

# Memorandum

January 4, 2010

**To:** Leaders of the Joint Committee on Appropriations

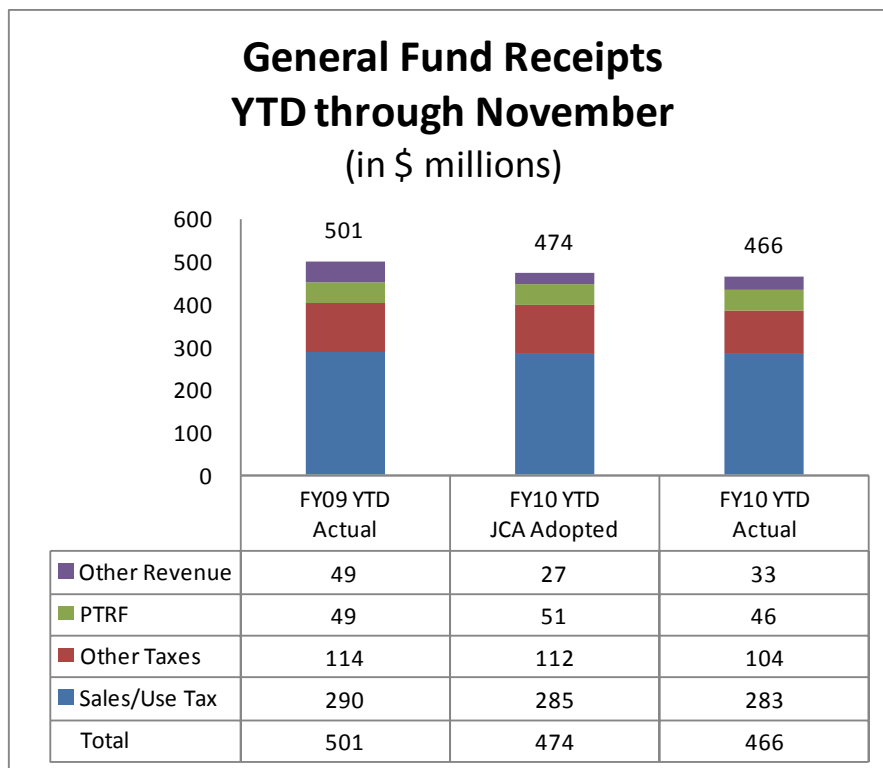
**From:** Fred Schoenfeld  
Chief Fiscal Analyst, LRC

**Subject:** December Financial Report

## General Fund Receipts

Aaron Olson

Through November, total FY10 General Fund revenues booked into the General Fund are calculated to be \$8.4 million below the budgetary estimates adopted by the Joint Committee. This shortfall requires further comment as follows.



**Sales and Use Tax** shows a negative variance of \$2.2M which is 0.8% below the JCA estimate and 2.4% below FY09. It should be noted that the Sales and Use Tax figure reported in the BFM General Fund Revenue report for November was considerably lower than normal. As a result, we used the Sales and Use Tax number from the Fuoss report to calculate YTD sales tax collections thru November.

**Contractor's Excise Tax** shows a negative variance of \$6.2M. However, an additional \$8.6M has been collected by the Department or Revenue but not yet booked as General Fund receipts, which is the basis of this report. When the \$8.6M is taken into account, the variance is actually positive.

**Cigarette Tax** shows a negative variance of \$1.3M which is 4.8% below the JCA estimate and 5.3% below FY09.

**Property Tax Reduction Fund** shows a negative variance of \$4.1M due to a decline in Video Lottery receipts. Video Lottery revenue is down 4.9% compared to FY09.

**Investment Income and Interest** shows a positive variance of \$1.9M primarily due to additional interest that was deposited in the General Fund in FY10 rather than FY09.

**Net Transfers In** shows a positive variance of \$2.9M due to some additional gaming revenue, interest from bond payments, and larger than normal refunds of prior year expenditures.

**STATE GENERAL FUND RECEIPTS**  
**FY10 - Year to Date through November**  
(in thousands of dollars, except where noted)

	FY09 YTD Actual	FY10 YTD JCA Adopted	FY10 YTD Actual	Difference	FY10 YTD Actual % Change from:	
					FY09 YTD Actual	FY10 YTD JCA Adopted
<b>Taxes:</b>						
Sales and Use Tax	289,864	285,145	282,922 *	(2,223)	-2.4%	-0.8%
Contractor's Excise Tax	35,953	37,145	30,927 **	(6,218)	-14.0%	-16.7%
Wholesale Alcohol Tax	450	485	508	23	13.0%	4.8%
Alcohol Beverage Tax	2,640	2,647	2,605	(42)	-1.3%	-1.6%
Cigarette Tax	27,317	27,172	25,874	(1,298)	-5.3%	-4.8%
Bank Franchise Tax	16,970	13,887	13,575	(313)	-20.0%	-2.3%
Insurance Company Tax	28,177	28,510	27,697	(814)	-1.7%	-2.9%
Mineral Severance Taxes	2,559	1,669	2,509	840	-2.0%	50.4%
<b>Total Taxes</b>	<b>403,930</b>	<b>396,660</b>	<b>386,616</b>	<b>(10,044)</b>	<b>-4.3%</b>	<b>-2.5%</b>
<b>Other Revenue:</b>						
Licenses Permits and Fees	8,001	8,319	8,407	88	5.1%	1.1%
Charges for Goods and Services	10,627	9,653	10,586	933	-0.4%	9.7%
State Lottery, Instant Tickets	0	0	0	0	0.0%	0.0%
Property Tax Reduction Fund	48,513	50,598	46,463	(4,135)	-4.2%	-8.2%
Investment Income and Interest	1,989	1,061	2,919	1,858	46.7%	175.2%
Transfers In	8,986	7,794	10,704	2,911	19.1%	37.3%
Trust Funds	19,350	0	0	0	-100.0%	0.0%
Sales-Leaseback	0	0	0	0	0.0%	0.0%
CRP Program	0	25	0	(25)	0.0%	0.0%
<b>Total Other Revenue</b>	<b>97,466</b>	<b>77,449</b>	<b>79,078</b>	<b>1,629</b>	<b>-18.9%</b>	<b>2.1%</b>
<b>TOTAL RECEIPTS</b>	<b>501,396</b>	<b>474,109</b>	<b>465,695</b>	<b>(8,414)</b>	<b>-7.1%</b>	<b>-1.8%</b>

SOURCE: BFM, BAIE0102, Fuoss

NOTE: Details may not add to totals due to rounding; values less than 1,000 are disregarded in calculating percentages. Transfers In excludes 1-time transfers. Cigarette tax, PTRF and Transfers In cigarette tax revenues, and investment income are adjusted for seasonality.

\* Used Sales and Use Tax number from Fuoss report for November due to a discrepancy in the Sales and Use Tax deposit into the General Fund as reported by BFM.

\*\* Total does not include \$8.6M in Contractor's Excise Tax that has been collected but not yet deposited in the General Fund.

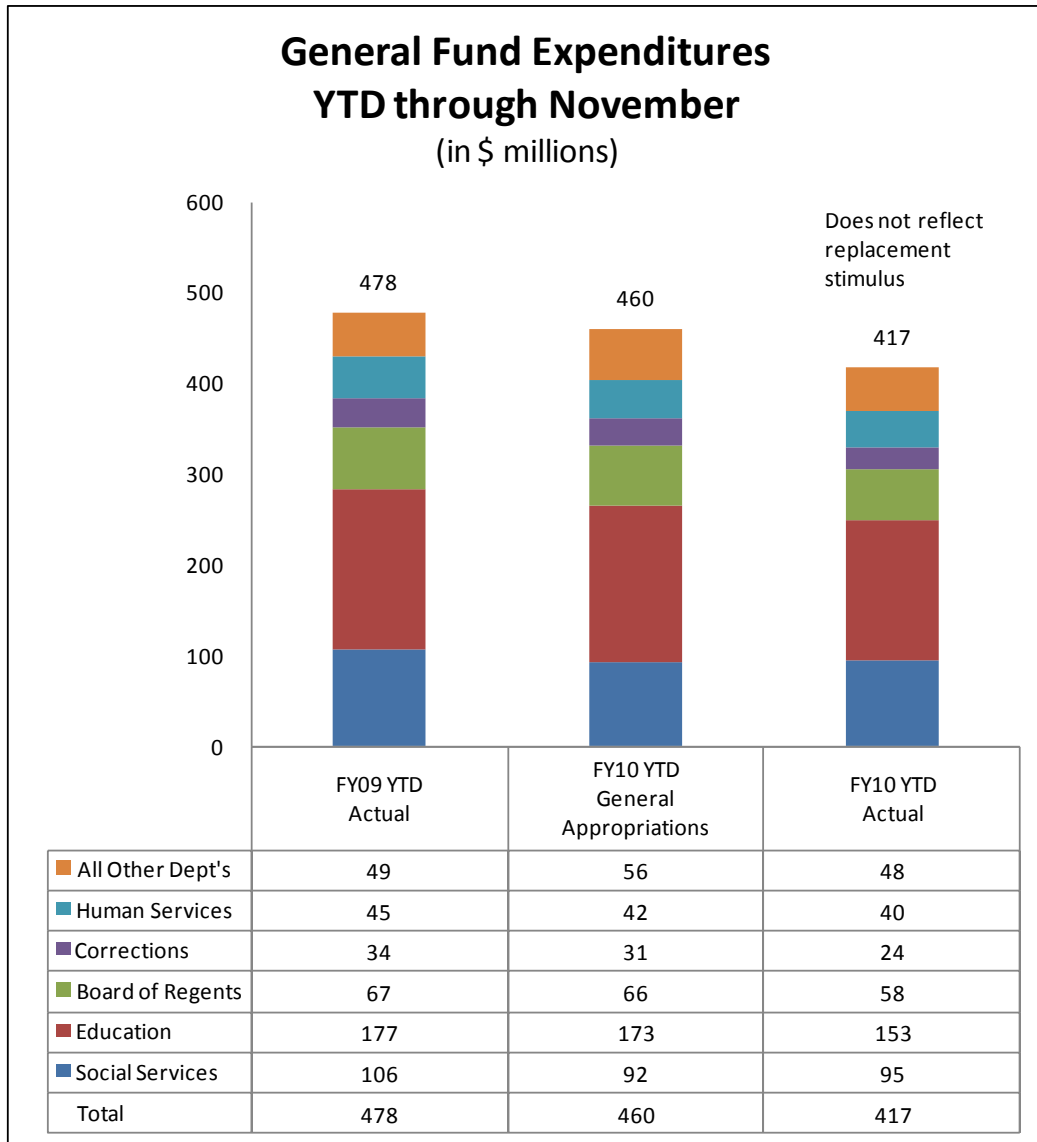
## General Fund Expenditures

Terry Miller

Total expenditures from the General Fund as of November 30, 2009 were \$43.3 million (9.4%) below the estimated FY2010 General Fund expenditures year-to-date. The General Fund expenditures include only those coded against current year appropriations from the FY2010 General Appropriations Act. Expenditures coded against special appropriations and prior year carry-over budget items were not included.

The Department of Executive Management, Department of Education, Board of Regents, and Department of Corrections together spent \$42.0 million (14.9%) less than the estimated FY2010 General Fund expenditures year-to-date. All other departments combined spent \$1.3 million (0.7%) less than then the estimated FY2010 General Fund expenditures year-to-date.

Over all, the gap in spending appears to have been bridged by spending federal stimulus money in place of General Funds. The state spent approximately \$67.4 million in federal replacement stimulus year-to-date.



The Department of Education spent \$19.9 million less than the estimated FY2010 General Fund expenditures year-to-date. This variance in spending was primarily in State Aid to General Education where federal stimulus money was spent ahead of General Funds. When General Fund expenditures for the department are combined with the replacement stimulus fund expenditures, spending was fairly close to FY2009 spending levels and higher than the estimated FY2010 General Fund expenditures year-to-date.

The Board of Regents and Department of Corrections combined spent \$15.2 million less than the estimated FY2010 General Fund expenditures year-to-date. The variance in spending was mainly in the area of General Fund personal service expenditures where federal stimulus money was spent ahead of General Funds. When General Fund expenditures for the department are combined with the replacement stimulus fund expenditures, spending is fairly close to FY2009 spending levels and higher than the estimated FY2010 General Fund expenditures year-to-date.

The Department of Executive Management spent \$6.9 million less than the estimated FY2010 General Fund expenditures year-to-date. The variance in spending was mainly caused by the sale lease back payment not being made by November 30<sup>th</sup> and current year state wide M & R budget authority not being spent yet.

We would expect the overall difference between actual General Fund expenditures and the estimated FY 2010 General Fund expenditures to narrow as the fiscal year progresses.

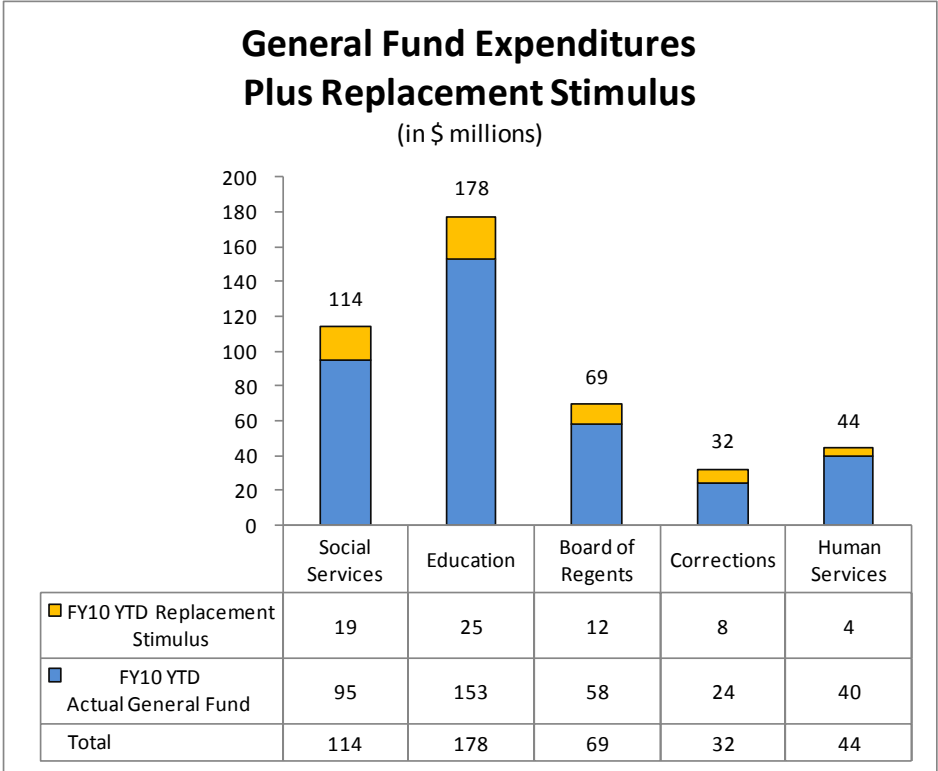
**STATE GENERAL FUND EXPENDITURES**  
**FY10 - Year to Date through November**  
(in thousands of dollars, except where noted)

	FY09 YTD Actual	FY10 YTD		Difference	FY10 YTD Actual	
		General	FY10 YTD		FY09 YTD	FY10 YTD
		Appropriations	Actual		Actual	General
	Actual	Appropriations	Actual	Difference	Actual	Appropriations
Expenditures:						
Executive Management	5,992	12,502	5,560	(6,942)	-7.2%	-55.5%
Tourism and State Development	3,208	2,490	2,404	(86)	-25.0%	-3.4%
Social Services	105,813	92,418	95,172	2,754	-10.1%	3.0%
Health	3,393	3,602	2,835	(768)	-16.5%	-21.3%
Education	177,207	172,858	152,941	(19,916)	-13.7%	-11.5%
Board of Regents	67,433	65,627	57,588	(8,039)	-14.6%	-12.2%
Corrections	33,521	30,948	23,818	(7,130)	-28.9%	-23.0%
Human Services	44,900	42,282	39,960	(2,322)	-11.0%	-5.5%
All Other Executive Branch Dept's	13,594	13,919	14,332	413	5.4%	3.0%
Unified Judicial System	13,884	14,809	14,092	(717)	1.5%	-4.8%
Legislature	2,377	2,383	2,268	(115)	-4.6%	-4.8%
Constitutional Offices	6,543	6,484	6,029	(456)	-7.9%	-7.0%
<b>Total Expenditures</b>	<b>477,865</b>	<b>460,322</b>	<b>416,998</b>	<b>(43,324)</b>	<b>-12.7%</b>	<b>-9.4%</b>

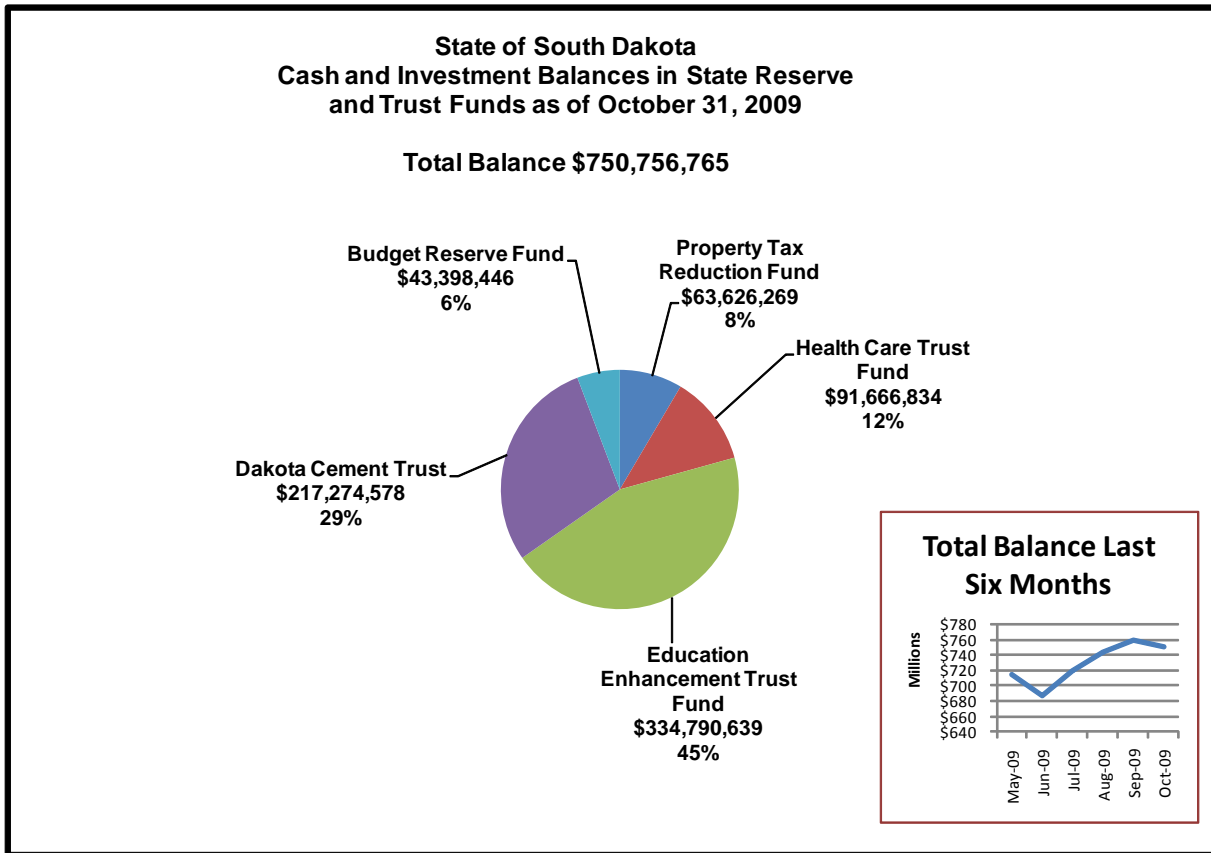
SOURCE: State's Central Accounting System and HB 1300 passed during the FY 2009 Legislative Session (FY 2010 General Bill)

NOTE: Details may not add to totals due to rounding.

As previously stated it appears the state bridged the gap between actual General Fund expenditures and the estimated FY 2010 General Fund expenditures year-to-date by spending replacement stimulus monies ahead of General Funds. The following chart shows General Fund expenditures plus replacement stimulus expenditures for those departments that were budgeted with them. Combined with the replacement stimulus monies these departments are actually spending ahead of the FY2010 General Fund expenditure year-to-date by \$32.8 million.



Overall, the state has spent approximately \$67.4 million in replacement stimulus funds. Total General Fund expenditures combined with replacement stimulus expenditures are \$484.4 million as of November 30, 2009. This amount is \$24.1 million higher than the estimated FY2010 General Fund expenditures year-to-date and \$6.5 million higher than the FY2009 spending levels. For FY 2010 the state budgeted \$88.1 million in replacement stimulus funds.



**Reserve and Trust Fund Balance Breakdown**

	(A) Principal Balance	(B) Earnings Balance	(A + B) Total Accumulated Balance
Property Tax Reduction Fund ①	\$ 63,626,269	\$ -	\$ 63,626,269
Health Care Trust Fund ②	\$ 85,631,024	\$ 6,035,810	\$ 91,666,834
Education Enhancement Trust Fund ②	\$ 329,329,930	\$ 5,460,708	\$ 334,790,639
Dakota Cement Trust Fund ③	\$ 238,000,000	\$ (20,725,422)	\$ 217,274,578
Budget Reserve Fund ④	\$ 43,398,446	\$ -	\$ 43,398,446
	<b>\$ 759,985,669</b>	<b>\$ (9,228,904)</b>	<b>\$ 750,756,765</b>

①= Money may be transferred to the General Fund by BFM commissioner for State Aid to Education. Money may also be transferred to the General Fund through an act of the Legislature by a simple majority.  
 ②= Principal and Earnings balance requires a three-fourths vote of the Legislature to be appropriated.  
 ③= There is no provision to appropriate the principal balance per the state's Constitution.  
 ④= Balance requires a two-thirds vote of the Legislature to be appropriated.

**It Should be Noted:**

- The cash and investment balances in these funds are subject to restrictions imposed by law through constitutional provisions or enabling legislation on how they can be used.
- Spending of these balances will reduce future revenue generated through investing activities.

**Reserve and Trust Fund Earnings in FY2009**

	(A) Change to Principle Balance	(B) Change to Earnings Balance	(C) Amounts Transferred To General Fund	(A + B + C) Total Earnings
<b>Trust Funds</b>				
Health Care Trust Fund	\$ -	\$ (19,201,132)	\$ 3,896,330	\$ (15,304,802)
Education Enhancement Trust Fund	\$ -	\$ (81,334,095)	\$ 15,453,422	\$ (65,880,673)
Dakota Cement Trust Fund	\$ -	\$ (55,946,196)	\$ 13,522,942	\$ (42,423,254)
<b>Reserve Funds</b>				
Property Tax Reduction Fund	\$ -	\$ -	\$ 125,463,350	\$ 125,463,350
Budget Reserve Fund	\$ 150,957	\$ -	\$ -	\$ 150,957
	<b>\$ 150,957</b>	<b>\$ (156,481,423)</b>	<b>\$ 158,336,044</b>	<b>\$ 2,005,578</b>

State of South Dakota  
Cash and Investment Balances in State Reserve and Trust Funds  
FY 2007 to October 31, 2009

<u>Property Tax Reduction Fund (3033)</u>	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>	<u>as of October 31, 2009</u>
Total Cash Balance	① \$89,276,269	\$63,626,269	\$63,626,269	\$63,626,269
Change from Prior Period		(\$25,650,000)	\$0	\$0
Operating Transfers to General Fund to Provide Property Tax Relief through State Aid to Education.	\$125,178,593	\$152,255,981	\$125,463,350	\$36,680,025
<u>Health Care Trust Fund (3004)</u>	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>	<u>as of October 31, 2009</u>
Principal Balance (accumulated to date)	\$85,631,024	\$85,631,024	\$85,631,024	\$85,631,024
Earnings Balance (accumulated to date)	\$25,974,837	\$15,912,033	(\$3,289,099)	\$6,035,810
Total FMV Balance	② \$111,605,861	\$101,543,057	\$82,341,925	\$91,666,834
Change from Prior Period		(\$10,062,804)	(\$19,201,132)	\$9,324,908
Operating Transfers to General Fund for Health Care Related Programs which include, per General Bill: - Dept of Social Services - Medical Services.	④ \$3,801,228	\$3,656,091	\$3,896,330	\$0
<u>Education Enhancement Trust Fund (3005)</u>	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>	<u>as of October 31, 2009</u>
Principal Balance (accumulated to date)	\$329,329,930	\$329,329,930	\$329,329,930	\$329,329,930
Earnings Balance (accumulated to date)	\$97,764,349	\$54,492,008	(\$26,842,087)	\$5,460,708
Total FMV Balance	② \$427,094,279	\$383,821,938	\$302,487,843	\$334,790,639
Change from Prior Period		(\$43,272,341)	(\$81,334,095)	\$32,302,795
Operating Transfers to General Fund for Education Enhancement Programs which include, per General Bill: - Dept of Education - State Aid to Ed. & School Technology	④ \$14,986,028	\$14,766,915	\$15,453,422	\$0
<u>Dakota Cement Trust (3003)</u>	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>	<u>as of October 31, 2009</u>
Principal Balance	\$238,000,000	\$238,000,000	\$238,000,000	\$238,000,000
Earnings Balance (accumulated to date)	\$43,584,258	\$12,896,974	(\$43,049,222)	(\$20,725,422)
Total FMV Balance	② \$281,584,258	\$250,896,974	\$194,950,778	\$217,274,578
Change from Prior Period		(\$30,687,284)	(\$55,946,196)	\$22,323,800
Operating Transfers to General Fund for: - General Government	③ \$12,000,000	\$12,000,000	\$12,000,000	\$0
- Board of Regents - Opportunity Scholarships	\$571,476	\$1,184,338	\$1,522,942	\$0
Total Transfers to General Fund	\$12,571,476	\$13,184,338	\$13,522,942	\$0
<u>Budget Reserve Fund (1000 - 0119)</u>	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>	<u>as of October 31, 2009</u>
Total Cash Balance	① \$43,000,275	\$43,247,488	\$43,398,446	\$43,398,446
Change from Prior Period		\$247,214	\$150,957	\$0
<b>Total Cash and Investment Balances</b>	<b>\$952,560,942</b>	<b>\$843,135,727</b>	<b>\$686,805,261</b>	<b>\$750,756,765</b>
Transfers to General Fund in Support of State Programs - From Property Tax Reduction Fund	\$125,178,593	\$152,255,981	\$125,463,350	\$36,680,025
- From State Trust Funds	\$31,358,732	\$31,607,343	\$32,872,694	\$0
<b>Total Transfers to General Fund</b>	<b>\$156,537,324</b>	<b>\$183,863,325</b>	<b>\$158,336,044</b>	<b>\$36,680,025</b>

**NOTES:**

- ① = Property Tax Reduction Fund and Budget Reserve Fund are shown based on balances reported on the state's accounting system.
- ② = Trust Fund amounts are shown at the actual fair market value of the investment accounts held with the South Dakota Investment Council.
- ③ = Transfer of \$12 million has not been made yet for FY2010.
- ④ = Transfers from the HCT and EETF will not be made in FY2010.

**It Should Be Further Noted:**

- The cash and investment balances in these funds are subject to restrictions imposed by law through constitutional provisions or enabling legislation on how they can be used.
- Spending of these balances will reduce future revenue generated through investing activities.



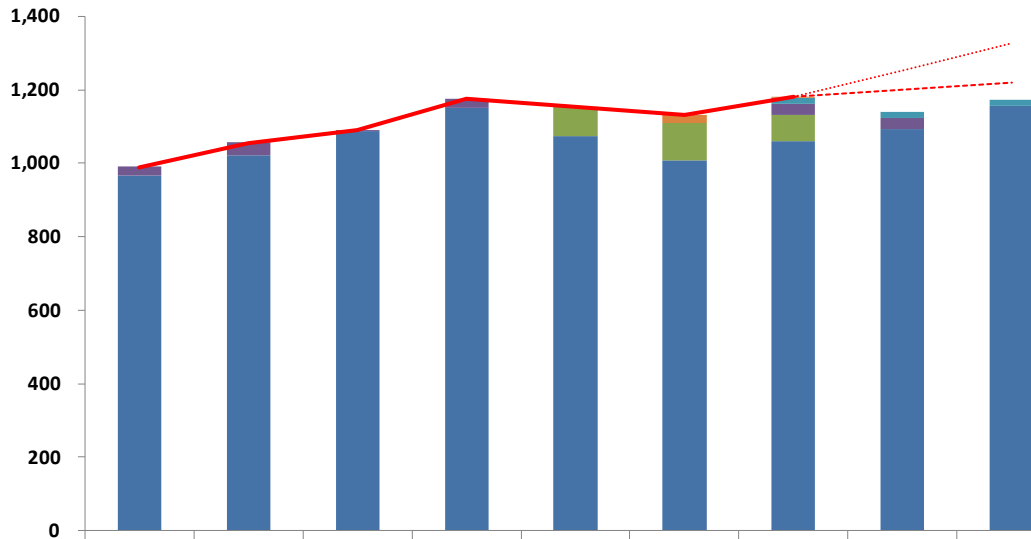
The Governor's proposed budget is used as the baseline for this month's two-year outlook. The assumptions used are as follows:

- FY05 through FY09 uses actuals taken from the General Fund Condition Statement for both Revenues and Expenditures.
- The Governor's revised estimates for General Fund revenues and expenses is used for FY10 and the Governor's Budget is used for FY11.
- For purposes of illustration, revenues in the out years are estimated at 3% growth in FY12 (i.e., a modest economic recovery) and at 6% growth in FY13 (i.e., a return to the historic compound annual growth rate or CAGR).
- Again for illustration, two different expense scenarios are presented:
  1. Assumed 6% expense growth in both FY12 and FY13. This is the historic rate of growth in revenues before the recession, which was tracked closely by the growth in expenses.
  2. Assumed 1.5% expense growth in both FY 12 and FY13. This is the FY05-FY11 CAGR in revenue growth reflecting the recent recession as estimated by the Governor's Budget.

These assumptions are plotted on the following chart.

### General Fund Outlook - Governor's Budget Plus Outyear Assumptions

(in \$ millions)



	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13
1-Time Revenues						22	5		
Resume Trust Fund							15	15	15
Reserves	25	35	5	26			32	32	
Stimulus					79	101	71		
Continuing Revenue	967	1,021	1,087	1,151	1,075	1,009	1,060	1,092	1,158
Expense	989	1,055	1,091	1,176	1,154	1,132	1,182		
Expense @6%							1,182	1,253	1,328
Expense @1.5%							1,182	1,201	1,220

Even given the fairly optimistic revenue assumptions in the out years, there are shortfalls in both FY12 and FY13 against both expense assumptions.

(in \$ millions)	FY12 Shortfalls	FY13 Shortfalls
6% Expense Growth	114	156
1.5% Expense Growth	62	47

Against these assumptions, it would appear structural issues remain in the out years, even with the FY11 budget reductions recommended by the Governor. In this connection, it should be noted that if the YTD General Fund revenues shown in section 1 of this report are annualized, they are running ahead of the Governor's budget forecast for FY11 by approximately \$7 million. However, we are not confident at this early point in the process that it reflects a trend rather than a false positive. We should know more after Ralph Brown's economic presentation on January 12<sup>th</sup>.