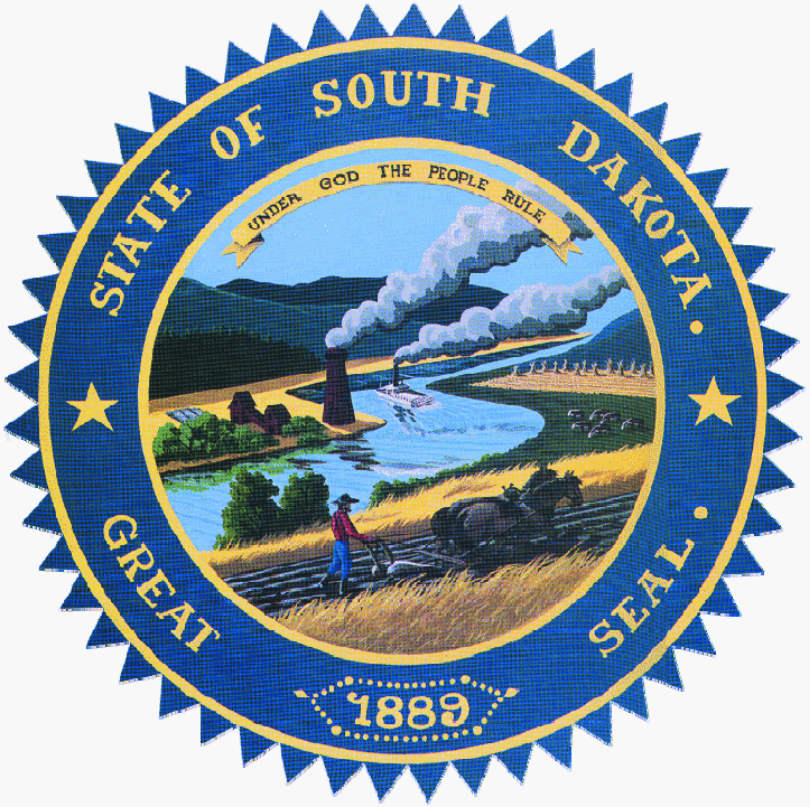
Governor’s Council of Economic Advisors



May 4, 2016

Legislative Session Summary

- Passage of new K-12 education funding formula includes target teacher salary of $48,500 based on student to teacher ratios.
  - Funded via 0.5% increase in sales tax rate estimated to generate approximately $107 million.
  - New Sales Tax revenue dedicated as follows: $67 million dedicated to new formula, $37 million for property tax relief, and $3 million for technical institute instructor salaries.
- Utilized $42 million of one-time revenue to pre-fund four outstanding bonds within Board of Regents and the Technical Institutes. Existing funds for debt service were re-purposed to freeze tuition for postsecondary students.
- Provider payments 2.7% increase + targeted increases & salary package increase of 2.7% plus movement to market value.

How Much New Ongoing Revenue is Available for New Spending in FY2017?

	Total Revenue (in millions)	Change from FY2016 Base
FY2016 Leg. Adopted Base (March 2015)	**$1,433.1 m**	**$0.0 m**
FY2016 Gov. Revised Est. (December 2015)	**$1,441.5 m**	**$8.4 m**
FY2016 Leg. Revised Est. (March 2016)	**$1,436.7 m**	**$3.6 m**
FY2017 Leg. Adopted Est. (March 2016)	**$1,598.1 m**	**+ $165.0 m**

Source: SD Bureau of Finance and Management

FY2017 Budget: Agency Requested, Gov. Recommended, Legislative Adopted

Major Budget Inc. over FY2016 Base	Agency Requested	Governor Recommended	Legislative Adopted
Education	$59.3 m	$21.8 m	$127.0 m
Medical & Provider Assistance	$13.7 m	$9.0 m	$11.8 m
State Employee Compensation	$13.3 m	$12.1 m	$12.1 m
All the Rest	$12.5 m	$16.4 m	$14.1 m
TOTAL GENERAL FUND INCREASES	**$98.8 m**	**$59.3 m**	**$165.0 m**

Source: SD Bureau of Finance and Management

IHS Economics vs. Wells Fargo Most Recent Forecast for US Economy (April '16)

	2014	2015	IHS 2016 f	IHS 2017 f	WF 2016 f	WF 2017 f	'06-'15 avg.
Real GDP	2.4%	2.4%	2.1%	2.8%	1.7%	2.3%	1.4%
NF Empl.	1.9%	2.1%	1.9%	1.4%	1.6%	1.4%	0.6%
P. Income	4.4%	4.4%	3.9%	4.9%	4.2%	4.4%	3.7%
Housing	1.00 m	1.11 m	1.20 m	1.39 m	1.20m	1.25m	0.96 m
CPI	1.6%	0.1%	1.0%	2.2%	1.4%	2.3%	2.0%
U. Rate	6.2%	5.3%	4.8%	4.7%	4.7%	4.5%	7.0%

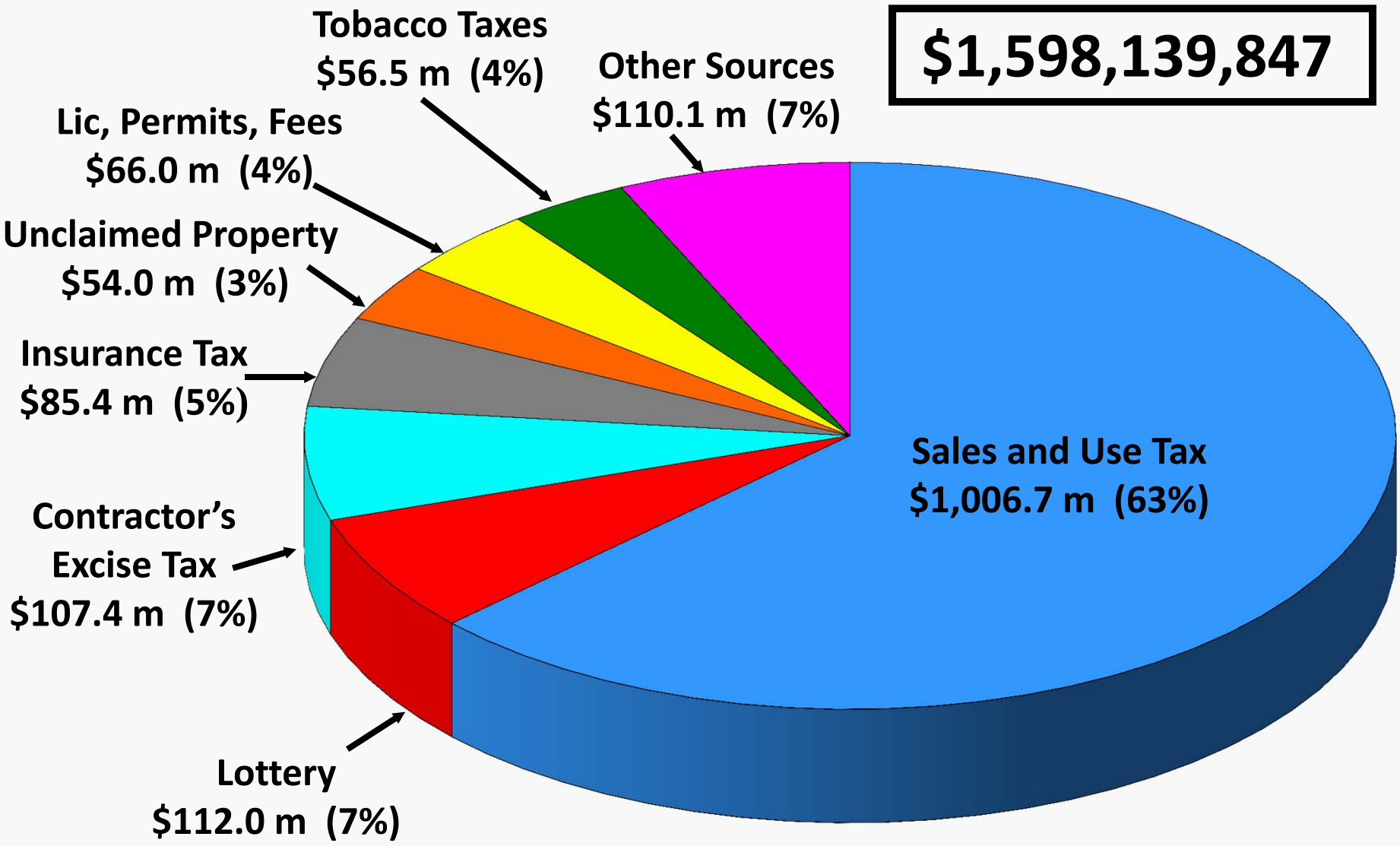
Source: IHS Economics & Wells Fargo Economics Group

IHS Economics Most Recent Forecast for SD (April '16 vs. Jan '16)

	2013	2014	2015	2016 f	2017 f	2018 f	'06-'15
SD NF Empl. (April '16)	0.9%	1.4%	1.0%	1.6%	1.8%	1.2%	0.9%
SD NF Empl. (Jan. '16)	*0.8%*	*1.4%*	*1.8%*	*1.9%*	*1.6%*	*1.3%*	
SD NF Income (Apr)	-1.4%	4.9%	4.2%	3.4%	4.8%	5.2%	4.4%
SD NF Income (Jan)	*-1.4%*	*4.9%*	*4.7%*	*4.1%*	*5.3%*	*5.4%*	
SD Housing Starts (Apr)	5,150	4,570	3,950	4,210	4,420	4,820	4,073
SD Housing Starts (Jan)	*5,150*	*4,510*	*3,880*	*4,160*	*4,520*	*4,850*	
SD Unempl. Rate (April)	3.8%	3.4%	3.1%	2.7%	2.9%	2.9%	3.8%
SD Unempl. Rate (Jan)	*3.8%*	*3.4%*	*3.5%*	*3.0%*	*2.9%*	*2.9%*	

Growth Rates of Key Revenue Sources

FY2017 General Fund Revenue Forecast



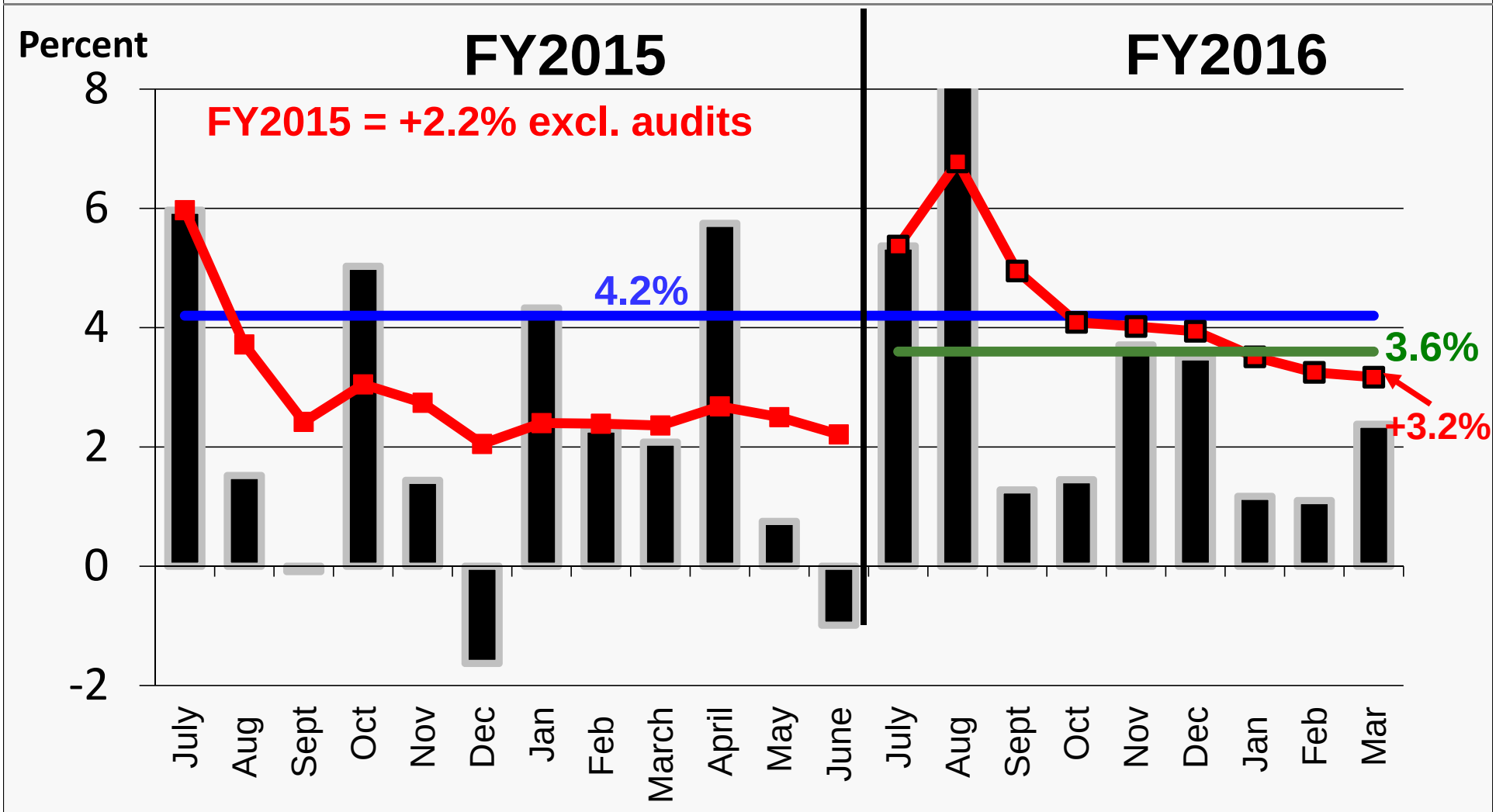
Source: SD Bureau of Finance and Management

63% of Total

Growth Rates for Sales Tax Collections

Blue = FY07-FY15 Average **Red = Running YTD FY15/FY16 Growth**

Black = Monthly Growth Rates **Green = Growth for Revised FY16 Est.**



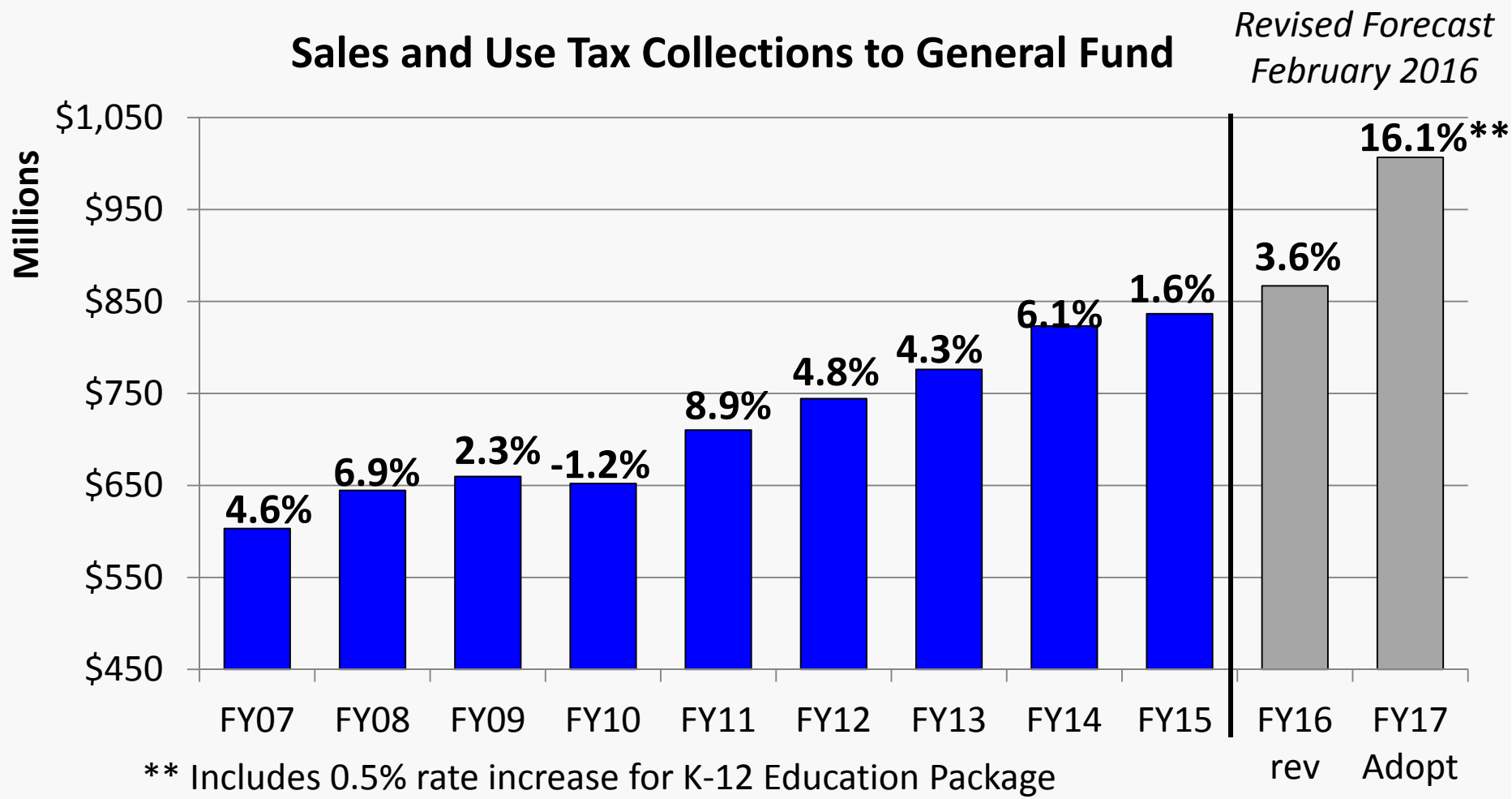
Source: SD Bureau of Finance and Management

FY2016 YTD Taxable Sales Growth through March

Taxable Sales by Major Group Comparison				Average Growth from
Top 10 Major Groups (71% of total)	**FY15**	**FY16**	**% Chg**	**FY05-FY15**
Misc. Retail	1,798,781,845	1,739,846,976	**-3.3%**	**4.1%**
General Merchandise Stores	1,680,805,976	1,726,800,008	**2.7%**	**4.5%**
Food Stores	1,155,896,621	1,192,905,068	**3.2%**	**2.6%**
Building Materials & Garden Supplies	1,072,079,985	1,210,113,510	**12.9%**	**4.0%**
Eating & Drinking Places	1,024,407,892	1,077,214,571	**5.2%**	**4.3%**
Electric, Gas, & Sanitary Services	1,097,699,980	1,045,196,774	**-4.8%**	**4.8%**
Wholesale Trade - Durable Goods	954,866,151	1,001,658,215	**4.9%**	**4.7%**
Auto Dealers/Service Stations	768,103,481	766,528,842	**-0.2%**	**4.9%**
Communications	867,682,183	907,832,111	**4.6%**	**4.7%**
Hotels&Lodging/Bus Services/Furnishings/Other	723,622,883	777,959,697	**7.5%**	**4.7%**
Total of Top 10 Major Groups	**11,143,946,997**	**11,446,055,772**	**2.7%**	**4.3%**
Remaining Groups	4,453,306,604	4,609,648,537	**3.5%**	**4.5%**
Total Taxable Sales	**15,597,253,601**	**16,055,704,309**	**2.9%**	**4.3%**

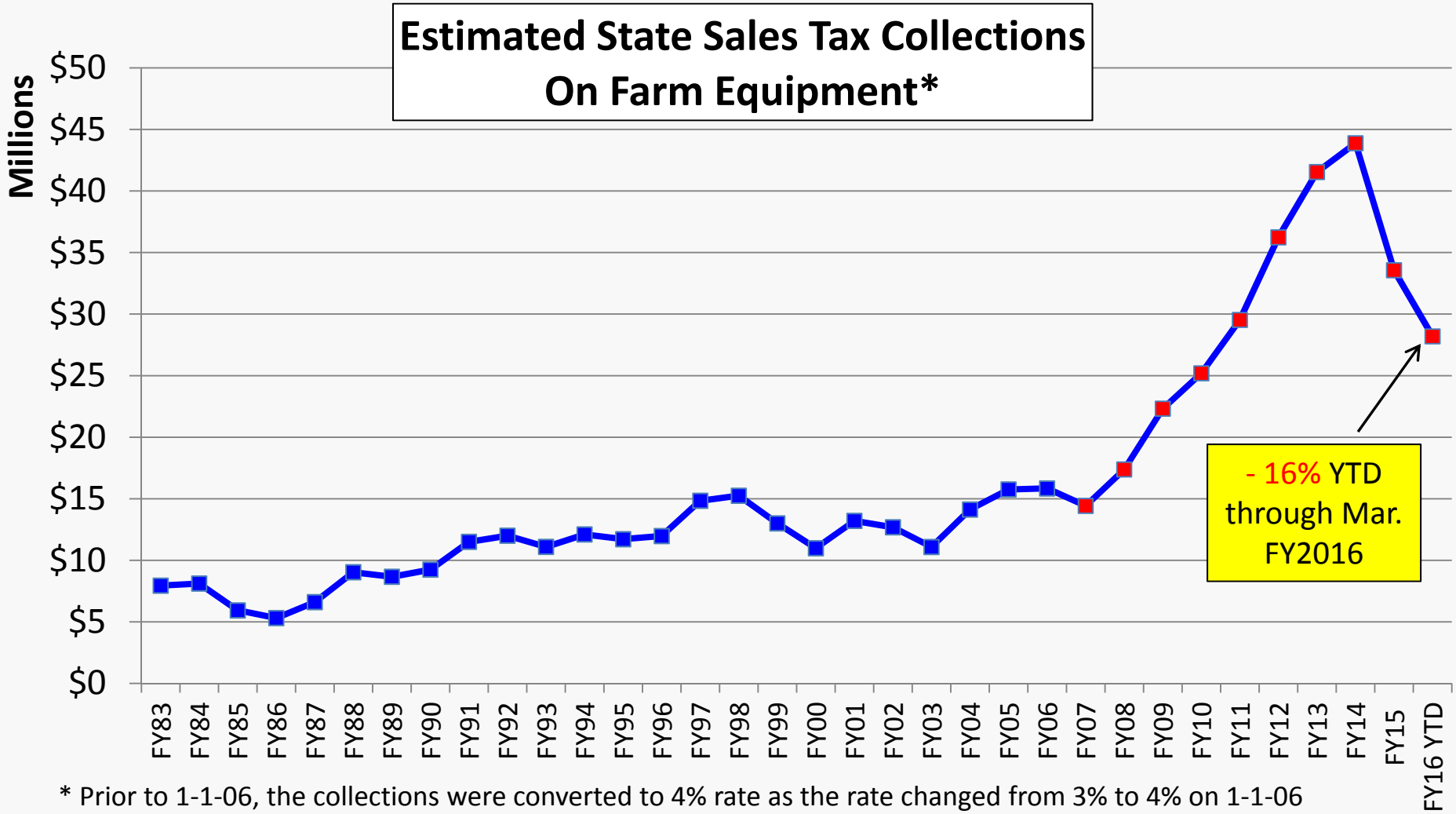
Source: SD Department of Revenue

Sales and Use Tax Receipts



Source: SD Bureau of Finance and Management

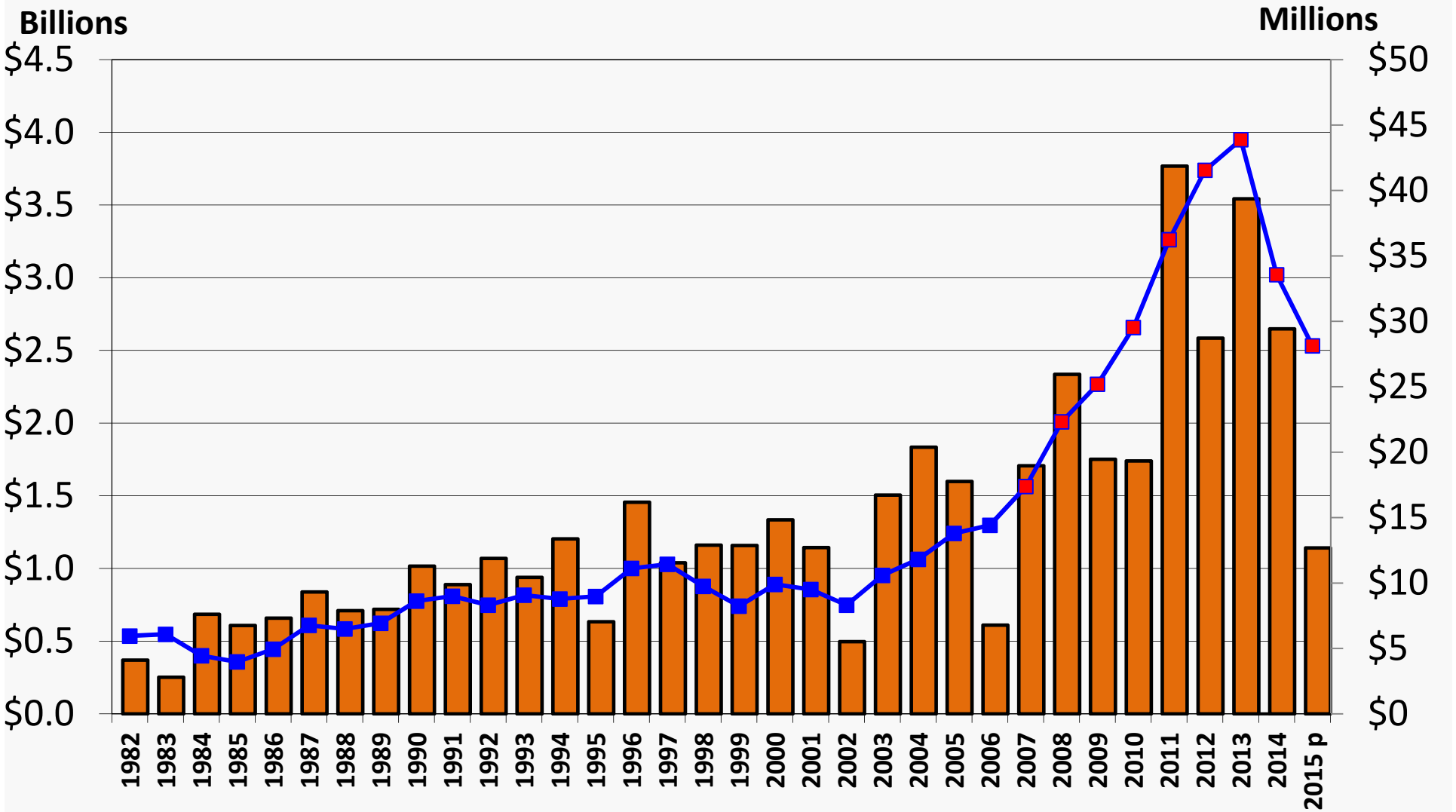
Ag Economy Impact on the Sales Tax: Declines in FY2015 and YTD in FY2016



* Prior to 1-1-06, the collections were converted to 4% rate as the rate changed from 3% to 4% on 1-1-06

Source: SD Department of Revenue/Bureau of Finance and Management

SD Farm Income and Equipment Tax Collections are highly correlated



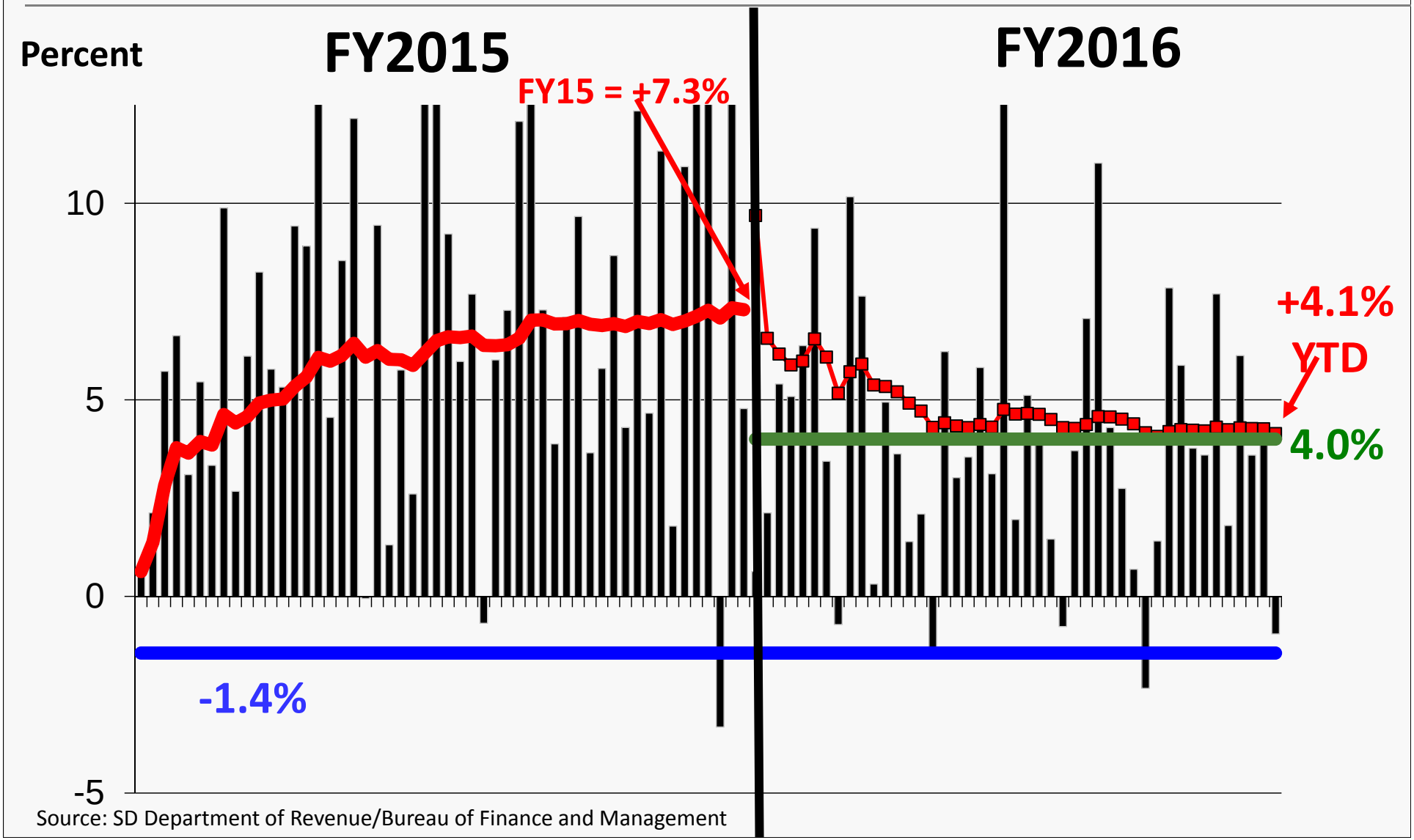
Source: SD Department of Revenue/Bureau of Finance and Management/BEA

Growths Rate for Video Lottery

7% of Total

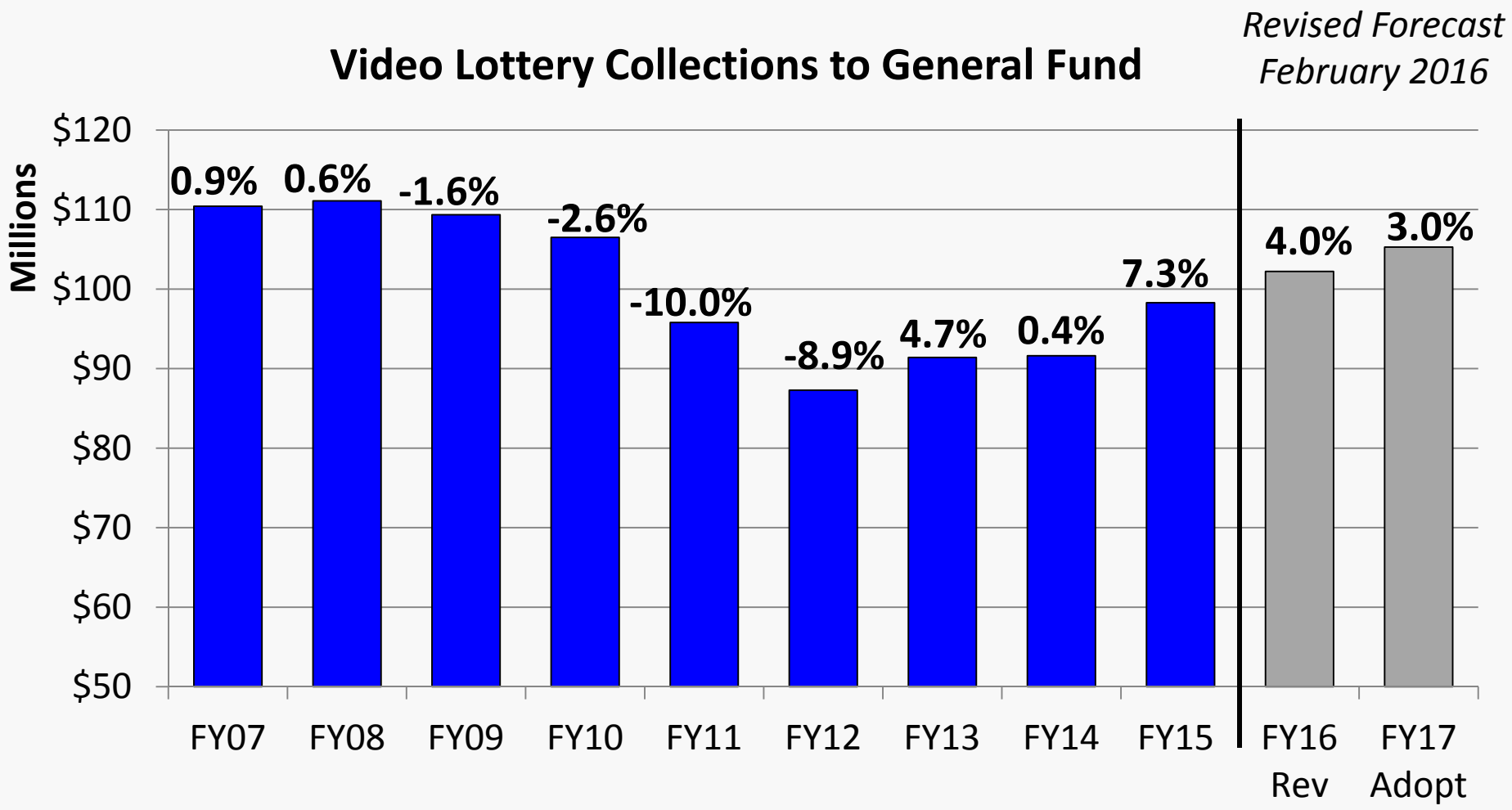
Blue = FY08-FY15 Avg. Red = FY15 YTD Growth/FY16 YTD Growth

Black = Weekly Growth Rates Green = Growth of Revised FY16 Est.



Source: SD Department of Revenue/Bureau of Finance and Management

Video Lottery Receipts



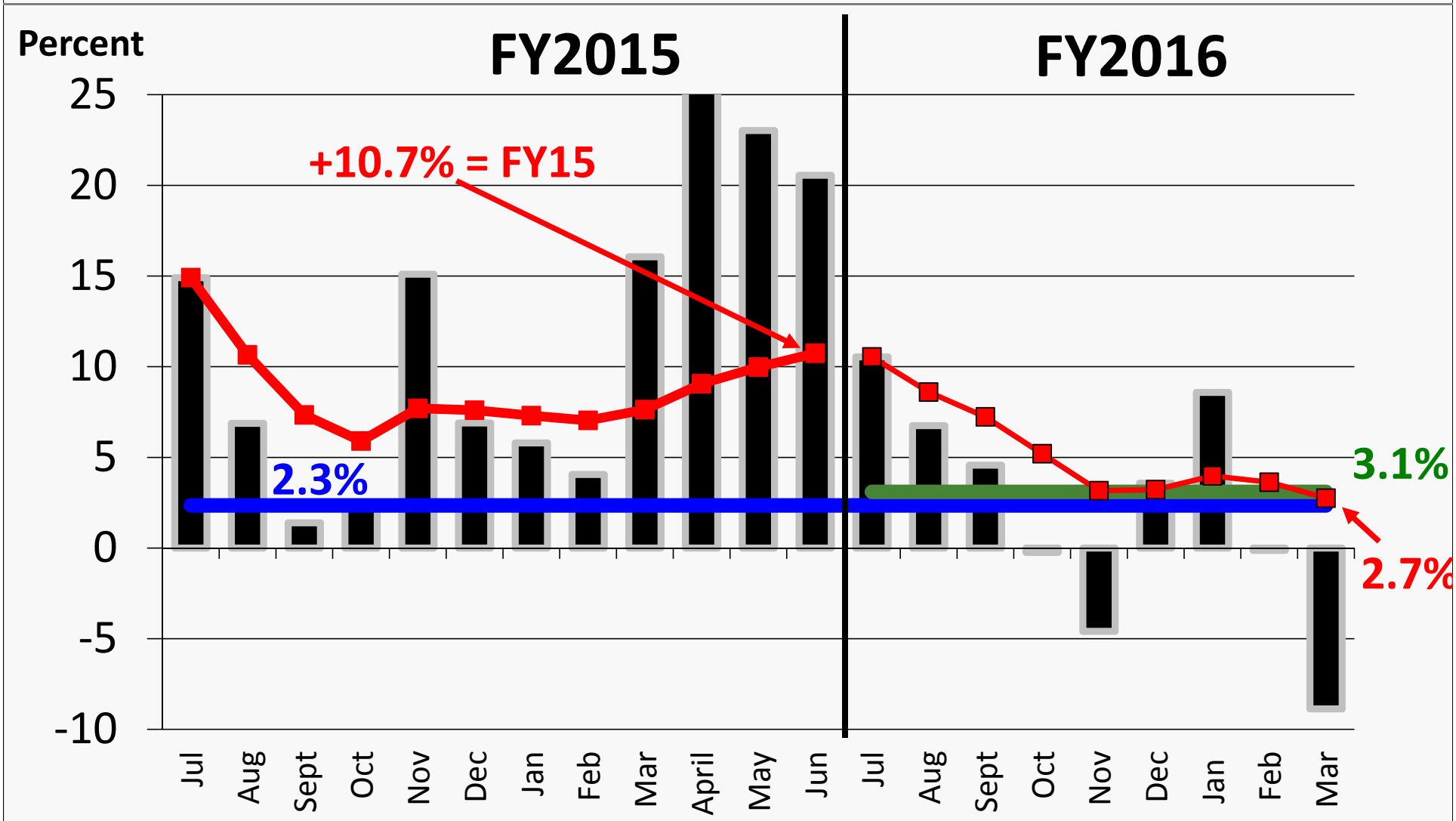
Source: SD Bureau of Finance and Management

Recent Growth Rates for Net CET

7% of Total

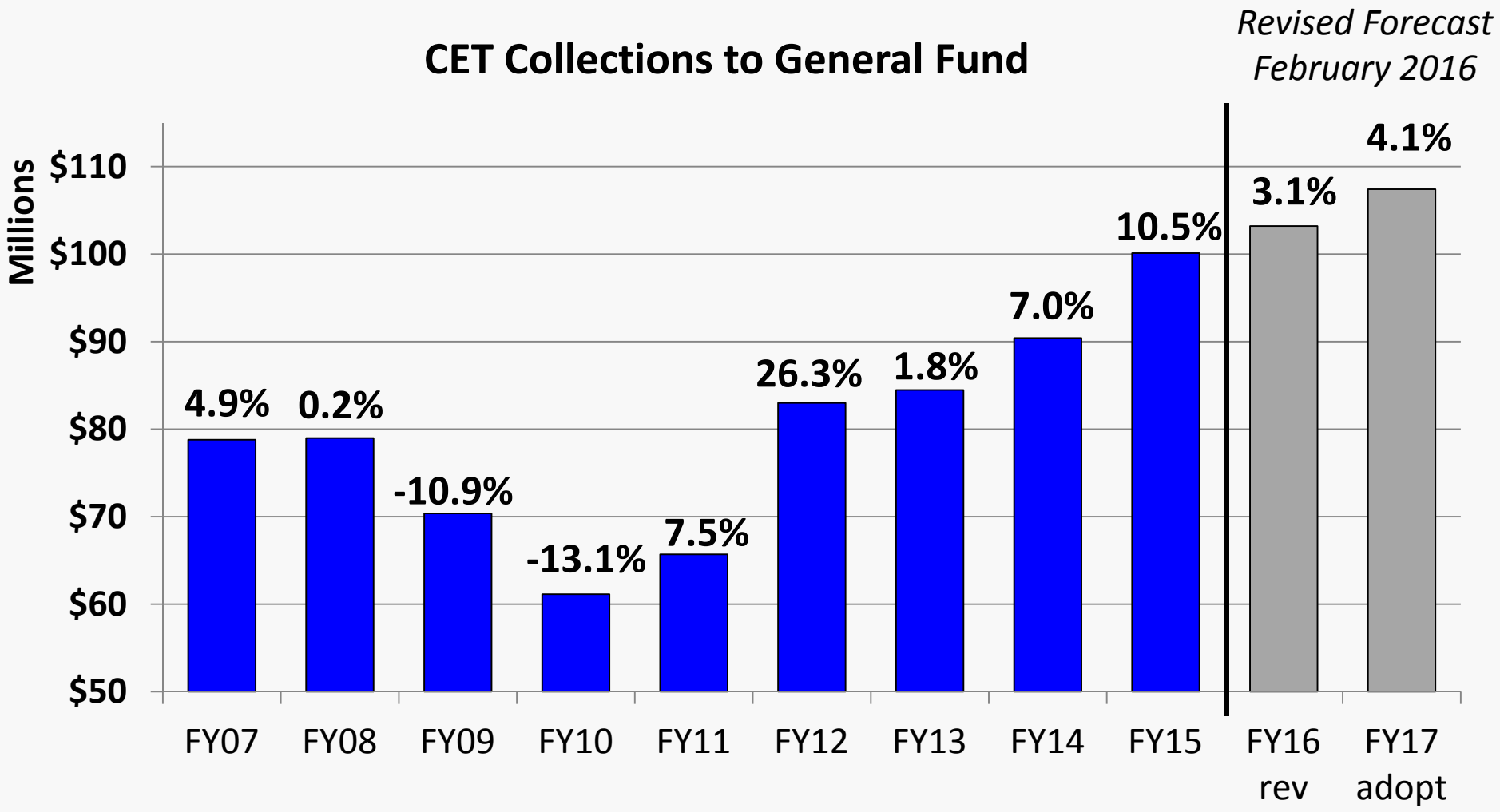
Blue = FY07-FY15 Average Red = FY15 YTD Growth/FY16 YTD Growth

Black = Monthly Growth Rates Green = Growth of Revised FY16 Est.



Source: SD Bureau of Finance and Management

Contractor's Excise Tax



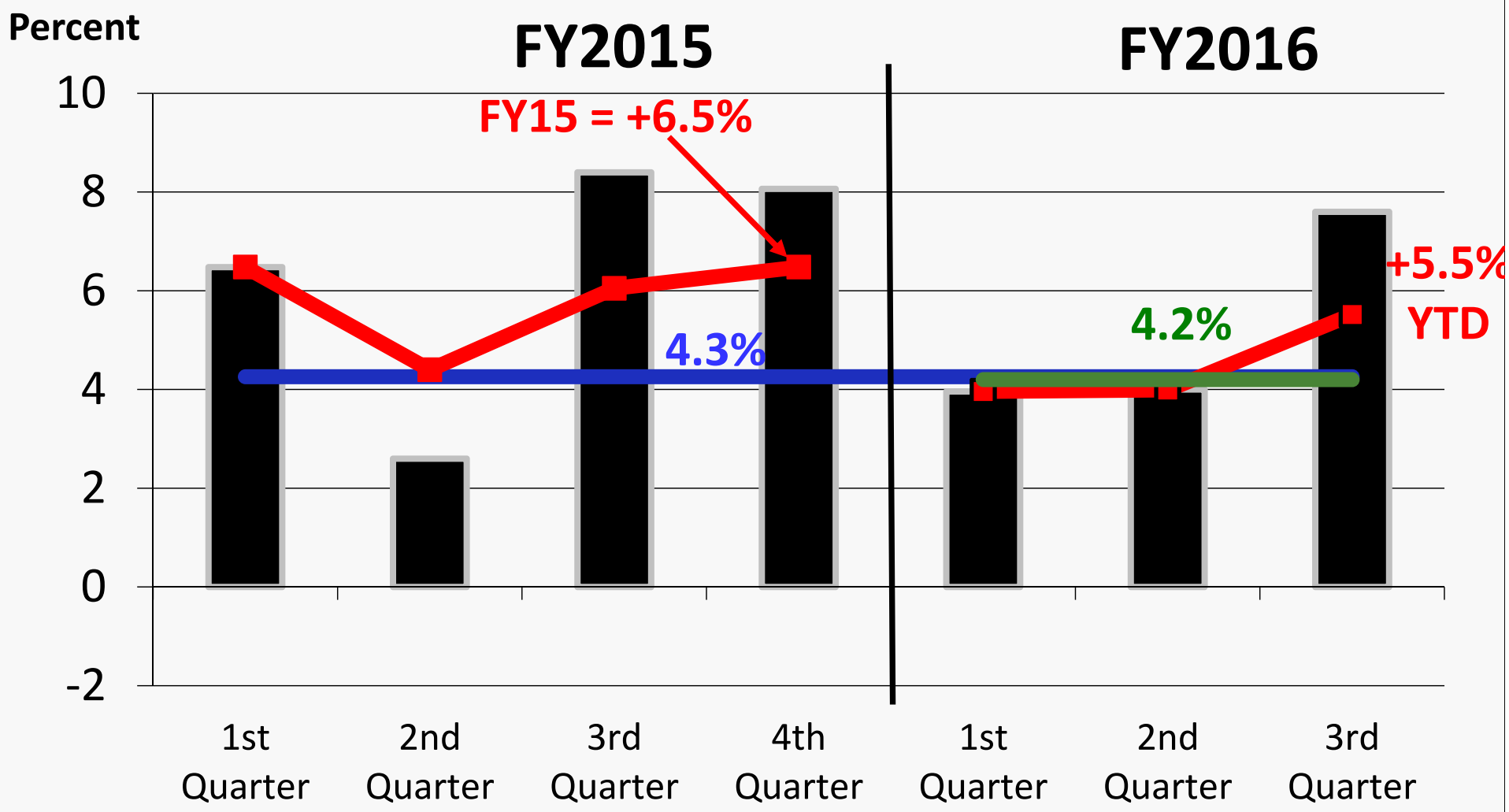
Source: SD Bureau of Finance and Management

Growth Rates for Insurance Company Tax

5% of Total

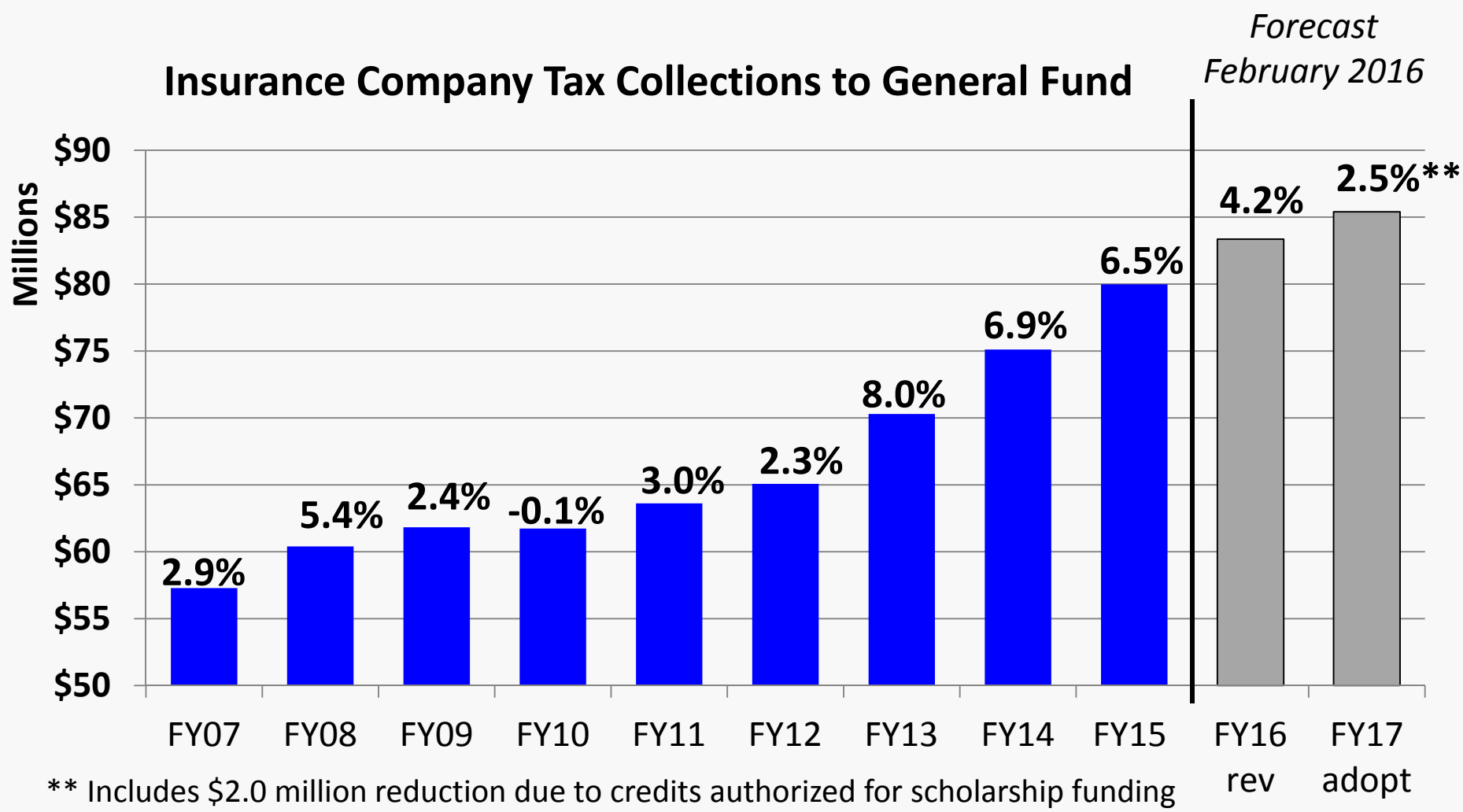
Blue = FY07-FY15 Average Red = FY15 YTD Growth/FY16 YTD Growth

Black = Quarterly Growth Rates Green = Growth of Revised FY16 Est.



Source: SD Bureau of Finance and Management

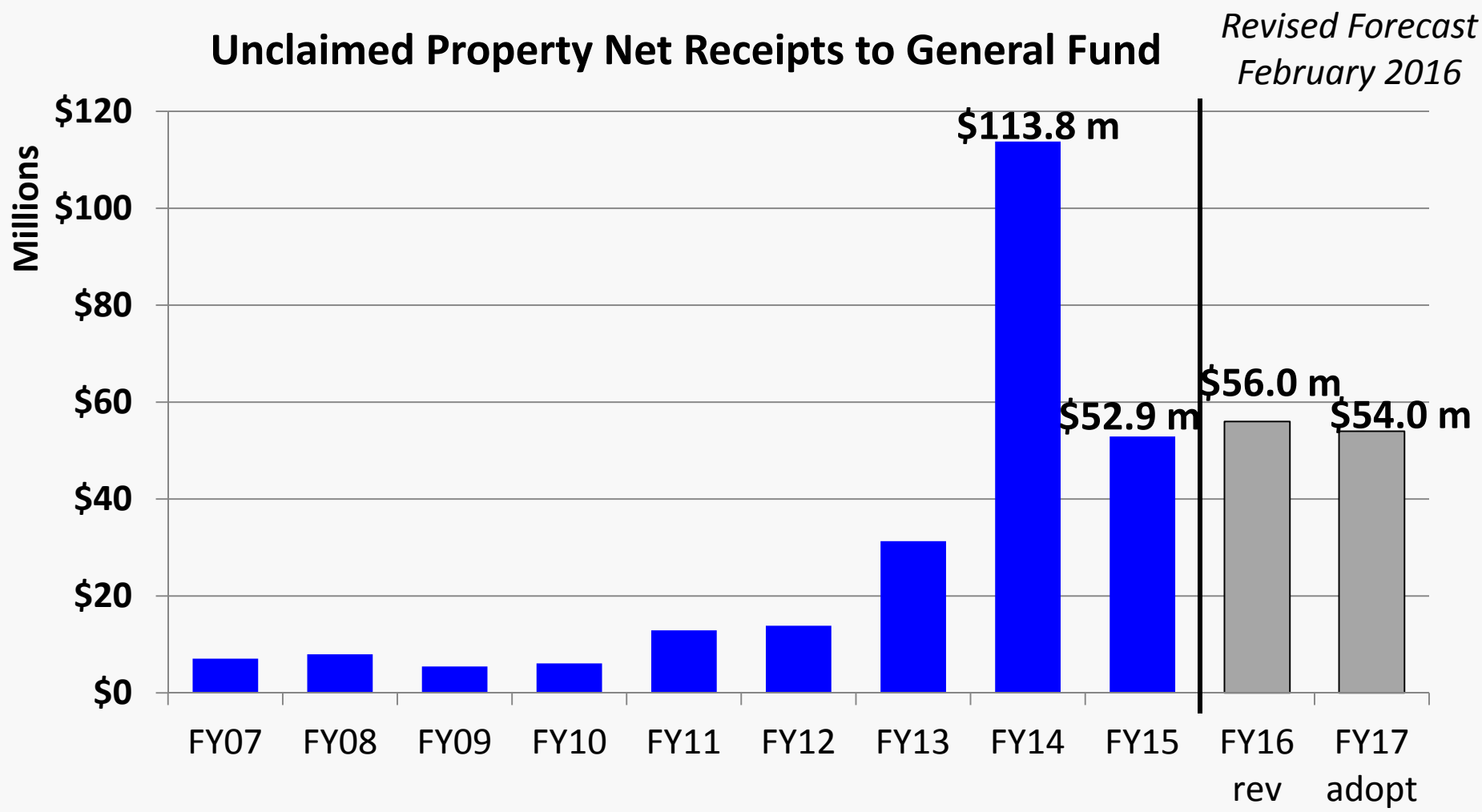
Insurance Company Tax



** Includes $2.0 million reduction due to credits authorized for scholarship funding

Source: SD Bureau of Finance and Management

Unclaimed Property Receipts



Source: SD Bureau of Finance and Management

Other Topics/Discussion

- Moody's Rating Upgrade
- SB106 – Collection of Sales taxes by Remote Sellers

- Tourism
- Agriculture
- Geographical Areas
- Other Discussion