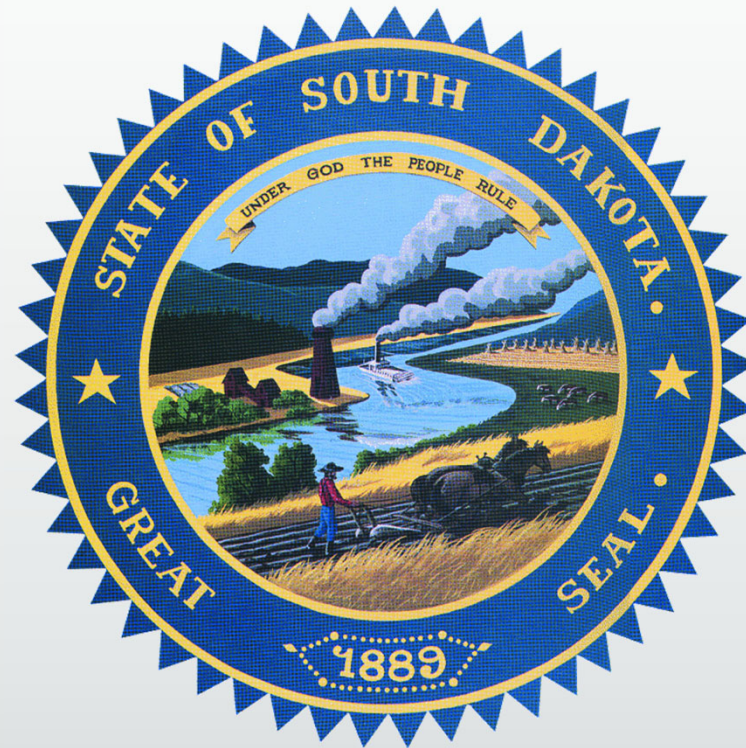


Revenue Estimates



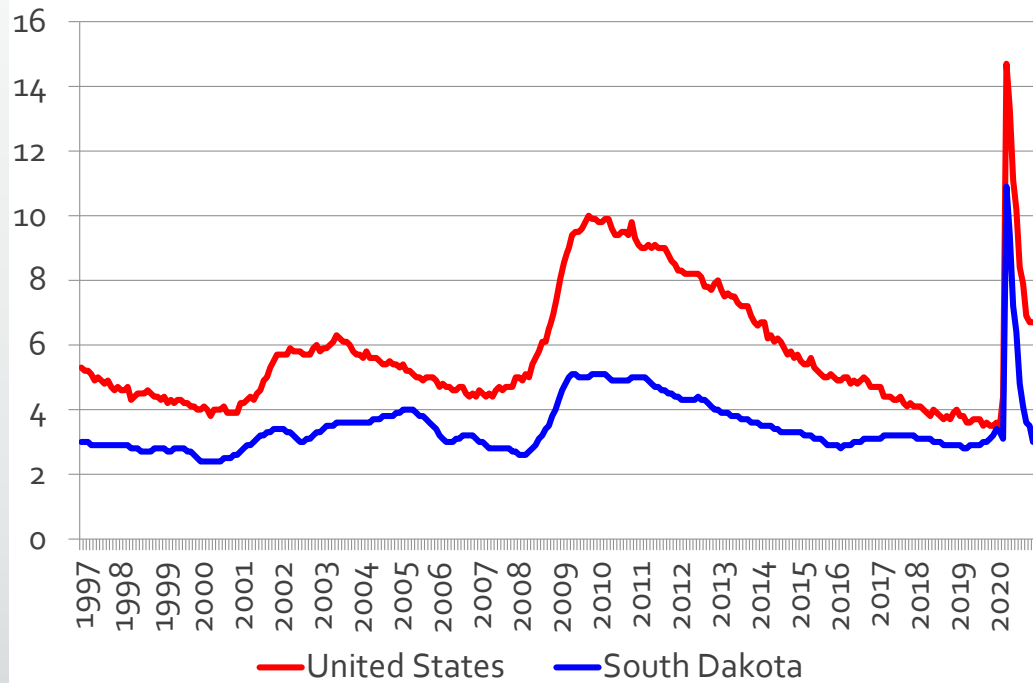
South Dakota Bureau Of Finance and Management
February 10, 2021

Revenue Estimates

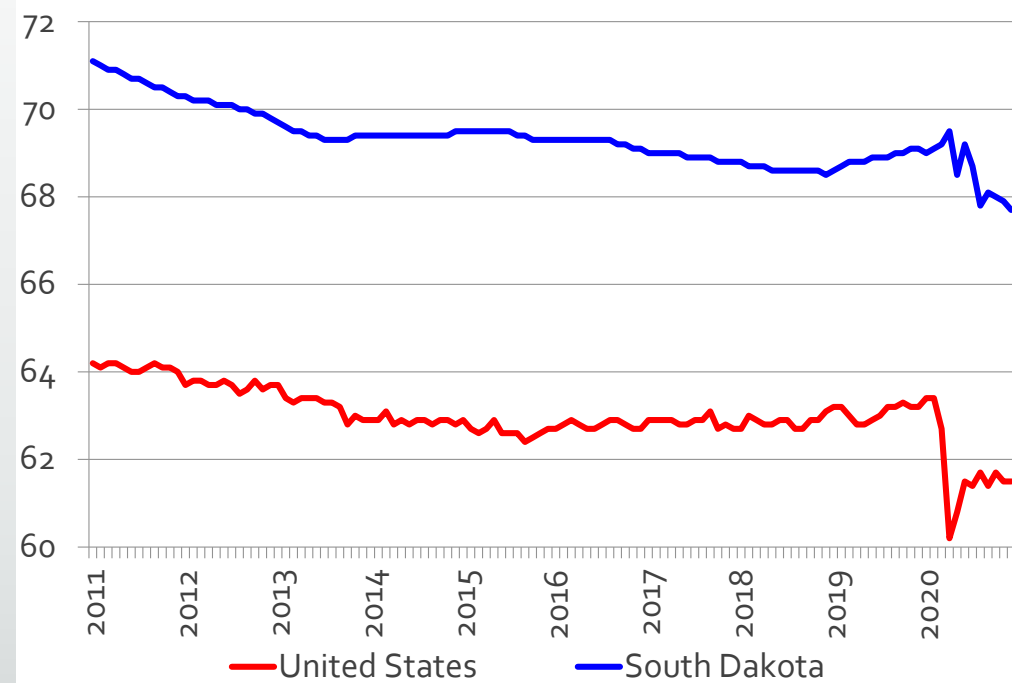
ECONOMIC OVERVIEW

Economic Overview

Unemployment Rate (monthly)



Labor Force Participation Rate (monthly)



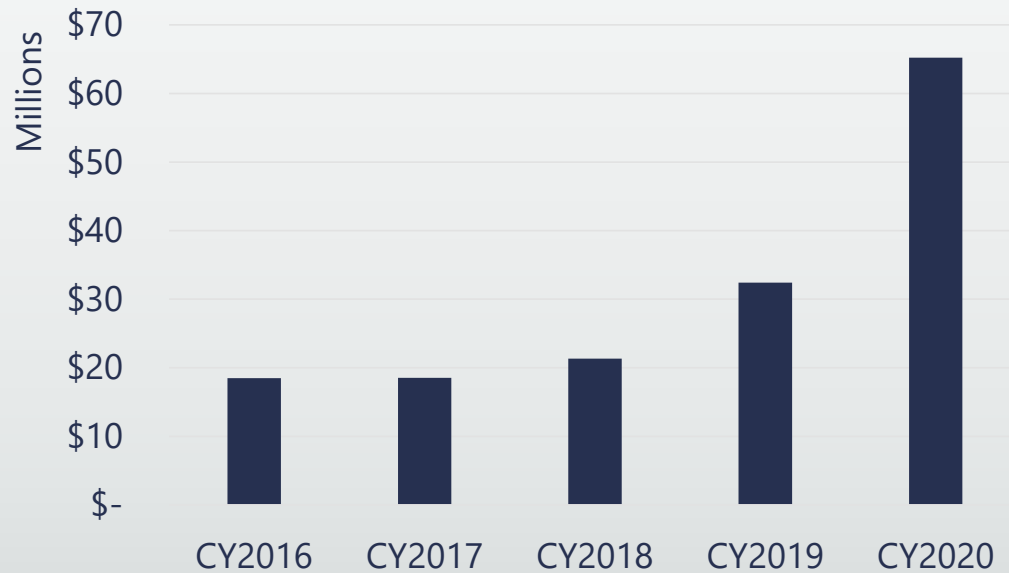
Economic Overview

Quarterly Personal Income

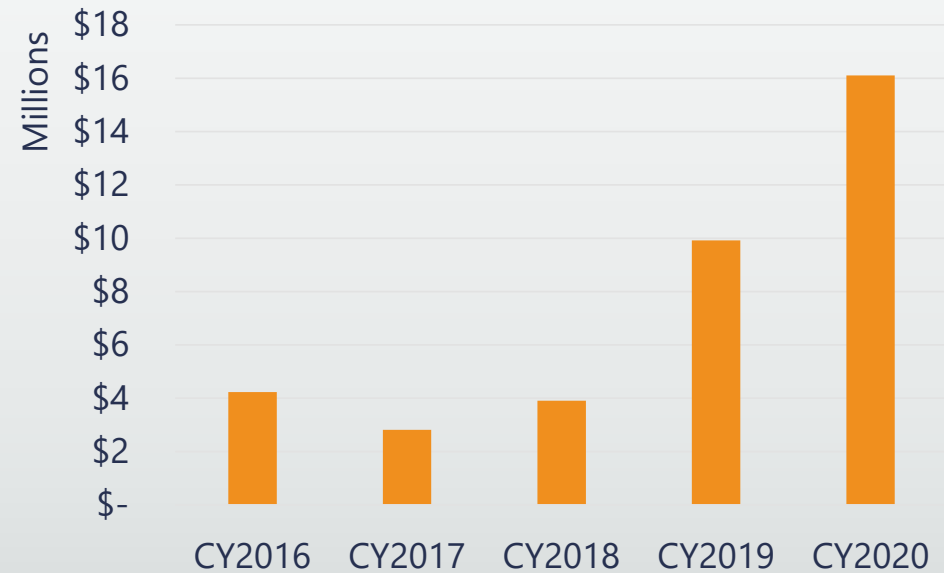


Economic Overview

Sale/Use Tax reported Known Wind Farm Suppliers



CET Reported By Known Wind Farm Contractors



Key Economic Indicators for February Revised (Jan '20)

| | 2017 | 2018 | 2019 | 2020 | 2021 f | 2022 f | '09-'19 avg. |
|--------------------|-------|-------|-------|-------|--------|--------|-----------------|
| SD Real GDP Growth | 0.6% | 2.7% | 0.6% | -2.2% | 3.0% | 2.6% | 1.4% |
| SD NF Employment | 0.4% | 0.9% | 0.6% | -3.4% | 2.0% | 1.8% | 1.6% |
| SD NF Income | 3.7% | 4.8% | 3.9% | 5.6% | 0.6% | 1.11% | 3.9% |
| SD Housing Starts | 5,046 | 4,742 | 3,890 | 5,860 | 5,540 | 4,500 | 4,420 |
| SD Unempl. Rate | 3.2% | 3.1% | 3.3% | 5.3% | 3.1% | 2.9% | 3.7% |

Revenue Estimates

REVENUE ESTIMATES

Sales and Use Tax

| | Actual FY2019 | Actual FY2020 | Estimated FY2021 | Estimated FY2022 |
|----------------|--------------------------|--------------------------|-----------------------------|-----------------------------|
| Total Receipts | 1,025,401,209 | 1,072,830,649 | 1,159,920,674 | 1,149,278,695 |
| Dollar Change | 36,577,605 | 47,249,440 | 87,090,025 | (10,641,979) |
| Percent Change | 3.7% | 4.6% | 8.1% | -0.9% |

- Approximately 63% of FY2022 ongoing revenues
- Year To Date (YTD) collections are 8.4% above the same period in FY20
- Average annual increase between FY11 and FY20 is 5.1%, when adjusted for tax increase in FY2017 is 3.9%

Lottery

- Includes:
 - Forty-nine- and one-half percent of video lottery net machine income.
 - All of the net proceeds from the sale of instant lottery tickets are deposited in the general fund.
 - Net proceeds from the sale of on-line lottery tickets are deposited in the general fund based on the below schedule.
 - FY2019 - 25%
 - FY2020 – 35%
 - FY2021 - 35%
 - FY2022 – 50%
 - FY2023 and beyond – 70%

Lottery

| | Actual FY2019 | Actual FY2020 | Estimated FY2021 | Estimated FY2022 |
|-----------------------|--------------------|--------------------|---------------------|---------------------|
| Instant Lottery | 7,989,685 | 5,160,814 | 5,934,936 | 6,142,659 |
| Online Lottery | 1,800,000 | 1,925,000 | 1,944,250 | 2,777,500 |
| Video Lottery | 114,115,816 | 115,403,187 | 134,472,666 | 127,002,197 |
| Total Receipts | 123,815,501 | 122,489,001 | 142,411,852 | 135,922,355 |
| Dollar Change | 7,140,062 | (1,326,501) | 19,922,851 | (6,489,497) |
| Percent Change | 6.12% | -1.1% | 16.3% | -4.6% |

- Approximately 7.5% of FY2022 ongoing revenues
- YTD revenues are 17.1% above the same period in FY20
- New machines and lack of other entertainment options are contributing to growth of video lottery

Contractor's Excise Tax

- 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).

Contractor's Excise Tax

| | Actual FY2019 | Actual FY2020 | Estimated FY2021 | Estimated FY2022 |
|----------------|------------------|------------------|---------------------|---------------------|
| Net Receipts | 113,163,617 | 123,723,519 | 142,635,668 | 137,980,282 |
| Dollar Change | 5,536,989 | 10,559,901 | 18,912,149 | (4,655,386) |
| Percent Change | 5.1% | 9.3% | 15.3% | -3.3% |

- Approximately 7.6% of FY2022 ongoing revenues
- YTD collections are 14.3% above the same period in FY20
- Average annual increase between FY11 and FY20 is 7.5%

Insurance Company Tax

- 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.
 - Life insurance policies are taxed at 2.5% of premiums on the first \$100,000 of annual life premiums and eight one-hundredths of a percent for the portion in excess \$100,000.
 - Annuities are taxed at 1.25% of the consideration for annuity contracts on the first \$500,000 and eight one-hundredths of a percent for the portion in excess \$500,000.
- Farm mutual insurers and fraternal benefit societies are exempt from insurance company taxes (SDCL 10-44).
- SDCL 13-65-2 grants a credit against the insurance company tax for contributions made to scholarship granting organization. The total credit is capped at \$2.0M

Insurance Company Tax

| | Actual FY2019 | Actual FY2020 | Estimated FY2021 | Estimated FY2022 |
|----------------|------------------|------------------|---------------------|---------------------|
| Net Receipts | 90,347,541 | 93,271,112 | 95,421,651 | 96,406,311 |
| Dollar Change | (674,302) | 2,923,571 | 2,150,539 | 984,660 |
| Percent Change | -0.7% | 3.2% | 2.3% | 1.0% |

- Approximately 5.3% of FY2022 ongoing revenues
- YTD collections are 11.9% above the same period in FY20
- Partners in Education Tax Credit of \$2.0M being fully utilized

Unclaimed Property

- Receipts to the general fund from unclaimed property are the result of all funds in excess of \$50,000 receipted into the Unclaimed Property Trust Fund.
- Property is considered abandoned after it has been unclaimed by the rightful owner for three years in South Dakota and must be submitted to the State Treasurer's office per state law.
- These unclaimed funds are a perpetual liability of the state of South Dakota and if the owner of such funds is identified, the funds must be paid to the rightful owner.

Unclaimed Property

| | Actual FY2019 | Actual FY2020 | Estimated FY2021 | Estimated FY2022 |
|----------------|--------------------------|--------------------------|-----------------------------|-----------------------------|
| Net Receipts | 48,573,600 | 47,308,472 | 40,000,000 | 40,000,000 |
| Dollar Change | (4,192,430) | (1,265,128) | (7,308,472) | - |
| Percent Change | -8.0% | -2.6% | -15.5% | 0% |

- Approximately 2.2% of FY2022 ongoing revenues
- YTD collections are 32.9% above the the same period in FY20
- Governor's budget calls for ongoing revenue to be capped at \$40.0M
- Receipts and claims both being impacted by COVID-19

Licenses, Permits, and Fees

- Revenues included in this category are receipts received from the a broad variety of licenses, permits, and filing fees which are assessed to defray administrative costs.
 - 70% of revenue from securities fees.
- 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.

Licenses, Permits, and Fees

| | Actual FY2019 | Actual FY2020 | Estimated FY2021 | Estimated FY2022 |
|----------------|--------------------------|--------------------------|-----------------------------|-----------------------------|
| Net Receipts | 68,758,069 | 68,277,940 | 69,614,135 | 69,734,083 |
| Dollar Change | 1,266,019 | (480,129) | 1,366,195 | 119,948 |
| Percent Change | 1.9% | -0.7% | 2.0% | 0.2% |

- Approximately 3.9% of FY2022 ongoing revenues
- 70% of revenue from securities fees
- YTD collections are 2.7% above the same period in FY20

Tobacco Taxes

- 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).
- 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 deposited into the Tobacco Prevention and Reduction Trust Fund. Any revenue in excess of \$35 million is allocated to the state general fund.

Tobacco Taxes

| | Actual FY2019 | Actual FY2020 | Estimated FY2021 | Estimated FY2022 |
|----------------|--------------------------|--------------------------|-----------------------------|-----------------------------|
| Net Receipts | 49,971,217 | 50,066,112 | 52,558,986 | 51,974,882 |
| Dollar Change | (4,186,446) | 1,094,895 | 1,492,874 | (584,103) |
| Percent Change | 7.7% | 2.2% | 2.9% | -1.1% |

- Approximately 2.9% of FY2022 ongoing revenues
- YTD collections are level with the same period in FY20

Trust Funds

- 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 trust funds are transferred to the general fund every year as long as the principal of the trust funds are not invaded.
- The market values 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 and DCTF are to be used for education programs (Article 12, Sections 5 and 6 of the State Constitution; Article 13, Sections 20 and 21 of the State Constitution).

Trust Funds

| | Actual FY2019 | Actual FY2020 | Estimated FY2021 | Estimated FY2022 |
|----------------|--------------------------|--------------------------|-----------------------------|-----------------------------|
| Net Receipts | 38,527,936 | 39,859,263 | 41,589,883 | 43,053,117 |
| Dollar Change | 1,492,408 | 1,331,327 | 1,730,620 | 1,463,234 |
| Percent Change | 4.0% | 3.5% | 4.3% | 3.5% |

- Approximately 2.4% of FY2022 ongoing revenues
- Work with South Dakota Investment Council to estimate

Trust Funds

| | Actual FY2019 | Actual FY2020 | Estimated FY2021 | Estimated FY2022 |
|--------------|--------------------------|--------------------------|-----------------------------|-----------------------------|
| HCTF | 5,414,857 | 5,520,073 | 5,676,706 | 5,822,958 |
| EETF | 20,430,222 | 21,334,601 | 22,515,470 | 23,601,320 |
| DCTF | 12,682,857 | 13,004,590 | 13,397,707 | 13,628,839 |
| Total | 38,527,936 | 39,859,263 | 41,589,883 | 43,053,117 |

Net Transfers In

- 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
 - State's share of the Deadwood gaming revenue
 - Obligation recovery center fee
 - Transfer from the wind energy tax fund
 - Transfer from the State Veteran's Home Operating fund
 - Transfer from the Prison Industries Revolving fund
 - Other miscellaneous receipts

Net Transfers In

| | Actual FY2019 | Actual FY2020 | Estimated FY2021 | Estimated FY2022 |
|----------------|--------------------------|--------------------------|-----------------------------|-----------------------------|
| Net Receipts | 23,827,140 | 19,260,977 | 20,596,155 | 20,700,293 |
| Dollar Change | 2,886,092 | (3,969,020) | 738,035 | 104,138 |
| Percent Change | 13.8% | -16.7% | 3.7% | 0.5% |

- Approximately 1.1% of FY2022 ongoing revenues
- YTD collections are 3.8% above the same period in FY20

Alcohol Beverage Tax

- 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.
 - 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.
 - 6) all other alcoholic beverages, \$3.93 per gallon.
- 25% goes to counties, 25% to municipalities, and 50% to the general fund.

Alcohol Beverage Tax

| | Actual FY2019 | Actual FY2020 | Estimated FY2021 | Estimated FY2022 |
|----------------|--------------------------|--------------------------|-----------------------------|-----------------------------|
| Net Receipts | 7,845,250 | 8,142,691 | 8,440,133 | 8,597,016 |
| Dollar Change | 176,962 | 297,441 | 297,441 | 156,883 |
| Percent Change | 2.3% | 3.8% | 3.7% | 1.9% |

- Approximately 0.5% of FY2022 ongoing revenues
- YTD collections are 11.9% above the same period in FY20

Bank Franchise Tax

- 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;
 - 8) 0.25% on net income exceeding \$1.2 billion.

Bank Franchise Tax

| | Actual FY2019 | Actual FY2020 | Estimated FY2021 | Estimated FY2022 |
|----------------|--------------------------|--------------------------|-----------------------------|-----------------------------|
| Net Receipts | 17,256,120 | 12,060,604 | 15,574,769 | 15,659,821 |
| Dollar Change | 3,761,180 | (5,195,516) | 3,514,165 | 85,052 |
| Percent Change | 27.9% | -30.1% | 29.1% | 0.6% |

- Approximately 0.9% of FY2022 ongoing revenues
- YTD collections are 6.8% above the same period in FY20
- Tax Cuts and Jobs Act led to banks adjusting revenue recognition

Charges for Goods and Services

- Receipts included in this category are:
 - 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;
 - 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.
 - Beginning in FY2017, additional receipts from the Department of Corrections are being receipted directly into the general fund.

Charges for Goods and Services

| | Actual FY2019 | Actual FY2020 | Estimated FY2021 | Estimated FY2022 |
|----------------|--------------------------|--------------------------|-----------------------------|-----------------------------|
| Net Receipts | 16,012,654 | 15,403,871 | 16,105,242 | 15,220,401 |
| Dollar Change | (81,998) | (608,783) | 701,372 | (884,841) |
| Percent Change | -0.5% | -3.8% | 4.6% | -5.5% |

- Approximately 0.8% of FY2022 ongoing revenues
- YTD collections are 0.8% lower than the same period in FY20

Telecommunications Tax

- A gross receipts tax is imposed at the rate of 4% of telecommunications services within the state (SDCL 10-33A).

| | Actual FY2019 | Actual FY2020 | Estimated FY2021 | Estimated FY2022 |
|----------------|--------------------------|--------------------------|-----------------------------|-----------------------------|
| Net Receipts | 5,089,768 | 5,964,072 | 5,239,504 | 5,040,312 |
| Dollar Change | 158,643 | 874,304 | (724,568) | (199,192) |
| Percent Change | 3.2% | 17.2% | -12.2% | -3.8% |

- Approximately 0.3% of FY2022 ongoing revenues
- YTD collections are 11.6% lower than the same period in FY20

Severance Taxes

- 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.
- Owners or operators of energy minerals must pay a tax equal to 4.5% of the taxable value of any energy minerals severed.

Severance Taxes

| | Actual FY2019 | Actual FY2020 | Estimated FY2021 | Estimated FY2022 |
|----------------|--------------------------|--------------------------|-----------------------------|-----------------------------|
| Net Receipts | 4,234,206 | 5,881,928 | 9,685,550 | 8,335,117 |
| Dollar Change | (2,368,602) | 1,647,722 | 3,803,622 | (1,350,433) |
| Percent Change | -35.9% | 38.9% | 64.7% | -13.9% |

- Approximately 0.5% of FY2022 ongoing revenues
- YTD collections are 71.5% above the same period in FY20
- Gold Prices have benefitted from economic uncertainty

Investment Income and Interest

- Revenues included in this category are from interest and the investment earnings of the general fund and nonparticipating funds in the cash flow fund.

| | Actual FY2019 | Actual FY2020 | Estimated FY2021 | Estimated FY2022 |
|----------------|--------------------------|--------------------------|-----------------------------|-----------------------------|
| Net Receipts | 6,229,304 | 11,150,037 | 18,539,623 | 11,504,000 |
| Dollar Change | 176,031 | 4,920,733 | 7,389,586 | (7,035,623) |
| Percent Change | 2.9% | 79.0% | 66.3% | -38.0% |

- Approximately 0.6% of FY2022 ongoing revenues
- YTD collections are 68.8% above the same period in FY20
- Benefitting from returns related to the CRF

Alcohol Beverage 2% Wholesale Tax

- 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

| | Actual FY2019 | Actual FY2020 | Estimated FY2021 | Estimated FY2022 |
|----------------|--------------------------|--------------------------|-----------------------------|-----------------------------|
| Net Receipts | 2,150,157 | 2,335,754 | 2,484,585 | 2,500,376 |
| Dollar Change | 129,216 | 185,597 | 148,831 | 15,791 |
| Percent Change | 6.4% | 8.6% | 6.4% | 0.6% |

- Approximately 0.1% of FY2022 ongoing revenues
- YTD collections are 14.4% above the same period in FY20
- Average annual increase between FY11 and FY20 is 5.7%

Revenue Estimates

REVENUE ESTIMATE SUMMARIES

FY2021 Ongoing Receipts

(millions)

| Source | Adopted FY2021 | December Revised FY2021 | Change From Adopted | February Revised FY2021 | Change From December Revised |
|-------------------------------|-------------------|-------------------------------|---------------------------|-------------------------------|---------------------------------------|
| Sales and Use Tax | \$1,102.0 | \$1,140.1 | +38.1 | \$1,159.9 | +19.9 |
| Lottery | 132.2 | 134.8 | +2.6 | 142.4 | +7.6 |
| Contractor's Excise Tax | 130.3 | 136.9 | +6.6 | 142.6 | +5.7 |
| Insurance Company Tax | 94.0 | 96.0 | +2.0 | 95.4 | (0.6) |
| Unclaimed Property | 41.5 | 40.0 | (1.5) | 40.0 | - |
| Licenses, Permits, and Fees | 70.0 | 68.7 | (1.3) | 69.6 | +0.9 |
| Tobacco Taxes | 45.8 | 50.9 | +5.1 | 52.6 | +1.7 |
| Other Ongoing Receipts | <u>126.8</u> | <u>137.2</u> | <u>+10.4</u> | <u>138.3</u> | <u>+1.0</u> |
| Total Ongoing Receipts | \$1,742.6 | \$1,804.7 | +62.1 | \$1,840.8 | +36.2 |

FY2021 One-Time Receipts

| Source | December FY2021 | February FY2021 | Change From December |
|--------------------------------|---------------------|---------------------|-------------------------|
| Closeout of SDRC Inc. Funds | \$3,381,726 | \$3,381,726 | \$- |
| Refinancing Gains | 6,744,667 | 6,745,654 | +987 |
| Bank Franchise Prior Year | 9,720,271 | 9,720,271 | - |
| One-Time Unclaimed Property | 16,704,747 | 21,507,951 | +4,803,204 |
| One-Time Sales and Use Tax | 20,915,582 | 31,486,289 | +10,570,707 |
| Total One-Time Revenue | \$57,466,993 | \$71,841,891 | +\$15,374,898 |

FY2021 Total Receipts (Millions)

| Source | December Est. FY 2021 | February Est. FY 2021 | Total Change From Adopted |
|-------------------|-----------------------|-----------------------|---------------------------|
| Ongoing Receipts | +\$62.1 | +\$36.2 | +\$98.2 |
| One-Time Receipts | <u>+57.5</u> | <u>+15.4</u> | <u>+72.8</u> |
| Total Receipts | +\$119.6 | <u>+\$51.5</u> | \$171.1 |

FY2022 Ongoing Receipts

(millions)

| Source | Adopted FY2021 | December Estimated FY2022 | Change From Adopted | February Revised FY2022 | Change From December Estimate |
|-------------------------------|-------------------|---------------------------------|---------------------------|-------------------------------|--|
| Sales and Use Tax | \$1,102.0 | \$1,145.3 | +43.3 | \$1,149.3 | 3.9 |
| Lottery | 132.2 | 135.8 | +3.6 | 135.9 | 0.2 |
| Contractor's Excise Tax | 130.3 | 137.1 | +6.8 | 138.0 | 0.9 |
| Insurance Company Tax | 94.0 | 97.9 | +3.9 | 96.4 | (1.4) |
| Unclaimed Property | 41.5 | 40.0 | (1.5) | 40.0 | 0.0 |
| Licenses, Permits, and Fees | 70.0 | 68.9 | (1.1) | 69.7 | 0.9 |
| Tobacco Taxes | 45.8 | 50.4 | +4.6 | 52.0 | 1.6 |
| Other Ongoing Receipts | <u>126.8</u> | <u>128.0</u> | <u>+1.2</u> | <u>130.6</u> | <u>+2.6</u> |
| Total Ongoing Receipts | \$1,742.6 | \$1,803.3 | +60.7 | \$1,811.9 | +8.7 |

History of Additional Ongoing Revenues

| | Adopted Growth |
|-----------------------------|----------------|
| FY 2016 | + 41.3M |
| FY 2017* | + 165.0M |
| FY 2018 | (8.0M) |
| FY 2019 | + 51.5M |
| FY 2020 | + 59.7M |
| FY 2021 Adopted Estimate | + 41.3M |
| FY 2022 BFM Estimate | + 69.4M |

*Includes the 0.5% increase to Sales and Use Tax Rate

Revenue Estimates

Questions?