>-0.4%</b>	<b>-0.5%</b>	<b>-0.8%</b>	<b>-0.7%</b>	<b>-0.4%</b>	<b>-0.1%</b>

## S.D. Unemployment Rate

<b>Nov. 08</b>	3.3%	3.5%	3.6%	3.7%	3.7%	3.7%	3.7%
<b>Jan. 09</b>	3.4%	3.6%	3.8%	3.9%	3.9%	3.9%	3.9%
<b>Change</b>	<b>0.1%</b>	<b>0.1%</b>	<b>0.2%</b>	<b>0.2%</b>	<b>0.2%</b>	<b>0.2%</b>	<b>0.2%</b>

Source: IHS Global Insight/SD Econometric Model

# December vs. January Changes in Revenue Forecasts (in millions)

	<u>FY2009</u>	<u>FY2010</u>
Sales and Use Tax	- \$17.7	- \$32.3
Property Tax Reduction Fund	- 0.9	- 1.5
Contractor's Excise Tax	- 4.5	- 10.6
Insurance Company Tax	- 2.1	-1.9
Bank Franchise Tax	- 2.2	- 0.5
Transfer from Trust Funds	0.0	0.0
Interest Earnings	1.9	-2.1
Other Continuing Receipts	0.1	- 0.3
<b>Total Revenue Reduction</b>	<u>-25.4</u>	<u>-49.2</u>
<b>December Projected Shortfall</b>	<u>-26.8</u>	<u>-32.4</u>
<b>Total</b>	<u>-\$52.2</u>	<u>-81.6</u>

# Budget Shortfall

Before we decide which changes to make

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## Based on December Forecast:

FY2009 - \$26,828,755

FY2010 - \$32,375,962

- \$59,204,717

## Based on Today's Forecast:

FY2009 - \$52,198,524

FY2010 - \$81,604,858

- \$133,803,382



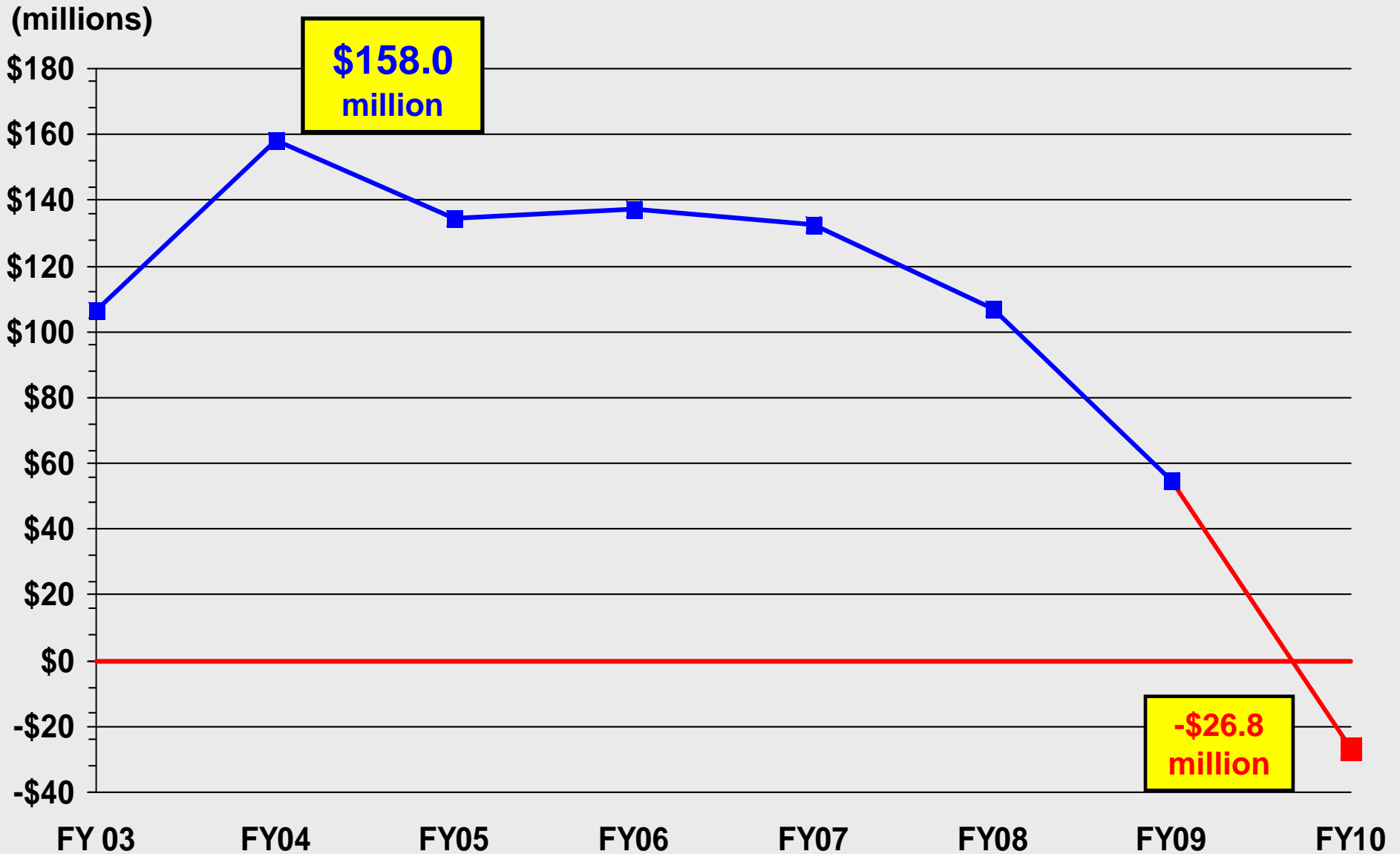
# How did we get here???

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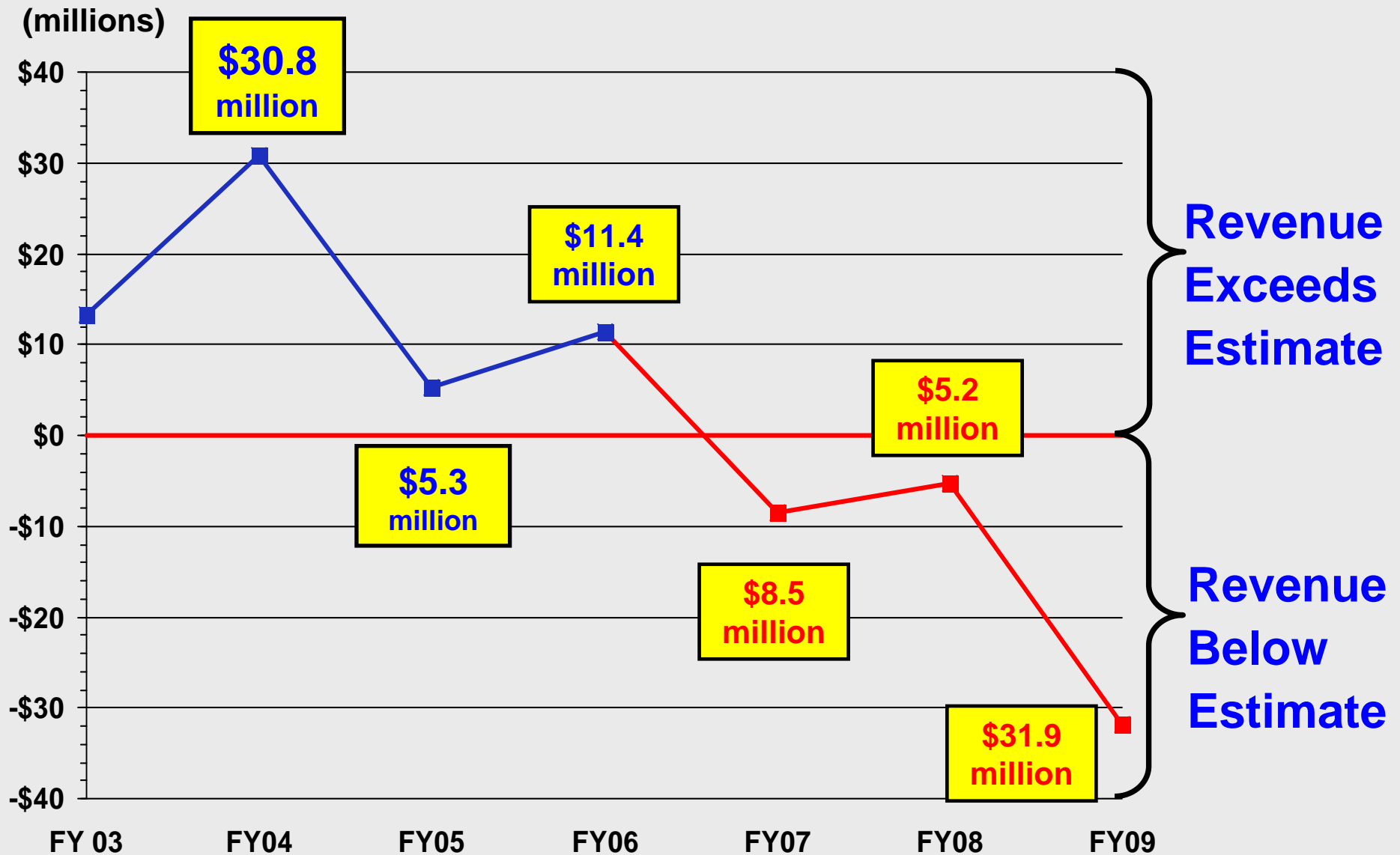
- 1. Using one-time funds (reserves) to create new ongoing expenditures**
- 2. An underperforming economy relative to adopted revenue estimates**
- 3. A global recession softened key general fund revenues which funded ongoing programs and entitlements**

# State Reserves

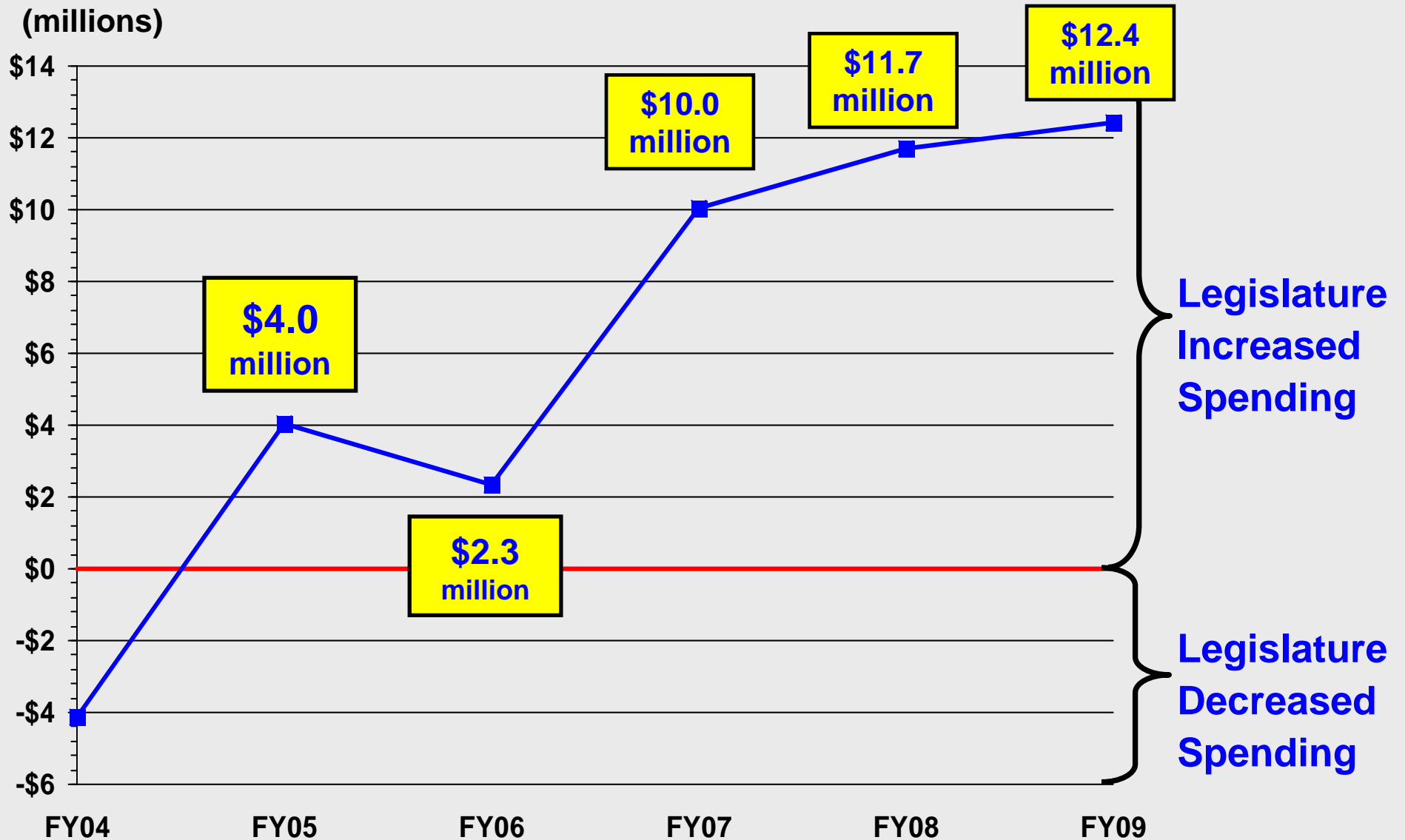
(Property Tax Reduction Fund plus Budget Reserve Fund)



# Forecasting State Revenues (Difference between adopted and actual)

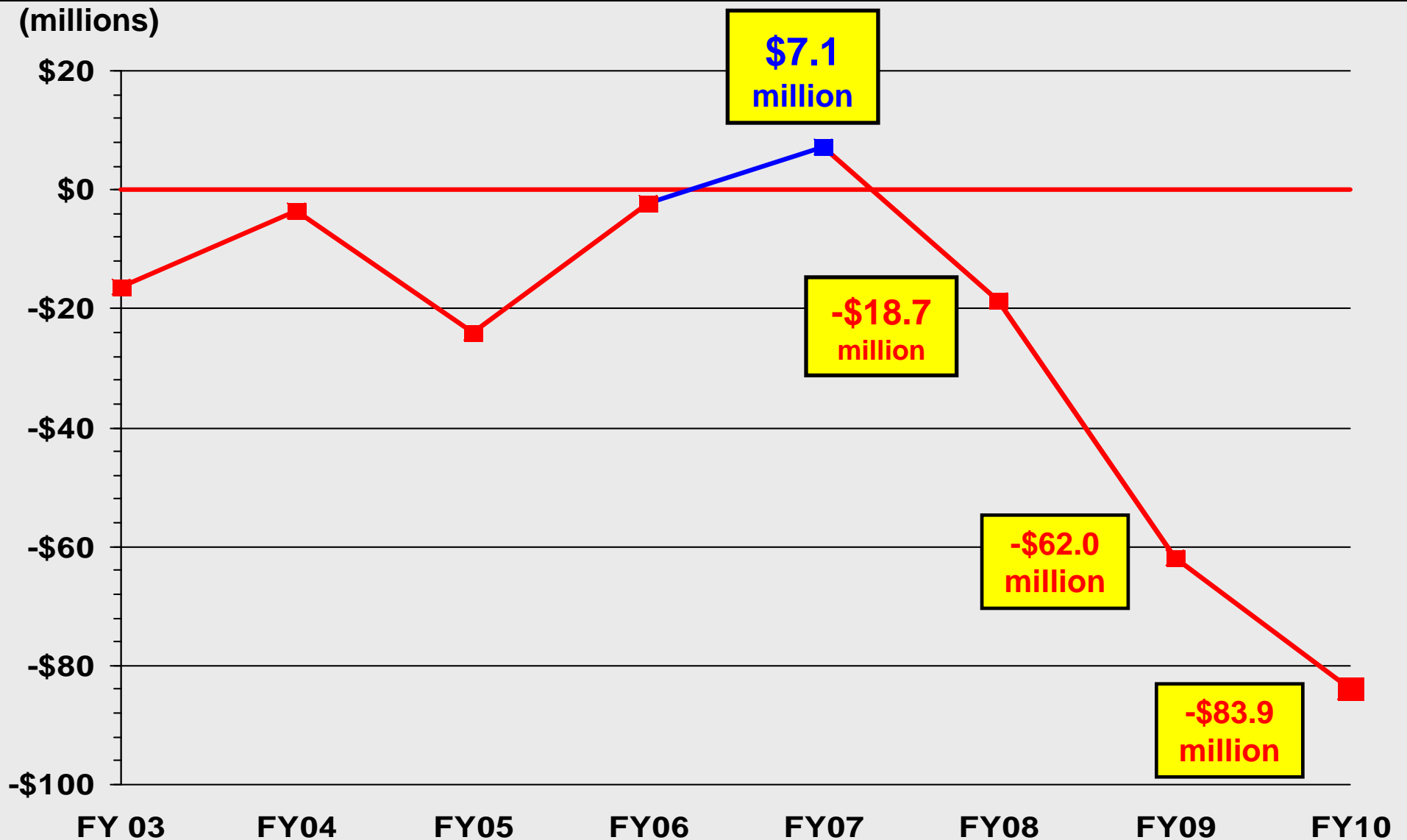


# General Fund Spending: Governor Proposed vs. Legislative Appropriated (Including Special Appropriations)



# Structural Deficit

ongoing revenues – ongoing expenses  
(if we do nothing)



# How can we solve this???

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- 1. Make prudent cuts to minimize unintended consequences for our citizens**
- 2. Live within our means (don't spend what we don't have in ongoing resources)**
- 3. Continue to invest in areas that speed up economic recovery and growth**

# FY2010 Budget Changes

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**All of these changes  
proposed are in addition  
to the budget proposals  
offered in December**

# General Fund Additional Proposed Revenue Enhancements For FY2010

(In Addition to December Proposal)

<b>Orig. Sales Tax Exemptions</b>	<b>+ \$ 3,054,000</b>
<b>New Sales Tax Exemptions</b>	<b>+ \$ 2,000,000</b>
<b>Deadwood Gaming</b>	<b>+ \$ 4,000,000</b>
<b>Deadwood slots change</b>	<b>+ \$ 500,000</b>
	<hr/>
<b>Total Enhancements</b>	<b>+ \$ 9,554,000</b>



# Where the spending cuts are proposed



**\$46,181,724 in Ongoing Spending Cuts**

3.4% Cut  
\$20,848,816

## Education

- K-12
- Higher Ed.
- Tech Schools
- Dept of Ed.

3.7% Cut  
\$15,318,829

## Taking Care of People

- Medicaid
- State Hospital
- TANF
- DSS/DHS/DOH

3.0% Cut  
\$4,045,144

## Protecting the Public

- Corrections
- Courts
- Public Safety
- Attorney General

9.2% Cut  
\$5,968,935

## Rest of State Govt

- 8 Dept's
- 4 Bureau's
- Legislature
- Governor
- 5 Const. Offices

# Where the Spending Cuts are for FY2010

(In Addition to December Proposal)

	<u>General Funds</u>
State Employee Comp. (1.5%, Job Worth, HI) -	\$ 6,728,980
Discretionary Provider Inflation (@1.5%) -	\$ 5,510,508
TCAP Repeal -	\$ 4,000,000
BOA Base Maintenance & Repair Funding -	\$ 2,451,444
Sales Tax on Food Refund Program -	\$ 2,353,302
Education Service Agencies Repeal -	\$ 2,200,000
Birth to Three Repeal -	\$ 2,130,170
Restructuring the SD School for the Deaf -	\$ 2,000,000
BOR Base Maintenance & Repair Funding -	\$ 1,632,999
Special Education formula increase to 0% -	\$ 1,632,256
Career and Technical Education funding -	\$ 1,500,000
Adult Medicaid Dental Services -	\$ 1,485,987
Coop Extension Service -	\$ 1,000,000
<b>Subtotal -</b>	<b>\$ 34,625,646</b>

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# Where the Spending Cuts are for FY2010

(In Addition to December Proposal)

	<u>General Funds</u>
Catastrophic Correctional Health Care -	\$ 800,000
Human Services Base Cuts -	\$ 800,000
State Fair -	\$ 774,643
SCHIP Shortfall (Pending Reauthorization) -	\$ 752,959
Cut Division of Arts -	\$ 668,509
Adult Medicaid Primary Care Case Mgmt -	\$ 647,360
BOR Institutional Reductions -	\$ 500,000
Alternative Education Program -	\$ 450,000
Nursing Home Client Cost Share -	\$ 429,678
Rehab Services Independent Living Services -	\$ 378,130
State Aid to Technology Increase -	\$ 309,226
Archeological Research Center Program -	\$ 308,782
Mosquito Control Program -	\$ 300,000
Subtotal -	<u>\$ 7,119,287</u>

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# Where the Spending Cuts are for FY2010

(In Addition to December Proposal)

	<u>General Funds</u>
HPV Vaccination Program - \$	276,995
SDPB Tower Maintenance - \$	230,000
DENR EPA Federal Funds Swap - \$	230,000
DSS Independent Living Services - \$	222,000
BOR New Accounting Staff - \$	213,141
DOC Adult Education Program - \$	210,789
DOC Community Transition Fee - \$	200,750
DOC Food Service Reduction - \$	200,000
FTE for REED Data Center - \$	155,359
Remaining Education Cuts - \$	341,343
Remaining Taking Care of People Cuts - \$	991,297
Remaining Protecting the Public Cuts - \$	548,140
Remaining All the Rest Cuts - \$	616,977
Subtotal - \$	<u>4,436,791</u>
Total Cuts - \$	46,181,724

# Total Funds Represented in the Additional Cuts For FY2010

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(Changes to December Proposed Budget)

<b>General Funds</b>	- \$ 46,181,724
<b>Federal Funds</b>	- \$ 18,825,972
<b>Other Funds</b>	- \$ 9,394,564
<b>Total Funds</b>	<u>- \$ 74,402,260</u>

**FTE** - 76.5

# Solving the problem together

	<u>FY09</u>	<u>FY10</u>
<b>December Shortfall Projections</b>	<b>-\$26.8</b>	<b>-\$32.4</b>
<b>January Revisions</b>	<b>-\$25.4</b>	<b>-\$49.2</b>
<b>Total Shortfall</b>	<b>-\$52.2</b>	<b>-\$81.6</b>
<b>Reversions/One-time Cash</b>	<b>+\$13.6</b>	
<b>Revenue Enhancements</b>		<b>+\$ 9.5</b>
<b>Ongoing Cuts</b>	<b>+\$ 3.3</b>	<b>+\$43.8</b>
<b>Shortfall remaining</b>	<b>-\$35.3</b>	<b>-\$28.3</b>
<b>Use of PTRF reserves</b>	<b>+\$35.3</b>	<b>+\$28.3</b>
<b>Use of Budget reserves</b>	<b>\$ 0.0</b>	<b>\$ 0.0</b>
<b>Shortfall remaining</b>	<b>\$ 0.0</b>	<b>\$ 0.0</b>

# General Fund Ongoing Revenues vs. Ongoing Expenses

	Revenues	Expenses	Difference
<b>FY2003</b>	\$ 854,697,744	\$870,924,891	\$ (16,227,148)
<b>FY2004</b>	\$ 915,362,605	\$918,991,252	\$ (3,628,647)
<b>FY2005</b>	\$ 957,992,124	\$981,976,991	\$ (23,984,967)
<b>FY2006</b>	\$1,017,305,301	\$1,019,653,032	\$ (2,347,731)
<b>FY2007</b>	\$1,072,511,393	\$1,065,368,691	\$ 7,142,702
<b>FY2008</b>	\$1,143,748,223	\$1,162,460,710	\$ (18,712,487)
<b>Jan. FY2009</b>	\$1,163,608,267	\$1,225,567,461	\$ (61,959,197)
<b>New Jan. FY2009</b>	\$1,163,608,267	\$1,222,351,763	\$ (58,743,496)
<b>Jan. FY2010</b>	\$1,152,268,676	\$1,236,148,954	\$ (83,880,278)
<b>New Jan. FY2010</b>	\$1,161,744,956	\$1,192,320,532	\$ (30,575,576)

# What about next year???

FY2011 if you accept all these changes

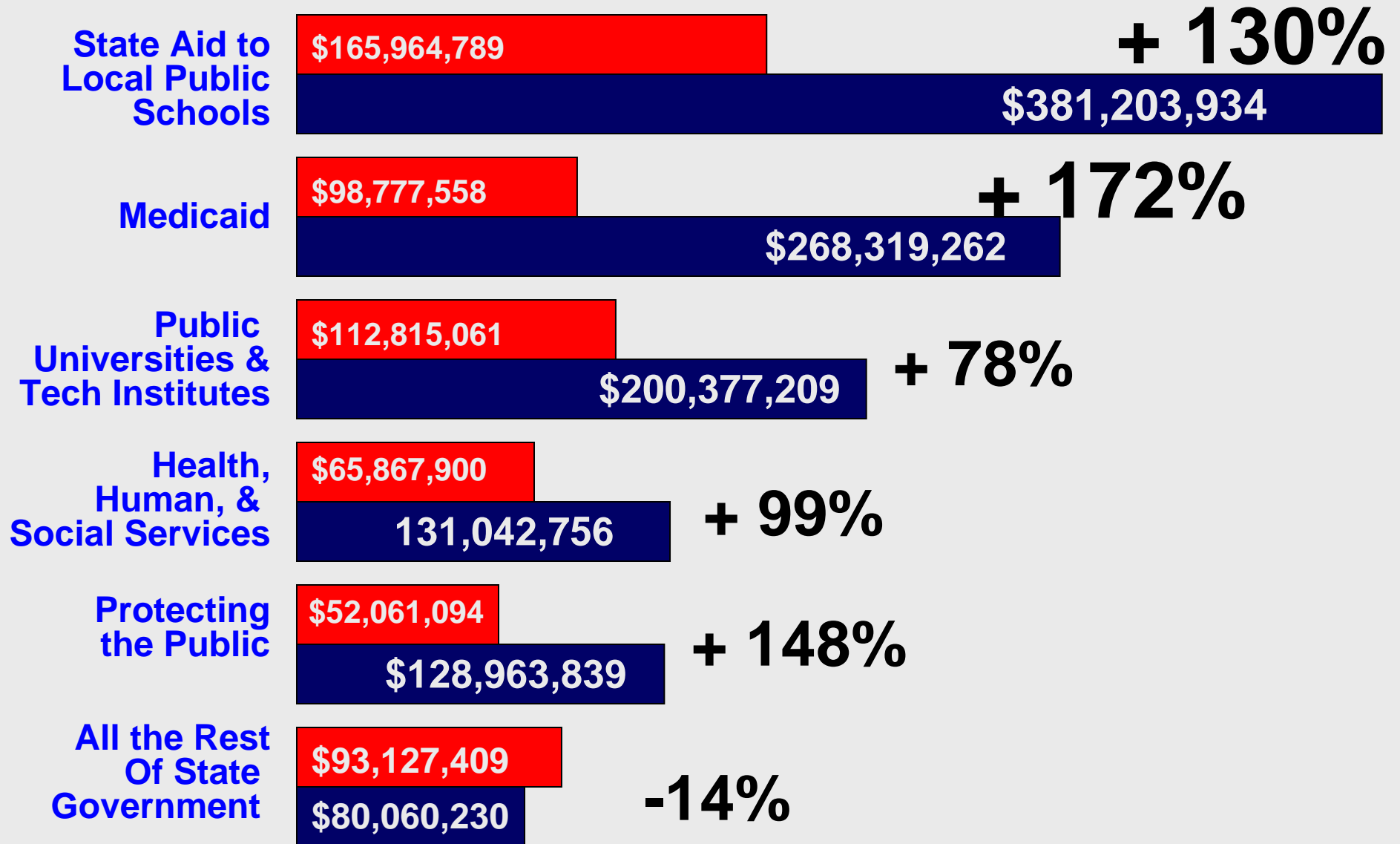
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<b>FY2011 Starting Point (structural)</b>	<b>-\$30.6 m</b>
<b>PTRF Balance</b>	<b>\$ 0.0 m</b>
<b>Budget Reserve Balance (1-time)</b>	<b>\$43.4 m</b>
<b>New Revenues</b>	<b>???</b>
<b>New Ongoing Expenditure Requests</b>	<b>???</b>



# State Funding Priorities

## Your State Tax Dollars: FY95 to Revised Recommended Spending for FY10



*Includes Sale/Leaseback, CRP, Bonds, & Specials*

***“Working together,  
we ARE making  
South Dakota even  
better!”***