

Memorandum

February 17, 2010

To: Members of the Joint Committee on Appropriations

From: Fred Schoenfeld
Chief Fiscal Analyst, LRC

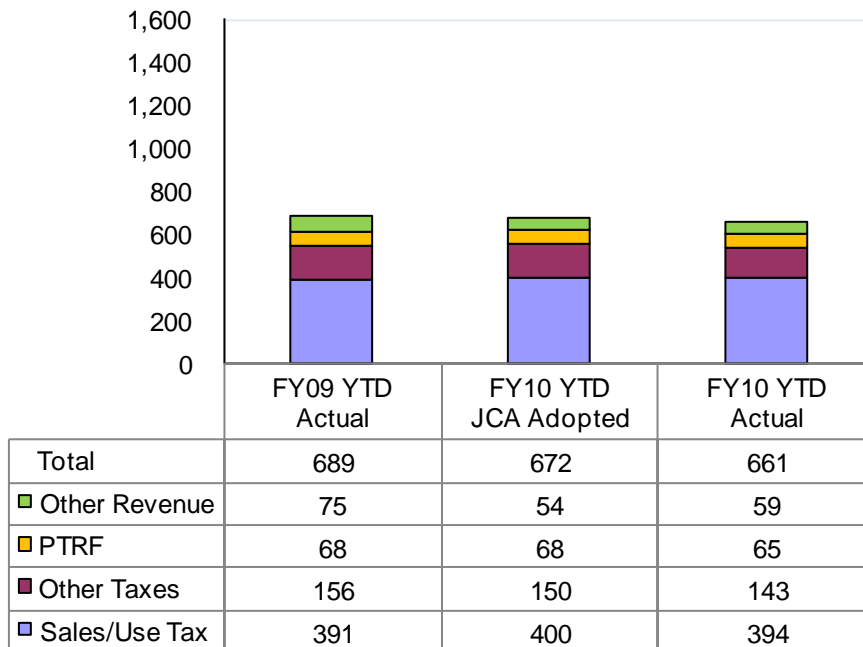
Subject: February Financial Report

General Fund Receipts

Aaron Olson

Through January, total FY10 General Fund revenues booked into the General Fund are calculated to be \$11.4 million below the budgetary estimates adopted by the Joint Committee. This shortfall requires further comment as follows.

**General Fund Receipts
YTD through January
(in \$ millions)**



Sales and Use Tax shows a negative variance of \$5.3M which is 1.3% below the JCA estimate. It should be noted that the Sales and Use Tax figure reported in the BFM General Fund Revenue report for January 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 through January. Although this number is generally consistent with the average of General Fund deposits over the last four years, it is possible it could overstate YTD receipts by as much as \$5 million.

Contractor's Excise Tax shows a negative variance of \$6.2M. However, an additional \$6.5M has been collected by the Department of Revenue but not yet booked as General Fund receipts, which is the basis of this report. When the \$6.5M is taken into account, the variance is slightly positive.

Property Tax Reduction Fund shows a negative variance of \$3.7M due to a decline in Video Lottery receipts. Video Lottery revenue is down 4.3% 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 \$1.6M 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 January
(in thousands of dollars, except where noted)

					FY10 YTD Actual % Change from:	
	FY09 YTD	FY10 YTD		Difference	FY09 YTD	FY10 YTD
	Actual	JCA Adopted	Actual		Actual	JCA Adopted
Taxes:						
Sales and Use Tax	390,527	399,775	394,497 *	(5,278)	1.0%	-1.3%
Contractor's Excise Tax	51,495	51,732	45,489 **	(6,244)	-11.7%	-12.1%
Wholesale Alcohol Tax	775	849	835	(15)	7.7%	-1.7%
Alcohol Beverage Tax	4,968	5,268	5,085	(183)	2.4%	-3.5%
Cigarette Tax	30,000	30,000	30,000	0	0.0%	0.0%
Bank Franchise Tax	25,323	20,796	19,811	(985)	-21.8%	-4.7%
Insurance Company Tax	39,820	39,851	39,136	(715)	-1.7%	-1.8%
Mineral Severance Taxes	3,123	1,828	2,611	784	-16.4%	42.9%
Total Taxes	546,031	550,099	537,463	(12,636)	-1.6%	-2.3%
Other Revenue:						
Licenses Permits and Fees	23,755	24,230	24,340	111	2.5%	0.5%
Charges for Goods and Services	11,468	10,691	12,096	1,405	5.5%	13.1%
State Lottery, Instant Tickets	0	130	0	(130)	0.0%	0.0%
Property Tax Reduction Fund	67,584	68,335	64,613	(3,722)	-4.4%	-5.4%
Investment Income and Interest	1,962	1,056	2,919	1,863	48.7%	176.4%
Transfers In	10,359	10,432	12,023	1,592	16.1%	15.3%
Trust Funds	19,350	0	0	0	-100.0%	0.0%
Sales-Leaseback	7,693	7,224	7,224	0	0.0%	0.0%
CRP Program	341	33	104	71	0.0%	0.0%
Total Other Revenue	142,511	122,130	123,319	1,189	-13.5%	1.0%
TOTAL RECEIPTS	688,542	672,229	660,782	(11,447)	-4.0%	-1.7%

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 January due to a discrepancy in the Sales and Use Tax deposit into the General Fund as reported by BFM.

** Total does not include \$6.5M in Contractor's Excise Tax that has been collected but not yet deposited in the General Fund.

General Fund Expenditures

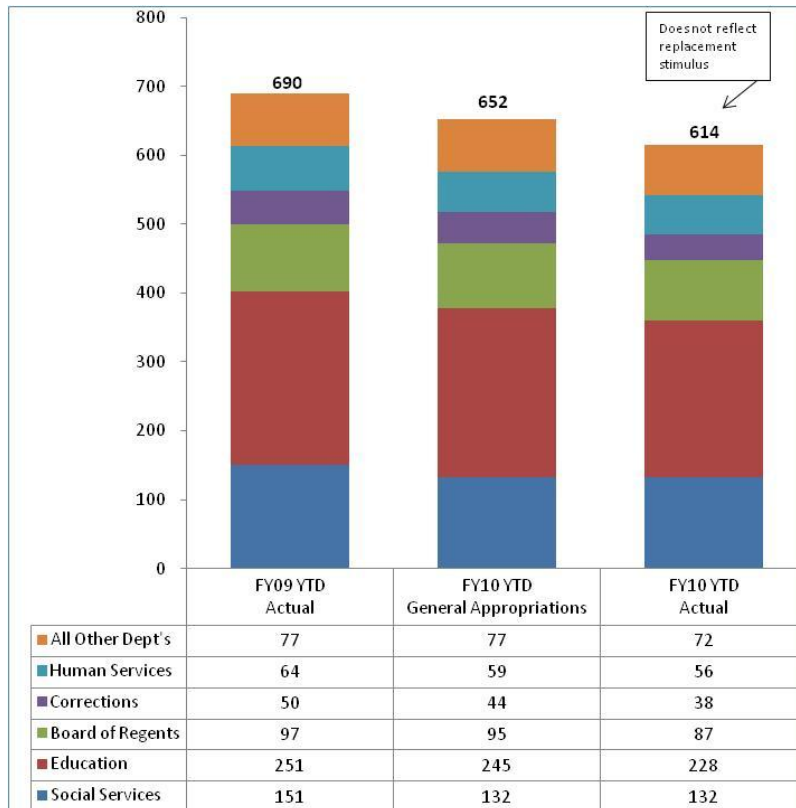
Terry Miller

Total expenditures from the General Fund as of January 31, 2010 were \$38.1 million (5.8%) 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, Department of Corrections, Department of Human Services, and the Unified Judicial Systems together spent \$35.8 million (7.5%) less than the estimated FY2010 General Fund expenditures year-to-date. All other departments combined spent \$2.3 million (1.3%) less than the estimated FY2010 General Fund expenditures year-to-date.

Over all, the gap in spending appears to have been bridged by using federal stimulus money in place of General Funds. The state spent approximately \$75.8 million in federal replacement stimulus year-to-date.

General Fund Expenditures YTD through January (in \$ millions)



The Department of Education spent \$16.9 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 \$14.0 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 services expenditures where federal stimulus money was spent ahead of General Funds. However, some of the General Fund variance in personal services expenditures is offset by excess operating expenditures. This appears to be primarily due to a shift in General Fund budget from personal services to operating expenses with an offset shift in the federal fund stimulus budget. When General Fund expenditures for the departments 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 Human Services spent \$2.3 million less than the estimated FY2010 General Fund expenditures year-to-date. The variance in spending was mainly in grants and subsidies expenditures within the Developmental Disabilities program, Alcohol and Drug Abuse program, Rehabilitation Services program and the Community Mental Health Program. The Department of Human Services did receive federal replacement stimulus money in FY2010. 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 \$1.6 million less than the estimated FY2010 General Fund expenditures year-to-date. The variance in spending was mainly due to the state not spending against current year deferred maintenance budget for State Wide M & R. However, there are expenditures in FY2010 for Statewide M & R using prior years deferred maintenance budget.

The Unified Judicial System spent \$1.0 million less than the estimated FY2010 General Fund expenditures year-to-date. The variance in spending was mainly in personal services expenditures and grants and subsidies expenditures.

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

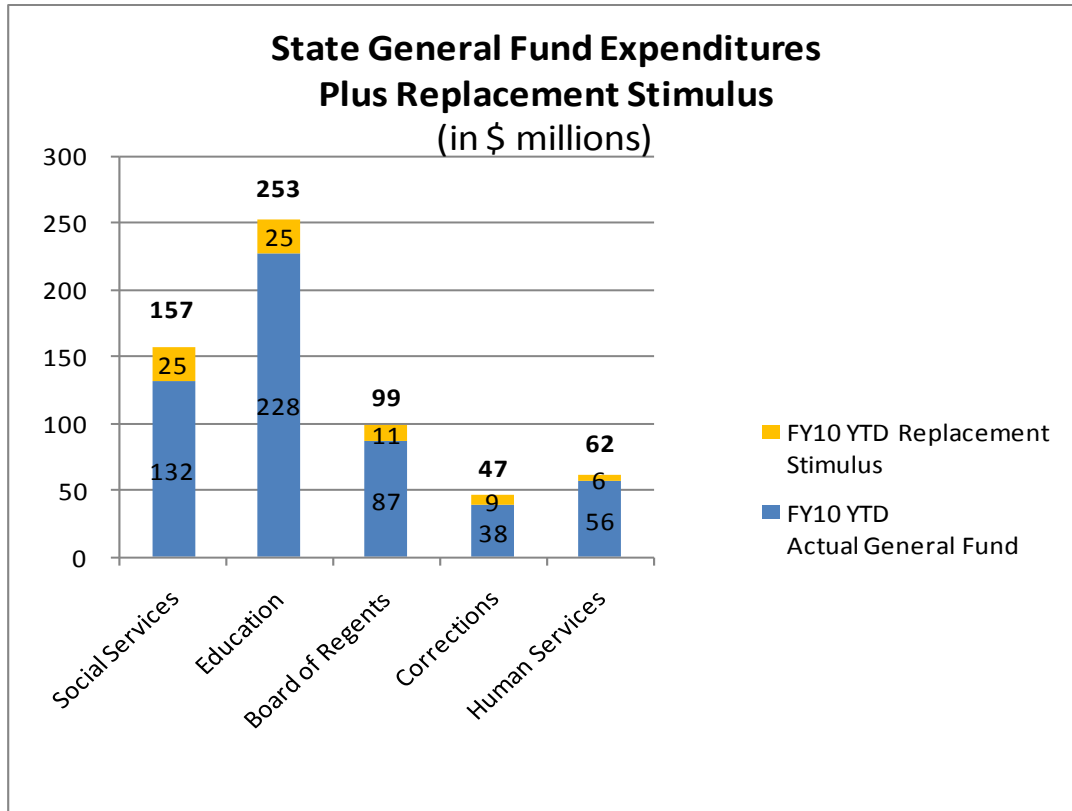
STATE GENERAL FUND EXPENDITURES
FY10 - Year to Date through January
(in thousands of dollars, except where noted)

	FY10 YTD		FY10 YTD Actual	Difference	FY10 YTD Actual	
	FY09 YTD	General			FY09 YTD	FY10 YTD
	Actual	Appropriations			Actual	General
Expenditures:						
Executive Management	15,649	16,248	14,673	(1,574)	-6.2%	-9.7%
Tourism and State Development	4,364	4,111	3,253	(858)	-25.5%	-20.9%
Social Services	151,106	132,410	132,073	(337)	-12.6%	-0.3%
Health	4,348	4,521	3,667	(854)	-15.7%	-18.9%
Education	250,794	244,985	228,115	(16,870)	-9.0%	-6.9%
Board of Regents	97,221	95,365	87,202	(8,163)	-10.3%	-8.6%
Corrections	49,931	44,229	38,384	(5,846)	-23.1%	-13.2%
Human Services	63,740	58,767	56,438	(2,329)	-11.5%	-4.0%
All Other Executive Branch Dept's	18,956	18,208	18,561	353	-2.1%	1.9%
Unified Judicial System	20,760	20,776	19,746	(1,030)	-4.9%	-5.0%
Legislature	4,338	4,066	3,822	(244)	-11.9%	-6.0%
Constitutional Offices	8,750	8,708	8,359	(349)	-4.5%	-4.0%
Total Expenditures	689,957	652,395	614,292	(38,103)	-11.0%	-5.8%

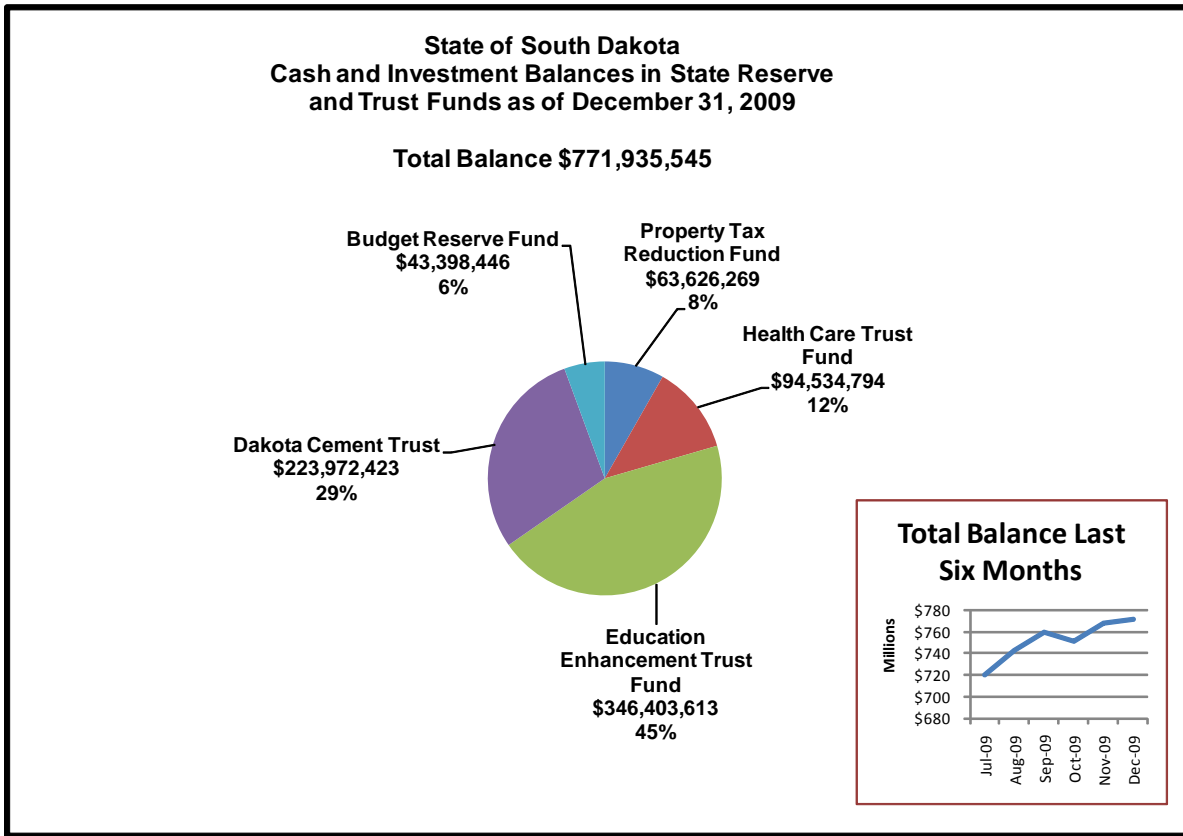
SOURCE: State's Central Accounting System and HB 1300 passed during the FY 2009 Legislative Session (FY 2010 General Bill)

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 \$42.2 million.



Overall, the state has spent approximately \$75.8 million in replacement stimulus funds. Total General Fund expenditures combined with replacement stimulus expenditures are \$690.1 million as of January 31, 2010. This amount is \$37.7 million higher than the estimated FY2010 General Fund expenditures year-to-date and only \$0.1 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	\$ 8,903,770	\$ 94,534,794
Education Enhancement Trust Fund ②	\$ 329,329,930	\$ 17,073,682	\$ 346,403,613
Dakota Cement Trust Fund ③	\$ 238,000,000	\$ (14,027,577)	\$ 223,972,423
Budget Reserve Fund ④	\$ 43,398,446	\$ -	\$ 43,398,446
	\$ 759,985,669	\$ 11,949,876	\$ 771,935,545

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
Trust Funds				
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)
Reserve Funds				
Property Tax Reduction Fund	\$ -	\$ -	\$ 125,463,350	\$ 125,463,350
Budget Reserve Fund	\$ 150,957	\$ -	\$ -	\$ 150,957
	\$ 150,957	\$ (156,481,423)	\$ 158,336,044	\$ 2,005,578

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

Property Tax Reduction Fund (3033)	FY2007	FY2008	FY2009	as of December 31, 2009
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	\$55,288,644
Health Care Trust Fund (3004)	FY2007	FY2008	FY2009	as of December 31, 2009
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)	\$8,903,770
Total FMV Balance	② \$111,605,861	\$101,543,057	\$82,341,925	\$94,534,794
Change from Prior Period		(\$10,062,804)	(\$19,201,132)	\$12,192,869
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
Education Enhancement Trust Fund (3005)	FY2007	FY2008	FY2009	as of December 31, 2009
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)	\$17,073,682
Total FMV Balance	② \$427,094,279	\$383,821,938	\$302,487,843	\$346,403,613
Change from Prior Period		(\$43,272,341)	(\$81,334,095)	\$43,915,769
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
Dakota Cement Trust (3003)	FY2007	FY2008	FY2009	as of December 31, 2009
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)	(\$14,027,577)
Total FMV Balance	② \$281,584,258	\$250,896,974	\$194,950,778	\$223,972,423
Change from Prior Period		(\$30,687,284)	(\$55,946,196)	\$29,021,645
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
Budget Reserve Fund (1000 - 0119)	FY2007	FY2008	FY2009	as of December 31, 2009
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
Total Cash and Investment Balances	\$952,560,942	\$843,135,727	\$686,805,261	\$771,935,545
Transfers to General Fund in Support of State Programs				
- From Property Tax Reduction Fund	\$125,178,593	\$152,255,981	\$125,463,350	\$55,288,644
- From State Trust Funds	\$31,358,732	\$31,607,343	\$32,872,694	\$0
Total Transfers to General Fund	\$156,537,324	\$183,863,325	\$158,336,044	\$55,288,644

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.

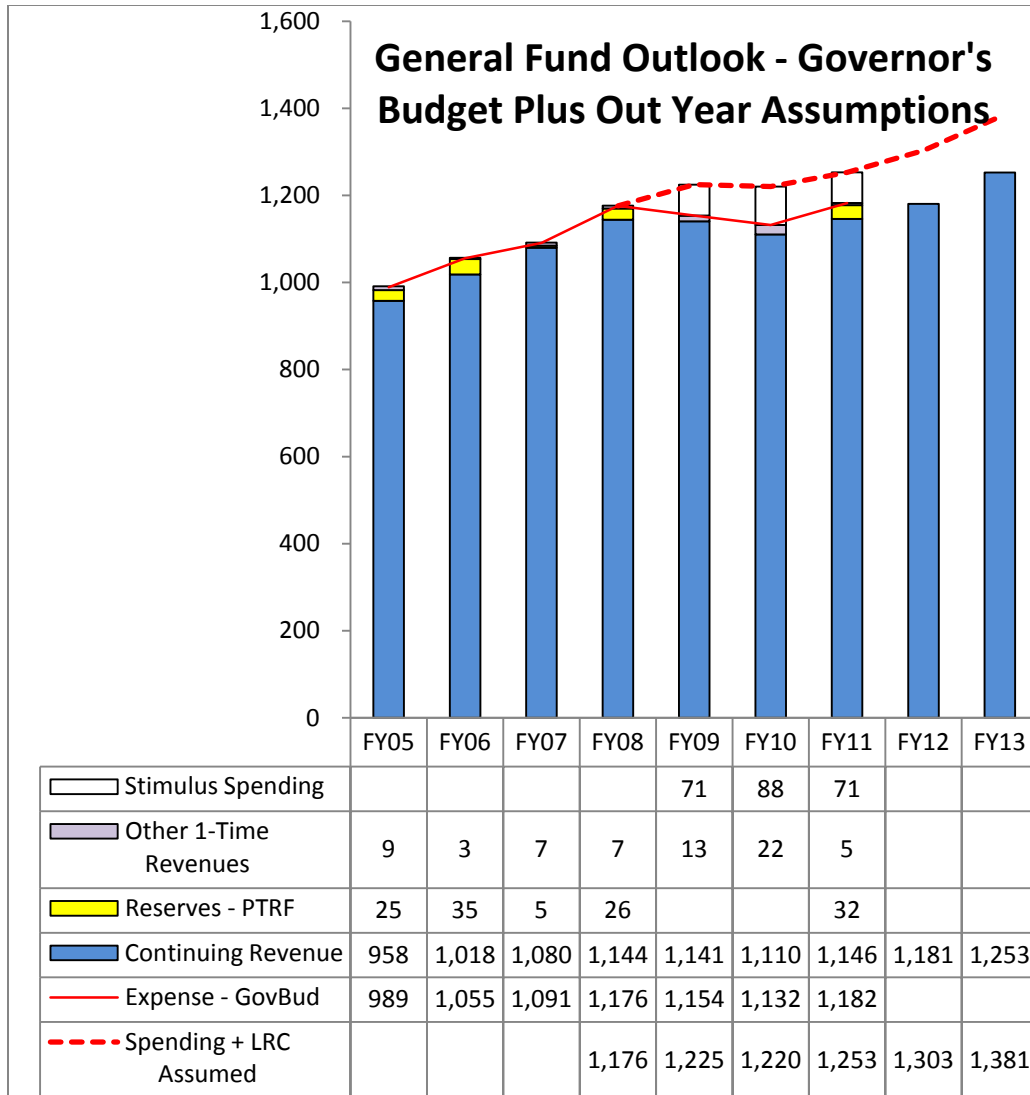
It Should Be Further Noted:

- 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, expenses are estimated as follows:
 1. Assumed 4% expense growth in FY12 . This is the historic rate of growth in general fund expenses plus stimulus funds applied to general fund purposes which reflects the total general fund effort of state government . It reflects the recent recession.
 2. In FY13, it is assumed expense growth returns to its historic rate before the recent recession of 6%.

These assumptions are plotted on the following chart.



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
122	128

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 revised budget forecast for FY10 by approximately \$12.5 million which could favorably impact FY11. However, we are not completely confident at this point in the process that this reflects a firm trend rather than a false positive.