

Budget Overview

South Dakota

Bureau of Finance and Management

January 24, 2019

BFM Budget Team

- Liza Clark, Commissioner
- Jim Terwilliger, Secretary, Department of Revenue/Economist
- Derek Johnson, Chief Budget Analyst
- Kelsey Roth, Senior Budget Analyst
- Brittni Skipper, Senior Budget Analyst
- Hallie Getz, Budget Analyst
- Lara Williams, Budget Analyst
- Colin Keeler, Director of Financial Systems

Presentation Overview

- Budget Process
- Revised FY2019 and FY2020 Revenue Estimates/Remote Sellers
- FY2019 General Bill Expense Reductions
- FY2019 Emergency Special Appropriations
- FY2019 General Bill Expense Increases
- FY2020 Ongoing General Fund Recommendations

Budget Process

- **August:** Agencies submit budget request to BFM
- **September/October:** Analysts review requests for assigned agencies and make give recommendations to the commissioner
- **November:** BFM gives statewide recommendation to the Governor and her staff
- **December:** Governor presents her recommendations
- **January - March:** Budget decisions finalized by Legislature
- **April - June:** Budgets loaded and year-end spending plans finalized

**Revised FY2019
Revenue Estimates**

Ongoing Revenue Estimates: FY2019

(millions)

| Source | Adopted FY2019 | Revised FY2019 | Dollar Change |
|------------------------------|-------------------|-------------------|------------------|
| Sales and Use Tax | \$1,029.1 | \$1,035.3 | + 6.2 |
| Lottery | 120.7 | 121.5 | + 0.8 |
| Contractor's Excise Tax | 111.4 | 112.7 | + 1.3 |
| Insurance Company Tax | 90.2 | 91.0 | + 0.8 |
| Unclaimed Property | 49.5 | 45.7 | (3.8) |
| Licenses, Permits, & Fees | 67.9 | 68.1 | + 0.2 |
| Tobacco Taxes | 54.5 | 52.1 | (2.4) |
| Bank Franchise Tax | 13.7 | 14.0 | + 0.3 |
| Remaining Ongoing Revenue | <u>104.5</u> | <u>101.4</u> | <u>(3.1)</u> |
| Total Ongoing Revenue | \$1,641.5 | \$1,641.9 | + 0.3 |

One-Time Funds in FY2019

| Reduced Revenue and Reduced Expenses | FY2019 |
|---|---------------------|
| Increased Ongoing Revenues vs. Adopted | \$348,324 |
| Transfer from Reserves in Excess of 10% | \$7,160,087 |
| One-Time Increased Receipts | \$2,532,180 |
| Reduction of Annual Appropriations | <u>\$34,683,601</u> |
| Total One-time Funds Available in FY2019 | \$44,724,192 |

FY2020
Revenue Estimates

FY2019 Adopted vs. FY2020 Recommended Ongoing Receipts (millions)

| Source | Adopted FY2019 | Revised FY2019 | Recommended FY2020 | FY20 vs. Adopted |
|-------------------------------|-------------------|-------------------|-----------------------|---------------------|
| Sales and Use Tax | \$1,029.1 | \$1,035.3 | \$1,073.8 | + 44.7 |
| Lottery | 120.7 | 121.5 | 124.4 | + 3.7 |
| Contractor's Excise Tax | 111.4 | 112.7 | 117.6 | + 6.2 |
| Insurance Company Tax | 90.2 | 91.0 | 94.8 | + 4.6 |
| Unclaimed Property | 49.5 | 45.7 | 45.7 | - 3.8 |
| Licenses, Permits, & Fees | 67.9 | 68.1 | 69.2 | + 1.3 |
| Tobacco Taxes | 54.5 | 52.1 | 51.7 | - 2.8 |
| Bank Franchise Tax | 13.7 | 14.0 | 14.5 | + 0.8 |
| Other Ongoing Receipts | <u>104.5</u> | <u>101.4</u> | <u>104.0</u> | <u>- 0.5</u> |
| Total Ongoing Receipts | \$1,641.5 | \$1,641.9 | \$1,695.7 | + 54.2 |

Sales Tax Reported by Remote Sellers

| Current Year | | Previous Year | | \$ Change Year/Year |
|------------------|--------------------|------------------|--------------------|------------------------|
| Month | Amount | Month | Amount | |
| Dec. 2017 | \$4,931,666 | Dec. 2016 | \$3,824,527 | \$1,107,138 |
| Jan. 2018 | \$7,275,261 | Jan. 2017 | \$5,805,974 | \$1,469,287 |
| Feb. 2018 | \$4,386,830 | Feb. 2017 | \$3,699,690 | \$687,140 |
| Mar. 2018 | \$4,266,849 | Mar. 2017 | \$3,655,017 | \$611,832 |
| Apr. 2018 | \$5,123,192 | Apr. 2017 | \$4,501,974 | \$621,218 |
| May 2018 | \$4,283,475 | May 2017 | \$4,225,772 | \$57,704 |
| Jun 2018 | \$4,482,290 | Jun 2017 | \$4,539,197 | (\$56,907) |
| Jul. 2018 | \$6,255,463 | Jul. 2017 | \$6,294,019 | (\$38,556) |
| Aug. 2018 | \$5,035,280 | Aug. 2017 | \$4,208,554 | \$826,727 |
| Sep. 2018 | \$5,069,254 | Sep. 2017 | \$4,858,597 | \$210,657 |
| Oct. 2018 | \$5,571,722 | Oct. 2017 | \$4,997,685 | \$574,037 |
| Nov. 2018 | \$5,579,406 | Nov. 2017 | \$4,669,368 | \$910,038 |
| Dec. 2018 | \$6,326,749 | Dec. 2017 | \$4,931,666 | \$1,395,084 |

One-Time Funds in FY2019

| Reduced Revenue and Reduced Expenses | FY2019 |
|---|---------------------|
| Increased Ongoing Revenues vs. Adopted | \$348,324 |
| Transfer from Reserves in Excess of 10% | \$7,160,087 |
| One-Time Increased Receipts | \$2,532,180 |
| Reduction of Annual Appropriations | <u>\$34,683,601</u> |
| Total One-time Funds Available in FY2019 | \$44,724,192 |

FY2019 General Bill Expense Reductions

FY2019 General Bill Amendment General Fund Decreases

| Decreased Expenses | General Funds |
|--|----------------------|
| Department of Social Services Utilization | \$19,832,331 |
| Care Coordination Agreements | \$6,843,582 |
| State Aid Revision | \$6,903,895 |
| Statewide Various Decreases | <u>\$1,103,793</u> |
| FY2019 General Bill Amendment Decreases | \$34,683,601 |

DSS Utilization

- Decrease of \$19,832,331 in general funds
- Medical Services
- Child Care Direct Assistance
- Human Services Center Federal Revenues
- Juvenile Justice Reinvestment Initiative (JJRI)

Care Coordination Agreements

- Decrease of \$6,843,582 in general funds
- Savings due to new agreements and shared savings related to Care Coordination Agreements with Medicaid providers
- Federal government now pays for the full cost of IHS eligible patients
- Savings will be reinvested to increase provider rates and on funding for the provider innovation grants

State Aid to Education Revision

- Decrease of \$6,903,895 in general funds
 - 385 students less than projected = (\$1.9M)
 - Property Valuations higher than projected = (\$4.5M)
 - Lost Local Effort, Alternative Formula, PRTFs = (\$0.4M)
- Sparsity
 - Updated due to actual enrollment numbers in sparse districts

Statewide Various Decreases

- Decrease of \$1,103,793 in general funds
 - (\$398,820) Utility Adjustments
 - (\$379,639) Department of Corrections Operations
 - (\$305,194) Department of Human Services Operations
 - (\$20,140) Legislator Pay Changes

Summary of Recommended FY2019 One-time General Funds Expenditures

| Recommended Increases | General Funds |
|--|----------------------|
| FY2019 Emergency Special Appropriations | \$28,590,626 |
| FY2019 General Bill Amendment Increases | \$16,107,725 |
| FY2019 Continuous Appropriations Adjustments | <u>\$25,841</u> |
| Total Expenditures | \$44,724,192 |

**FY2019 Emergency
Special Appropriations**

FY2019 Emergency Special Appropriations

| Recommended Increases | General Funds |
|--|---------------------|
| Jameson Prison Annex Expansion | \$7,392,235 |
| Provider Innovation Grants | \$6,000,000 |
| National Guard Readiness Center | \$3,884,885 |
| Extraordinary Litigation Fund | \$2,300,000 |
| Ellsworth Air Force Base REPI Program | \$1,845,000 |
| Metrology Lab | \$1,660,000 |
| Second Century Pheasant Habitat | \$1,000,000 |
| Rural Healthcare Recruitment Assistance Programs | \$979,849 |
| Fire Suppression Fund | \$906,658 |
| Veteran's Bonus Program | \$600,000 |
| Emergency and Disaster Fund | \$550,596 |
| Elm Lake Dam | \$521,403 |
| Palisades State Park | \$500,000 |
| Tax Refunds for Elderly and Disabled | <u>\$450,000</u> |
| Total | \$28,590,626 |

Jameson Prison Annex Expansion

- Increase of \$7,392,235 in general funds
- To construct a health services building adjacent to Jameson Prison Annex in Sioux Falls
- More space needed to serve the healthcare needs of the adult, male population
- NCCHC has issued concerns with several compliance standards with privacy and confidentiality

Provider Innovation Grants

- Increase of \$6,000,000 in general funds
 - \$5,000,000 nursing home grants
 - \$1,000,000 primary and prenatal care grants

National Guard Readiness Center

- Increase of \$3,884,885 in general funds
- To fund the second and third year costs of construction of a National Guard Readiness Center in Rapid City

| | General Funds | Federal Funds | Total |
|------------|--------------------|--------------------|--------------------|
| Year One | \$1,115,115 | \$3,345,345 | \$4,460,460 |
| Year Two | \$2,818,885 | \$8,456,655 | \$11,275,540 |
| Year Three | <u>\$1,066,000</u> | <u>\$3,198,000</u> | <u>\$4,264,000</u> |
| Total | \$5,000,000 | \$15,000,000 | \$20,000,000 |

Extraordinary Litigation Fund

- Increase of \$2,300,000 in general funds
- Backfills the Extraordinary Litigation Fund for costs associated with litigation against the State of South Dakota
- Includes language to allow the fund to pay SIR for cyber insurance

| | General Funds |
|--------------------------------|----------------|
| Negative Cash Balance | \$1.7 M |
| FY19 Projected Remaining Costs | <u>\$0.6 M</u> |
| Total Backfill Recommended | \$2.3 M |

Ellsworth Air Force Base REPI Program

- Increase of \$1,845,000 in general funds
- To help remove land-use conflicts near Ellsworth Air Force Base

Metrology Lab

- Increase of \$1,660,000 in general funds
- To renovate a building in Sturgis for the state metrology lab
- Metrology lab verifies the accuracy of standards used by service agents and the state inspection program

Second Century Pheasant Habitat

- Increase of \$1,000,000 in general funds
- For costs related to the protection and enhancement of wildlife habitat across the state.

Rural Healthcare Recruitment Assistance

- Increase \$979,849 in general funds

| Program | General Funds |
|--|------------------|
| Recruitment Assistance Program | \$659,849 |
| Rural Healthcare Facility Recruitment Assistance Program | <u>\$320,000</u> |
| Total General Funds Recommended | \$979,849 |

Fire Suppression Fund

- Increase of \$906,658 in general funds
- For costs related to the suppression of wildfires in South Dakota

Veteran's Bonus Program

- Increase of \$600,000 in general funds
- To continue the veteran's bonus program within the Department of Veterans Affairs

Emergency and Disaster Fund

- Increase of \$550,596 in general funds
- Used to pay for costs associated with cleanup, repairs, and maintaining safety during disasters

Elm Lake Dam

- Increase of \$521,403 in general funds
 - Rated a category 1, high-hazard dam
 - Dam is part of the City of Aberdeen water supply
 - Aberdeen is willing to commit additional funds for the replacement
 - Full Replacement - 50+ year lifespan
 - Total Cost: \$1,521,403
 - State Share: \$521,403

Palisades State Park

- Increase of \$500,000 in general funds
- For the construction or improvements at Palisades State Park

Tax Refunds for Elderly and Disabled Persons

- Increase of \$450,000 in general funds
- Tax refunds for elderly and disabled individuals who meet income guidelines

2019 General Bill Expense Increases

FY2019 General Bill Amendment

General Fund Increases

| Increased Expenses | General Fund |
|--|---------------------|
| Rural Broadband Expansion | \$5,000,000 |
| State Radio Infrastructure and Systems Upgrade | \$4,620,920 |
| Provider Rate Increases | \$3,776,805 |
| Methamphetamine Prevention Campaign | \$1,375,000 |
| Statewide Various Increases | <u>\$1,335,000</u> |
| FY2019 General Bill Amendment Increases | \$16,107,725 |

Rural Broadband Expansion

- Increase in \$5,000,000 in general funds
- To increase access to broadband services throughout South Dakota
- Partner with providers to bring and enhance service in areas lacking faster connections

State Radio Infrastructure and Systems Upgrade

- Increase in \$4,620,920 in general funds
- Current system needs to be upgraded in 2023
- Total cost to upgrade is \$9.2M, along with on-going costs

Provider Rate Increases

- Increase in \$3,776,805 in general funds
 - 2.5% inflation to medical providers
 - Targeted inflation for providers working towards 100% of their costs
 - Increased rates will start on April 1st

Methamphetamine Prevention Campaign

- Increase of \$1,375,000 in general funds
- Funding to reach out to every South Dakotan through various platforms to help prevent meth addiction

Statewide Various Increases

- Increase of \$1,335,000 in general funds
 - \$426,103 Bureau Billings Pool
 - \$358,742 Dual Credit Enrollment
 - \$150,000 Matching Funds for HAVA Grant
 - \$107,406 Attorney General Operations
 - \$100,000 SDDA Resource Conservation & Forestry
 - \$81,505 Technical Institute Revision
 - \$11,244 Civil Air Patrol

Summary of Recommended FY2019 One-time General Funds Expenditures

| Recommended Increases | General Funds |
|--|----------------------|
| FY2019 Emergency Special Appropriations | \$28,590,626 |
| FY2019 General Bill Amendment Increases | \$16,107,725 |
| FY2019 Continuous Appropriations Adjustments | <u>\$25,841</u> |
| Total Expenditures | \$44,724,192 |

FY2020 Ongoing Revenue Estimates

FY2019 Adopted vs. FY2020 Recommended Ongoing Receipts (millions)

| Source | Adopted FY2019 | Revised FY2019 | Recommended FY2020 | FY20 vs. Adopted |
|-------------------------------|-------------------|-------------------|-----------------------|---------------------|
| Sales and Use Tax | \$1,029.1 | \$1,035.3 | \$1,073.8 | + 44.7 |
| Lottery | 120.7 | 121.5 | 124.4 | + 3.7 |
| Contractor's Excise Tax | 111.4 | 112.7 | 117.6 | + 6.2 |
| Insurance Company Tax | 90.2 | 91.0 | 94.8 | + 4.6 |
| Unclaimed Property | 49.5 | 45.7 | 45.7 | - 3.8 |
| Licenses, Permits, & Fees | 67.9 | 68.1 | 69.2 | + 1.3 |
| Tobacco Taxes | 54.5 | 52.1 | 51.7 | - 2.8 |
| Bank Franchise Tax | 13.7 | 14.0 | 14.5 | + 0.8 |
| Other Ongoing Receipts | <u>104.5</u> | <u>101.4</u> | <u>104.0</u> | <u>- 0.5</u> |
| Total Ongoing Receipts | \$1,641.5 | \$1,641.9 | \$1,695.7 | + 54.2 |

**FY2020 Ongoing
General Fund
Recommendations**

FY2020 Recommended Expense Overview

| Major Increases/Decreases | General Funds |
|---|-----------------------|
| Provider Inflation | \$19,211,130 |
| State Aid to Education and Technical Institutes Formula | \$11,160,327 |
| State Employee Salary Policy | \$9,567,792 |
| DSS/DHS Consumer Expansion | \$8,647,610 |
| State Employee Health Insurance | \$8,597,854 |
| Maintenance and Repair | \$4,928,770 |
| Meth Prevention and Treatment Services | \$3,258,002 |
| Various Increases/(Decreases) | \$1,098,536 |
| Medicaid Revisions | <u>(\$12,337,302)</u> |
| Total General Fund Increase | \$54,132,719 |

Provider Inflation

| | General |
|-------------------------|---------------------|
| Social Services | \$11,496,338 |
| Human Services | \$7,407,345 |
| Corrections | \$245,679 |
| Unified Judicial System | \$48,749 |
| Public Safety | <u>\$13,019</u> |
| Total | \$19,211,130 |

State Aid

| | General |
|--------------------------------|---------------------|
| State Aid to General Education | \$9,922,491 |
| Technical Institutes Formula | \$881,642 |
| Technology in Schools | \$329,389 |
| Sparsity | <u>\$26,805</u> |
| Total | \$11,160,327 |

State Employee Salary Policy

- Increase of \$9,567,792 general funds
 - Includes a 2.5% market adjustment for state employees
 - 97.3% of executive branch employees are below market value
 - Recommended as a pool in BFM to be distributed to agencies following the passage of the General Appropriations Act

DSS and DHS Consumer Expansion

| | General |
|-----------------|--------------------|
| Social Services | \$4,891,794 |
| Human Services | <u>\$3,755,816</u> |
| Total | \$8,647,610 |

State Employee Health Insurance

- Increase of \$8,597,854 general funds
- Amount necessary to structurally balance the State Employee Health Plan
- No employee premium for employees

Maintenance and Repair

- Increase of \$4,928,770 general funds
- New buildings phased in over 5 years

| | General |
|------------------------------------|--------------------|
| Board of Regents (1.76%) | \$3,746,133 |
| Bureau of Administration (1.76%) | \$901,209 |
| Technical Institutes (6 year plan) | \$281,428 |
| Department of the Military (1.78%) | <u>\$0</u> |
| Total | \$4,928,770 |

Meth Prevention and Treatment Services

- Increase of \$3,258,002 in general funds
 - \$1,525,800 meth treatment
 - \$731,281 school-based meth prevention
 - \$547,500 alternative care programs
 - \$250,000 meth prevention campaign
 - \$203,421 Meth Interdiction DCI agents

Medicaid Revisions

| | General |
|-----------------|-----------------------|
| Social Services | (\$10,544,426) |
| Human Services | <u>(\$1,792,876)</u> |
| Total | (\$12,337,302) |

Bottom Line

| | FY2019 | FY2020 |
|---|----------------|-----------------------|
| Increased Ongoing Revenues v. Adopted | \$348,324 | \$54,132,719 |
| One-Time Increased Receipts | \$2,531,180 | \$0 |
| Transfer from Reserves in Excess of 10% | \$7,160,087 | \$0 |
| Mid-Year Expense Adjustment & Transfers | \$18,550,035 | \$0 |
| Emergency Special Appropriations | (\$28,590,626) | \$0 |
| Ongoing Expense Adjustments | <u>\$0</u> | <u>(\$54,132,719)</u> |
| Bottom Line | \$0 | \$0 |