

SOUTH DAKOTA BOARD OF REGENTS

Full Board

**REVISED
AGENDA ITEM: 7 – K**

DATE: December 6-8, 2016

SUBJECT: FY18 Governor’s Budget Recommendations

Governor Dugaard gave his FY18 budget address on Tuesday, December 6, 2016, before the Legislature. FY17 revenues are projected to be down \$26.1 million from initial projections. This shortfall is expected to be resolved through reductions in annual appropriations across state government, totaling \$34.7 million. These reductions will be found in State Aid to Education, Department of Social Services reduced recipient utilization, State Treatment and Rehabilitation Academy, utility rate adjustments, and Technical Institute lower enrollments. Governor Dugaard is also proposing a change to the way stocks held in unclaimed property are handled. If approved, this proposal would result in an additional \$13 million in one-time funds. One-time funds for FY17 are projected to be \$22.7 million. The projected FY18 general fund budget is projected to grow by \$19.7 million.

The employee compensation package proposed by the Governor includes a proposed 1% cost-of-living increase for all eligible state employees. There is no proposed pay for performance increase. The health insurance increase for FY18 is approximately \$342 per benefit eligible employee.

Base General Funding

The Governor is proposing base general fund increases of \$2,278,028 for the Board of Regents. That amount is offset by a proposed reduction of (\$2,589,441) in the FY18 utility budget based on current estimates, and a \$3,502 reduction in general fund lease payments, for a net reduction of (\$314,915). The increases include ongoing funds for the SD Opportunity Scholarship, the SDSD/SDSBVI Teacher Salary Increase, operating funds for the Animal Disease Research and Diagnostic Laboratory and additional maintenance and repair dollars. Further details are found in Attachment I.

<u>General Funds Base</u>	<u>Requested</u>	<u>Recommended</u>
Maintenance and Repair		\$918,737
Utilities Base	(\$2,589,441)	(\$2,589,441)
SD Opportunity Scholarship	\$360,000	\$412,798
SDSD/SDSBVI Teacher Salary Increase	\$146,493	\$146,493

(Continued)

INFORMATIONAL ITEM

Governor's FY18 Budget Recommendations

December 6-8, 2016

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Animal Disease Research & Diagnostic Lab		\$800,000
Lease Payment Adjustment	(\$3,502)	<u>(\$3,502)</u>
		(\$314,915)

The Governor's recommendations result in a -0.1% decrease in base general funding.

One-Time Funding

The Governor is proposing one-time allocations to the BOR in the amount of \$6,200,000. The recommendation includes funding for the Animal Disease Research & Diagnostic Laboratory and the USD School of Law. The funding for the Law School would provide three years to have a long-term plan in place for the Law School.

<u>One-Time Funding</u>	<u>Requested</u>		<u>Recommended</u>	
Animal Disease Research & Diagnostic Laboratory	\$68,800,000	One-Time	\$5,000,000	One-Time
USD School of Law	<u>\$600,000</u>	(Base)	<u>\$1,200,000</u>	One-Time
			\$6,200,000	

Details regarding the plans and total funding package for the ADR&DL facility and operating funds are included as Attachment II.

FTE, Federal and Other Fund Authority

With the proposed creation of continuously appropriated informational budgets for Research Grants and Contracts in both Federal and Other funds, the need for a cushion of contingency authority is all but eliminated. The campuses are able to reduce expenditure authority and in turn provide more transparency in the budgeting of federal and other fund authority. Reductions to federal fund authority of (\$46,559,356) and other fund authority of (\$45,807,532) were requested and recommended.

Proposed FY17 General Bill Amendment

The Governor's budget recommendation also includes an amendment to the FY17 General Bill, reducing utility funding by (\$3,022,139). This reduction is based on FY16 actual expenditures reported in Energy Cap and preliminary projections for FY17 from Energy Cap data reported by the campuses. The general bill amendment is a one-time adjustment to funding. The base fund reduction is reflected in the FY8 budget.



Governor's Recommended Budget FY2018

1. SD Opportunity Scholarship (SDOS) Funding

Additional funding is needed to support the anticipated participation in SDOS.

Requested: \$360,000 (base funding)

Recommended: \$412,798 (base funding). The amount was increased based on the October projections using the fall 2016 participation numbers.

2. SDSD/SDSBVI Teacher's Salary Increase

This funding will help maintain a competitive salary structure for the teaching staff at both the South Dakota School for the Deaf (SDSD) and the South Dakota School for the Blind and Visually Impaired (SDSBVI).

Requested: \$146,493 (base funding)

Recommended: \$146,493 (base funding)

3. HEFF M&R Funding

The proposal will sustain the 2% Maintenance and Repair funding.

Requested: \$0

Recommended: \$918,737 (base funding)

4. Lease Payment Adjustments

BOR lease payments funded with general funds and reimbursed with student fee money fluctuate each year. This aligns general funds with the actual lease payment for FY18.

Requested: (\$3,502) (base funding)

Recommended: (\$3,502) (base funding)

5. Utility Funding

The utility decrease is based on preliminary projections based on Energy Cap data reported by the campuses.

Requested: (\$2,589,441) (base funding)

Recommended: (\$2,589,441) (base funding)

6. USD School of Law

The proposal will help provide the financial resources to fund basic costs to replace revenue associated with fewer admitted students.

Requested: \$600,000 (base funding)

Recommended: \$1,200,000 (one-time funding)



Governor’s Recommended Budget FY2018

7. Animal Disease Research and Diagnostic Laboratory

This project will position the ADR&DL to serve the state's interests for the coming years. The diagnostics and research to be conducted in the new and remodeled space will provide benefits to the industry sectors of value-added agribusiness and human health and nutrition called out in the 2020 Vision: The South Dakota Science and Innovation Strategy (April 2013). See Attachment II for a detailed cost and funding summary of the ARD&DL project.

Requested: \$68,800,000 (one-time funding)

Recommended: \$800,000 (base funding) and \$5,000,000 (one-time funding)

The current cost of the facility is estimated at \$61,381,637. Amounts secured to date total \$2,742,000, leaving a balance of \$58,639,637. This amount would be funded with \$6,000,000 from ADR&DL operating revenues, \$5,000,000 of state general funds, \$1,500,000 from operating funds not needed until facility is fully operational, and \$46,139,637 from the Agriculture Industry. The current plan is to bond for the facility and to raise taxes on agriculture inputs to fund the debt service. The \$800,000 is for operating funds which will also be supplemented by \$960,000 of industry taxes.

8. FTE and Expenditure Authority

With the proposed creation of continuously appropriated informational budgets for research grants and contracts in both federal and other funds, the campuses are able to reduce expenditure authority and in turn provide more transparency in the budgeting of federal and other fund authority.

Requested: NSU - 12.0 FTE and SDSU/SDSBVI - 2.0 FTE. Total reduction of federal fund authority - (\$46,559,356) and other fund authority - (\$45,807,532).

Recommended:

Federal Funds:	(\$46,559,356)
Other Funds:	(\$45,807,532)
FTE:	14.0

Budget Items Requested but not Recommended

9. Student Affordability – Tuition Freeze and Small School Initiative

The original proposal from the BOR was to freeze tuition and mandatory fees for resident and non-resident on-campus and off-campus students by increasing state funding to cover a portion of salary and benefits including inflation normally covered by this revenue source. The Board’s proposal included a 3% salary package and a 1% salary enhancement. Also included in the Board’s proposal was the proposal to hold down costs at our small comprehensive schools.

Requested: \$9,232,903 and 8.0 FTE (base funding)

Recommended: \$0



Governor's Recommended Budget FY2018

10. Helping Students Graduate – University College

This proposal from BHSU was to provide additional resources to grow degree production through enhanced and intrusive academic advising to include career guidance, improved retention and an increased graduation rate.

Requested: \$534,025 and 9.0 FTE (base funding)

Recommended: \$0

11. Spectrum STRONG: Social and Career Skills Development

DSU's proposed program would have emphasized Social support, Tutoring, Reducing stress, Organizational skills, Navigating for success and Guidance for life through specialized advising.

Requested: \$77,672 and 1.0 FTE (base funding)

Recommended: \$0

12. American Indian Circle Program

The proposed NSU program would address the needs of American Indian students and provide the support they need to enroll in college, successfully earn their degree and become part of South Dakota's work force and contributors within their communities.

Requested: \$164,600 and 2.0 FTE (base funding) and \$30,000 (one-time funding)

Recommended: \$0

13. Math at Mines Initiative

The SDSM&T proposal would continue an already successful program and branching out to start a middle school program.

Requested: \$303,500 and 3.5 FTE (base funding)

Recommended: \$0

14. Math Success Initiative

The SDSU proposal would improve student preparation and competency in mathematics.

Requested: \$245,434 and 2.5 FTE (base funding)

Recommended: \$0

**Governor's Recommended Budget FY2018****15. iSAFE Information Security Program**

BOR proposed funding would provide additional staffing, resources, training, identification and establishment of the required security expectations for all universities and the sharing of resources to eliminate duplication and maximize our investments.

Requested: \$662,827 and 7.0 FTE (base funding) and \$3,000,000 (one-time funding)

Recommended: \$0

16. Dakota Lakes Research Farm

Proposed funding would have increased the scientific research impact of the Dakota Lakes Research Farm by adding a research scientist in the area of precision agriculture and the lab equipment necessary to support the research scientists.

Requested: \$120,286 and .75 FTE (base funding) and \$75,000 (one-time funding)

Recommended: \$0

17. Precision Agriculture - SDSU Extension

Proposed funding would have enhanced the capacity of SDSU Extension to provide transformative outreach programming in precision agriculture through the hiring of an economics field specialist to work with the Dakota Lakes Field Station.

Requested: \$87,303 and 1.0 FTE (base funding)

Recommended: \$0

18. SDSU Extension – STEM Outreach

Proposed funding would have resolved federal salary shortfall erosion in SDSU Extension. Using existing FTE, three master's degree-prepared youth field specialists will be hired to work specifically with underserved and minority audiences.

Requested: \$282,882 (base funding)

Recommended: \$0

19. Shared Responsibility Student Aid Model (Year 1)

BOR requested funding for year 1 of a 5 year proposal to provide funding assistance using the idea that five partners, one of which is the state, share responsibility for meeting the cost of attendance for post-secondary education.

Requested: \$3,504,243 (base funding)

Recommended: \$0

**Governor's Recommended Budget FY2018****20. Cyber infrastructure Security R&D Labs (MADLABS)**

The DSU proposed MADLABS would build on DSU's expanding capabilities and strengths to establish a hub of cybersecurity and cyber operations expertise, research and economic development locally, statewide and regionally.

Requested: \$18,000,000 (one-time funding)

Recommended: \$0

21. SD Materials and Manufacturing Institute

The SDSM&T facility would increase ties to industry, enhance competitiveness, establish more firms, prepare students for employment, and create more high paying jobs in South Dakota.

Requested: \$20,000,000 (one-time funding)

Recommended: \$0

22. Discovery District GEAR Expansion

The USD proposal would expand the GEAR Center, home to USD's Biomedical Engineering Department.

Requested: \$14,000,000 (one-time funding)

Recommended: \$0

South Dakota Board of Regents
FY18 General Fund Request and Governor's Recommended

Board's Request				Governor's Recommended		
Priorities	Base Funding	One-Time	FTE	Base Funding	One-Time	FTE
Student Affordability	\$9,232,903		8.00	\$0		0.0
Innovation and Institutional Initiatives						
University College, Helping Students Graduate	\$580,500		9.00			
Support for Autism Spectrum Students	\$77,672		1.00			
American Indian Circle Program	\$164,600	\$30,000	2.00			
SD Mathematics for Engineering Institute	\$303,500		3.50			
Math Success Initiative	\$245,434		2.50			
School of Law	\$600,000				\$1,200,000	
SDSBVI/SDSD	\$146,493			\$146,493		
Subtotal	\$2,118,199	\$30,000	18.00	\$146,493	\$1,200,000	0.00
Technology Security Investments	\$662,827	\$3,000,000	7.00	\$0	\$0	0.0
Research Initiatives						
Dakota Lakes Research Farm	\$120,286	\$75,000	0.75			
SDSU Extension STEM Outreach	\$282,882					
Precision Agriculture	\$87,303		1.00			
Subtotal	\$490,471	\$75,000	1.75	\$0	\$0	0.00
Shared Responsibility Student Aid Model (Year 1)	\$3,504,243			\$0		
Current Program Changes						
FTE - NSU and SDSD			14.00			14.0
South Dakota Opportunity Scholarship	\$360,000			\$412,798		
HEFF M&R				\$918,737		
Utilities	(\$2,589,441)			(\$2,589,441)		
Lease Adjustment	(\$3,502)			(\$3,502)		
Subtotal	(\$2,232,943)	\$0	14.00	(\$1,261,408)	\$0	14.00
Capital Projects						
Cyberinfrastructure Security R&D Labs (MADLABS)		\$18,000,000			\$0	
SD Materials and Manufacturing Institute		\$20,000,000			\$0	
Discovery District GEAR Expansion		\$14,000,000			\$0	
Animal Disease Research & Diagnostic Laboratory		\$68,800,000		\$800,000	\$5,000,000	
Subtotal		\$120,800,000		\$800,000	\$5,000,000	
Base Funding Change without Salary Policy	\$13,775,700	\$123,905,000	48.75	(\$314,915)	\$6,200,000	14.0
	General	One-Time	FTE	General	One-Time	FTE
FY17 Base General Funds	\$212,097,277		5,140.4	\$212,097,277		5,140.4
Increase	\$13,775,700		48.8	(\$314,915)		14.0
FY18 Base Funding	\$225,872,977		5,189.2	\$211,782,362		5,154.4
Percentage Increase	6.5%		0.9%	-0.1%		0.3%
FY18 One-Time Funding and Specials		\$123,905,000			\$6,200,000	

Animal Disease Research and Diagnostic Lab (ADRDL)

Cost & Funding Proposal [Updated: 12-05-2016]

\$68,153,637	Total project cost estimate from architect and builder (09-09-2016)
-\$2,742,000	Funds secured during 2016 legislative session
-\$6,772,000	Further project cuts (10-03-2016)
\$58,639,637	REMAINING FUNDS NEEDED FOR PROJECT
	*Plus additional ongoing operations funding of \$1.85M per year

PROPOSED FUNDING from SDSU/ADRDL, State General Funds

-\$6,000,000	SDSU/ADRDL available contribution
-\$5,000,000	One-Time State General Funds
-\$1,500,000	State General Funds (Needed ongoing operations funding will scale up during the three-year construction timeframe; these unneeded operations dollars can be used to offset construction costs.)

PROPOSED FUNDING from Agriculture Industry

-\$46,139,637	Agriculture Industry
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PROPOSED ONGOING OPERATIONS FUNDING (\$1.76M per year)

Ongoing State General Funds = \$800,000/year
Commercial Pet Food Fee = \$600,000/year
Ag Industry = \$360,000/year