Legislative Research Council
South Dakota

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Memorandum

November 24, 2008

To: Joint Committee on Appropriations

From: Terry Miller, Senior Fiscal Analyst, LRC TM

Subject: State Reserve and Trust Fund Balances

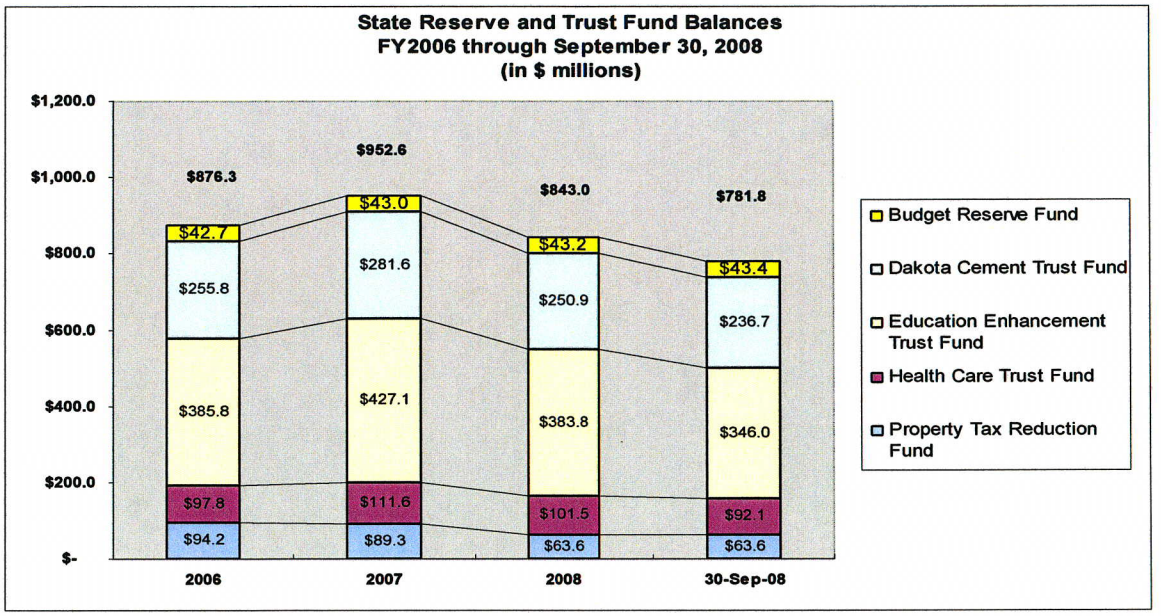
The "State Reserve and Trust Fund Report" for the quarter ending September 30, 2008 is attached. We have also included a bar chart below that displays a comparative of the ending balances in these funds for the past three fiscal years including the month ending September 30, 2008. As you can see based on this chart, balances in these funds have decreased from FY 2007 with exception of the Budget Reserve Fund.

The Health Care Trust Fund (HCTF), Education Enhancement Trust Fund (EETF), and Dakota Cement Trust Fund (DCTF) were at their peak at the end of FY 2007. However, as of the month ending September 30, 2008 these balances have all dropped significantly. Their combined balances have declined from $820.3 million at the end of FY2007 to $674.8 million as of the month ending September 30, 2008. This is a decrease of $145.5 million. The decline can be attributed to transfers to the General Fund in support of state programs of $51.0 million, and decreases of $94.5 million due to negative rates of return reported in these funds. The fair value of the DCTF has fallen below its principal value, and the South Dakota Investment Council has noted that the estimated October 31, 2008 fair values for the EETF and HCTF are also below their principal values.

If the fair market value of the EETF and HCTF do not increase above the funds principal balance by December 31, 2008 there will not be a distribution to the General Fund from these funds in FY 2010. This is about a $20 million reduction in General Fund revenues.

The Budget Reserve Fund and the Property Tax Reduction Fund had combined balances at the end of FY2007 of $132.3 million. Their combined balances have declined by $25.3 million to $107.0 million as of the month ending September 30, 2008. This decline is primarily the result of transfers to the General Fund from the Property Tax Reduction Fund reserves in FY2008.

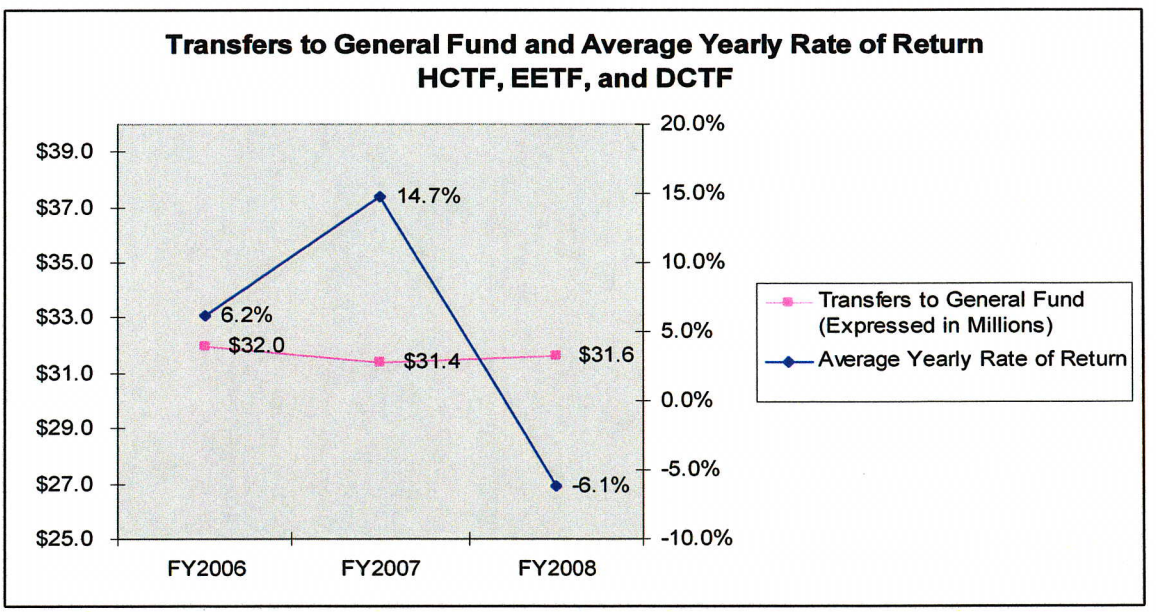
The combined balances of the State Reserve and Trust Funds have declined from $952.6 million at the end of FY2007 to $781.8 million as of the month ending September 30, 2008. This is a decrease of $170.8 million.



Although balances and yearly rates of return for the HCTF, EETF, and the DCTF have dropped significantly since FY2007, transfers made to the General Fund from them have remained fairly constant. The transfer amounts are determined based on statute and constitutional provision. The transfers are designed to remain constant over time to avoid volatility based on market conditions and trust fund balances. The HCTF and EETF transfers are determined based on 4% of each funds average fair market value balance for the most recent 16 calendar quarters, as long as the 4% pay-out does not invade the funds principal balance. The DCTF transfers are set by constitutional provision in that $12 million shall be transferred to the General Fund each fiscal year. Another transfer from the DCTF is also determined from the difference between the $12 million transfer and 5% of the funds average fair market value balance, for the most recent 16 calendar quarters as long as this pay-out does not invade the funds principal balance.

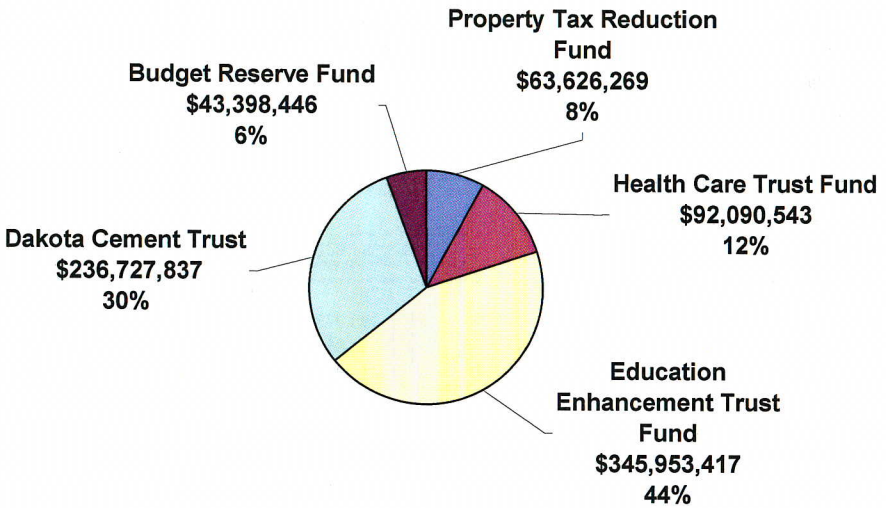
For these conditions to apply, however, the fair market value balance must increase from present levels to excess of the principal balance in the HCTF and EETF. If this does not happen, the FY 2010 transfers to the General Fund will be reduced from $32.9 million that is to be transferred to the General Fund in FY 2009, to $12 million in transfers from the DCTF.

The following chart displays how constant the transfers to the General Fund have been even though the yearly rate of return has been very volatile.



State of South Dakota
Cash and Investment Balances in State Reserve and Trust Funds as of September 30, 2008

Total Balance $781,796,512



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	$ 6,459,519	$ 92,090,543
Education Enhancement Trust Fund ②	$ 329,329,930	$ 16,623,487	$ 345,953,417
Dakota Cement Trust Fund ③	$ 238,000,000	$ (1,272,163)	$ 236,727,837
Budget Reserve Fund ④	$ 43,398,446	$ -	$ 43,398,446
	$ 759,985,669	**$ 21,810,843**	**$ 781,796,512**

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 FY2008

	(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	$ -	$ (10,062,804)	$ 3,656,091	$ (6,406,713)
Education Enhancement Trust Fund	$ -	$ (43,272,341)	$ 14,766,915	$ (28,505,426)
Dakota Cement Trust Fund	$ -	$ (30,687,284)	$ 13,184,338	$ (17,502,946)
Reserve Funds				
Property Tax Reduction Fund	$ (25,650,000)	$ -	$ 152,255,981	$ 126,605,981
Budget Reserve Fund	$ 247,214	$ -	$ -	$ 247,214
	$ (25,402,786)	**$ (84,022,429)**	**$ 183,863,325**	**$ 74,438,110**

State of South Dakota
Cash and Investment Balances in State Reserve and Trust Funds
FY 2006 to September 30, 2008

Property Tax Reduction Fund (3033)		FY2006	FY2007	FY2008	as of September 30, 2008
Total Cash Balance	①	$94,189,480	$89,276,269	$63,626,269	$63,626,269
Change from Prior Period			($4,913,211)	($25,650,000)	$0
Operating Transfers to General Fund to Provide Property Tax Relief through State Aid to Education.		$150,088,667	$125,178,593	$152,255,981	$28,666,072

Health Care Trust Fund (3004)		FY2006	FY2007	FY2008	as of September 30, 2008
Principal Balance (accumulated to date)		$81,668,419	$85,631,024	$85,631,024	$85,631,024
Earnings Balance (accumulated to date)		$16,125,692	$25,974,837	$15,912,033	$6,459,519
Total FMV Balance	②	$97,794,111	$111,605,861	$101,543,057	$92,090,543
Change from Prior Period			$13,811,750	($10,062,804)	($9,452,515)
Operating Transfers to General Fund for Health Care Related Programs which include, per General Bill: - Dept of Social Services - Medical Services.		$3,681,850	$3,801,228	$3,656,091	$3,896,330

Education Enhancement Trust Fund (3005)		FY2006	FY2007	FY2008	as of September 30, 2008
Principal Balance (accumulated to date)		$325,483,873	$329,329,930	$329,329,930	$329,329,930
Earnings Balance (accumulated to date)		$60,321,982	$97,764,349	$54,492,008	$16,623,487
Total FMV Balance	②	$385,805,855	$427,094,279	$383,821,938	$345,953,417
Change from Prior Period			$41,288,424	($43,272,341)	($37,868,521)
Operating Transfers to General Fund for Education Enhancement Programs which include, per General Bill:					
- Dept of Health - Tobacco Prevention and Reduction Plan					
- Dept of Education - State Aid to General Education		$10,141,998			
- Dept of Education - State Aid to Special Education		$1,309,880			
- Dept of Education - Education Service Agencies					
- Dept of Education - Technology in Schools		$3,553,385			
- Dept of Education - Postsecondary Vocational Education					
- Dept of Education - State Aid to Ed. & School Technology			$14,986,028	$14,766,915	$15,453,422
- Board of Regents - Opportunity Scholarships					
Total Transfers to General Fund		$15,005,263	$14,986,028	$14,766,915	$15,453,422

Dakota Cement Trust (3003)		FY2006	FY2007	FY2008	as of September 30, 2008
Principal Balance		$238,000,000	$238,000,000	$238,000,000	$238,000,000
Earnings Balance (accumulated to date)		$17,805,408	$43,584,258	$12,896,974	($1,272,163)
Total FMV Balance	②	$255,805,408	$281,584,258	$250,896,974	$236,727,837
Change from Prior Period			$25,778,850	($30,687,284)	($14,169,137)
Operating Transfers to General Fund for:					
- General Government	③	$12,000,000	$12,000,000	$12,000,000	$0
- Board of Regents - Opportunity Scholarships		$1,322,171	$571,476	$1,184,338	$0
Total Transfers to General Fund		$13,322,171	$12,571,476	$13,184,338	$0

Budget Reserve Fund (1000 - 0119)		FY2006	FY2007	FY2008	as of September 30, 2008
Total Cash Balance	①	$42,682,740	$43,000,275	$43,247,488	$43,398,446
Change from Prior Period			$317,535	$247,214	$150,957
Total Cash and Investment Balances		**$876,277,594**	**$952,560,942**	**$843,135,727**	**$781,796,512**
Transfers to General Fund in Support of State Programs					
- From Property Tax Reduction Fund		$150,088,667	$125,178,593	$152,255,981	$28,666,072
- From State Trust Funds		$32,009,284	$31,358,732	$31,607,343	$19,349,752
Total Transfers to General Fund		**$182,097,951**	**$156,537,324**	**$183,863,325**	**$48,015,824**

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 FY2009.

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.**