

South Dakota

Federal Policies Have Cost South Dakota \$361 Million over the Past Four Years

Federal Policies Affect South Dakota Revenue and Spending Levels, 2002-2005

Cost to
South Dakota

➤	<i>Federal Tax Changes:</i> Recently enacted federal tax cuts reduce state revenue directly.	\$25 million
➤	<i>Remote Sales:</i> States cannot collect sales taxes on goods & services purchased over the Internet due to federal law and court decisions.	\$180 million
➤	<i>Internet Access:</i> States are generally prohibited from applying tax to Internet access charges.	\$0
➤	<i>Unfunded Mandates:</i> Federal government imposes responsibilities on states but provides insufficient funding.	\$178 million
➤	<i>Medicare/Medicaid Dual Eligibles:</i> Increased use of prescription drugs shifts costs of health care for low-income elderly from federal Medicare program to state Medicaid programs.	\$50 million
➤	<i>Federal Fiscal Relief:</i> Congress approved temporary grants in 2003.	(\$72 million)
	TOTAL COST (net of fiscal relief), 2002-2005:	\$361 million

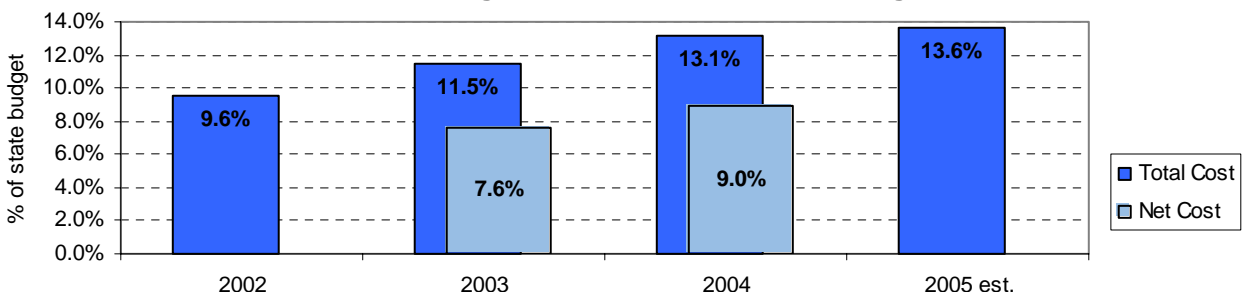
South Dakota Has Been More Affected by Federal Policies than Most States

Ranking among 50
states plus D.C.

➤	Total cost as percent of General Fund budget (2002-2005):	12.0%	6th
➤	Net cost as percent of General Fund budget, including offsetting federal fiscal relief (2002-2005):	10.0%	11th

South Dakota has been affected heavily by federal policy in part because it lacks a diverse revenue base, relying greatly on sales tax to raise revenue for the state. As a result, it is more affected by federal restrictions on sales taxation than most states. South Dakota is also among the ten states most reliant on federal revenue. States that are more reliant on federal funds are disproportionately affected by the failure of the federal government to fund mandates and prescription drug costs adequately.

Net Cost of Federal Policy to South Dakota as a Percentage of State General Fund Budget



Source: Center on Budget and Policy Priorities, *Passing Down the Deficit: Federal Policies Contribute to the Severity of the State Fiscal Crisis*, May 12, 2004.