

BUREAU OF FINANCE AND MANAGEMENT

REVENUE FORECASTS

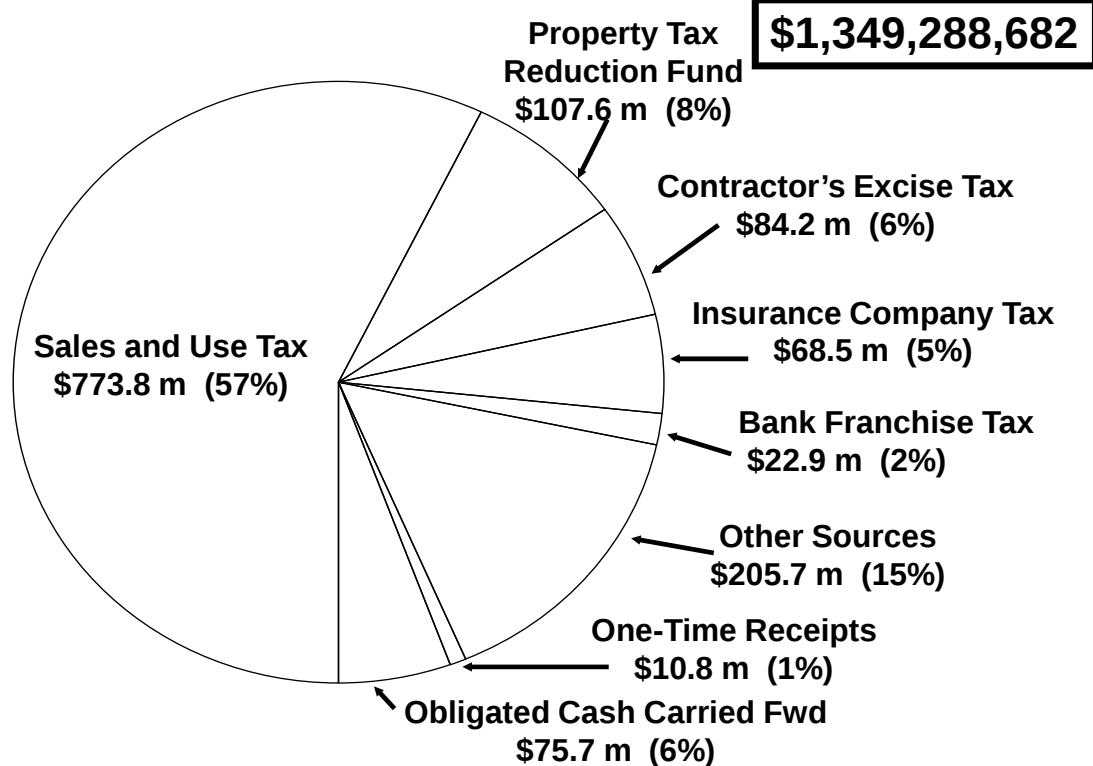
**PRESENTED TO
JOINT APPROPRIATIONS COMMITTEE
FEBRUARY 2013**

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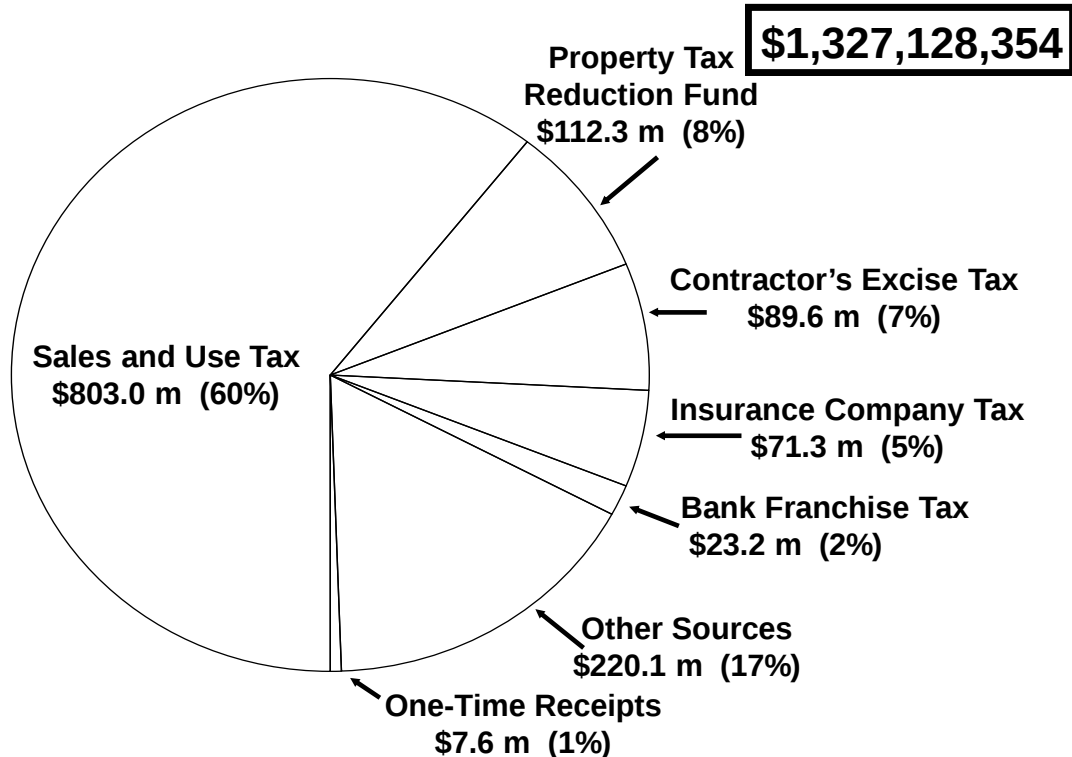
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FY2013 AND FY2014 GENERAL FUND REVENUES

FY2013 General Fund Revenues



FY2014 General Fund Revenues



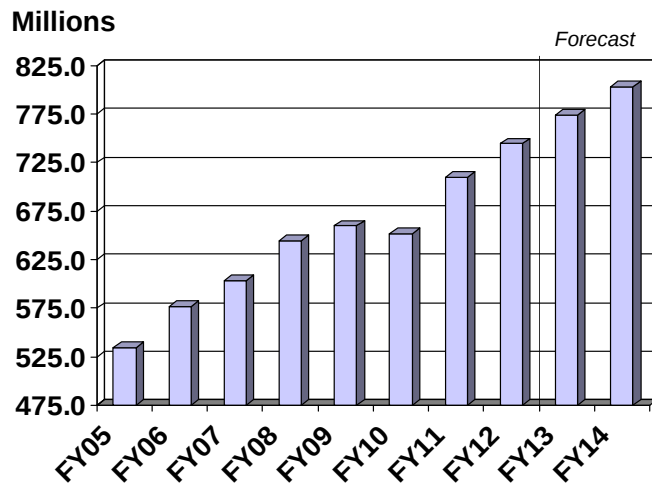
SALES AND USE TAX

Background: The sales tax is applied to the gross receipts of businesses, organizations, or persons engaged in retail sales, including the selling, leasing, and renting of tangible personal property, the sale of services, and the sale of products transferred electronically, as long as the products or services are not specifically exempt, intended for resale, or sold to a governmental or sales tax exempt agency. The rate of the state's sales tax is 4%. (SDCL 10-45) A use tax of the same rate as the sales tax applies to all goods and services that are used, stored, or consumed in South Dakota on which South Dakota sales tax is not paid. The purchaser or consumer of the goods or services is responsible for reporting and remitting the use tax in the filing period in which they receive the goods or services. (SDCL 10-46)

- In addition to the state sales and use tax, municipalities may impose a general sales and use tax of up to 2%. The municipal sales and use tax applies to items or services that are subject to the state sales and use tax. The Department of Revenue is the administrative and enforcement agency for the municipal sales and use tax and collects a fee for this service. The municipal sales and use tax is reported on the same tax return as the state sales and use tax.
- The date the tax return and payment is due depends on the frequency at which the taxpayer must file and the method of tax remittance. Returns can be filed electronically via SD QUEST or mailed to the Remittance Center in Sioux Falls. The most common filing period is once a month. The deadline for filing by mail is the 20th of the following month. Taxpayers who file and pay with SD QUEST must file returns no later than the 23rd day of the month, and payments must be electronically remitted on the second to last working day of the month. If gross receipts are small or if there is a unique situation to the business, taxpayers may file at a different frequency than monthly. These returns are due the last day of the month following the reporting period.

NOTE: Because of when sales and use tax payments are due, sales and use tax collections are lagged one month (ex: collections recorded in January are from sales that occurred in December).

- The Streamline Sales and Use Tax Agreement project (SSUTA) is a multi-state effort to design, test and implement a system to radically simplify sales and use tax collection and administration by retailers and states. The ultimate goal of SSUTA is to get the US Congress to require the collection of sales tax from remote sellers. South Dakota has been involved in the project since its inception, and is one of its full member states. The SSUTA was officially implemented on October 1, 2005, and effective on that date, retailers can register to collect or pay sales taxes in the Agreement's member states through a Web-based centralized registration system.
- South Dakota has various programs allowing businesses to seek a refund of sales, use, and contractors' excise tax. The Business Tax Division has monitored and processed refunds totaling \$95.3 million since the program started.
- The average annual increase in net collections between FY2004 and FY2012 was 4.89%.
- Net collections from the sales and use tax account for approximately 61% of ongoing general fund revenues in FY2014.



Currently: In the first seven months of FY2013, sales and use tax collections, excluding audits, were \$468.2 million. This is an increase of 4.46% from the first seven months of last year. Year-to-date collections are 61.2% of the estimate. Historically, 61.0% of the total revenue collected from this tax is received in the first seven months.

Estimate: Due to the broad nature of the sales and use tax, there are many different variables influencing collections. Intuitively, one assumes these influential variables would include employment, income, the unemployment rate, inflation, etc. To quantify these theories, regression equations are used to see if historically there has been a statistically significant relationship between these and other variables and sales and use tax collections. The sales and use tax data is divided into five different categories (taxable sales from consumer spending on durables and services, consumer spending on nondurables and business related purchases, construction related purchases, recreation related purchases, and utilities) to account for the broad base of the sales and use tax. Different variables are then used in the equations to see if historically a statistically significant relationship between them and taxable sales has existed. After finding the best fitting regression equation for each of the five categories, sales and use tax collections are forecasted. The regression equations used in the forecast, the coefficient of determination (R^2) associated with the equations, and a brief explanation of how to read regression equations are below.

Equation 1: Consumer Spending on Durables and Services (STCDS)

STCDS = $-225.54 + 52.21 \cdot \text{SD Nonfarm Income} + 197.71 \cdot \text{Seasonal Dummy} + 8.42 \cdot \text{SD Manufacturing Employment} + 0.04 \cdot \text{Gross National Product}$

$R^2 = .9932$

Equation 2: Business Related Purchases/Consumer Spending on Nondurables (STBUSCND)

STBUSCND = $-2,456.73 + 7.27 \cdot \text{SD Nonfarm Employment} + 226.74 \cdot \text{Seasonal Dummy} + 0.63 \cdot \text{Exports} + 736.22 \cdot \text{CPIF} + 208.36 \cdot \text{Dummy variable} - 190.37 \cdot \text{Dummy variable}$

$R^2 = .9950$

Equation 3: Construction Related Purchases (STCON)

STCON = $-516.57 + 51.21 \cdot \text{SD Construction, Mining, and Natural Resources Employment} + 6.11 \cdot (\text{Seasonal dummy} \cdot \text{SD personal income}) - 40.85 \cdot \text{Rate on Conventional 30 Year Mortgage} + 74.50 \cdot \text{Price Index for Wood and Metal Materials} + 0.02 \cdot \text{SD Gross Farm Income}$

$R^2 = .9875$

Equation 4: Recreation Related Purchases (STREC)

STREC = $-9.97 + 22.27 \times \text{SD Nonfarm Income} + 3.76 \times \text{SD Leisure and Hospitality Employment} + 6.05 \times (\text{SD Disposable Income} \times \text{Seasonal Dummy})$

$R^2 = .9968$

Equation 5: Utilities (STUTI)

STUTI = $-261.57 + 12.85 \times \text{SD Nonfarm Income} + 21.07 \times \text{SD Farm Proprietors Income} + 4.28 \times \text{Consumer Spending on Electricity and Natural Gas}$.

$R^2 = .9554$

Collection Equation:

Sales Tax Collections = $-1.79 + 0.04 \times \text{Total Taxable Sales}$

$R^2 = .9987$

Basic steps to follow when reading a regression equation are:

- 1.) Identify the dependent variable (the variable on the left side of the equation) and the independent variables (the variables on the right side of the equation).
- 2.) Look at the signs of the independent variables. The signs tell you if there is a positive or a negative relationship between the dependent and the independent variable.
- 3.) Look at the numbers in front of the independent variables. They quantify the change in the dependent variable if there is a one unit change in the independent variable, holding the other independent variables constant.
- 4.) Look at the R^2 . This is one way to identify how good an equation fits the data. An R^2 value close to one tells you that the equation has an excellent overall fit.

	Estimate for FY2013	Estimate for FY2014
Sales and Use Tax Collections	766,847,271	798,765,986
+ Audit Collections	<u>13,076,760</u>	<u>13,076,760</u>
= Base Estimate	779,924,031	811,842,746
- DOR Indirect Funding	(6,106,558)	(6,387,460)
- Collection Allowance		(2,467,252)*
= Estimate	773,817,473	802,988,034

*This represents 1/2 of the estimated state share of the collection allowance based on the original version of SB 51.

	Actual FY2011	Actual FY2012	Estimated FY2013	Estimated FY2014
Total Receipts	710,196,255	744,413,638	773,817,473	802,988,034
Dollar Change	58,080,728	34,217,383	29,403,835	29,170,561
Percent Change	8.91	4.82	3.95	3.77

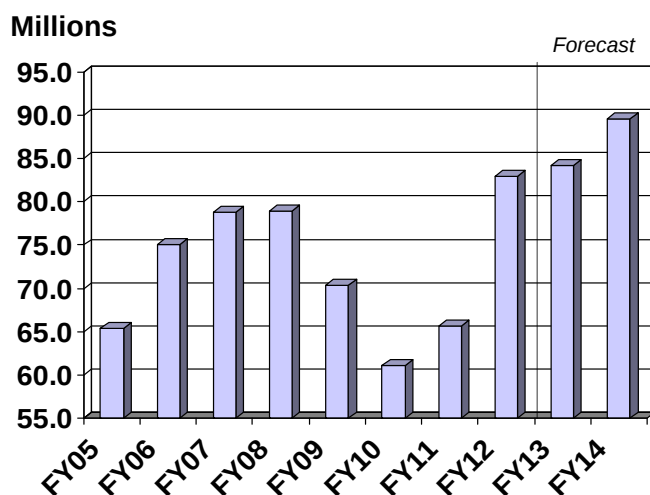
CONTRACTOR'S EXCISE TAX

Background: An excise tax of 2% is imposed on the gross receipts of all prime contractors on construction projects. Subcontractor's gross receipts are not subject to the 2% tax if they are furnished a valid prime contractor's exemption certificate by the prime contractor for each specific job performed. The gross receipts of both prime contractors and subcontractors providing construction services or realty improvement projects for qualifying utilities are subject to a 2% excise tax. Gross receipts resulting from construction services or realty improvements for public and private entities are subject to the excise tax. Therefore, projects for the U.S. Government, State of South Dakota, counties, cities, schools, hospitals, churches, and private individuals are taxable. (SDCL 10-46A and 10-46B)

- The date the tax return and payment is due depends on the frequency at which the taxpayer must file and the method of tax remittance. Contractor's excise tax returns can be filed electronically via SD QUEST or mailed to the Remittance Center in Sioux Falls. The most common filing period is once a month. The deadline for filing by mail is the 20th of the following month. Taxpayers that file and pay with SD QUEST must file returns no later than the 23rd day of the month, and payments must be electronically remitted on the second to last working day of the month. If gross receipts are small or if there is a unique situation to the business, taxpayers may file at a different frequency than monthly. These returns are due the last day of the month following the reporting period.

NOTE: Because of when contractor's excise tax payments are due, collections are lagged one month (ex: collections recorded in July are payments made to contractors in June).

- The average annual increase in net contractor's excise tax collections between FY2004 and FY2012 was 4.27%.
- Net collections from the contractor's excise tax account for approximately 7% of continuing general fund receipts in FY2014.



Currently: In the first seven months of FY2013, net contractor's excise tax collections were \$58.2 million. This is an increase of 2.23% from the first seven months of last year. Year-to-date collections are 69.09% of the estimate. Historically, 68.79% of the total revenue collected from this tax is received in the first seven months.

Estimate: Contractor's excise tax collections are estimated using a single regression equation. The equation and its coefficient of determination are on the following page. (An explanation of how to read a regression equation can be found on page 4.)

Contractor's Excise Tax Collections = $-43.32 + 1.46 \cdot \text{SD Construction, Natural Resources, and Mining Employment} + 0.52 \cdot (\text{Seasonal Dummy} \cdot \text{SD nonfarm income}) - 1.77 \cdot \text{SD Unemployment Rate} + 4.98 \cdot (\text{Price Index for Metal Materials and Wood Products}) + 13.61 \cdot \text{Consumer Price Index} + 0.55 \cdot \text{SD Housing Starts}$

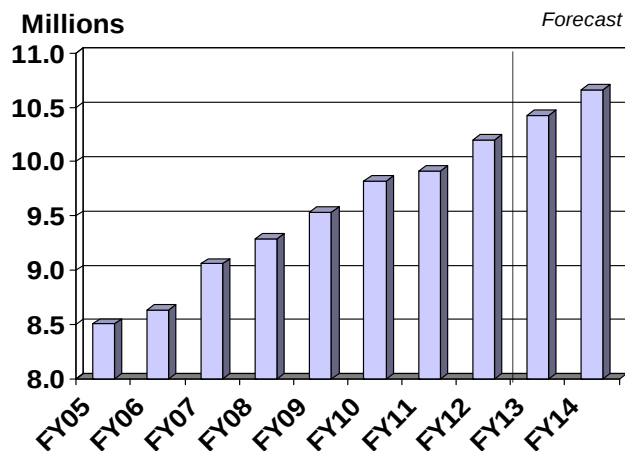
$R^2 = .9893$

	Actual FY2011	Actual FY2012	Estimated FY2013	Estimated FY2014
Total Receipts	65,697,771	82,991,355	84,197,227	89,551,981
Dollar Change	4,560,441	17,293,584	1,205,871	5,354,755
<i>Percent Change</i>	7.46	26.32	1.45	6.36

ALCOHOL BEVERAGE TAX

Background: A tax is levied on manufacturers and wholesalers of alcoholic beverages, and is computed on all alcoholic beverages purchased, received, or imported from a distiller, manufacturer, or foreign wholesaler for sale to a retail dealer. The taxation rates are as follows: 1) \$8.50 per 31 gallon barrel (or a prorata share thereof) on malt beverages; 2) all light wines and diluted beverages (except sparkling wines and cider) having more than 3.2% and not more than 14% alcohol by weight, 93¢ per gallon; 3) all wines (except sparkling wines) having more than 14% and not more than 20% alcohol by weight, \$1.45 per gallon; 4) all wines (except sparkling wines) having more than 20% and not more than 24% alcohol by weight, and all sparkling wines containing alcohol, \$2.07 per gallon; 5) all cider having not more than 10% alcohol by weight, 28¢ per gallon; and, 6) all other alcoholic beverages, \$3.93 per gallon. (SDCL 35-5)

- The state receives 75% of the tax collected, and 25% of the collections go to the municipalities.
- Collections from this tax account for approximately 0.8% of ongoing general fund revenues in FY2014.



Currently: Through the first seven months of FY2013, \$5.2 million has been collected from this tax. This is a decrease of 1.43% from the first seven months of last year. Year-to-date collections are 50.30% of the estimate. Historically, 51.09% of the total revenue collected from this tax is received in the first seven months.

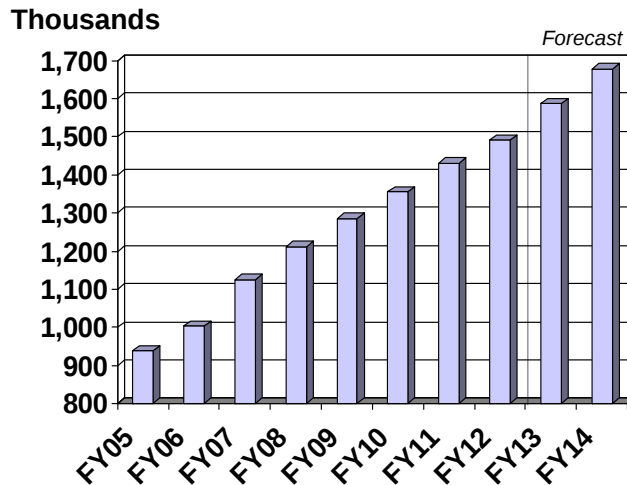
Estimate: The estimates are based on historical collections and current conditions.

	Actual FY2011	Actual FY2012	Estimated FY2013	Estimated FY2014
Total Receipts	9,916,603	10,186,442	10,424,622	10,663,856
Dollar Change	93,629	269,839	238,181	239,234
Percent Change	0.95	2.72	2.34	2.29

ALCOHOL BEVERAGE 2% WHOLESALE TAX

Background: In addition to the tax imposed by SDCL 35-5-3, a tax is levied at the rate of 2% of the purchase price upon the purchase of alcoholic beverages, except malt beverages, by a wholesaler from a distiller, manufacturer, or supplier. (SDCL 35-5-6.1)

- Collections from this tax account for approximately 0.1% of ongoing general fund revenues in FY2014.



Currently: Through the first seven months of FY2013, \$0.90 million has been collected from this tax. This is an increase of 3.76% from the first seven months of last year. Year-to-date collections are 57.90% of the estimate. Historically, 59.87% of the total revenue collected from this tax is received in the first seven months.

Estimate: The estimates are based on historical collections and current conditions.

	Actual FY2011	Actual FY2012	Estimated FY2013	Estimated FY2014
Total Receipts	1,431,373	1,490,640	1,586,870	1,678,318
Dollar Change	76,779	59,267	96,229	91,448
Percent Change	5.67	4.14	6.46	5.76

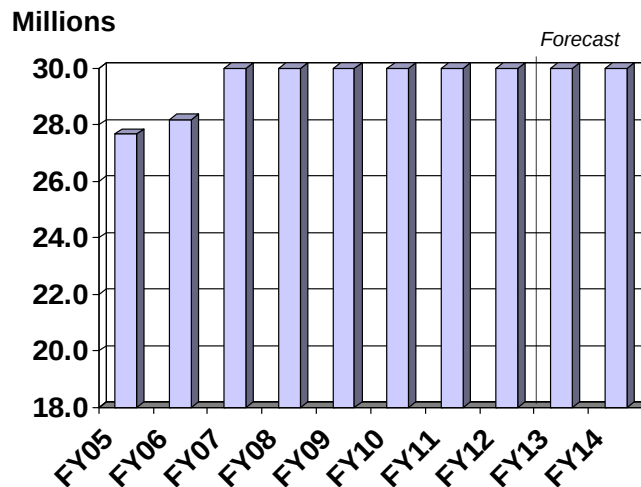
CIGARETTE TAX

Background: The cigarette tax is imposed at the rate of seventy-six and one-half mills on each cigarette (\$1.53 per pack of 20 cigarettes) and the tax on all other tobacco products is 35% of the wholesale purchase price. The first \$30 million generated by this tax increase is allocated to the general fund. The next \$5 million is to be deposited into the Tobacco Prevention and Reduction Trust Fund. Any revenue in excess of \$35 million is divided among the Property Tax Reduction Fund, the Education Enhancement Tobacco Tax Fund, and the Health Care Tobacco Tax Fund. (SDCL 10-50)

- Approximately 90% of the collections included in this category are from the tax on cigarettes, and the remaining 10% is collected based on the tax on the wholesale purchase price of other tobacco products.
- The number of packs of cigarettes sold in South Dakota has been declining. In FY2002, 57.0 million packs of cigarettes were sold in the state; in FY2012, 35.2 million packs were sold.
- Collections in this category account for approximately 2.3% of ongoing general fund revenues.
- The total estimates and breakdown of where the dollars go are included in the following table.

	Actual FY2011	Actual FY2012	Estimated FY2013	Estimated FY2014
General Fund	30,000,000	30,000,000	30,000,000	30,000,000
TPRTF	5,000,000	5,000,000	5,000,000	5,000,000
PTRF	7,538,586	7,421,806	7,921,879	7,554,600
EETTF	7,538,586	7,421,806	7,921,879	7,554,600
HCTTF	7,767,028	7,646,708	8,161,936	7,783,527
Total	57,844,200	57,490,320	59,005,694	57,892,727

- The following chart includes the amount allocated directly to the general fund:



Currently: Through the first seven months of FY2013, the total collections from the tobacco taxes totaled \$35.6 million and the full \$30.0 million general fund portion has been collected in this category.

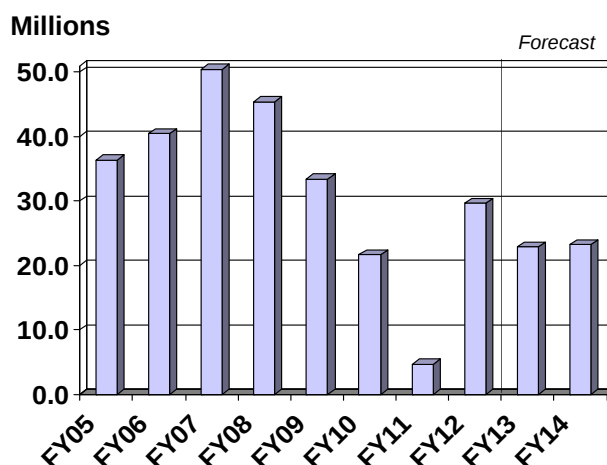
Estimate: Collections from the tax on cigarettes and other tobacco products are estimated individually. The general fund is expected to receive \$30,000,000 in both FY2013 and FY2014.

	Actual FY2011	Actual FY2012	Estimated FY2013	Estimated FY2014
Total Receipts	30,000,000	30,000,000	30,000,000	30,000,000
Dollar Change	0	0	0	0
Percent Change	0	0	0	0

BANK FRANCHISE TAX

Background: In lieu of sales tax on financial and banking services, an annual tax is imposed on banks, financial institutions, and savings and loan associations based upon net income assignable to South Dakota. The tax rates are as follows: 1) 6% on net income of \$400 million or less; 2) 5% on net income exceeding \$400 million but equal to or less than \$425 million; 3) 4% on net income exceeding \$425 million but equal to or less than \$450 million; 4) 3% on net income exceeding \$450 million but equal to or less than \$475 million; 5) 2% on net income exceeding \$475 million but equal to or less than \$500 million; 6) 1% on net income exceeding \$500 million but equal to or less than \$600 million; 7) 0.5% on net income exceeding \$600 million but equal to or less than \$1.2 billion; and, 8) 0.25% on net income exceeding \$1.2 billion. The minimum tax payable is \$200. (SDCL 10-43)

- Ninety-five percent of the taxes paid by bank card taxpayers and 26 2/3% of all other revenues are deposited in the general fund. The remaining 5% of collections from bank card taxpayers and the 73 1/3% of revenues received from all other banks are remitted to the county where the bank or financial institution is located.
- Historically, the majority of revenue deposited in the general fund from the bank franchise tax is typically from bank card institutions (approximately 80%).
- Collections from this tax account for approximately 1.8% of ongoing general fund revenues in FY2014.



Currently: Through the first seven months of FY2013, \$10.7 million has been collected from this tax. This is a decrease of 42.22% from the first seven months of last year.

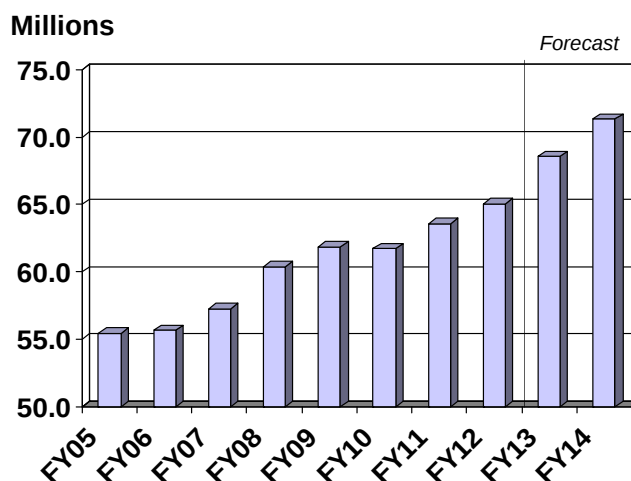
Estimate: Collections received from bank card taxpayers and other banks are estimated individually. The estimate is based on historical collections and current conditions. The amount projected for the bank card portion of the bank franchise tax utilized a 10 year average less one standard deviation. However, due to mergers and new financial regulations in the banking industry, \$16.6 million is being reduced from the FY2013 and FY2014 bank tax collections on a one-time basis due to uncertainties regarding the bank card portion of the tax.

	Actual FY2011	Actual FY2012	Estimated FY2013	Estimated FY2014
Total Receipts	4,734,918	29,688,991	22,888,629	23,245,655
Dollar Change	(16,934,305)	24,954,073	(6,800,362)	357,026
Percent Change	(78.15)	527.02	(22.19)	1.56

INSURANCE COMPANY TAX

Background: A tax of 2.5% of premiums on policies insuring risks located in South Dakota is imposed on insurance companies. In addition, the insurer must also pay a tax of 0.5% of the gross premium receipts on all fire insurance business done in the state. The tax imposed on insurance companies for life insurance policies is 2.5% of premiums on the first \$100,000 of annual life premiums per policy and eight one-hundredths of a percent for that portion of the annual life premiums per policy exceeding \$100,000. A life insurance policy (other than credit life as defined in SDCL 58-19) of a face amount of \$7,000 or less is taxed at the rate of 1.25% of premiums. The tax imposed on insurance companies for annuities is 1.25% of the consideration for annuity contracts on the first \$500,000 of annual consideration per annuity contract and eight one-hundredths of a percent for that portion of the annual consideration per annuity contract exceeding \$500,000. Farm mutual insurers and fraternal benefit societies are exempt from insurance company taxes. (SDCL 10-44)

- The average annual increase between FY2004 and FY2012 was 2.99%.
- Collections from this tax account for approximately 5.4% of ongoing general fund revenues.



Currently: Through the first seven months of FY2013, \$44.0 million has been collected from this tax. This is an increase of 9.31% from the first seven months of last year. Year-to-date collections are 64.17% of the estimate. Historically, 63.01% of the total revenue collected from this tax is received in the first seven months.

Estimate: A regression equation is used to project collections from the insurance company tax. The equation and its coefficient of determination are below. (An explanation of how to read a regression equation can be found on page 4.)

Insurance Company Tax Collections = 5.79 + 0.50*SD Nonfarm Income - 3.56*Seasonal Dummy + 0.04*Consumer Spending on Insurance - 0.26*Yield on 2 year Treasury note.

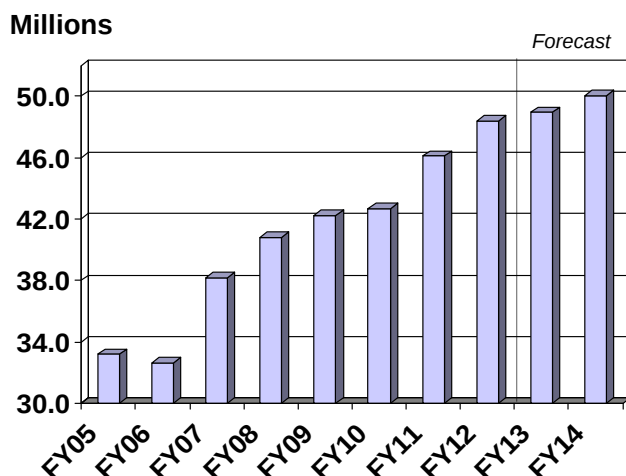
$$R^2 = .9721$$

	Actual FY2011	Actual FY2012	Estimated FY2013	Estimated FY2014
Total Receipts	63,609,227	65,076,133	68,538,108	71,308,550
Dollar Change	1,875,195	1,466,906	3,461,976	2,770,442
Percent Change	3.04	2.31	5.32	4.04

LICENSES, PERMITS, AND FEES

Background: Revenues included in this category are receipts received from the sales of a broad variety of licenses, permits, and filing fees which are assessed to defray administrative costs. State agencies collecting these revenues are the Departments of Agriculture; Health; Labor and Regulation; Public Safety; Social Services; Revenue; the Unified Judicial System; and, the Secretary of State.

- About 70% of the revenue collected in this category comes from securities fees. Collections from securities fees are affected by conditions in the stock market. During the boom years of the late nineties and early part of this century, collections from securities fees were strong. After the stock market bubble burst, collections from securities fees dropped. In FY2012 and thus far in FY2013, security fee collections have recovered due to the recovery in the stock market.
- Collections in this category account for approximately 3.8% of ongoing general fund revenues in FY2014.



Currently: Through the first seven months of FY2013, \$17.5 million has been collected in this category. This is a decrease of 37.72% from the first seven months of last year. The large decrease is due to timing of the securities fee collection transfers. Year-to-date collections are 35.48% of the estimate. Historically, 50.45% of the total revenue is collected in the first seven months.

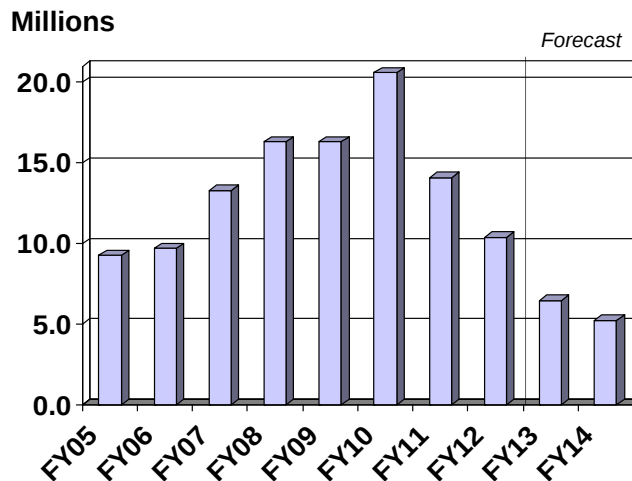
Estimate: The different sources of receipts included in this category are estimated individually based on historical collections and current conditions.

	Actual FY2011	Actual FY2012	Estimated FY2013	Estimated FY2014
Receipts	46,102,423	48,402,362	48,961,277	50,024,747
Dollar Change	3,402,174	2,299,939	558,915	1,063,470
Percent Change	7.97	4.99	1.15	2.17

INVESTMENT INCOME AND INTEREST

Background: Revenues included in this category are from interest and the investment earnings of the general fund and nonparticipating funds in the cash flow fund. (Nonparticipating means the earnings attributable to the company are deposited in the general fund.) The South Dakota Investment Council is responsible for investing the money in the cash flow fund. (SDCL 4-5)

- The yield of the cash flow fund has varied over the years, which has affected the interest income. In FY2002 and FY2003, the average yield was 5.5% and 4.7%, respectively. In FY2004, FY2005, and 2006, the average yield fell to 3.0%, 2.9%, and 3.1%, respectively. Due to rising interest rates, the yield rose to 4.2% in FY2007, 5.1% in FY2008, 4.6% in FY2009, and 4.5% in FY2010. In FY2011 and FY2012, the yield decreased to 3.4% and 2.3%, respectively. Due to low interest rates and lower expected returns, the yield is expected to continue to decrease in FY2013 and FY2014.
- Receipts in this category account for approximately 0.4% of ongoing general fund revenues in FY2014.



Currently: Through the first seven months of FY2013, \$0.9 million has been collected in this category. This is a decrease of 52.18% from the first seven months of last year. Year-to-date collections are 13.94% of the estimate. Historically, 12.46% of the total revenue is collected in the first seven months. The yield of the cash flow fund is estimated at 1.3% for FY2013 and 1.0% for FY2014.

Estimate: The estimate is based on information provided by the South Dakota Investment Council and historical collections.

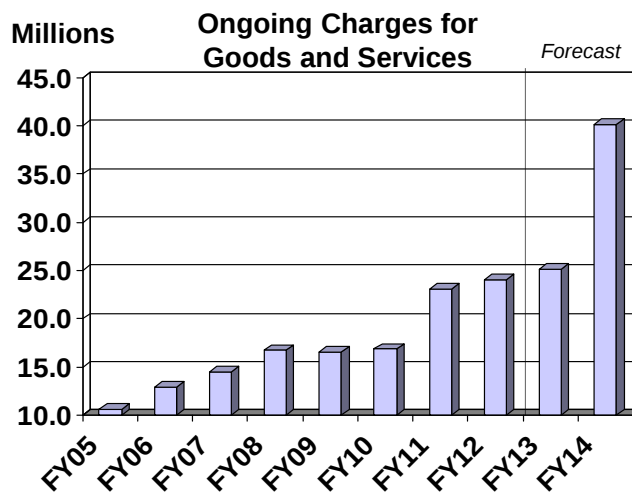
	Actual FY2011	Actual FY2012	Estimated FY2013	Estimated FY2014
Total Receipts	14,096,898	10,394,581	6,477,017	5,216,829
Dollar Change	(6,489,533)	(3,702,317)	(3,917,563)	(1,260,188)
Percent Change	(31.52)	(26.26)	(37.69)	(19.64)

CHARGES FOR GOODS AND SERVICES

Background: Receipts included in this category are from charges made by institutions under the Department of Human Services and the Department of Social Services; audit charges made by the Auditor General to state and local governments; child support collections paid back to the state received by the Department of Social Services; funds received from unclaimed property; 35% of fines, penalties, and forfeitures collected by or through the use of a circuit or magistrate court, clerk, or other court officer for violations of a county, township, municipal, or chartered governmental unit's ordinance, charter, or bylaw; and other miscellaneous charges.

- Revenues to the general fund from this category vary from year-to-year.
- Unclaimed property (UCP) receipts composed over 57% of the revenue from this category in FY2012. The majority of the growth in recent years is a result of record unclaimed property collections.
- Receipts included in this category account for approximately 3.0% of ongoing general fund revenues in FY2014.

	Actual FY2011	Actual FY2012	Estimated FY2013	Estimated FY2014
Ongoing UCP	12,915,656	13,865,906	14,622,500	29,113,500
Rest of CGS	10,133,734	10,203,592	10,488,060	10,500,908
Ongoing CGS	23,049,390	24,069,498	25,110,560	39,614,408
One-time UCP	0	0	17,397,006	24,254,000



Currently: Through the first seven months of FY2013, \$36.8 million has been collected in this category. This is an increase of 85.30% from the first seven months of last year. Year-to-date collections are 86.69% of the estimate. Historically, 74.66% of the total revenue is collected in the first seven months.

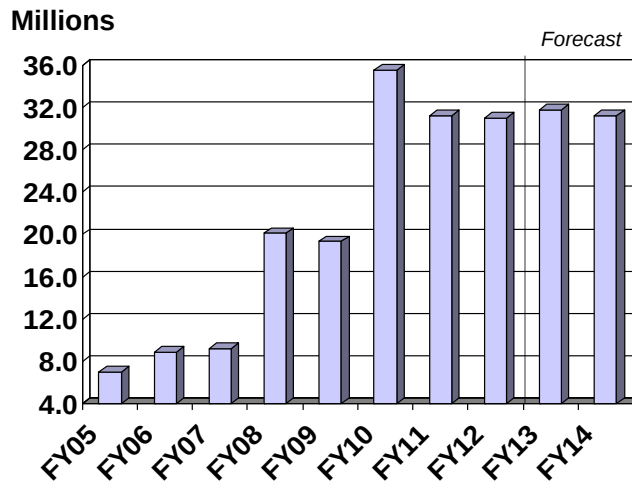
Estimate: The different sources of receipts included in this category are broken out and estimated individually based on historical collections and current conditions. The estimates listed below and in the bar chart above only include only the ongoing portion of unclaimed property receipts along with the remaining ongoing Charges for Goods and Services category.

	Actual FY2011	Actual FY2012	Estimated FY2013	Estimated FY2014
Total Ongoing Receipts	23,049,390	24,069,498	25,110,560	39,614,408
Dollar Change	6,192,790	1,020,108	1,041,062	14,503,848
Percent Change	36.74	4.43	4.33	57.76

NET TRANSFERS IN

Background: Receipts included in this category are general fund reimbursements by the Highway Fund; receipts from the Department of Game, Fish, and Parks; receipts from the Motor Vehicle Fund; the state's share of the Deadwood gaming revenue (SDCL 42-7B-28.1 and SDCL 42-7B-48.1); the transfer from the Health Care Tobacco Tax Fund; the transfer from the Education Enhancement Tobacco Tax Fund; and, other miscellaneous receipts.

- Receipts included in this category account for approximately 2.4% of ongoing general fund revenues in FY2014.



Currently: Through the first seven months of FY2013, \$11.8 million has been collected in this category. This is an increase of 1.36% from the first seven months of last year. Year-to-date collections are 37.03% of the estimate. Historically, 41.41% of the total revenue is collected in the first seven months.

Estimate: The different sources of receipts included in this category are broken out and estimated individually based on historical collections and current conditions.

	Actual FY2011	Actual FY2012	Estimated FY2013	Estimated FY2014
Total Receipts	31,191,097	31,015,337	31,815,600	31,225,267
Dollar Change	(4,316,755)	(175,759)	800,262	(590,333)
Percent Change	(12.16)	(0.56)	2.58	(1.86)

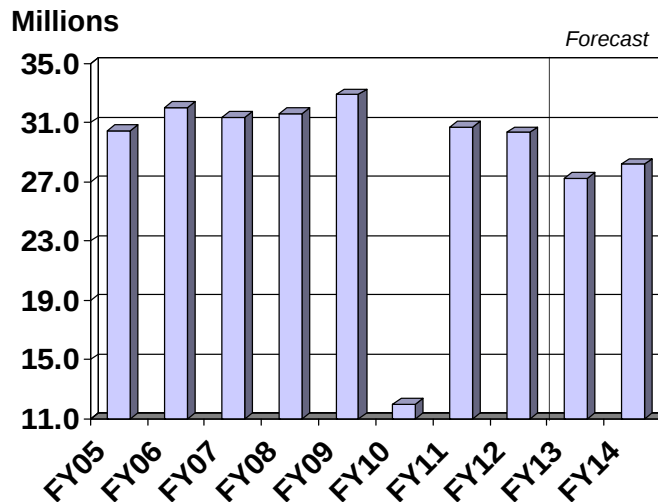
TRUST FUNDS

Background: Receipts included in this category are transfers from the Health Care Trust Fund (HCTF), the Education Enhancement Trust Fund (EETF), and the Dakota Cement Trust Fund (DCTF). Four percent of the market values of the HCTF and the EETF are transferred to the general fund every year as long as the principals of the trust funds are not invaded. The market values of the HCTF and the EETF are calculated using a 16-quarter average as of December 31st. (SDCL 4-5-29.1 and 4-5-29.2) The earnings from the HCTF are to be used for health care related programs, and the earnings from the EETF are to be used for education enhancement programs. (Article 12, Sections 5 and 6 of the State Constitution) Prior to FY2013, a transfer of \$12.0 million was made from the DCTF to the general fund each fiscal year. Constitutional Amendment O, passed by the voters in November of 2012, changed the distribution beginning in FY2013 to four percent of the market value or the most recent sixteen quarterly average, whichever is less. (Article 13, Sections 20 and 21 of the State Constitution)

- The table below shows the amounts transferred from each of the trust funds to the general fund in FY2011 and FY2012, and the estimated amounts for FY2013 and FY2014.

	Actual FY2011	Actual FY2012	Estimated FY2013	Estimated FY2014
HCTF	3,886,427	3,876,298	3,825,385	3,959,754
EETF	14,802,789	14,469,388	14,052,700	14,413,354
DCTF	12,000,000	12,000,000	9,356,955	9,821,369
Total	30,689,216	30,345,686	27,235,040	28,194,477

- Receipts from the trust funds account for approximately 2.1% of ongoing general fund revenues in FY2014.



Currently: As of January 31st, the estimated rate of return for the fiscal year on the HCTF was 11.2%. The estimated rate of return for the fiscal year on the EETF was 10.9%. The estimated rate of return for the fiscal year on the DCTF was 11.0%.

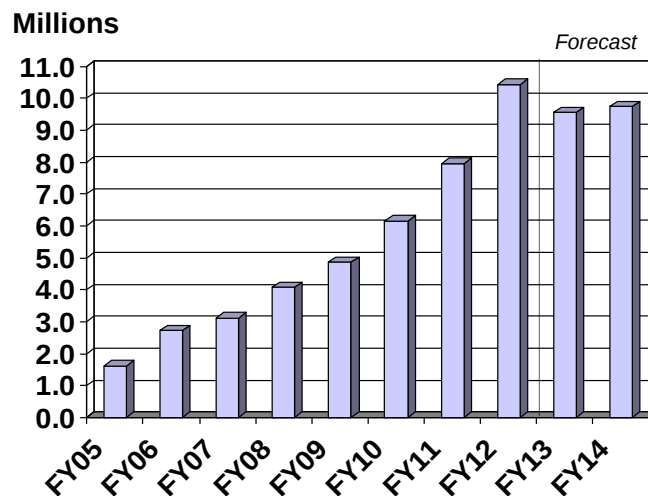
Estimate: The estimate for FY2013 and FY2014 includes the constitutionally required transfer from the Dakota Cement Trust and the amounts to be transferred from the Health Care Trust Fund and Education Enhancement Trust Fund pursuant to SDCL 4-5-29.1 and SDCL 4-5-29.2.

	Actual FY2011	Actual FY2012	Estimated FY2013	Estimated FY2014
Total Receipts	30,689,216	30,345,686	27,235,040	28,194,477
Dollar Change	18,689,216	(343,530)	(3,110,646)	959,437
Percent Change	155.74	(1.12)	(10.25)	3.52

SEVERANCE TAXES

Background: A severance tax is imposed at the rate of \$4 per ounce of gold severed in South Dakota and an additional per ounce tax of up to \$4 which is dependent on the price of gold. In addition, there is a tax of 10% of the net profits from the sale of precious metals severed. (SDCL 10-39) Owners or operators of energy minerals must pay a tax equal to 4.5% of the taxable value of any energy minerals severed. (SDCL 10-39A)

- For persons severing precious metals who were in business in the state prior to January 1, 1981, 100% of the revenues collected are deposited in the general fund. For persons permitted on or after January 1, 1981, for the purpose of severing precious metals, 80% of the revenues collected are deposited in the general fund, and 20% are remitted to the county in which the precious metals were severed.
- One-half of the energy mineral severance taxes received are returned to the county where the energy minerals were severed and one-half of the taxes are deposited in the general fund.
- Gold production was relatively stable in South Dakota in 2012 compared to 2011. In 2011 there were 67,147 ounces of gold produced in the state, and in 2012 there were 68,061 ounces of gold produced.
- Oil production in South Dakota grew in 2012 compared to 2011 with 1,612,000 bbls in 2011 produced and an estimated 1,768,000 bbls in 2012.
- Collections included in this category account for approximately 0.7% of ongoing general fund revenues in FY2014.



Currently: Through the first seven months of FY2013, \$4.7 million has been collected in this category. This is an increase of 15.92% from the first seven months of last year.

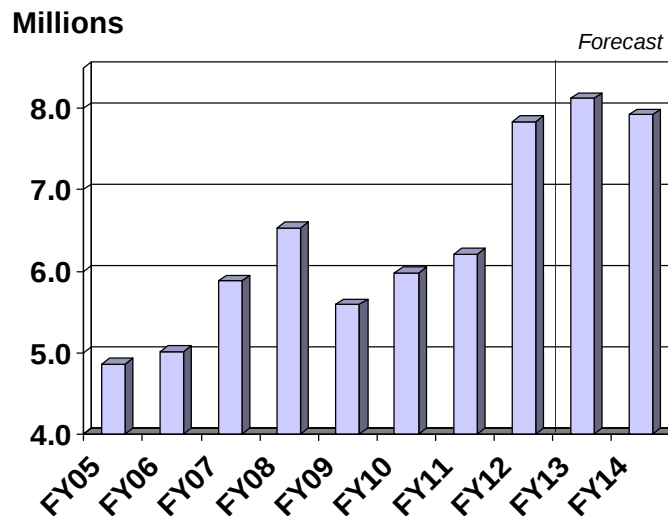
Estimate: Collections from taxes on precious metals and energy minerals are estimated separately. The estimates of collections from the severance taxes on gold and precious metals are based on history and current conditions. The estimates of collections from the tax on energy minerals are based on history and the projected price of crude oil and natural gas.

	Actual FY2011	Actual FY2012	Estimated FY2013	Estimated FY2014
Total Receipts	7,956,574	10,441,940	9,545,665	9,735,625
Dollar Change	1,797,616	2,485,366	(896,275)	189,960
Percent Change	29.19	31.24	(8.58)	1.99

LOTTERY

Background: Receipts included in this category are the general fund's share of revenues from the sale of instant and on-line lottery tickets. (SDCL 42-7A)

- All of the net proceeds from the sale of instant lottery tickets are deposited in the general fund.
- The first \$1.4 million of the net proceeds from the sale of on-line lottery tickets are deposited in the general fund. The remaining net proceeds from the sale of on-line lottery tickets are deposited in the Capital Construction Fund.
- Instant tickets are the scratch tickets sold by retailers. On-line games include Powerball, Mega Millions, Hot Lotto, Dakota Cash, and Wild Card 2.
- Receipts included in this category account for approximately 0.6% of ongoing general fund revenues in FY2014.



Currently: Through January 31st, 2013, instant ticket sales were up 1.5% compared to the same time period last year.

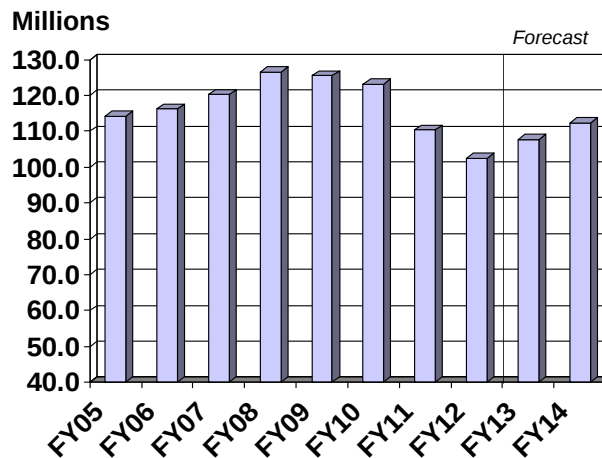
Estimate: The estimates are based on historical collections and current conditions.

	Actual FY2011	Actual FY2012	Estimated FY2013	Estimated FY2014
Total Receipts	6,212,123	7,834,332	8,120,976	7,920,000
Dollar Change	232,292	1,622,209	286,644	(200,976)
Percent Change	3.88	26.11	3.66	(2.47)

PROPERTY TAX REDUCTION FUND

Background: The Property Tax Reduction Fund (PTRF) was created to fund property tax relief in South Dakota. In FY1996, \$45.9 million of the state's share of video lottery net machine income was deposited in the PTRF. Money from the PTRF was then used to fund the second half of the CY1996 Property Tax Credit Program. Starting January 1, 1997, the Commissioner of the Bureau of Finance and Management has transferred money from the PTRF to the general fund to provide property tax relief through state aid to education. (SDCL 10-13-44)

- Revenues deposited in the PTRF come from four ongoing sources:
 - 1) Forty-nine and one half percent of video lottery net machine income. (SDCL 42-7A-63)
 - 2) Sixty percent of the revenue collected from the 4% tax on the gross receipts of telecommunication services, which was imposed by HB 1104 passed by the 2003 Legislature. (SDCL 10-33A-4)
 - 3) Thirty-three percent share of the revenues in excess of \$35 million generated by the tobacco taxes from Initiated Measure 2. (SDCL 10-50-52)
 - 4) Beginning in FY2014, a portion of the wind farm gross receipts tax is dedicated to the PTRF through the wind energy tax fund. (SDCL 10-35-22)
- Receipts from the PTRF account for approximately 8.5% of general fund revenues in FY2014.



Currently: Through January of FY2013, video lottery receipts were down 5.47% compared to the same time period last year. Through the first seven months of FY2013, the state's share of the receipts from the telecommunications tax was \$4.0 million. This is an increase of 3.29% from the first seven months of last year.

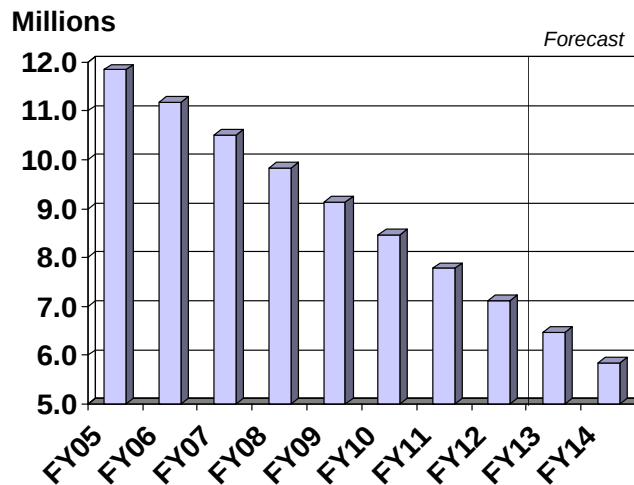
Estimate: The projections for video lottery collections and receipts from the telecommunications tax are estimated separately based on historical collections and current conditions. The estimate for the tobacco tax revenue is based on historical collections and current conditions. The estimate for the distribution from the wind energy tax fund is provided by the Department of Revenue. For FY2013 and FY2014, it is anticipated that all the revenues from these sources will be transferred to the general fund.

	Actual FY2011	Actual FY2012	Estimated FY2013	Estimated FY2014
Video Lottery	95,805,502	87,282,782	91,646,921	96,229,268
Telecom Tax	7,036,174	7,737,154	8,046,641	8,368,506
Tobacco	7,538,586	7,421,806	7,921,879	7,554,600
Wind Farm Tax	0	0	0	157,500
Total Receipts	110,380,262	102,441,742	107,615,441	112,309,874
Dollar Change	(12,794,251)	(7,938,520)	5,173,699	4,694,433
Percent Change	(10.39)	(7.19)	5.05	4.36

SALE-LEASEBACK

Background: On December 1, 1986, the state sold a number of buildings and then leased them back. The purpose of doing this was to take advantage of a tax opportunity which provided a large sum of money for capital improvements. Proceeds from the sale were also used to purchase an annuity contract. Starting December 1, 1987, annuity payments are deposited in the general fund. The annuity payments are then used to make the lease payments, which are appropriated annually by the legislature.

- This is an in-and-out revenue source.
- Receipts account for approximately 0.4% of ongoing general fund revenues in FY2014.



Estimate: The estimates are from the sale-leaseback schedule.

	Actual FY2011	Actual FY2012	Estimated FY2013	Estimated FY2014
Total Receipts	7,782,263	7,111,219	6,465,087	5,838,681
Dollar Change	(675,562)	(671,044)	(646,132)	(626,406)
Percent Change	(7.99)	(8.62)	(9.09)	(9.69)

GOVERNOR'S REVISED FY2013 VS. FEBRUARY REVISED FY2013

	GOV'S REVISED FY2013	FEB. REVISED FY2013	DOLLAR CHANGE	PERCENT CHANGE
ONGOING RECEIPTS				
Sales and Use Tax	\$ 769,552,224	\$ 773,817,473	\$4,265,249	0.55
Contractor's Excise Tax	84,575,782	84,197,227	(378,555)	(0.45)
Alcohol Beverage Tax	10,424,622	10,424,622	0	0.00
Alcohol Beverage 2% Wholesale Tax	1,586,870	1,586,870	0	0.00
Cigarette Tax	30,000,000	30,000,000	0	0.00
Bank Franchise Tax	22,888,629	22,888,629	0	0.00
Insurance Company Tax	67,813,444	68,538,108	724,664	1.07
Licenses, Permits, and Fees	49,350,210	48,961,277	(388,933)	(0.79)
Investment Income and Interest	5,915,327	6,477,017	561,690	9.50
Charges for Goods and Services	25,105,514	25,110,560	5,046	0.02
Net Transfers In	31,356,757	31,815,600	458,843	1.46
Trust Funds	27,101,070	27,235,040	133,970	0.49
Severance Taxes	9,468,116	9,545,665	77,549	0.82
Lottery	7,920,000	8,120,976	200,976	2.54
Property Tax Reduction Fund	107,925,905	107,615,441	(310,464)	(0.29)
Sale-Leaseback	6,465,087	6,465,087	0	0.00
SUBTOTAL (ONGOING RECEIPTS)	\$ 1,257,449,557	\$ 1,262,799,592	\$5,350,035	0.43
ONE-TIME RECEIPTS				
One-time Unclaimed Property Receipts	12,614,328	17,397,006	4,782,678	37.91
Refinancing Gains	1,738,786	1,738,786	0	0.00
Misc. Settlements	2,366,100	2,366,100	0	0.00
Transfer from Tax Relief Fund	4,133,192	4,133,192	0	0.00
Transfer from Budgetary Accounting Fund	1,839,990	1,839,990	0	0.00
Reduction to Ongoing Bank Franchise Tax	(16,641,948)	(16,641,948)	0	0.00
Obligated Cash Carried Forward	75,655,964	75,655,964	0	0.00
SUBTOTAL (ONE-TIME RECEIPTS)	\$ 81,706,412	\$ 86,489,090	\$ 4,782,678	5.85
GRAND TOTAL	\$ 1,339,155,969	\$ 1,349,288,682	\$10,132,713	0.76

GOVERNOR'S RECOMMENDED FY2014 VS. FEBRUARY REVISED FY2014

	GOV'S REC FY2014	FEB. REVISED FY2014	DOLLAR CHANGE	PERCENT CHANGE
ONGOING RECEIPTS				
Sales and Use Tax	\$ 802,456,550	\$ 802,988,034	\$ 531,484	0.07
Contractor's Excise Tax	90,012,663	89,551,981	(460,682)	(0.51)
Alcohol Beverage Tax	10,663,856	10,663,856	0	0.00
Alcohol Beverage 2% Wholesale Tax	1,678,318	1,678,318	0	0.00
Cigarette Tax	30,000,000	30,000,000	0	0.00
Bank Franchise Tax	23,245,655	23,245,655	0	0.00
Insurance Company Tax	70,623,120	71,308,550	685,430	0.97
Licenses, Permits, and Fees	50,357,967	50,024,747	(333,220)	(0.66)
Investment Income and Interest	5,919,892	5,216,829	(703,063)	(11.88)
Charges for Goods and Services	40,123,408	39,614,408	(509,000)	(1.27)
Net Transfers In	31,111,279	31,225,267	113,988	0.37
Trust Funds	27,754,535	28,194,477	439,942	1.59
Severance Taxes	9,906,238	9,735,625	(170,613)	(1.72)
Lottery	7,920,000	7,920,000	0	0.00
Property Tax Reduction Fund	112,923,432	112,309,874	(613,558)	(0.54)
Sale-Leaseback	5,838,681	5,838,681	0	0.00
SUBTOTAL (ONGOING RECEIPTS)	\$ 1,320,535,594	\$ 1,319,516,302	\$ (1,019,292)	(0.08)
ONE-TIME RECEIPTS				
One-time Unclaimed Property Receipts	29,245,000	24,254,000	(4,991,000)	(17.07)
Reduction to Ongoing Bank Franchise Tax	(16,641,948)	(16,641,948)	0	0.00
SUBTOTAL (ONE-TIME RECEIPTS)	\$ 12,603,052	\$ 7,612,052	\$ (4,991,000)	(39.60)
GRAND TOTAL	\$ 1,333,138,646	\$ 1,327,128,354	\$ (6,010,292)	(0.45)

ADOPTED FY2013 VS. FEBRUARY REVISED FY2013

	LEG. ADOPTED FY2013	FEB. REVISED FY2013	DOLLAR CHANGE	PERCENT CHANGE
ONGOING RECEIPTS				
Sales and Use Tax	\$ 763,199,092	\$ 773,817,473	\$10,618,381	1.39
Contractor's Excise Tax	74,048,669	84,197,227	10,148,558	13.71
Alcohol Beverage Tax	10,521,199	10,424,622	(96,577)	(0.92)
Alcohol Beverage 2% Wholesale Tax	1,540,138	1,586,870	46,732	3.03
Cigarette Tax	30,000,000	30,000,000	0	0.00
Bank Franchise Tax	26,165,824	22,888,629	(3,277,195)	(12.52)
Insurance Company Tax	67,471,493	68,538,108	1,066,615	1.58
Licenses, Permits, and Fees	50,479,719	48,961,277	(1,518,442)	(3.01)
Investment Income and Interest	5,895,555	6,477,017	581,462	9.86
Charges for Goods and Services	22,476,321	25,110,560	2,634,239	11.72
Net Transfers In	30,405,536	31,815,600	1,410,064	4.64
Trust Funds	27,113,788	27,235,040	121,252	0.45
Severance Taxes	8,391,978	9,545,665	1,153,687	13.75
Lottery	7,090,000	8,120,976	1,030,976	14.54
Property Tax Reduction Fund	102,208,643	107,615,441	5,406,798	5.29
Sale-Leaseback	6,465,087	6,465,087	0	0.00
SUBTOTAL (ONGOING RECEIPTS)	\$ 1,233,473,042	\$ 1,262,799,592	\$29,326,550	2.38
ONE-TIME RECEIPTS				
Transfer from Tobacco Prev. and Red. Trust Fund	1,000,000	0	(1,000,000)	(100.00)
One-time Unclaimed Property Receipts	0	17,397,006	17,397,006	100.00
Refinancing Gains	0	1,738,786	1,738,786	100.00
Misc. Settlements	0	2,366,100	2,366,100	100.00
Transfer from Tax Relief Fund	0	4,133,192	4,133,192	100.00
Transfer from Budgetary Accounting Fund	0	1,839,990	1,839,990	100.00
Reduction to Ongoing Bank Franchise Tax	0	(16,641,948)	(16,641,948)	
Obligated Cash Carried Forward	37,806,110	75,655,964	37,849,854	100.12
SUBTOTAL (ONE-TIME RECEIPTS)	\$ 38,806,110	\$ 86,489,090	\$ 47,682,980	122.87
GRAND TOTAL	\$ 1,272,279,152	\$ 1,349,288,682	\$77,009,530	6.05

ACTUAL FY2012 VS. FEBRUARY REVISED FY2013

	ACTUAL FY2012	FEB. REVISED FY2013	DOLLAR CHANGE	PERCENT CHANGE
ONGOING RECEIPTS				
Sales and Use Tax	\$ 744,413,638	\$ 773,817,473	\$ 29,403,835	3.95
Contractor's Excise Tax	82,991,355	84,197,227	1,205,872	1.45
Alcohol Beverage Tax	10,186,442	10,424,622	238,180	2.34
Alcohol Beverage 2% Wholesale Tax	1,490,640	1,586,870	96,230	6.46
Cigarette Tax	30,000,000	30,000,000	0	0.00
Bank Franchise Tax	29,688,991	22,888,629	(6,800,362)	(22.91)
Insurance Company Tax	65,076,133	68,538,108	3,461,975	5.32
Licenses, Permits, and Fees	48,402,362	48,961,277	558,915	1.15
Investment Income and Interest	10,394,581	6,477,017	(3,917,564)	(37.69)
Charges for Goods and Services	24,069,498	25,110,560	1,041,062	4.33
Net Transfers In	31,015,337	31,815,600	800,263	2.58
Trust Funds	30,345,686	27,235,040	(3,110,646)	(10.25)
Severance Taxes	10,441,940	9,545,665	(896,275)	(8.58)
Lottery	7,834,332	8,120,976	286,644	3.66
Property Tax Reduction Fund	102,441,742	107,615,441	5,173,699	5.05
Sale-Leaseback	7,111,219	6,465,087	(646,132)	(9.09)
SUBTOTAL (ONGOING RECEIPTS)	\$ 1,235,903,897	\$ 1,262,799,592	\$ 26,895,695	2.18
ONE-TIME RECEIPTS				
One-time Unclaimed Property Receipts	0	17,397,006	17,397,006	100.00
Refinancing Gains	396,295	1,738,786	1,342,491	338.76
Misc. Settlements	418,500	2,366,100	1,947,600	465.38
Transfer from Tax Relief Fund	0	4,133,192	4,133,192	100.00
Transfer from Budgetary Accounting Fund	0	1,839,990	1,839,990	100.00
Reduction to Ongoing Bank Franchise Tax	0	(16,641,948)	(16,641,948)	100.00
One-time Bank Franchise tax	14,336,418	0	(14,336,418)	(100.00)
Transfer from Tobacco Prev. and Red. Trust Fund	1,000,000	0	(1,000,000)	(100.00)
CREP Savings	400,000	0	(400,000)	(100.00)
Unexpended Carryovers and Specials	9,775,378	0	(9,775,378)	(100.00)
Transfer from Budget Reserves	20,155,015	0	(20,155,015)	(100.00)
Obligated Cash Carried Forward	0	75,655,964	75,655,964	100.00
SUBTOTAL (ONE-TIME RECEIPTS)	\$ 46,481,606	\$ 86,489,090	\$40,007,484	86.07
GRAND TOTAL	\$ 1,282,385,503	\$ 1,349,288,682	\$66,903,179	5.22

FEBRUARY REVISED FY2013 VS. FEBRUARY REVISED FY2014

	REVISED FY2013	PROJECTED FY2014	DOLLAR CHANGE	PERCENT CHANGE
ONGOING RECEIPTS				
Sales and Use Tax	\$ 773,817,473	\$ 802,988,034	\$ 29,170,561	3.77
Contractor's Excise Tax	84,197,227	89,551,981	5,354,754	6.36
Alcohol Beverage Tax	10,424,622	10,663,856	239,234	2.29
Alcohol Beverage 2% Wholesale Tax	1,586,870	1,678,318	91,448	5.76
Cigarette Tax	30,000,000	30,000,000	0	0.00
Bank Franchise Tax	22,888,629	23,245,655	357,026	1.56
Insurance Company Tax	68,538,108	71,308,550	2,770,442	4.04
Licenses, Permits, and Fees	48,961,277	50,024,747	1,063,470	2.17
Investment Income and Interest	6,477,017	5,216,829	(1,260,188)	(19.46)
Charges for Goods and Services	25,110,560	39,614,408	14,503,848	57.76
Net Transfers In	31,815,600	31,225,267	(590,333)	(1.86)
Trust Funds	27,235,040	28,194,477	959,437	3.52
Severance Taxes	9,545,665	9,735,625	189,960	1.99
Lottery	8,120,976	7,920,000	(200,976)	(2.47)
Property Tax Reduction Fund	107,615,441	112,309,874	4,694,433	4.36
Sale-Leaseback	6,465,087	5,838,681	(626,406)	(9.69)
SUBTOTAL (ONGOING RECEIPTS)	\$ 1,262,799,592	\$ 1,319,516,302	\$ 56,716,710	4.49
ONE-TIME RECEIPTS				
One-time Unclaimed Property Receipts	17,397,006	24,254,000	6,856,994	39.41
Refinancing Gains	1,738,786	0	(1,738,786)	(100.00)
Misc. Settlements	2,366,100	0	(2,366,100)	(100.00)
Transfer from Tax Relief Fund	4,133,192	0	(4,133,192)	(100.00)
Transfer from Budgetary Accounting Fund	1,839,990	0	(1,839,990)	(100.00)
Reduction to Ongoing Bank Franchise Tax	(16,641,948)	(16,641,948)	0	0.00
Obligated Cash Carried Forward	75,655,964	0	(75,655,964)	(100.00)
SUBTOTAL (ONE-TIME RECEIPTS)	\$ 86,489,090	\$ 7,612,052	\$ (78,877,038)	(91.20)
GRAND TOTAL	\$ 1,349,288,682	\$ 1,327,128,354	\$ (22,160,328)	(1.64)