



Third Meeting
2009 Interim
October 19, 2009

LCR 1 & 2
State Capitol Building
Pierre, South Dakota

Monday, October 19, 2009

The third meeting of the Joint Committee on Appropriations was called to order by the Co-Chair, Representative Larry Tidemann, at 9:05 a.m. (CDT) in Legislative Conference Rooms 1 & 2 of the State Capitol, Pierre, South Dakota.

A quorum was determined with the following members answering the roll call: Senators Dan Ahlers, Julie Bartling, Corey Brown, Jeffrey Haverly (Vice Chair), Jim Hundstad, Jean Hunhoff (Co-Chair), and Al Novstrup; and Representatives Quinten Burg, Lance Carson, Thomas Deadrick, H. Paul Dennert, Deb Peters, J.E. "Jim" Putnam (Vice Chair), Larry Tidemann (Co-Chair), Dean Wink, and Susan Wismer.

Staff members present included Fred Schoenfeld, Chief Fiscal Analyst; Annie Mehlhaff, Principal Fiscal Analyst; Sue Cichos, Senior Fiscal Analyst; Aaron Olson, Senior Fiscal Analyst, Terry Miller, Senior Fiscal Analyst, and Lisa Shafer, Legislative Secretary.

(NOTE: For purpose of continuity, the following minutes are not necessarily in chronological order. Also, all referenced documents distributed at the meeting are attached to the original minutes on file in the Legislative Research Council (LRC). This meeting was web cast live. The archived web cast is available at the LRC web site at <http://legis.state.sd.us> under "Interim Information – Current Interim – Minutes and Agendas.")

Minutes

REPRESENTATIVE PUTNAM MOVED, SECONDED BY SENATOR AHLERS, THAT THE MINUTES OF THE FIRST MEETING OF THE JOINT COMMITTEE ON APPROPRIATIONS ON MARCH 30, 2009, BE APPROVED. The motion prevailed on a voice vote.

Stimulus Oversight Report

Mr. Jason Dilges, Commissioner for the Bureau of Finance and Management, distributed an update of the American Reinvestment and Recovery Act (ARRA). (**Document #1**) Through September 30, 2009, South Dakota has spent \$219 million of the \$632 million in federal stimulus funds allocated to state agencies. The funds are intended to be fully used in three fiscal years. The state used \$71 million in stimulus funds to balance the budget for fiscal year ending June 30, 2009; another \$88 million in stimulus funds was used to balance the current state government budget, leaving about \$65 million in stimulus funds to use in the fiscal year beginning July 1, 2010.

The June 30 reporting information was used to a federal reporting website that was initiated on August 17, 2009. This required lots of staff time to work with the state agencies to compile one

report to the federal government. South Dakota has 100% compliance with all the reports. This information will be available to the public on October 30, 2009. Commissioner Dilges noted that all the South Dakota ARRA reports are available to the public on the Open South Dakota website.

In response to **Representative J.E. “Jim” Putnam’s** question, Commissioner Dilges stated that every grant has the option to include administrative costs. The state has been able to adjust the administrative costs for the grants with other state funds. South Dakota has elected not to charge administrative costs to those grants and to make more funds available for the program use. Commissioner Dilges informed the committee that additional stimulus dollars were distributed to the states for administrative costs. The administration decided that the funds would be used to help stimulate the state’s economy and not be used for administrative costs.

SDCL §4-8A-15 requires the Bureau of Finance and Management (BFM) to provide a report on the federal stimulus funds to the Joint Committee on Appropriations. It also allows BFM to temporarily disregard some of the year end transfer statutes for unobligated cash.

Pages 3 – 15 of Document #1 is a stimulus-only transfer summary from February 19, 2009 through October 16, 2009. Commissioner Dilges noted that transfers pertaining to stimulus funds are separated from other transfers.

Commissioner Dilges said that pages 16 through 32 of Document #1 lists every ARRA expenditure for the state. The revenue listed is the federal government’s reimbursement to the state for program expenses.

Commissioner Dilges showed the committee the internet site for the list of the state’s estimated allotments, by grant, from the ARRA. He explained how the members can access more detailed information about each individual grant by using the website. He reminded the committee that this information is sent to the federal government and is included in the federal recovery data website.

Senator Jeffrey Haverly asked about the completion dates on the grants. Commissioner Dilges responded that most of the grants will end on June 30, 2011. All of the flexible money that could be used to balance the FY2009 and FY2010 budgets will be gone by the end of FY2011. There are other funds that will extend longer.

Pages 36 through 51 of Document #1 show an example of an agency that received multiple grants or loans from the ARRA. Commissioner Dilges explained the document, agency reporting, and sub-recipients.

In response to **Senator Julie Bartling’s** question, Commissioner Dilges said that the distribution of federal stimulus funds to the Board of Regents (BOR) and Department of Education (DOE) utilized a formula that restored funding to base level similar to the 2006 to 2009 levels. The DOE received about \$2 for every \$1 received by the BOR. The DOE received \$22 million in FY2009 and \$24.7 million in FY2010. The BOR received \$10.3 million in FY2009 and \$11.5 million in FY2010.

Senator Haverly asked that the end dates for each grant be included in the reports. Commissioner Dilges responded that BFM will work with the agencies and try to provide the information.

The committee recessed at 10:37 a.m. and reconvened at 10:44 a.m.

State Aid to General Education Formula

Mr. Jim Terwilliger, Bureau of Finance and Management Economist, distributed a PowerPoint presentation entitled "The State Aid to General Education Formula". (**Document #2**) There will be 156 public school districts in South Dakota for FY2010. The general funding for K-12 schools is paid by a combination of money raised by local property taxes and money raised by the state through statewide taxes.

Representative Dean Wink asked about the proportion of education funding from local property taxes and state taxes. Mr. Terwilliger said that the percentage originally was about 50/50, but has changed over time. The state has picked up more of the funding. The current proportion is approximately 43% local property taxes and 57% state taxes.

Mr. Terwilliger explained the state aid to general education formula as outlined in Document #2.

In response to **Representative Quinten Burg's** question, Mr. Terwilliger said that the predicted average CPI for next year is 1.2%, which will likely be the proposed increase to education funding.

Representative Thomas Deadrick commented that it was assumed the switch from average daily membership (ADM) to fall enrollment would not make much of a financial difference. Mr. Terwilliger stated that since the switch in 2007, it has been documented that the fall enrollment numbers have been higher than the ADM.

Representative Deadrick requested the financial difference from switching from ADM to fall enrollment.

Representative H. Paul Dennert informed the committee that the non-AgZ property class was repealed on July 1, 2009, because all agricultural land is being assessed the same. There will only be three classes of property next year.

In response to Representative Wink's question pertaining to projected growth in property valuations, Mr. Terwilliger said that it is estimated that the growth has dropped to 4.2%. There is a concern for overestimating the growth in property valuations, because the result is a shortfall in the budget.

FTE Subcommittee Status Report

Distributed to the committee was a memorandum listing the subcommittee's findings. (**Document #3**) **Representative Larry Tidemann** updated the committee on the findings on the FTE subcommittee status report. The main issue the subcommittee reviewed was

determining if the current statute (SDCL 3-8-6.3) reflects the information that is needed by the Joint Committee on Appropriations (JCA). Other issues discussed by the subcommittee include:

- Salary and benefit information provided to the JCA;
- Trends in the personal services transfer amounts; and
- Possibly creating contingency funds.

The committee discussed the issue of agencies transferring funds from personnel services to operating expenses to cover unbudgeted expenses and the pros and cons to the creation of contingency funds.

Local Sales Tax Option

Distributed to the committee was a memorandum from **Mr. Aaron Olson**, Senior Fiscal Analyst with the Legislative Research Council, pertaining to the funding for a new event center in Sioux Falls. (**Document #4**)

Mr. Olson said that the municipal sales tax figures are based on actual July 2008 – December 2008 data and projected for a full year. The state sales tax figures are based on FY2009 actual figures. The city of Sioux Falls could pay for a \$150 million event center in 3-4 years if the city imposed a 1% local option municipal sales tax. The city could also use additional revenue to issue bonds to pay for the construction of the event center.

Representative Burg asked if this change will complicate the progress of the Streamline Sales Tax. **Representative Deb Peters** responded that a caveat exists to allow municipalities to have their own taxing rates. However, all taxes will need to follow South Dakota's current taxing laws.

The committee recessed at 12:00 noon and reconvened at 1:11 p.m.

Preview of Enhanced Legislative Research Council Finance Reporting

A memorandum addressing the LRC financial reports (Document #5) was distributed to the committee. **Mr. Fred Schoenfeld**, Chief Fiscal Analyst for the Legislative Research Council (LRC), said that the LRC is revising, refining, and expanding the financial report. Primarily, an expense tracking component and financial plan element will be added to the current reports.

Mr. Olson explained how the monthly revenues and projections are calculated. The revenues are calculated based on actual receipts booked into the General Fund. Through September, the total FY2010 General Fund revenue is \$9.1 million below the budgetary estimate adopted by the Joint Committee on March 10, 2009. The major variances were:

- Sales and Use Tax – negative variance of \$3.7 million;
- Contractor's Excise Tax – negative variance of \$5.8 million;
- Property Tax Reduction Fund – negative variance of \$3.3 million;
- Investment Income and Interest – positive variance of \$1.9 million; and
- Net Transfers – positive variance of \$2.6 million.

Representative Tidemann asked about the percentage of revenues deposited for each quarter. Mr. Olson responded that the information is reported on a monthly basis and can be figured on a quarterly basis.

Mr. Olson noted that the first quarter revenues typically fluctuate before stabilizing in the second quarter. The year-to-date total revenues for FY2010 are down significantly compared to FY2009, which are consistent with the reports from the Governor's Office.

The LRC has developed and refined a forecasting model that uses the performance data discussed to project revenues for the upcoming budget year. The FY2011 revenue estimate would be calculated by applying the compound annual growth rate (CAGR) to the FY2010 base number and then using other judgmental factors unique to each type of revenue to come up with the estimate. However, due to the instability of data in the first quarter of FY2010, the LRC is not prepared to forecast revenues for FY2011.

Mr. Terry Miller, Senior Fiscal Analyst with the LRC, said that the reporting for the General Fund expenditures is measured against the estimated General Fund expenditures, which is based on the amount appropriated for the fiscal year and historical spending trends. The estimated General Fund expenditures is the target, and actual year-to-date expenses are compared to that amount.

The total expenditures from the General Fund, as of September 30, 2009, were \$41.9 million (15.6%) 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 Education, Board of Regents, and Department of Corrections together spent \$39.7 million (25.6%) less than the estimated FY2010 General Fund expenditures year-to-date. All other departments combined spent \$2.2 million (1.9%) less than the estimated FY2010 General Fund expenditures year-to-date. The gap in spending appears to have been bridged by spending federal stimulus money in place of General Funds. The LRC expects the difference between actual General Fund expenditures and the estimated FY2010 General Fund expenditures to narrow as the fiscal year progresses.

The new finance reporting will include a year-to-date comparative table. The table includes a breakdown of expenditures by department for the actual numbers for the prior fiscal year, the budgeted amount for the current fiscal year, and the year-to-date actual expenditures for the current fiscal year. This information will be provided on a month-to-month basis showing where the largest differences are for budgeted and actual expenses.

Representative Tidemann asked that federal replacement stimulus expenditures be included in a table along with the actual expenditures year-to-date.

Mr. Miller reminded the committee that the Trust and Reserve Fund report has been produced for the last 1½ years. There is a one month lag when looking at Trust Fund/Reserve Fund numbers, because the LRC uses the information from the Office of the Investment Council.

Mr. Miller noted an additional feature to the report – a graph showing the total balance for the last six months of the State Trust and Reserve Funds.

Representative Burg asked that School and Public Lands funds be tracked also. Mr. Miller responded that he could track those funds, but they would be included in a different report.

Mr. Schoenfeld stated that the new LRC financial reporting is to provide a three-year look forward by using the past fiscal year, current fiscal year, next fiscal year, and two fiscal years forward.

Mr. Schoenfeld said that the current outlook is that it will be difficult to meet the FY2010 budget as appropriated. The FY2010 budget can probably be met using the remaining federal stimulus funds and/or reserve funds. Depending on the FY2010 performance and revenues generated, the FY011 budget could be problematic. There can be potentially serious structural deficits to both FY2012 and FY2013. There should be a better picture of the budget by the December meeting when the actual FY2010 performance numbers are available.

The committee discussed the proposed concept of an enhanced Legislative Research Council finance reporting system.

Driver's License Closures

Representative Tidemann said that in reaction to the closing of driver's license stations across the state, he would like to form a Driver's License Closure Subcommittee. The subcommittee would focus on communications, anticipated savings, and alternative methods to deliver services to citizens in the areas. Committee members appointed to the subcommittee are:

- Senator Jeffrey Haverly (Chair);
- Representative Thomas Dadrick (Vice Chair);
- Representative Deb Peters;
- Representative Susan Wismer; and
- Senator Jim Hundstad.

The subcommittee is to report back to the JCA by December 8, 2009.

Letter of Intent Status Updates

Distributed to the committee was a handout entitled "FY2010 Letters of Intent Status Update: Updated – October 2, 2009". (**Document #6**) The handout lists all the Letters of Intent, the current status, and responses from agencies.

Representative Peters said that there were some provider problems with the Birth to Three program. Mr. Tom Oster, Secretary for the Department of Education, is meeting with the providers and members of the Government Operations and Audit Committee today in Rapid City.

Senator Corey Brown announced that the meeting scheduled to address the South Dakota School for the Deaf has been rescheduled for November 12, 2009.

2010 Session Issue Development

Senator Jean Hunhoff talked to the committee about the current process and possible changes to the LRC briefings for each agency during the legislative session. She suggested that the LRC briefings start an hour before the agency hearing to allow for a more detailed review and questions. If additional time is needed for agency responses, a 30-minute joint committee meeting will be scheduled the following Thursday or Friday before bill hearings.

The committee discussed the proposed schedule change. Other suggestions include:

- Limit questions to after presentation;
- Meet after session early during legislative session;
- Limit the time presenters are allowed to talk (shorten the presentation 15-20 minutes allowing time for more questions);
- Layout 5-6 key elements (priorities to be addressed by agency); and
- Have specific times to break for committee questions during presentations.

Representative Tidemann informed the committee of some additional potential issues that need addressing prior to session. Groups were formed to discuss the topics.

Custer Building Project – Senators Ahlers and Hunhoff and Representatives Dennert and Carson

Homestake Mine – Senator Haverly and Representatives Burg, Deadrick, and Peters

Capital Budget – Senators Ahlers and Brown and Representative Wink

Black Hills Play House – Representative Wismer

Next Meeting

The next meeting of the Joint Committee on Appropriations is scheduled for Tuesday, December 8, 2009, in Pierre, South Dakota, immediately following the Governor's Budget Address.

Adjourn

REPRESENTATIVE CARSON MOVED, SECONDED BY SENATOR HAVERLY, TO ADJOURN. The motion prevailed unanimously on a voice vote.

The committee adjourned at 3:05 p.m.

