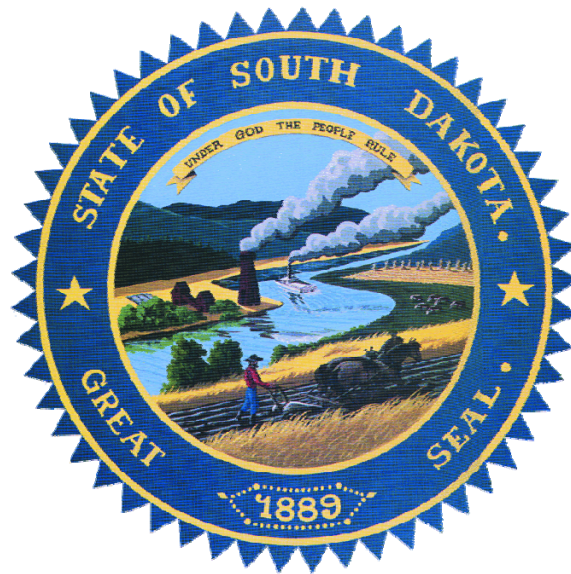
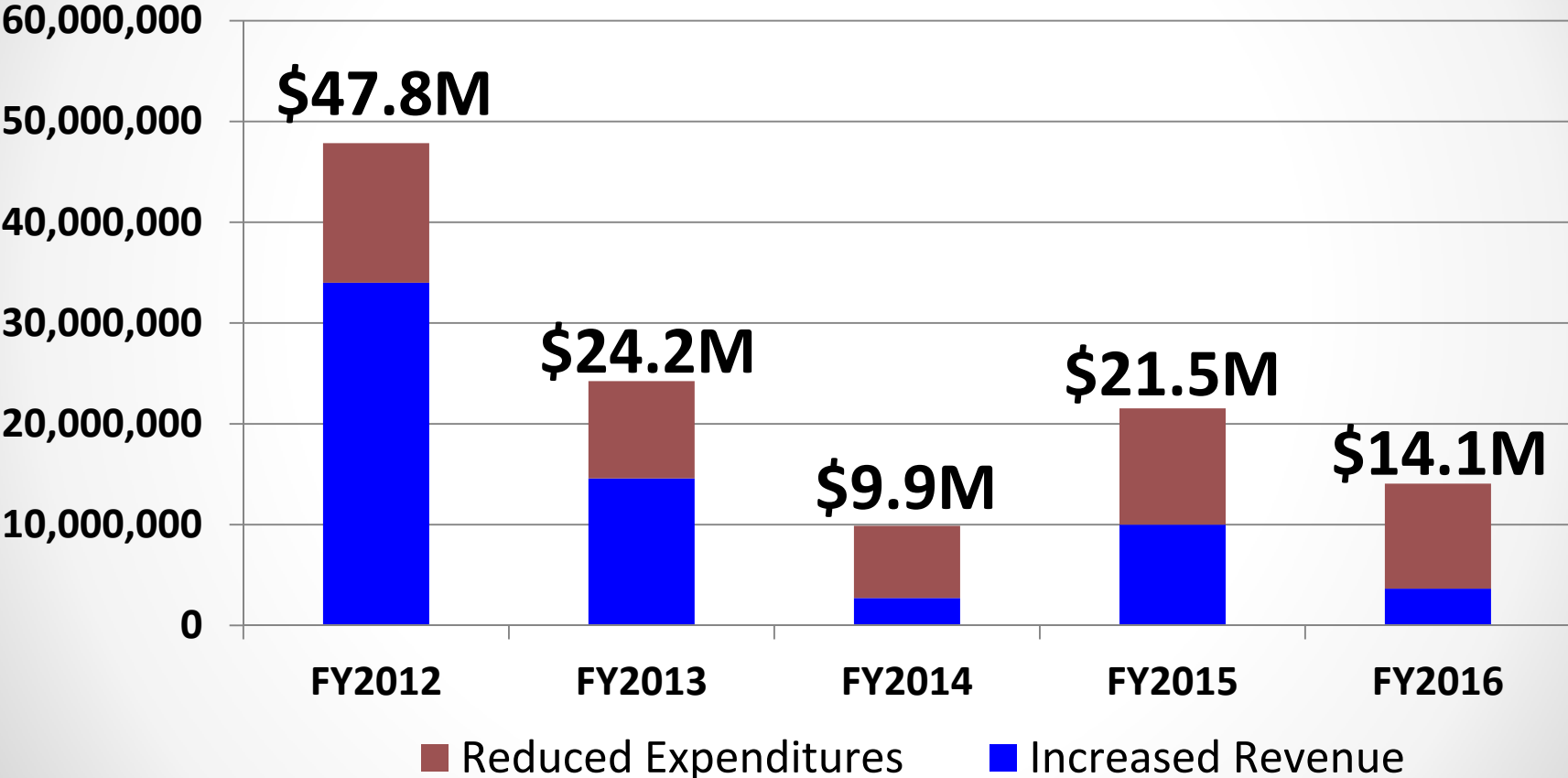


Governor Dennis Daugaard's FY2018 Budget Recommendations

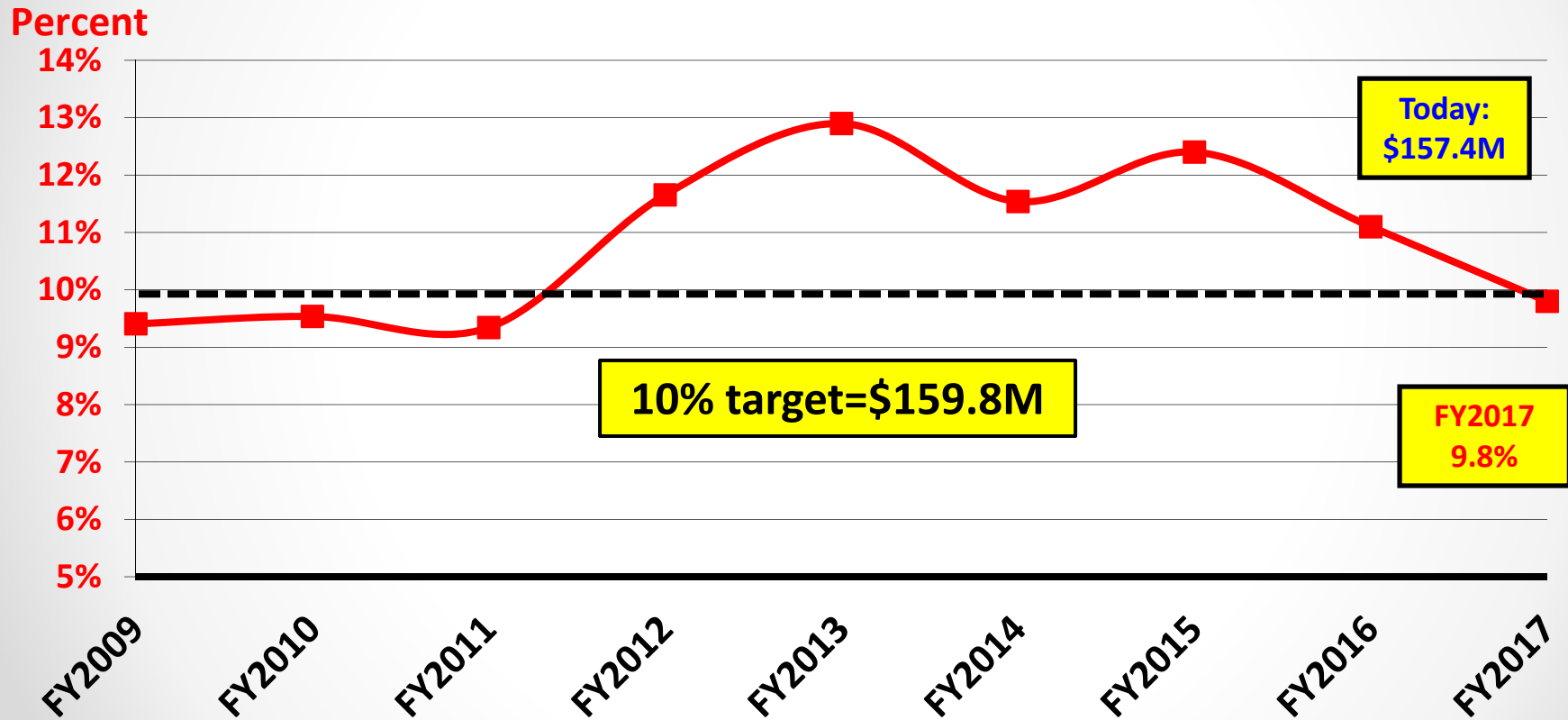


December 6, 2016

Conservative Budgeting Results



Rainy Day Funds as a Percentage of Budget

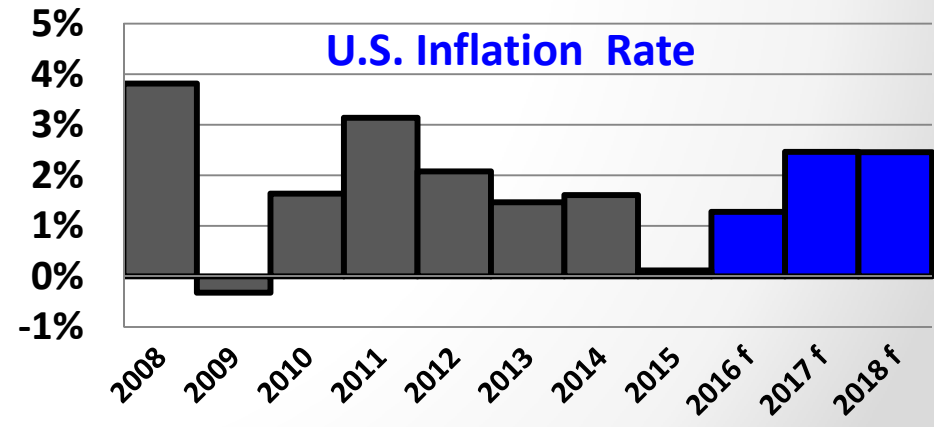
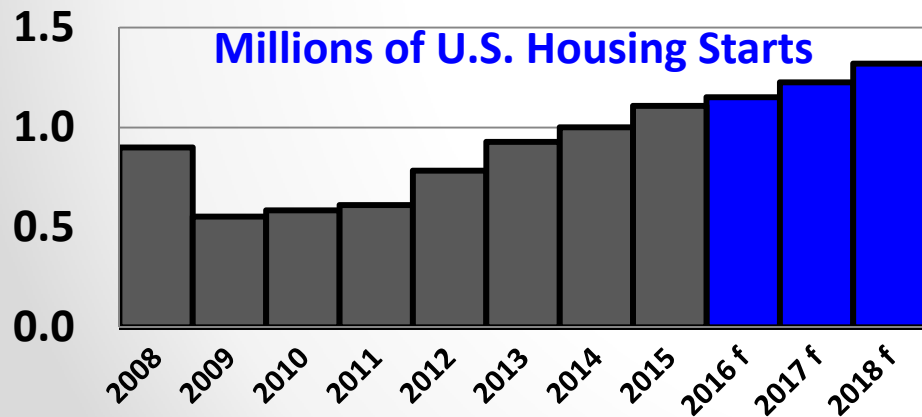
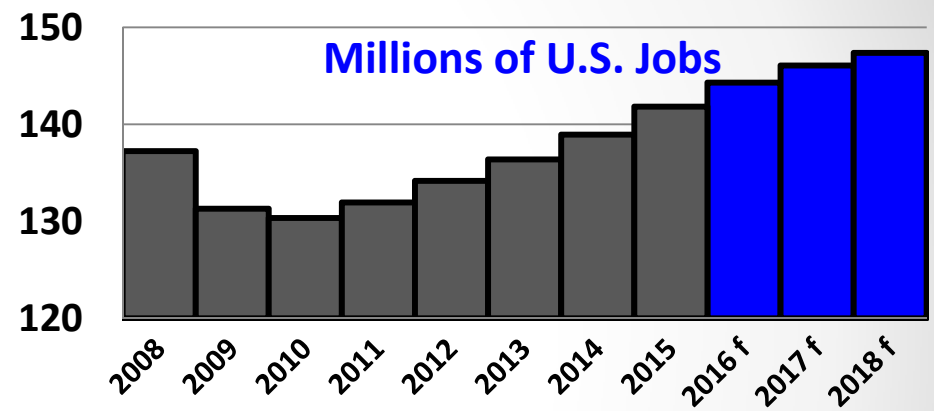
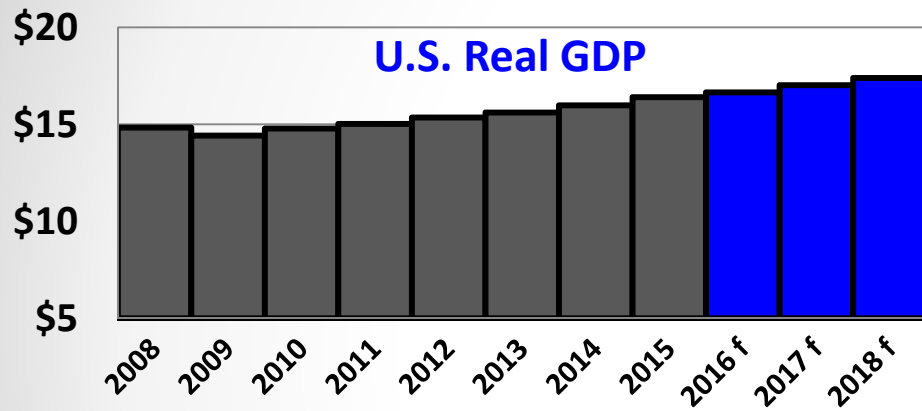


SOUTH DAKOTA'S ECONOMY

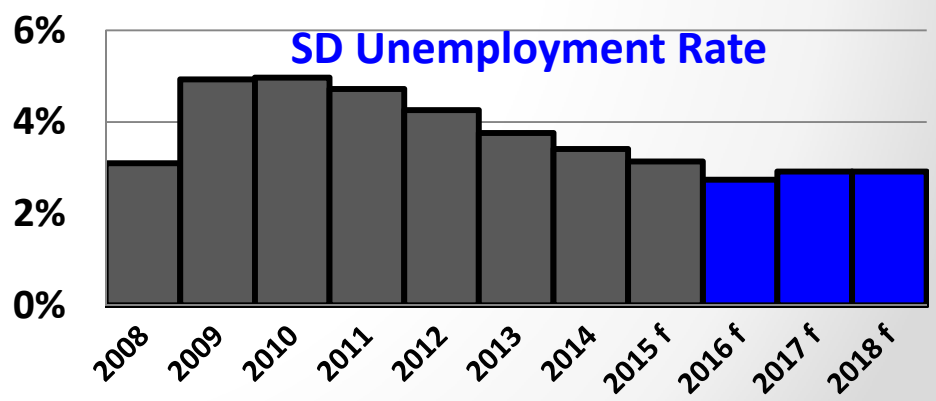
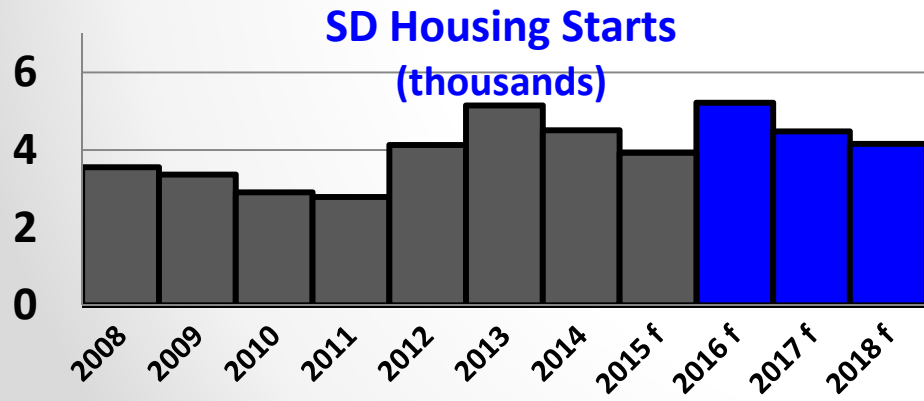
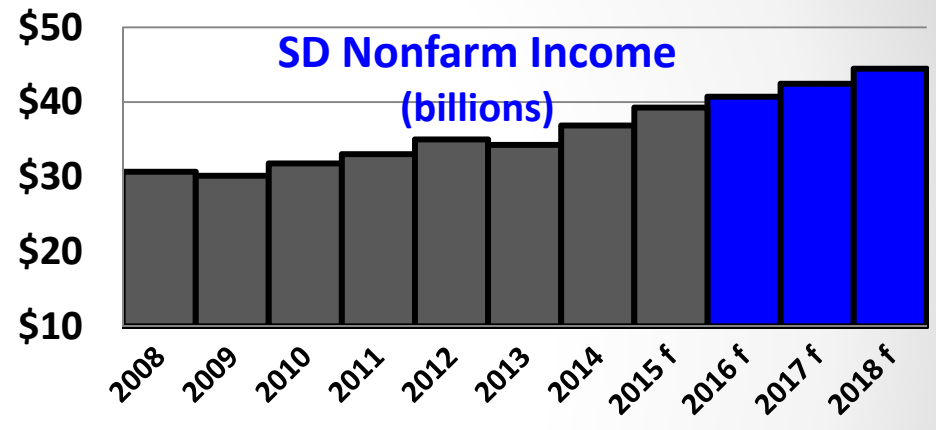
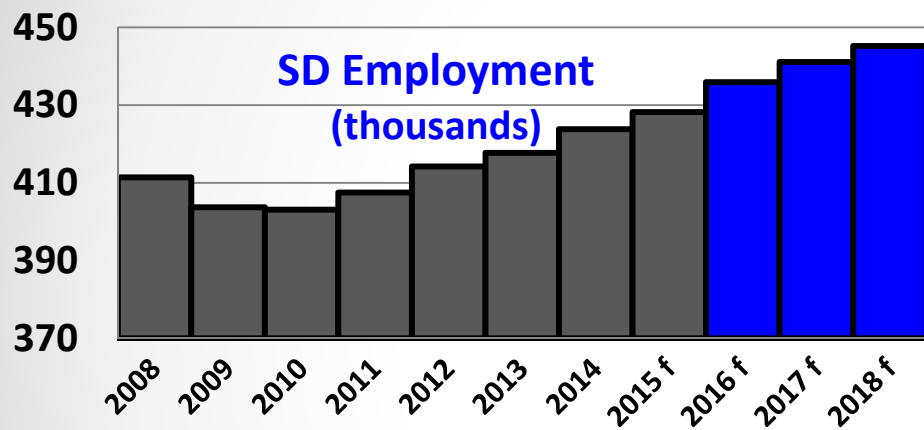
Economic and Revenue Assumptions

- IHS Economics US baseline forecast of 2.2% real GDP growth in 2017 & 2018 is consistent with views of Council of Economic Advisors
- SD forecast has been moderated. Slow, stable growth is anticipated, similar to growth the past two years
- Inflation anticipated to firm over the next two years (1.5%-2.5%)
- Assumes no major economic disruptions from abroad
- Housing and construction activity remains steady
- 2017 & 2018 farm income at lower levels, suggesting less spending in the agriculture sector

IHS Economics Most Recent Forecast for the US Economy

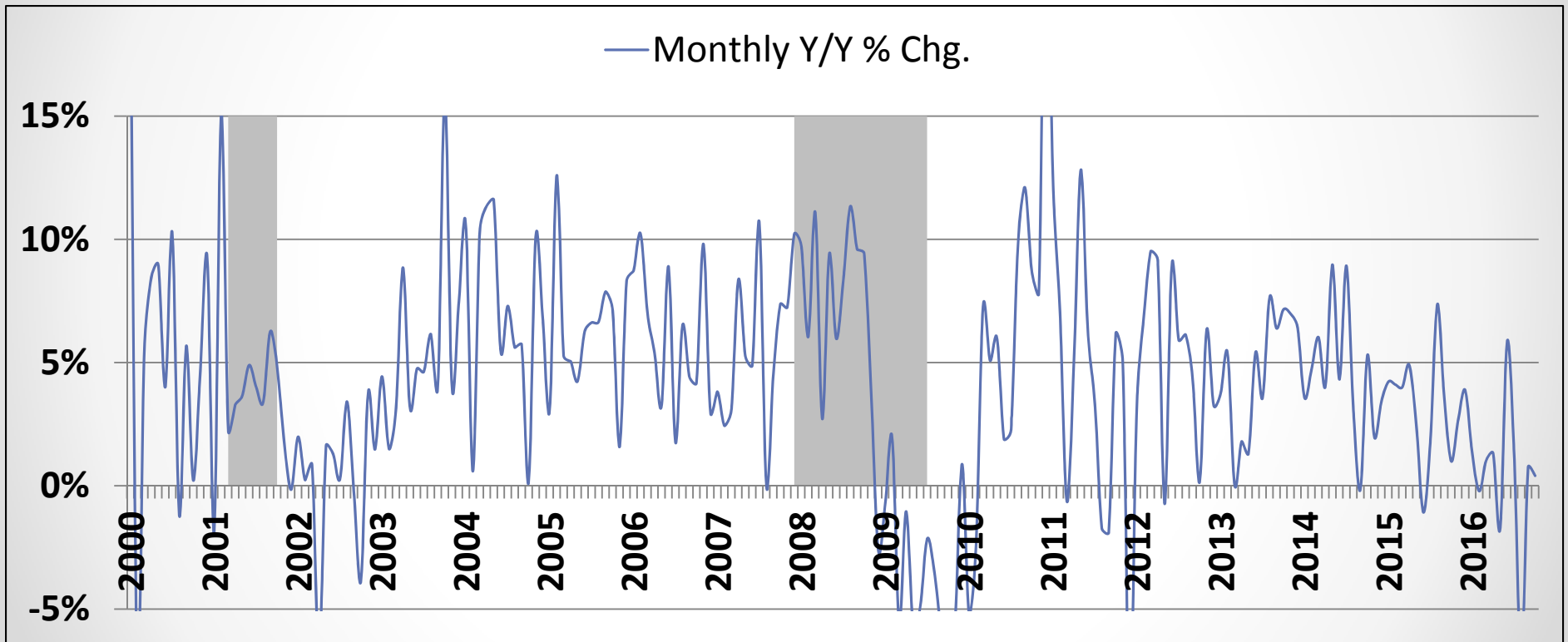


Recommended Baseline Economic Forecast for South Dakota Key Indicators

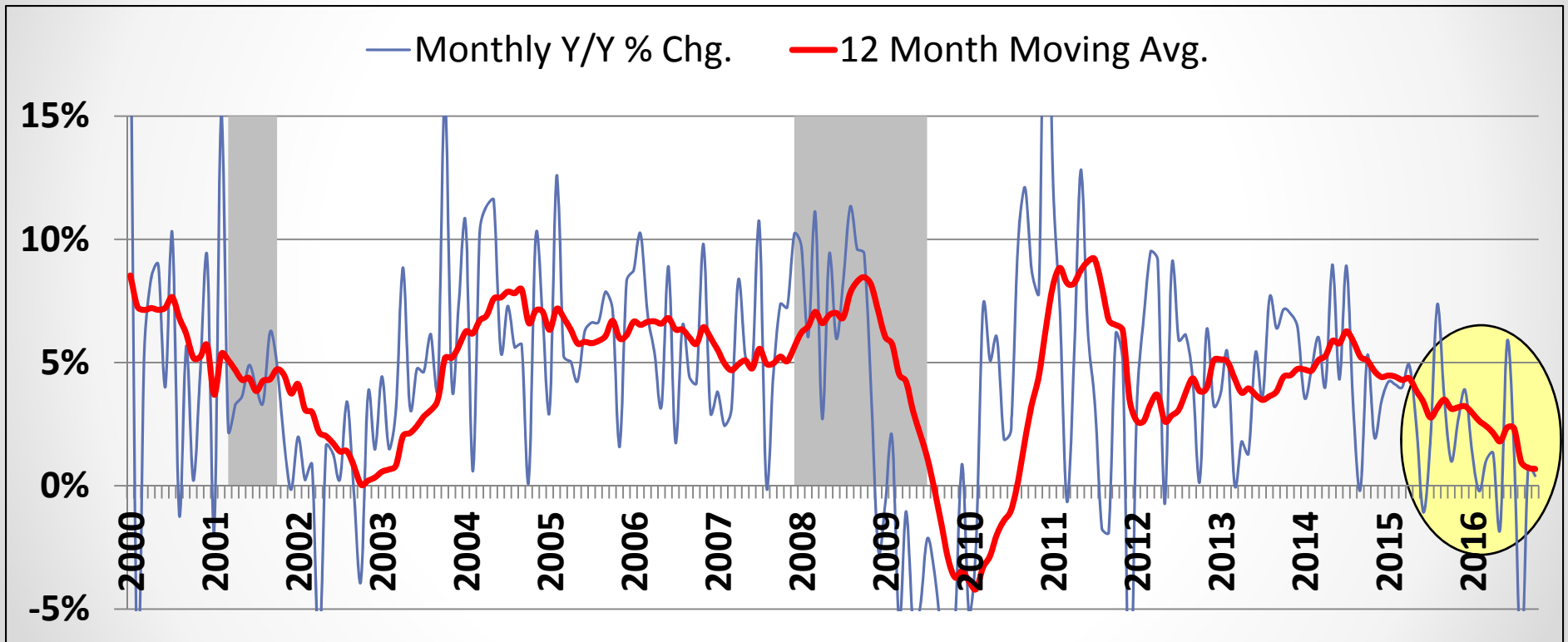


RECENT SALES TAX ACTIVITY

Taxable Sales Historical Growth



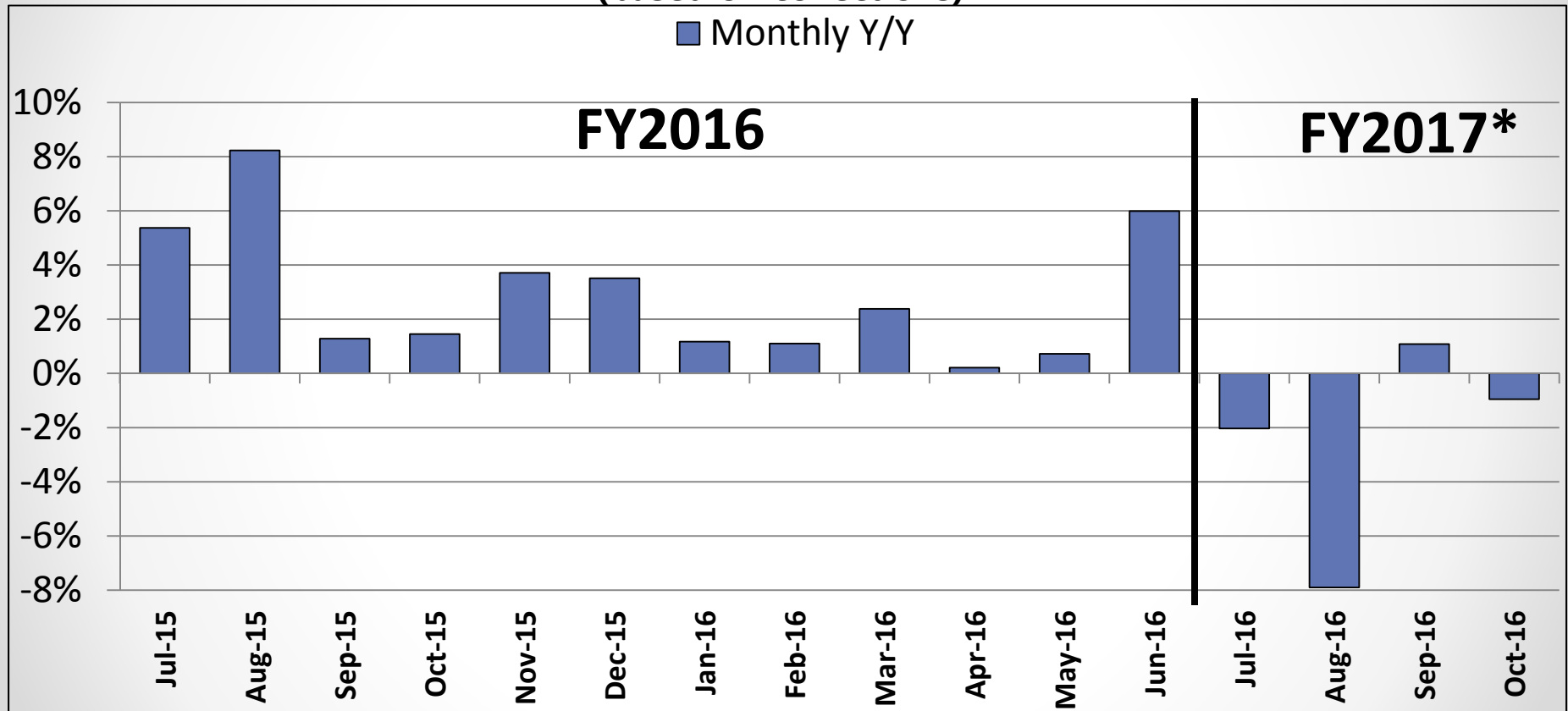
Taxable Sales Historical Growth



Recent Growth in Taxable Sales

(based on collections)

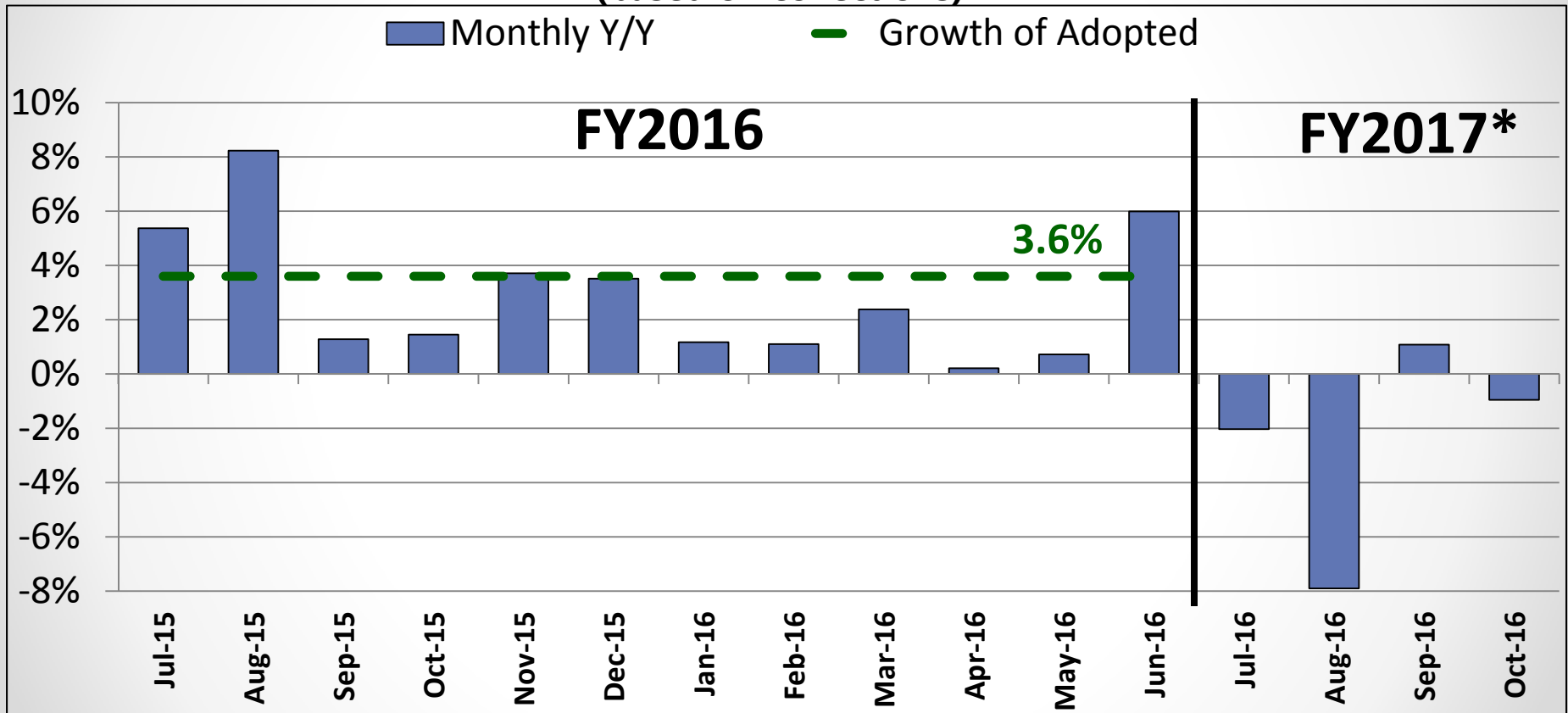
■ Monthly Y/Y



*FY2017 excludes 0.5% rate increase

Recent Growth in Taxable Sales

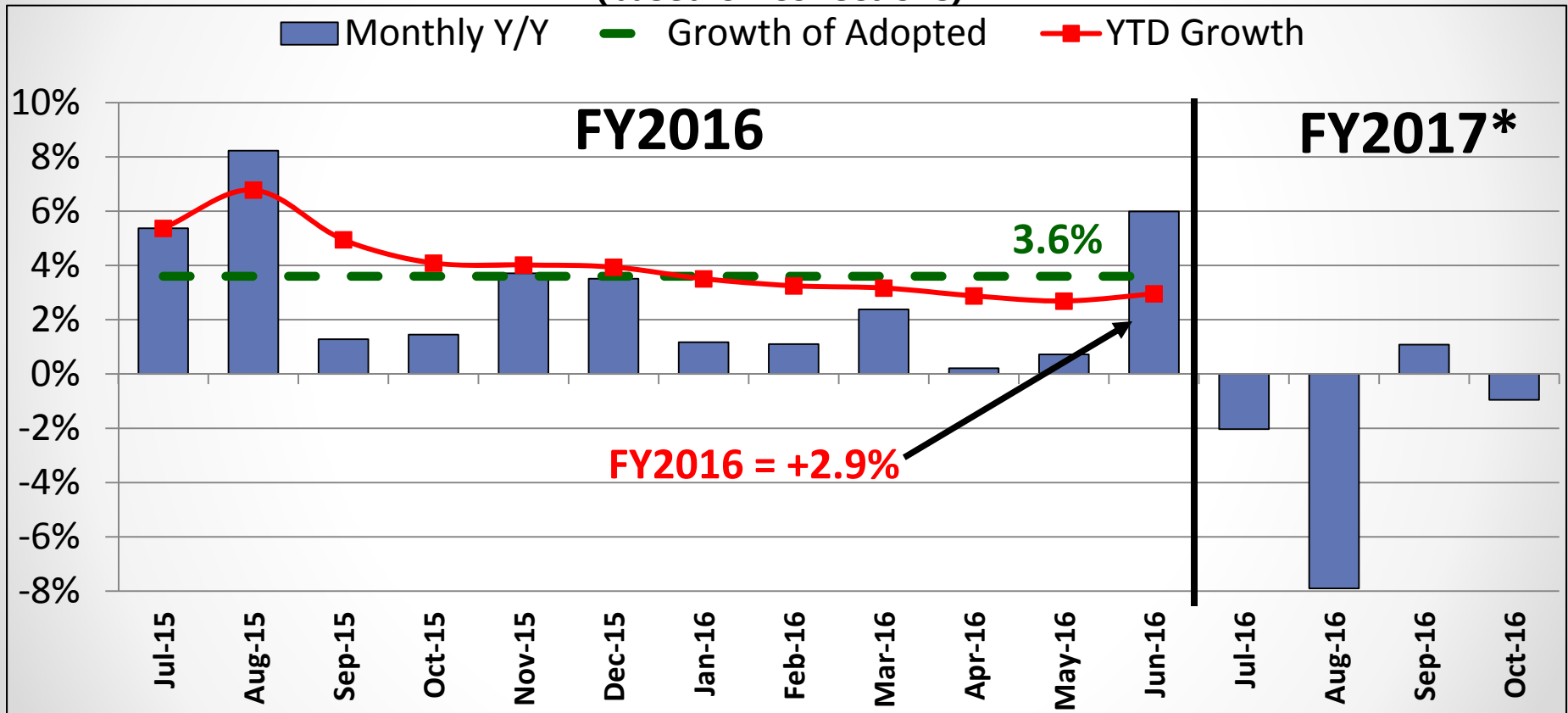
(based on collections)



*FY2017 excludes 0.5% rate increase

Recent Growth in Taxable Sales

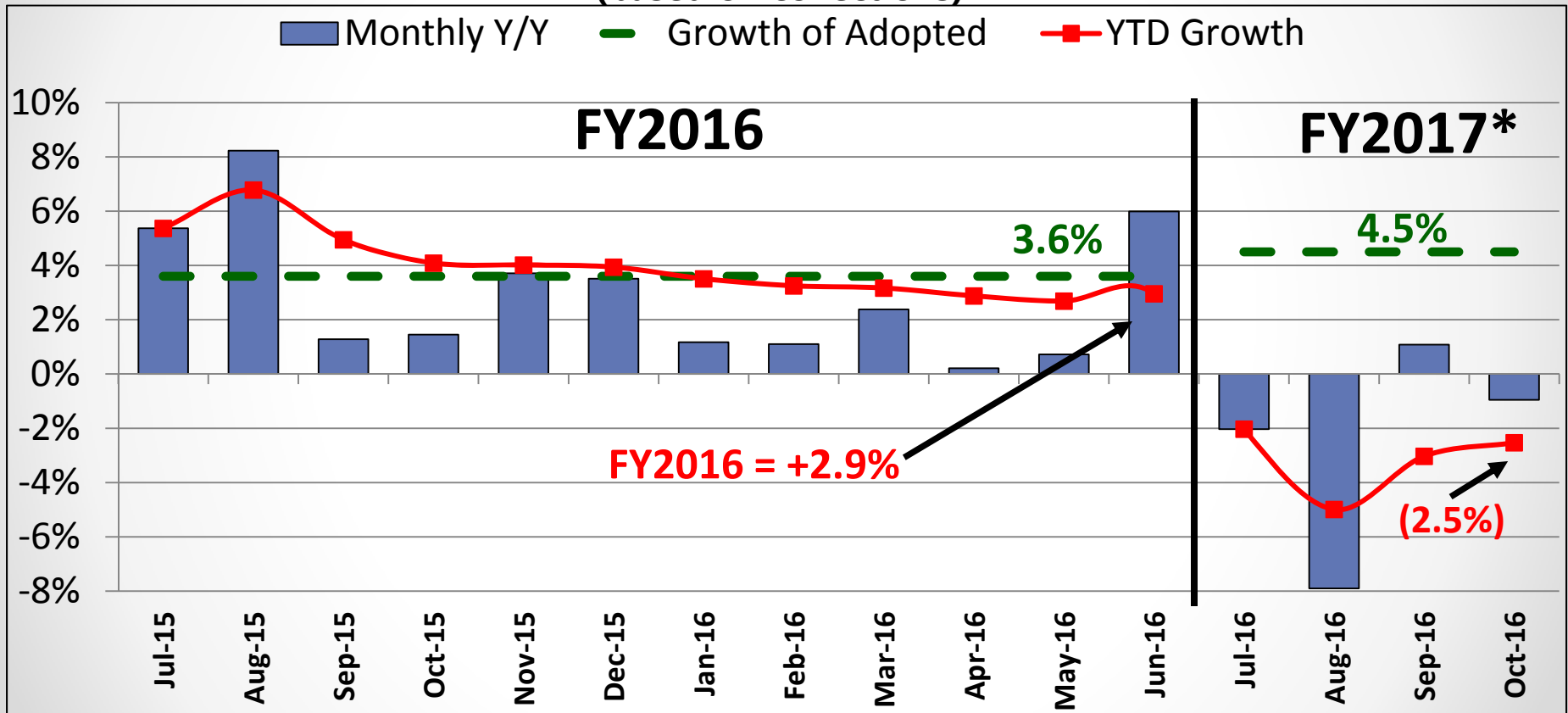
(based on collections)



*FY2017 excludes 0.5% rate increase

Recent Growth in Taxable Sales

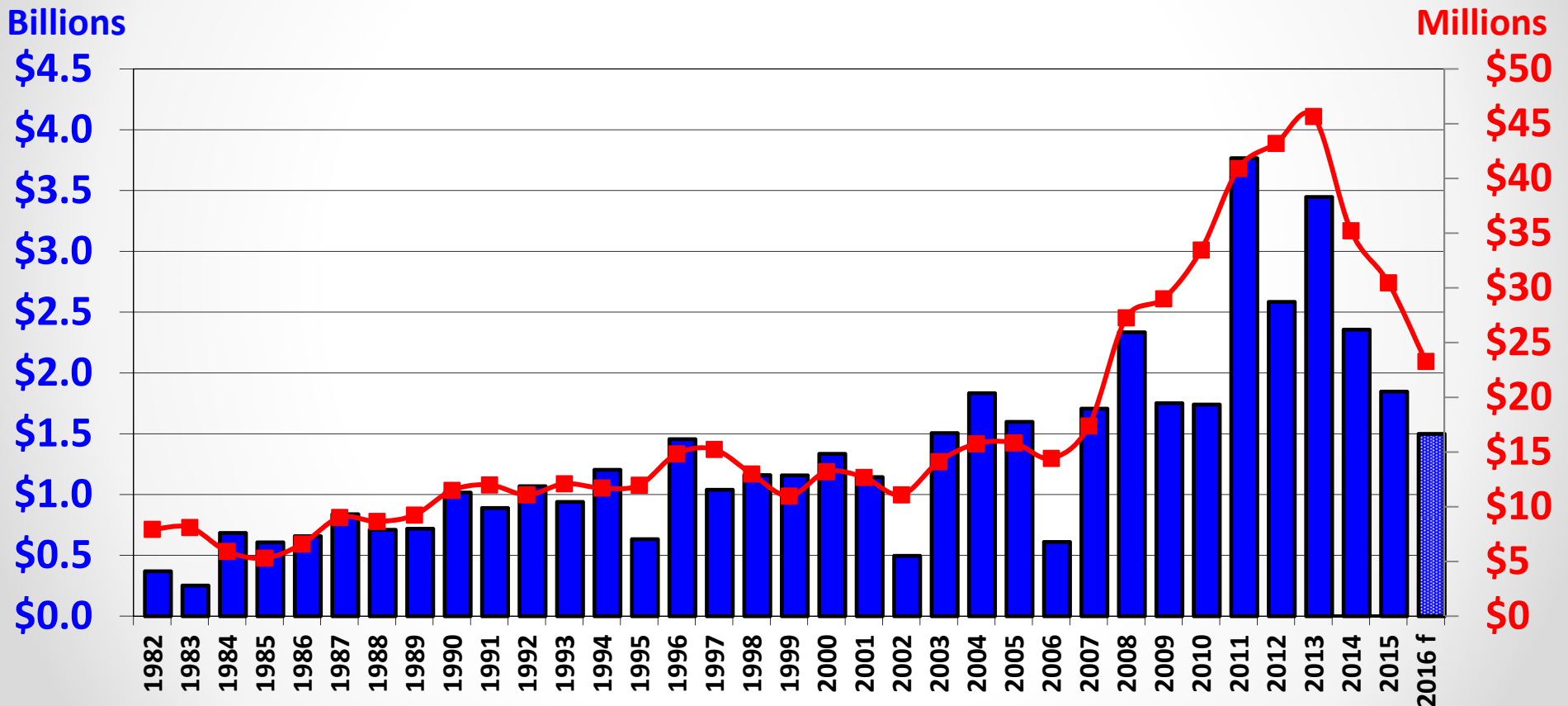
(based on collections)



*FY2017 excludes 0.5% rate increase

The Impact of Agriculture on Taxable Sales

Net Farm Income vs. Sales Tax Collected on Farm Machinery



Recent Weakness in Sales Tax Collections

- Less spending in agriculture equipment
- Low inflation is providing little price increase in sales tax base
- Lower tourism spending compared to a record year in 2015
- Cautious, uncertain consumers
- Online purchasing continues to erode sales tax collections

Impact of Online Purchases on Revenues



REVENUES

FY2017 Adopted vs. FY2017 Revised Ongoing Receipts

(millions)

Source	Adopted FY2017	Revised FY2017	Adopted vs. Rev.
Sales and Use Tax	\$1,006.7	\$974.7	- 32.0
Lottery	112.0	113.1	+ 1.1
Contractor's Excise Tax	107.4	109.4	+ 2.0
Insurance Company Tax	85.4	88.4	+ 3.0
Unclaimed Property	54.0	53.0	- 1.0
Licenses, Permits, & Fees	66.0	64.2	- 1.8
Tobacco Taxes	56.5	55.3	- 1.2
Bank Franchise Tax	11.5	11.4	- 0.1
Other Ongoing Receipts	<u>98.6</u>	<u>102.5</u>	<u>+ 3.9</u>
Total Ongoing Receipts	\$1,598.1	\$1,572.0	- 26.1

FY2017 Adopted vs. FY2018 Recommended Ongoing Receipts (millions)

Source	Adopted FY2017	Revised FY2017	Recommended FY2018	FY18 vs. Adopted
Sales and Use Tax	\$1,006.7	\$974.7	\$1,013.1	+ 6.4
Lottery	112.0	113.1	116.4	+ 4.4
Contractor's Excise Tax	107.4	109.4	110.5	+ 3.1
Insurance Company Tax	85.4	88.4	91.7	+ 6.3
Unclaimed Property	54.0	53.0	52.8	- 1.2
Licenses, Permits, & Fees	66.0	64.2	66.1	+ 0.1
Tobacco Taxes	56.5	55.3	55.0	- 1.5
Bank Franchise Tax	11.5	11.4	11.8	+ 0.3
Other Ongoing Receipts	<u>98.6</u>	<u>102.5</u>	<u>100.4</u>	<u>+ 1.8</u>
Total Ongoing Receipts	\$1,598.1	\$1,572.0	\$1,617.8	+ 19.7

**FY2018
EXPENSES**

Expense Overview

- Increase K-12 Education and Technical Institutes 1.0%
- Increase healthcare providers 1.0% + targeted investments
- Increase State workforce salary 1.0%, no pay for performance
- Reductions:
 - Federal Medical Assistance Percentage (FMAP) savings
 - Fewer Juveniles = STAR Academy Closure
 - Completion of Sale-leaseback Program
 - Utility costs

FY2018 Recommended Ongoing Expense Summary

Major Increases/Decreases	General Funds
Education Increases	\$6,436,308
Medical & Provider Assistance Increases	\$9,329,326
State Employee Compensation Package	\$6,250,029
Remainder of State Government	<u>(\$2,294,468)</u>
TOTAL GENERAL FUND INCREASES	\$19,721,195

Initiated Measure 22

- Appropriates \$9 per registered voter from the general fund every year, starting in FY2018**
- \$5 million general fund impact**
- Would consume nearly 25% of revenue growth**
- 1.0% for Education, Medical Providers, and State Workforce would need to be reduced to 0.6%**

FY2018 Recommended Ongoing Expense Education

Major Increases/Decreases	General Funds
State Aid to Education	\$6,846,447
Maintenance and Repair (BOR)	\$918,737
SD Opportunity Scholarship	\$412,798
Board of Regent Utilities	(\$2,589,441)
Miscellaneous Increases/Decreases	<u>\$847,767</u>
TOTAL GENERAL FUND INCREASES	\$6,436,308

FY2018 Recommended Ongoing Expense Medical & Provider Assistance

Major Increases/Decreases	General Funds
Growth and Utilization	\$6,339,659
Mandatory Inflation (Various Percentages)	\$5,486,989
Provider Inflation at 1.0%	\$4,337,677
Provider Enhancement to 90% (Complete Year 2)	\$709,252
State Savings Due to FMAP Increase	(\$9,524,819)
Miscellaneous Increases/Decreases	<u>\$1,980,568</u>
TOTAL GENERAL FUND INCREASES	\$9,329,326

FY2018 Recommended Ongoing Expense State Workforce

Major Increases/Decreases	General Funds
Salary Increase of 1.0%	\$3,650,333
Pay Range Minimum Improvement	\$779,087
Health Insurance	<u>\$1,820,609</u>
TOTAL GENERAL FUND INCREASES	\$6,250,029

FY2018 Recommended Ongoing Expense Remainder of State Government

Major Increases/Decreases	General Funds
Correctional Healthcare	\$2,950,598
Drug/DUI and Mental Health Courts	\$474,609
State Treatment and Rehabilitation Academy	(\$3,841,560)
Sale-Leaseback	(\$4,289,450)
Miscellaneous Increases/Decreases	<u>\$2,411,335</u>
TOTAL GENERAL FUND INCREASES	(\$2,294,468)

FY2018 Ongoing Increases and Decreases

Major Increases/Decreases	General Funds
Mandatory and Provider Inflation	\$9,824,666
State Aid to Education	\$6,846,447
Growth and Utilization	\$6,339,659
State Employee Workforce	\$6,250,029
Correctional Healthcare	\$2,950,598
Miscellaneous Increases/Decreases	\$8,102,079
Utilities	(\$2,936,454)
STAR Academy Closure	(\$3,841,560)
Sale-Leaseback	(\$4,289,450)
Federal Medical Assistance Percentage (FMAP)	<u>(\$9,524,819)</u>
TOTAL GENERAL FUND INCREASES	\$19,721,195

**FY2017
MID-YEAR
ADJUSTMENTS**

Addressing the FY2017 Shortfall

Reduced Revenue and Reduced Expenses	FY2017
Decreased Ongoing Revenues vs. Adopted	(\$26,069,731)

Addressing the FY2017 Shortfall

Reduced Revenue and Reduced Expenses	FY2017
Decreased Ongoing Revenues vs. Adopted	(\$26,069,731)
Reduction of Annual Appropriations	\$34,730,775

Reduction of Annual Appropriations

	General Funds
State Aid to Education	\$20,348,774
Department of Social Services - Utilization	\$6,481,265
State Treatment and Rehabilitation Academy	\$3,660,132
Utility Rate Adjustments	\$3,546,444
Technical Institute Lower Enrollment	<u>\$694,160</u>
Total Reductions of Annual Appropriations	\$34,730,775

Addressing the FY2017 Shortfall

Reduced Revenue and Reduced Expenses	FY2017
Decreased Ongoing Revenues vs. Adopted	(\$26,069,731)
Reduction of Annual Appropriations	\$34,730,775
Unclaimed Property Stock Portfolio (One-time)	\$13,027,523

Addressing the FY2017 Shortfall

Reduced Revenue and Reduced Expenses	FY2017
Decreased Ongoing Revenues vs. Adopted	(\$26,069,731)
Reduction of Annual Appropriations	\$34,730,775
Unclaimed Property Stock Portfolio (One-time)	\$13,027,523
Reversion of Special Appropriations	<u>\$1,028,900</u>

Addressing the FY2017 Shortfall

Reduced Revenue and Reduced Expenses	FY2017
Decreased Ongoing Revenues vs. Adopted	(\$26,069,731)
Reduction of Annual Appropriations	\$34,730,775
Unclaimed Property Stock Portfolio (One-time)	\$13,027,523
Reversion of Special Appropriations	<u>\$1,028,900</u>
Total One-time Funds Available in FY2017	\$22,717,467

One-time Proposed Expenses – General Funds

Replenish Reserves to 10%	\$2,434,132
State Animal Disease Research and Diagnostic Laboratory	\$5,000,000
Fire Suppression Fund	\$3,300,000
Spearfish Canyon	\$2,500,000
Correctional Healthcare Shortfall	\$1,755,707
USD Law School	\$1,200,000
Extraordinary Litigation Fund	\$1,004,242
DOC Security and Operations	\$907,641
Rural Recruitment Assistance for Healthcare Workforce	\$843,081
Veterans Home	\$830,466
Miscellaneous Remaining One-time Expenses	<u>\$2,942,198</u>
Total One-time Proposed Expenses	\$22,717,467

State Animal Disease Research and Diagnostic Laboratory

- ❑ Comprehensive design study with funds authorized in 2016**
- ❑ Original cost estimate of \$68.8M; with planning, cuts, and funds already expended, project cost reduced to \$58.7M**
- ❑ \$6M from SDSU + \$5M state one-time + \$1.5M in operations funding leaves \$46.2M left to fund**
- ❑ Will continue to work with agriculture industry to completely fund project**

General Fund Budget

	FY2017 Adopted	FY2017 Revised	FY2018 Recommended
On-going Expenditures	\$1,598,139,847	\$1,569,281,344	\$1,617,861,042
One-time Expenditures	<u>\$0</u>	<u>\$14,411,063</u>	<u>\$0</u>
Total	\$1,598,139,847	\$1,583,692,407	\$1,617,861,042

Total Recommended Budget

	FY2017 Adopted	FY2017 Revised	FY2018 Recommended
General	\$1,598,139,847	\$1,583,692,407	\$1,617,861,042
Federal	\$1,667,085,225	\$1,661,469,624	\$1,646,077,610
Other	<u>\$1,327,642,689</u>	<u>\$1,420,943,865</u>	<u>\$1,347,240,448</u>
Total	\$4,592,867,761	\$4,666,105,896	\$4,611,179,100
FTEs	13,900.4	13,863.4	13,862.0

Setting a Good Fiscal Example

- Balancing our budget for 128 years**
- Maintaining a rainy day fund balance of 10%**
- Building structural soundness**
- Making wise investments**
- One of the strongest pension plans in nation**
- Strong financial practices**
- All major bond rating agencies have SD at AAA**

A Stronger South Dakota

