

**BUREAU OF FINANCE AND
MANAGEMENT**

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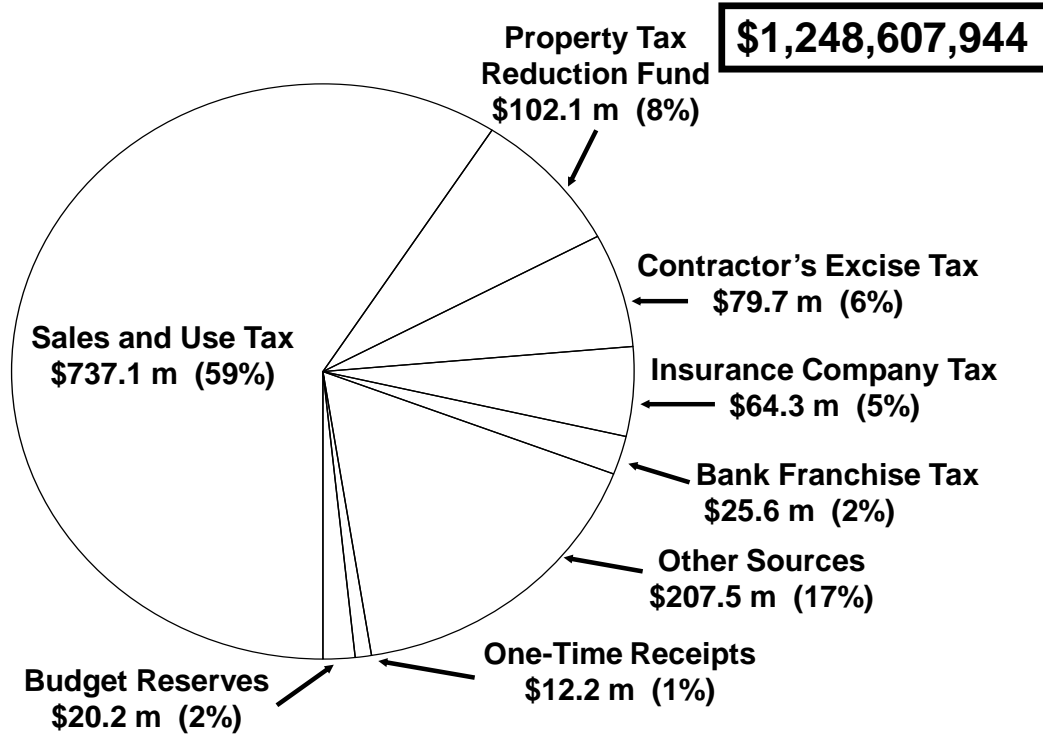
**PRESENTED TO
JOINT APPROPRIATIONS COMMITTEE
FEBRUARY 2012**

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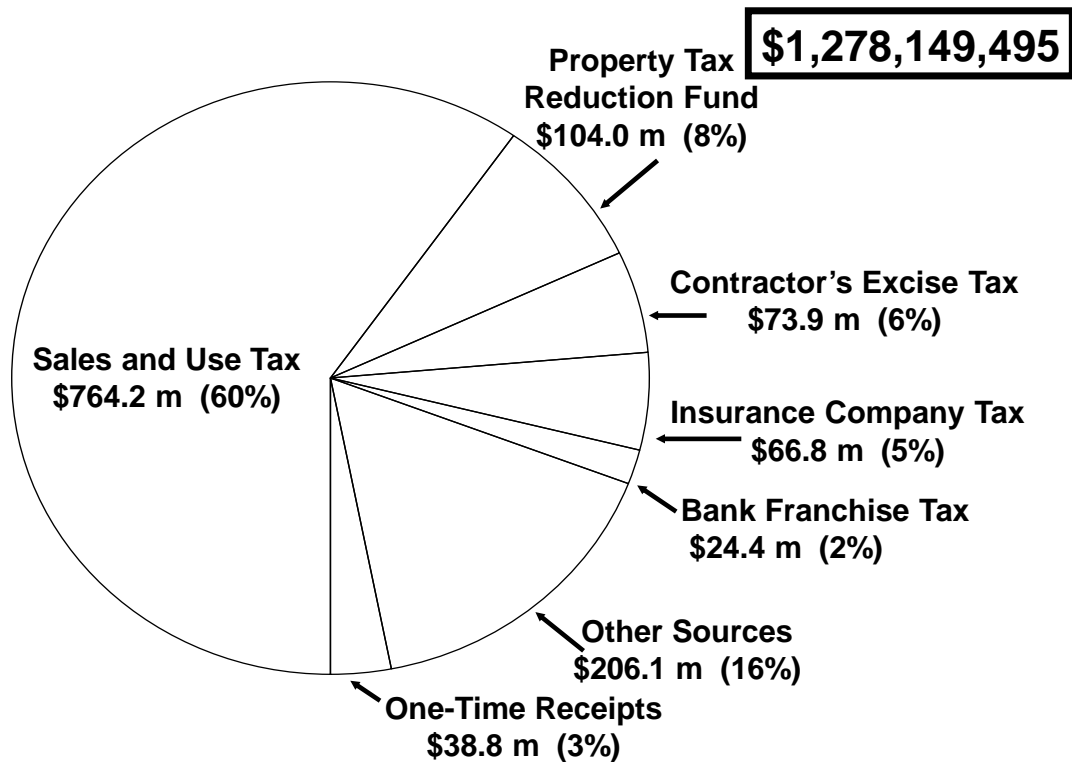
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FY2012 AND FY2013 GENERAL FUND REVENUES

FY2012 General Fund Revenues



FY2013 General Fund Revenues



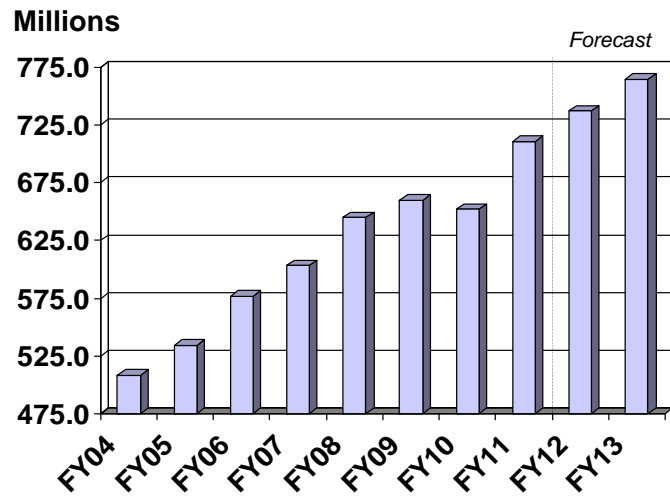
SALES AND USE TAX

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 Tax 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. 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 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 monitored and processed refunds totaling nearly \$77.8 million since the program started.
- The average annual increase in net collections between FY2003 and FY2011 was 5.13%.
- Net collections from the sales and use tax account for approximately 62% of ongoing general fund revenues in FY2013.



Currently: In the first seven months of FY2012, sales and use tax collections, excluding audits and net of large project refunds, were \$448.2 million. This is an increase of 5.02% from the first seven months of last year. Year-to-date collections are 61.4% 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 there has historically 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 exists. After finding the best fitting regression equation for each of the five categories, sales and use tax collections were 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)

$$STCDS = -218.43 + 39.99*SD \text{ Nonfarm Income} + 196.56*Seasonal \text{ Dummy} + 7.72*SD \text{ Manufacturing Employment} + 0.06*Gross \text{ National Product}$$

$$R^2 = .9926$$

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

$$STBUSCND = -2,452.58 + 7.51*SD \text{ Nonfarm Employment} + 241.78*Seasonal \text{ Dummy} + 0.68*Exports + 631.20*CPI$$

$$R^2 = .9899$$

Equation 3: Construction Related Purchases (STCON)

$$STCON = -1,037.07 + 36.77*SD \text{ Construction, Mining, and Natural Resources Employment} + 5.99*(Seasonal \text{ dummy} * SD \text{ personal income}) - 36.03*Rate \text{ on conventional 30 year mortgage} + 2.05*Percent \text{ change in SD nonfarm employment} + 100.41*Price \text{ Index for wood and metal materials}$$

$$R^2 = .9913$$

Equation 4: Recreation Related Purchases (STREC)

STREC = -85.93 + 20.30*SD Nonfarm Income + 6.70*SD Leisure and Hospitality Employment + 6.24*(SD Disposable Income*Seasonal Dummy)

R² = .9980

Equation 5: Utilities (STUTI)

STUTI = -241.27 + 14.59* SD Nonfarm Income + 69.57*SD Farm Proprietors Income + 2.50*Consumer spending on electricity and natural gas – 19.37*Seasonal dummy.

R² = .9684

Collection Equation:

Sales Tax Collections = 0.32 + 0.04*Total Taxable Sales

R² = .9990

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 R². This is one way to identify how good an equation fits the data. An R² value close to one tells you that the equation has an excellent overall fit.

	Estimate for FY2012	Estimate for FY2013
Sales and Use Tax Collections	731,380,164	758,040,795
+ Audit Collections	<u>11,750,761</u>	<u>12,338,300</u>
= Base Estimate	743,130,925	770,379,095
- DOR Indirect Funding	6,028,634	6,209,494
= Estimate	737,102,291	764,169,601

	Actual FY2010	Actual FY2011	Estimated FY2012	Estimated FY2013
Total Receipts	652,115,527	710,196,255	737,102,291	764,169,601
Dollar Change	(7,619,919)	58,080,728	26,906,036	27,067,310
Percent Change	(1.15)	8.91	3.79	3.67

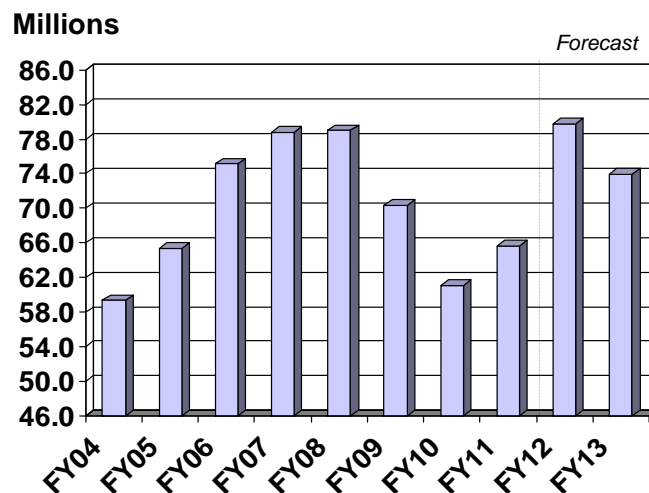
CONTRACTOR'S EXCISE TAX

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 FY2003 and FY2011 was 1.99%.
- Net collections from the contractor's excise tax account for approximately 6% of continuing general fund receipts in FY2013.



Currently: In the first seven months of FY2012, net contractor's excise tax collections were \$56.9 million. This is an increase of 28.9% from the first seven months of last year. The large increase is mainly due to a large amount of taxes reserved for large project refunds from FY2011. Year-to-date collections are 71.4% of the estimate. Historically, 68.6% 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) The FY2013 estimate assumes that HB 1230, which has been referred to a public vote, will pass. If passed, the referred law allocates 22% of the Contractor's Excise Tax collections after January 1, 2013 to be transferred to the large project development fund.

Contractor's Excise Tax Collections = $-46.37 + 2.53 \cdot \text{SD Construction, Natural Resources, and Mining Employment} + 0.52 \cdot (\text{Seasonal Dummy} \cdot \text{SD nonfarm income}) + 6.56 \cdot (\text{Producer Price Index for metal materials} + \text{Producer Price index for lumber \& wood products}) - 0.59 \cdot \text{SD unemployment rate}$

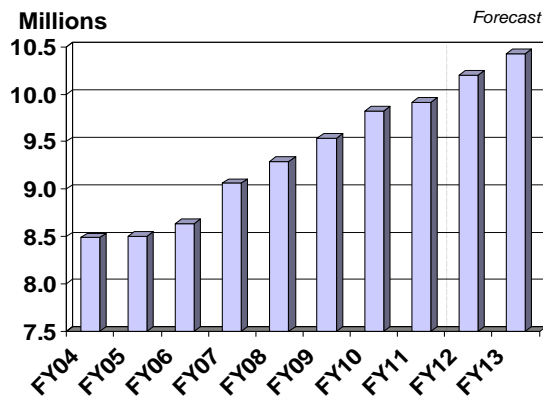
$R^2 = .9894$

	Actual FY2010	Actual FY2011	Estimated FY2012	Estimated FY2013
Total Receipts	61,137,330	65,697,771	79,719,171	73,909,957
Dollar Change	(9,236,615)	4,560,441	14,021,400	(5,809,214)
<i>Percent Change</i>	(13.13)	7.46	21.34	(7.29)

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 FY2013.



Currently: Through the first seven months of FY2012, \$5.3 million has been collected from this tax. This is an increase of 2.25% from the first seven months of last year. Year-to-date collections are 52.16% of the estimate. Historically, 51.50% of the total revenue collected from this tax is received in the first seven months.

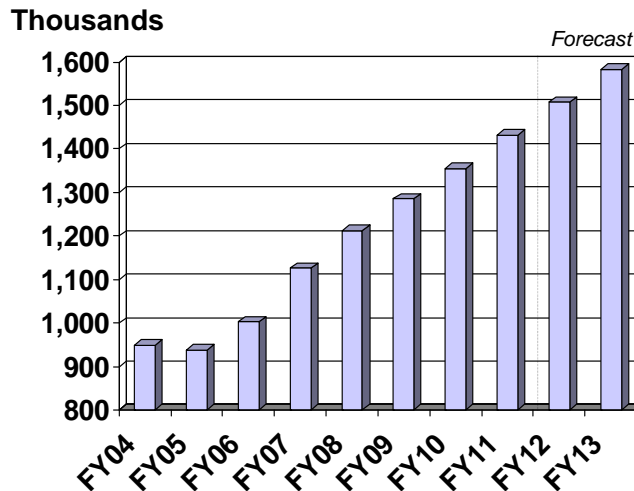
Estimate: The estimates are based on historical collections and current conditions.

	Actual FY2010	Actual FY2011	Estimated FY2012	Estimated FY2013
Total Receipts	9,822,974	9,916,603	10,199,407	10,424,164
Dollar Change	285,461	93,629	282,804	224,757
Percent Change	2.99	0.95	2.85	2.20

ALCOHOL BEVERAGE 2% WHOLESALE TAX

Background: A tax, in addition to the tax imposed by SDCL 35-5-3, 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 FY2013.



Currently: Through the first seven months of FY2012, \$0.90 million has been collected from this tax. This is an increase of 2.93% from the first seven months of last year. Year-to-date collections are 58.78% of the estimate. Historically, 60.50% 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 FY2010	Actual FY2011	Estimated FY2012	Estimated FY2013
Total Receipts	1,354,595	1,431,373	1,507,918	1,583,316
Dollar Change	69,698	76,779	76,545	75,398
Percent Change	5.42	5.67	5.35	5.00

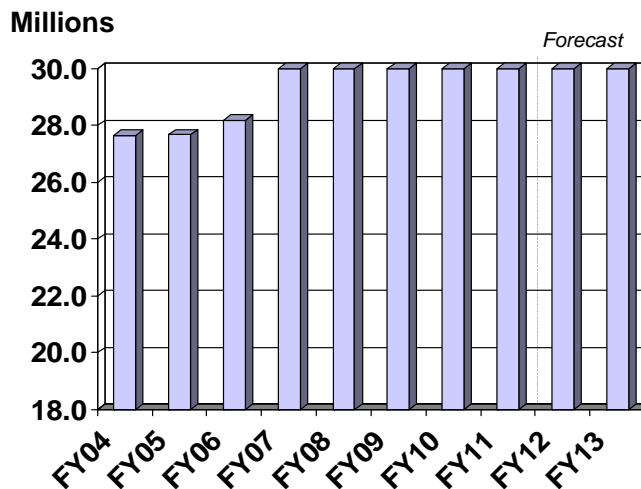
CIGARETTE TAX

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 FY2011, 35.7 million packs were sold.
- Collections in this category account for approximately 2.4% of ongoing general fund revenues.
- The total estimates and breakdown of where the dollars go are included in the following table.

	Actual FY2010	Actual FY2011	Estimated FY2012	Estimated FY2013
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	9,039,376	7,538,586	7,443,503	7,230,835
EETTF	9,039,376	7,538,586	7,443,503	7,230,835
HCTTF	9,313,297	7,767,028	7,669,064	7,449,952
Total	62,392,049	57,844,200	57,556,070	56,911,622

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



Currently: Through the first seven months of FY2012, the total collections from the tobacco taxes totaled \$33.3 million and the full \$30.0 million general fund portion has been collected in this category.

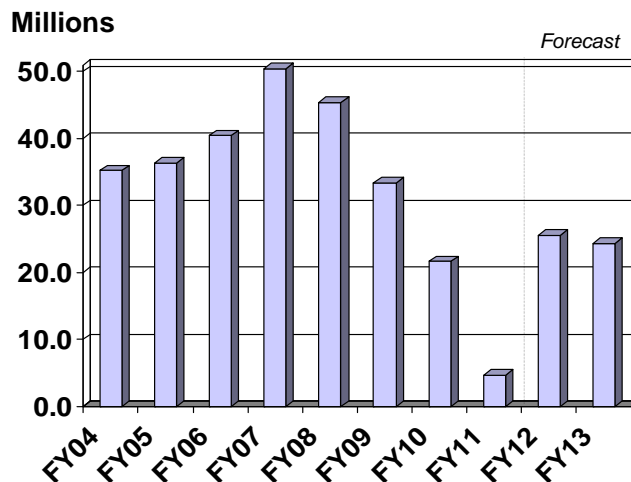
Estimate: Collections from the tax on cigarettes and other tobacco products are estimated individually. The general fund is expected to receive \$30,000,000 in both FY2012 and FY2013.

	Actual FY2010	Actual FY2011	Estimated FY2012	Estimated FY2013
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 banks organized under SDCL 51A-2-38 to 51A-2-43 (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.
- 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 2% of ongoing general fund revenues in FY2013.



Currently: Through the first seven months of FY2012, \$18.6 million has been collected from this tax. This is an increase of 570.7% from the first seven months of last year. Year-to-date collections are 72.74% of the estimate. Historically, 69.47% of the total revenue collected from this tax is received in the first seven months.

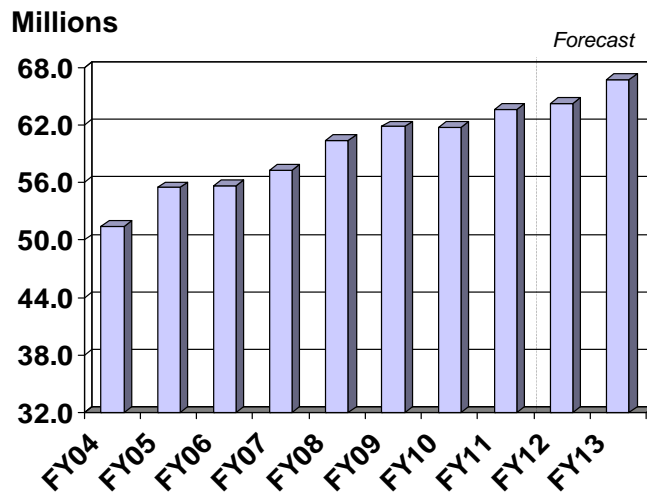
Estimate: Collections received from bank card taxpayers and other banks are estimated individually. The estimate is based on historical collections and current conditions.

	Actual FY2010	Actual FY2011	Estimated FY2012	Estimated FY2013
Total Receipts	21,669,223	4,734,918	25,559,906	24,389,040
Dollar Change	(11,739,990)	(16,934,305)	20,824,988	(1,170,866)
Percent Change	(35.14)	(78.15)	439.82	(4.58)

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 FY2003 and FY2011 was 3.10%.
- Collections from this tax account for approximately 5.4% of ongoing general fund revenues.



Currently: Through the first seven months of FY2012, \$40.2 million has been collected from this tax. This is an increase of 0.97% from the first seven months of last year. Year-to-date collections are 62.59% of the estimate. Historically, 62.01% 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.)

$$\text{Insurance Company Tax Collections} = 6.06 + 0.49 * \text{SD nonfarm income} - 3.58 * \text{Seasonal Dummy} + 0.05 * \text{Consumer Spending on Insurance} - 0.36 * \text{yield on 2 year Treasury note.}$$

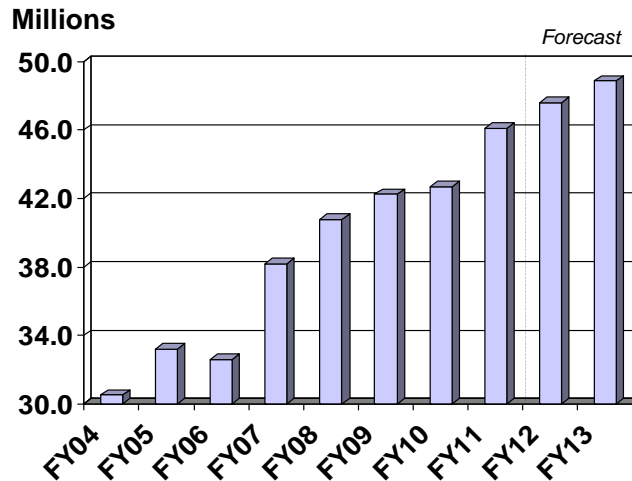
$$R^2 = .9688$$

	Actual FY2010	Actual FY2011	Estimated FY2012	Estimated FY2013
Total Receipts	61,734,032	63,609,227	64,287,771	66,767,960
Dollar Change	(89,118)	1,875,195	678,544	2,480,189
Percent Change	(0.14)	3.04	1.07	3.86

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 FY2011 and thus far in FY2012, security fee collections have recovered due to the recovery in the stock market.
- Collections in this category account for approximately 4% of ongoing general fund revenues in FY2013.



Currently: Through the first seven months of FY2012, \$28.2 million has been collected in this category. This is an increase of 74.48% from the first seven months of last year. The large increase is due to timing of the securities fee collection transfers. Year-to-date collections are 59.22% of the estimate. Historically, 48.10% of the total revenue is collected in the first seven months.

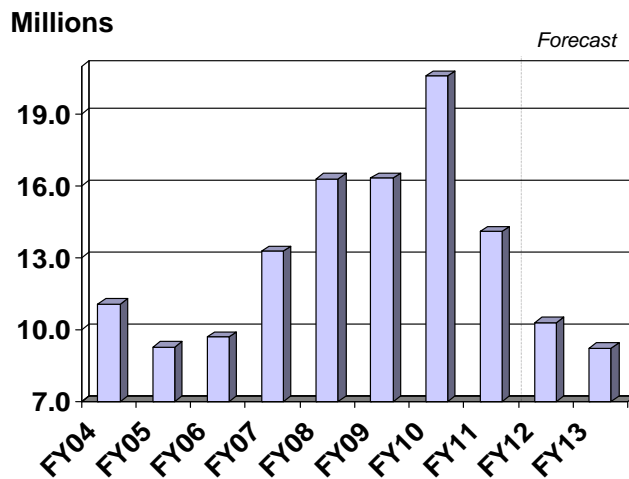
Estimate: The different sources of receipts included in this category are estimated individually based on historical collections and current conditions.

	Actual FY2010	Actual FY2011	Estimated FY2012	Estimated FY2013
Receipts	42,700,249	46,102,423	47,581,730	48,862,692
Dollar Change	451,908	3,402,174	1,479,307	1,280,962
Percent Change	1.07	7.97	3.21	2.69

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)

- HB 1099, passed by the 2003 Legislature, accelerated the proration of interest earnings in the cash flow fund by having 90% of the estimated proration due to the general fund for the next fiscal year transferred to the general fund in the year in which the interest is earned. This resulted in one year (FY2004) where the general fund received two years of earnings deposits.
 NOTE: Included in this category for FY2004 is the revenue from the FY2003 interest earnings. To keep the one-time increase to the general fund separate, the estimated 90% of FY2004 earnings is included as a one-time receipt in FY2004.
- 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, the yield decreased to 3.4%. Due to low interest rates and lower expected returns, the yield is expected to continue to decrease in FY2012 and FY2013.
 NOTE: To compare the yields above with the revenues in the chart below, remember that prior to the FY2005 number, the income for the year was from the previous year's earnings.
- Receipts in this category account for approximately 0.7% of ongoing general fund revenues in FY2013.



Currently: Through the first seven months of FY2012, \$1.9 million has been collected in this category. This is a decrease of 6.54% from the first seven months of last year. Year-to-date collections are 18.35% of the estimate. Historically, 12.77% of the total revenue is collected in the first seven months. The yield of the cash flow fund is estimated at 2.2% for FY2012 and 2.2% for FY2013.

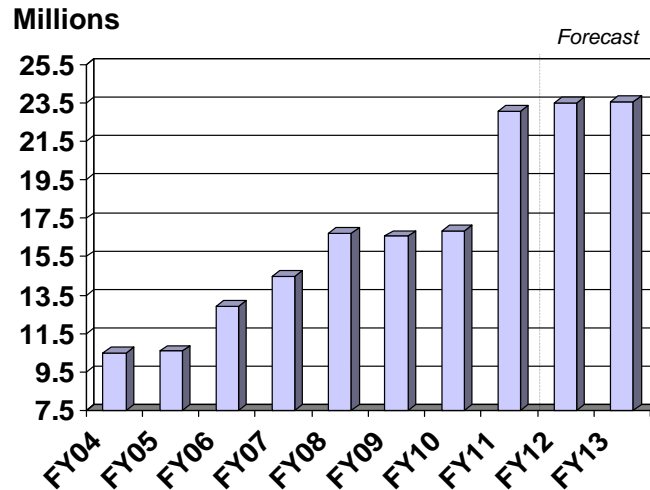
Estimate: The estimate is based on information provided by the South Dakota Investment Council and historical collections.

	Actual FY2010	Actual FY2011	Estimated FY2012	Estimated FY2013
Total Receipts	20,586,431	14,096,898	10,291,772	9,236,703
Dollar Change	4,271,216	(6,489,533)	(3,805,126)	(1,055,069)
Percent Change	26.18	(31.52)	(26.99)	(10.25)

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 receipts composed over 56% of the revenue from this category in FY2011. The majority of the growth in recent years is a result of record unclaimed property collections.
- Receipts included in this category account for approximately 1.9% of ongoing general fund revenues in FY2013.



Currently: Through the first seven months of FY2012, \$19.9 million has been collected in this category. This is an increase of 3.62% from the first seven months of last year. Year-to-date collections are 83.26% of the estimate. Historically, 74.05% of the total revenue is collected in the first seven months.

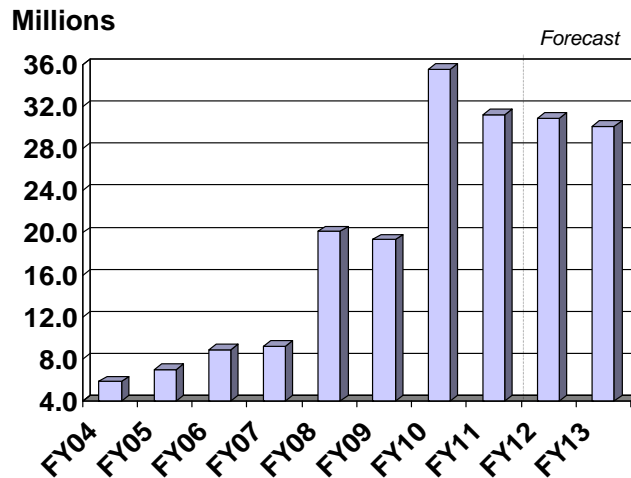
Estimate: The different sources of receipts included in this category are broken out and estimated individually based on historical collections and current conditions.

	Actual FY2010	Actual FY2011	Estimated FY2012	Estimated FY2013
Total Receipts	16,856,600	23,049,390	23,509,706	23,580,637
Dollar Change	286,223	6,192,790	460,316	70,931
Percent Change	1.73	36.74	2.00	0.30

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 FY2013.



Currently: Through the first seven months of FY2012, \$11.6 million has been collected in this category. This is a decrease of 5.69% from the first seven months of last year. Year-to-date collections are 37.67% of the estimate. Historically, 42.40% 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 FY2010	Actual FY2011	Estimated FY2012	Estimated FY2013
Total Receipts	35,507,852	31,191,097	30,860,658	30,130,349
Dollar Change	16,180,693	(4,316,755)	(330,439)	(730,309)
Percent Change	83.72	(12.16)	(1.06)	(2.37)

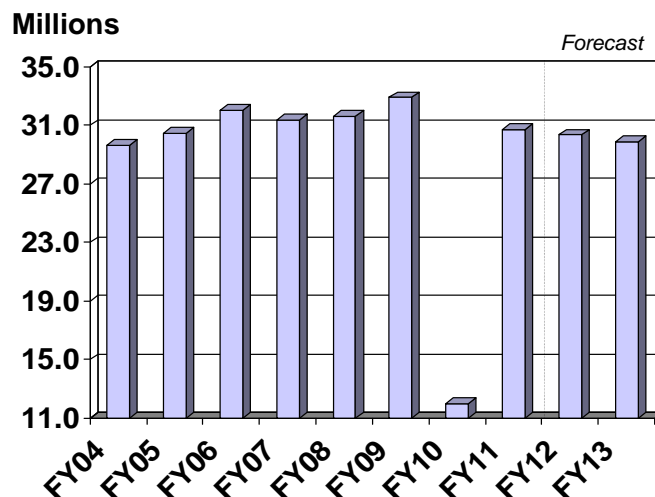
TRUST FUNDS

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. (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) Each fiscal year, a transfer of \$12.0 million is made from the DCTF to the general fund. Other than this transfer, the original principal of the trust fund is to remain intact. However, the Legislature shall, by appropriation, make distributions from the difference between the \$12.0 million annual transfer and 5% of the market value of the trust fund for the support of education, but not for the replacement of state aid to general education or special education, if the increase in the market value of the trust fund is sufficient to maintain the original principal of the trust fund after such distributions. (Article 13, Sections 20 and 21 of the State Constitution)

- The market values of the HCTF and the EETF are calculated using a 16-quarter average rather than the market values as of December 31st.
- The table below shows the amounts that were transferred from each of the trust funds to the general fund between FY2010 and FY2012, and the estimated amounts that will be transferred to the general fund from the trust funds in FY2013.

	Actual FY2010	Actual FY2011	Actual FY2012	Estimated FY2013
HCTF	0	3,886,427	3,876,298	3,825,385
EETF	0	14,802,789	14,469,388	14,052,700
DCTF	12,000,000	12,000,000	12,000,000	12,000,000
Total	12,000,000	30,689,216	30,345,686	29,878,085

- FY2003 was the first year transfers were made from the HCTF and the EETF to the general fund.
- The first time the market value of the DCTF allowed for a transfer greater than \$12.0 million was on June 30, 2004.
- Receipts from the trust funds account for approximately 2.4% of ongoing general fund revenues in FY2013.



Currently: As of December 31st, the total rate of return for the fiscal year on the HCTF was -2.62%. The rate of return for the fiscal year on the EETF was -2.26%, and the rate of return for the fiscal year on the DCTF was -2.67%.

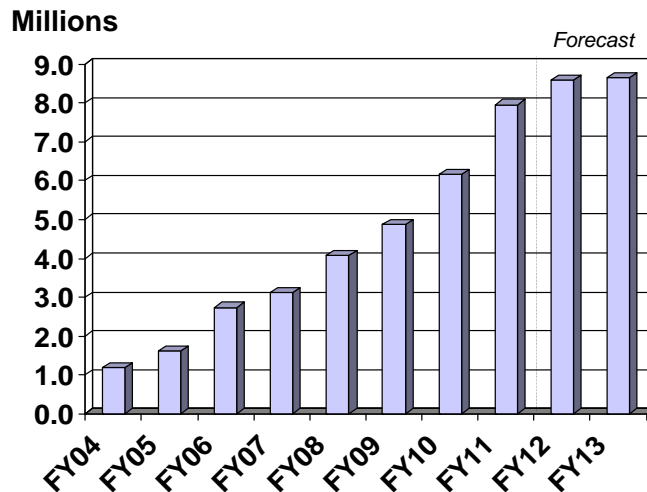
Estimate: The estimate for FY2012 and FY2013 includes the constitutionally required \$12.0 million transfer from the Dakota Cement Trust and the amounts to be transferred from the Health Care Trust Fund and Education Enhancement Trust Fund pursuant to SDCL 4-5-29.1 and SDCL 4-5-29.2.

	Actual FY2010	Actual FY2011	Estimated FY2012	Estimated FY2013
Total Receipts	12,000,000	30,689,216	30,345,686	29,878,085
Dollar Change	(20,872,694)	18,689,216	(343,530)	(467,601)
Percent Change	(63.50)	155.74	(1.12)	(1.54)

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 down slightly in South Dakota in 2011 compared to 2010. In 2010 there were 73,325 ounces of gold produced in the state, and in 2012 there were 67,147 ounces of gold produced.
- Oil production in South Dakota was relatively stable at 1,606,259 bbls in 2010 and 1,634,000 bbls in 2011.
- Collections included in this category account for approximately 0.7% of ongoing general fund revenues in FY2013.



Currently: Through the first seven months of FY2011, \$4.0 million has been collected in this category. This is a decrease of 2.84% from the first seven months of last year.

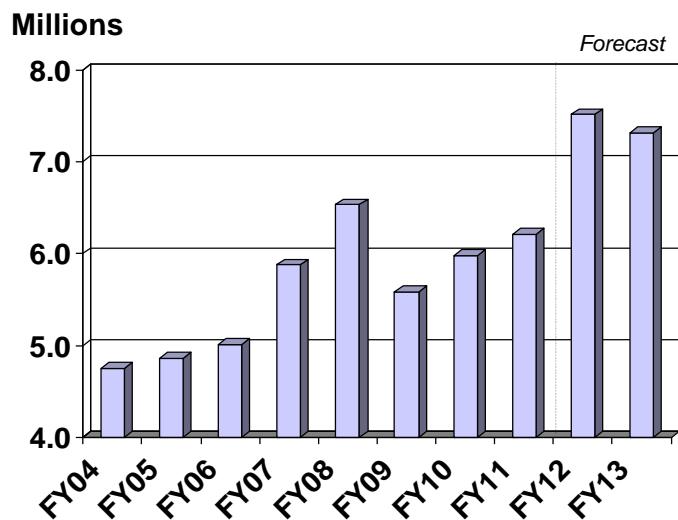
Estimate: Collections from taxes on precious metals and energy minerals are estimated separately. The estimates of collections from the severance taxes on gold and precious metals are based on history and current conditions. The estimates of collections from the tax on energy minerals are based on history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

	Actual FY2010	Actual FY2011	Estimated FY2012	Estimated FY2013
Total Receipts	6,158,958	7,956,574	8,583,160	8,642,215
Dollar Change	1,290,816	1,797,616	626,586	59,055
Percent Change	26.52	29.19	7.88	0.69

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 FY2013.



Currently: Through January 31st, 2012, instant ticket sales were up 15.42% compared to the same time period last year.

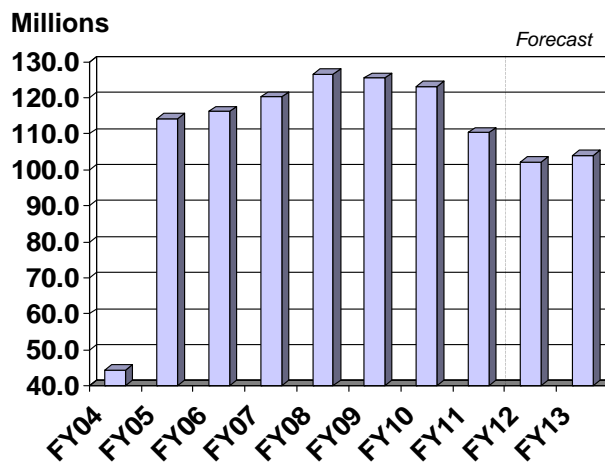
Estimate: The estimates are based on historical collections and current conditions.

	Actual FY2010	Actual FY2011	Estimated FY2012	Estimated FY2013
Total Receipts	5,979,831	6,212,123	7,514,332	7,320,000
Dollar Change	391,263	232,292	1,302,209	(194,332)
Percent Change	7.00	3.88	20.96	(2.59)

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 three 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)
- The 2004 Legislature reduced the FY2004 General Appropriations Act by \$66.3 million due to the fiscal relief provided to South Dakota by the federal government. Therefore, revenues from the PTRF to the general fund were also reduced by \$66.3 million in FY2004.
- Receipts from the PTRF account for approximately 8.4% of general fund revenues in FY2013.



Currently: Through January of FY2012, video lottery receipts were down 15.09% compared to the same time period last year. Through the first seven months of FY2012, the state's share of the receipts from the telecommunications tax was \$3.8 million. This is an increase of 14.01% from the first seven months of last year.

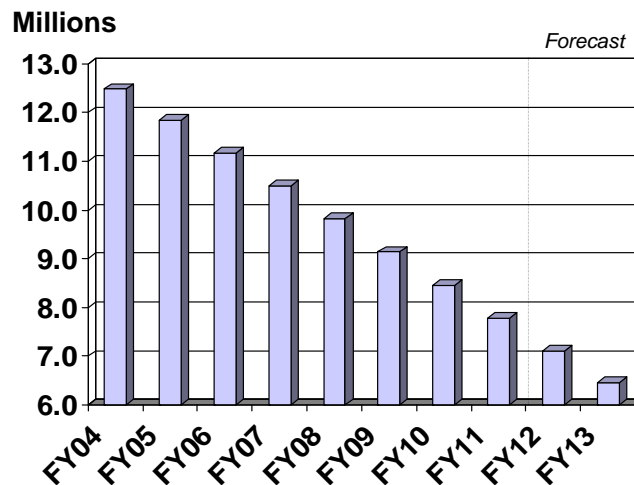
Estimate: The projections for video lottery collections and receipts from the telecommunications tax are estimated separately based on historical collections and current conditions. The estimate for the tobacco tax revenue is based on historical collections and current conditions. For FY2012 and FY2013, it is anticipated that all the revenues from these three sources will be transferred to the general fund.

	Actual FY2010	Actual FY2011	Estimated FY2012	Estimated FY2013
Video Lottery	106,500,470	95,805,502	86,865,726	88,603,040
Telecom Tax	7,634,667	7,036,174	7,761,622	8,149,703
Tobacco	9,039,376	7,538,586	7,443,503	7,230,836
Total Receipts	123,174,513	110,380,262	102,070,851	103,983,579
Dollar Change	(2,288,837)	(12,794,251)	(8,309,411)	1,912,728
Percent Change	(1.82)	(10.39)	(7.53)	1.87

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 0.5% of ongoing general fund revenues in FY2013.



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

	Actual FY2010	Actual FY2011	Estimated FY2012	Estimated FY2013
Total Receipts	8,457,825	7,782,263	7,111,219	6,465,087
Dollar Change	(683,625)	(675,562)	(671,044)	(646,132)
Percent Change	(7.48)	(7.99)	(8.62)	(9.09)

GOVERNOR'S REVISED FY2012 VS. FEBRUARY REVISED FY2012

	<u>GOV'S REVISED FY2012</u>	<u>FEB. REVISED FY2012</u>	<u>DOLLAR CHANGE</u>	<u>PERCENT CHANGE</u>
ONGOING RECEIPTS				
Sales and Use Tax	\$ 729,226,022	\$ 737,102,291	\$ 7,876,269	1.08
Contractor's Excise Tax	76,903,027	79,719,171	2,816,144	3.66
Alcohol Beverage Tax	10,199,407	10,199,407	0	0.00
Alcohol Beverage 2% Wholesale Tax	1,507,918	1,507,918	0	0.00
Cigarette Tax	30,000,000	30,000,000	0	0.00
Bank Franchise Tax	26,683,829	25,559,906	(1,123,923)	(4.21)
Insurance Company Tax	65,891,970	64,287,771	(1,604,199)	(2.43)
Licenses, Permits, and Fees	46,840,671	47,581,730	741,059	1.58
Investment Income and Interest	10,263,684	10,291,772	28,088	0.27
Charges for Goods and Services	23,352,213	23,509,706	157,493	0.67
Net Transfers In	31,217,480	30,860,658	(356,822)	(1.14)
Trust Funds	30,345,686	30,345,686	0	0.00
Severance Taxes	6,526,686	8,583,160	2,056,474	31.51
Lottery	7,005,000	7,514,332	509,332	7.27
Property Tax Reduction Fund	101,069,637	102,070,851	1,001,214	0.99
Sale-Leaseback	7,111,219	7,111,219	0	0.00
SUBTOTAL (ONGOING RECEIPTS)	<u>\$ 1,204,144,449</u>	<u>\$ 1,216,245,578</u>	<u>\$ 12,101,129</u>	<u>1.00</u>
ONE-TIME RECEIPTS				
Transfer from Tobacco Prev. and Red. Trust Fund	1,000,000	1,000,000	0	0.00
One-time Bank Franchise tax	10,000,000	10,000,000	0	0.00
CREP Savings	400,000	400,000	0	0.00
Securities Settlement	418,500	418,500	0	0.00
Refinancing Gains	0	388,851	388,851	100.00
Transfer from Budget Reserves	20,155,015	20,155,015	0	0.00
SUBTOTAL (ONE-TIME RECEIPTS)	<u>\$ 31,973,515</u>	<u>\$ 32,362,366</u>	<u>\$ 388,851</u>	<u>1.22</u>
GRAND TOTAL	<u><u>\$ 1,236,117,964</u></u>	<u><u>\$ 1,248,607,944</u></u>	<u><u>\$ 12,489,980</u></u>	<u><u>1.01</u></u>

GOVERNOR'S RECOMMENDED FY2013 VS. FEBRUARY REVISED FY2013

	GOV'S REC FY2013	FEB. REVISED FY2013	DOLLAR CHANGE	PERCENT CHANGE
ONGOING RECEIPTS				
Sales and Use Tax	\$ 756,856,366	\$ 764,169,601	\$ 7,313,235	0.97
Contractor's Excise Tax	71,760,414	73,909,957	2,149,543	3.00
Alcohol Beverage Tax	10,424,164	10,424,164	0	0.00
Alcohol Beverage 2% Wholesale Tax	1,583,316	1,583,316	0	0.00
Cigarette Tax	30,000,000	30,000,000	0	0.00
Bank Franchise Tax	25,389,040	24,389,040	(1,000,000)	(3.94)
Insurance Company Tax	67,816,650	66,767,960	(1,048,690)	(1.55)
Licenses, Permits, and Fees	47,595,097	48,862,692	1,267,595	2.66
Investment Income and Interest	9,098,239	9,236,703	138,464	1.52
Charges for Goods and Services	22,377,359	23,580,637	1,203,278	5.38
Net Transfers In	30,371,404	30,130,349	(241,055)	(0.79)
Trust Funds	29,832,292	29,878,085	45,793	0.15
Severance Taxes	6,994,265	8,642,215	1,647,950	23.56
Lottery	7,090,000	7,320,000	230,000	3.24
Property Tax Reduction Fund	102,953,026	103,983,579	1,030,553	1.00
Sale-Leaseback	6,465,087	6,465,087	0	0.00
SUBTOTAL (ONGOING RECEIPTS)	\$ 1,226,606,719	\$ 1,239,343,385	\$ 12,736,666	1.04
ONE-TIME RECEIPTS				
Transfer from Tobacco Prev. and Red. Trust Fund	1,000,000	1,000,000	0	0.00
Obligated Cash Carried Forward	37,806,110	37,806,110	0	0.00
SUBTOTAL (ONE-TIME RECEIPTS)	\$ 38,806,110	\$ 38,806,110	\$ 0	0.00
GRAND TOTAL	\$ 1,265,412,829	\$ 1,278,149,495	\$ 12,736,666	1.01

ADOPTED FY2012 VS. FEBRUARY REVISED FY2012

	LEGISLATIVE ADOPTED FY2012	FEB. REVISED FY2012	DOLLAR CHANGE	PERCENT CHANGE
ONGOING RECEIPTS				
Sales and Use Tax	\$ 719,637,982	\$ 737,102,291	\$ 17,464,309	2.43
Contractor's Excise Tax	66,000,000	79,719,171	13,719,171	20.79
Alcohol Beverage Tax	10,273,750	10,199,407	(74,343)	(0.72)
Alcohol Beverage 2% Wholesale Tax	1,498,201	1,507,918	9,717	0.65
Cigarette Tax	30,000,000	30,000,000	0	0.00
Bank Franchise Tax	3,976,766	25,559,906	21,583,140	542.73
Insurance Company Tax	64,941,467	64,287,771	(653,696)	(1.01)
Licenses, Permits, and Fees	44,443,352	47,581,730	3,138,378	7.06
Investment Income and Interest	11,800,000	10,291,772	(1,508,228)	(12.78)
Charges for Goods and Services	24,681,189	23,509,706	(1,171,483)	(4.75)
Net Transfers In	30,469,026	30,860,658	391,632	1.29
Trust Funds	30,345,686	30,345,686	0	0.00
Severance Taxes	9,012,350	8,583,160	(429,190)	(4.76)
Lottery	6,188,500	7,514,332	1,325,832	21.42
Property Tax Reduction Fund	105,000,000	102,070,851	(2,929,149)	(2.79)
Sale-Leaseback	7,111,219	7,111,219	0	0.00
SUBTOTAL (ONGOING RECEIPTS)	\$ 1,165,379,488	\$ 1,216,245,578	\$ 50,866,090	4.36
ONE-TIME RECEIPTS				
Transfer from Tobacco Prev. and Red. Trust Fund	1,000,000	1,000,000	0	0.00
One-time Bank Franchise tax	0	10,000,000	10,000,000	100.00
CREP Savings	0	400,000	400,000	100.00
Securities Settlement	0	418,500	418,500	100.00
Refinancing Gains	0	388,851	388,851	100.00
One-time Refund	(13,598,094)	0	13,598,094	(100.00)
Transfer from Budget Reserves	0	20,155,015	20,155,015	100.00
SUBTOTAL (ONE-TIME RECEIPTS)	\$ (12,598,094)	\$ 32,362,366	\$ 44,960,460	
GRAND TOTAL	\$ 1,152,781,394	\$ 1,248,607,944	\$ 95,826,550	8.31

ACTUAL FY2011 VS. FEBRUARY REVISED FY2012

	ACTUAL FY2011	FEB. REVISED FY2012	DOLLAR CHANGE	PERCENT CHANGE
ONGOING RECEIPTS				
Sales and Use Tax	\$ 710,196,255	\$ 737,102,291	\$ 26,906,036	3.79
Contractor's Excise Tax	65,697,771	79,719,171	14,021,400	21.34
Alcohol Beverage Tax	9,916,603	10,199,407	282,804	2.85
Alcohol Beverage 2% Wholesale Tax	1,431,373	1,507,918	76,545	5.35
Cigarette Tax	30,000,000	30,000,000	0	0.00
Bank Franchise Tax	4,734,918	25,559,906	20,824,988	439.82
Insurance Company Tax	63,609,227	64,287,771	678,544	1.07
Licenses, Permits, and Fees	46,102,423	47,581,730	1,479,307	3.21
Investment Income and Interest	14,096,898	10,291,772	(3,805,126)	(26.99)
Charges for Goods and Services	23,049,390	23,509,706	460,316	2.00
Net Transfers In	31,191,097	30,860,658	(330,439)	(1.06)
Trust Funds	30,689,216	30,345,686	(343,530)	(1.12)
Severance Taxes	7,956,574	8,583,160	626,586	7.88
Lottery	6,212,123	7,514,332	1,302,209	20.96
Property Tax Reduction Fund	110,380,262	102,070,851	(8,309,411)	(7.53)
Sale-Leaseback	7,782,263	7,111,219	(671,044)	(8.62)
SUBTOTAL (ONGOING RECEIPTS)	\$ 1,163,046,393	\$ 1,216,245,578	\$ 53,199,185	4.57
ONE-TIME RECEIPTS				
Transfer from Tobacco Prev. and Red. Trust Fund	1,500,000	1,000,000	(500,000)	(33.33)
One-time Bank Franchise tax	0	10,000,000	10,000,000	100.00
CREP Savings	0	400,000	400,000	100.00
Securities Settlement	0	418,500	418,500	100.00
Refinancing Gains	0	388,851	388,851	100.00
Transfer from Custer State Park Improvement Fund	4,466,930	0	(4,466,930)	(100.00)
Transfer from Private Activity Bond Fee Fund	698,331	0	(698,331)	(100.00)
Transfer from Budgetary Accounting Fund	310,487	0	(310,487)	(100.00)
Transfer from Petroleum Release Fund	1,000,000	0	(1,000,000)	(100.00)
Transfer from Tax Relief Fund	1,017,979	0	(1,017,979)	(100.00)
Department of Corrections L&E Funds	650,000	0	(650,000)	(100.00)
Transfer from Other Disease Fund	292,861	0	(292,861)	(100.00)
One-time Refund	(26,101,108)	0	26,101,108	(100.00)
Unexpended Carryovers and Specials	1,420,466	0	(1,420,466)	(100.00)
Transfer from Budget Reserves	0	20,155,015	20,155,015	100.00
SUBTOTAL (ONE-TIME RECEIPTS)	\$ (14,744,054)	\$ 32,362,366	\$ 47,106,420	
GRAND TOTAL	\$ 1,148,302,339	\$ 1,248,607,944	\$ 100,305,605	8.74

FEBRUARY REVISED FY2012 VS. FEBRUARY REVISED FY2013

	FEB. REVISED FY2012	FEB. REVISED FY2013	DOLLAR CHANGE	PERCENT CHANGE
ONGOING RECEIPTS				
Sales and Use Tax	\$ 737,102,291	\$ 764,169,601	\$ 27,067,310	3.67
Contractor's Excise Tax	79,719,171	73,909,957	(5,809,214)	(7.29)
Alcohol Beverage Tax	10,199,407	10,424,164	224,757	2.20
Alcohol Beverage 2% Wholesale Tax	1,507,918	1,583,316	75,398	5.00
Cigarette Tax	30,000,000	30,000,000	0	0.00
Bank Franchise Tax	25,559,906	24,389,040	(1,170,866)	(4.58)
Insurance Company Tax	64,287,771	66,767,960	2,480,189	3.86
Licenses, Permits, and Fees	47,581,730	48,862,692	1,280,962	2.69
Investment Income and Interest	10,291,772	9,236,703	(1,055,069)	(10.25)
Charges for Goods and Services	23,509,706	23,580,637	70,931	0.30
Net Transfers In	30,860,658	30,130,349	(730,309)	(2.37)
Trust Funds	30,345,686	29,878,085	(467,601)	(1.54)
Severance Taxes	8,583,160	8,642,215	59,055	0.69
Lottery	7,514,332	7,320,000	(194,332)	(2.59)
Property Tax Reduction Fund	102,070,851	103,983,579	1,912,728	1.87
Sale-Leaseback	7,111,219	6,465,087	(646,132)	(9.09)
SUBTOTAL (ONGOING RECEIPTS)	\$ 1,216,245,578	\$ 1,239,343,385	\$ 23,097,807	1.90
ONE-TIME RECEIPTS				
Transfer from Tobacco Prev. and Red. Trust Fund	1,000,000	1,000,000	0	0.00
One-time Bank Franchise tax	10,000,000	0	(10,000,000)	(100.00)
CREP Savings	400,000	0	(400,000)	(100.00)
Securities Settlement	418,500	0	(418,500)	(100.00)
Refinancing Gains	388,851	0	(388,851)	(100.00)
Transfer from Budget Reserves	20,155,015	0	(20,155,015)	(100.00)
Obligated Cash Carried Forward	0	37,806,110	37,806,110	100.00
SUBTOTAL (ONE-TIME RECEIPTS)	\$ 32,362,366	\$ 38,806,110	\$ 6,443,744	19.91
GRAND TOTAL	\$ 1,248,607,944	\$ 1,278,149,495	\$ 29,541,551	2.37