



First Meeting
2011 Interim
March 28, 2011

LCR 1 & 2
State Capitol Building
Pierre, South Dakota

Monday, March 28, 2011

The first meeting of the Special Committee on Appropriations for 2011 was called to order by the Co-Chair, Representative Dean Wink, at 1:15 p.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 Corey Brown (Co-Chair), Jeffrey Haverly, Phyllis Heineman, Al Novstrup, Bruce Rampelberg, Deb Peters, J.E. "Jim" Putnam, Billie Sutton, and Larry Tidemann (Vice Chair); and Representatives Jim Bolin, H. Paul Dennert, Dan Dryden, Kent Juhnke, Fred Romkema, Jim White, Dean Wink (Co-Chair), and Susan Wismer. Representative Lance Carson was excused.

Staff members present included Fred Schoenfeld, Chief Fiscal Analyst; Annie Mehlhaff, Principal 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.")

Letters of Intent

Distributed to the committee was a letter addressed to the Joint Committee on Appropriations dated March 23, 2011, pertaining to FY2012 Letters of Intent. (**Document #1**)

Letter of Intent #1

Departments of Social Services, Human Services, and the Unified Judicial System

Redistributed Provider Rate-Reduction

The Legislature approved a tiered rate reduction to providers in amendment 1251uw on March 10, 2011. Funding for this approach was included in SB190 as well as through a realignment of the base in amendment 1251uw. Providers are to realize a rate-reduction burden that ranges from -11.48% to -1.8% in conformity with Attachment 1 to this document which was distributed by the Bureau of Finance & Management to the Joint Appropriations Committee on March 10, 2011, Document 1. The Joint Appropriations Committee expects the departments to manage to this distribution.

Hospitals defined as “Critical Access Hospitals” are to receive a 0% cut.

It is also the intent of the Joint Appropriations Committee that the Graduate Medical Education Program in the Department of Social Services be continued. Funding for the program is specified in Attachment 1.

The departments shall provide a compliance report back to the Joint Appropriations Committee at its fall meeting. The report shall detail the implementation and effects of the tiered cuts to providers.

The committee discussed the Redistributed Provider Rate-Reduction Letter of Intent.

SENATOR PETERS MOVED, SECONDED BY SENATOR TIDEMANN, TO ADOPT THE LETTER OF INTENT FOR THE REDISTRIBUTED PROVIDER RATE-REDUCTION. The motion prevailed on a voice vote.

Letter of Intent #2

Governor’s Office and the Departments of Social & Human Services

Medicaid Long Term Solutions

It is the intent of the Joint Committee on Appropriations (JCA) that the Governor’s Office, the Department of Social Services, the Department of Human Services, the Legislature, providers and consumers continue to collaborate in an effort to create a Medicaid System that is considered a model for other states in the country. While a goal of this effort is to decrease costs and find further efficiencies, the real desire is to provide better and more appropriate care for the patients and residents of South Dakota. The ultimate goal is to create the best possible Medicaid system within the state’s limited resources.

While there was progress made towards identifying long-term alternatives and solutions to Medicaid during the 2011 legislative session, substantive proposals will require additional time to refine and develop. It is the intent of the JCA that the Medicaid Long Term Solutions task force will be responsible for coordinating and leading these efforts throughout 2011. In particular, the JCA has an interest in proposals and options for the following:

- Developing recommendations for the implementation of best practices in the state’s administration of the Medicaid program.
- Developing recommendations on changes in reimbursement methodology for providers.
- The JCA understands the Medicaid Long Term Solutions task force will continue to coordinate collaboration between the Department of Social Services, Avera Health, Regional Health, Sanford Health, the South Dakota Association of Healthcare Organizations, and other appropriate parties to propose a variety of substantive alternatives to include options in case management, Medical homes, patient-centered care management, and payment models. When appropriate, the Medicaid Long Term Solutions task force is encouraged to conduct demonstration projects and pilot programs. These efforts will require full cooperation by all parties in developing a data set to be analyzed by the health systems looking for shared solutions. The JCA requests that the work plan and timelines for the task force be submitted to the Governor and the JCA by May 1st, 2011.

In the event that waivers are required, it is the understanding of the JCA that the three health systems will provide DSS with the appropriate assistance, if required, to obtain the changes from the federal government.

It is the intent of the JCA that the Medicaid Long Term Solutions task force efforts include the aforementioned categories; however, there is no intent to limit the scope of proposals or discussion areas of the task force if additional improvements are identified.

It is the intent of the JCA that the Medicaid Long Term Solutions task force shall submit quarterly reports of their activities to the Governor and JCA, including any required changes in legislation, policy, demonstration and pilot programs, or waivers that are required to implement changes.

The committee discussed the concept of having the final report provided at the JCA meeting in December versus to the legislature during session. It was stated that the JCA will receive quarterly updates and that committee members serving on the Medicaid Task Force will be able to provide updates and progress reports.

SENATOR PETERS MOVED, SECONDED BY SENATOR RAMPENBERG, TO ADOPT THE LETTER OF INTENT FOR MEDICAID LONG TERM SOLUTIONS. The motion prevailed on a voice vote.

Letter of Intent #3

Department of Tourism

Tourism Challenge Grants

It is the intent of the Joint Committee on Appropriations regarding Tourism Challenge Grants, Office of the Arts, Archeological Research Center, and Cultural Heritage Center that funds be administered as follows – The Department of Tourism shall provide funding for the Tourism Challenge Grants, Office of the Arts, Archeological Research Center, and Cultural Heritage Center from the proceeds generated from one third of the gross receipts tax imposed on visitor-related businesses. Funding shall be provided in FY 2012 based on a pro rata share until the Tourism Challenge Grants are funded at \$2,000,000, the Office of the Arts receives \$668,509, Archeological Research Center receives \$308,782 and the Cultural Heritage Center receives \$214,820 from the gross receipts tax. If revenues from one-third of the gross receipts tax is less than these amounts in total, then the difference shall be shared by each program based a percent to the total using the amounts above. The Department of Tourism shall also provide a report on a quarterly basis to the Joint Committee on Appropriations regarding the gross receipts tax collections and the status of funding the Tourism Challenge Grants, Office of the Arts, Archeological Research Center and Cultural Heritage Center as stated above.

Senator Peters asked about the gross receipts tax being higher than difference. **Mr. Terry Miller**, Senior Fiscal Analyst with the Legislative Research Council, said that excess money from the gross receipts tax goes to the Tourism Funds.

SENATOR BROWN MOVED, SECONDED BY SENATOR PUTNAM, TO ADOPT THE LETTER OF INTENT FOR THE TOURISM CHALLENGE GRANTS. The motion prevailed on a voice vote.

Letter of Intent #4
Board of Regents

Performance Improvement Fund

The Legislature approved one-time funding for the Public Universities' Performance Improvement Fund. The \$1.5M appropriated through HB1235 was available through FY11 revenue estimates in excess of those provided by the Governor in January.

There are two specific uses of the Performance Improvement Fund: Research Infrastructure and Student Success. It is the intent of the Joint Committee on Appropriations that these funds be distributed as follows.

The "research infrastructure" portion will be distributed to the campuses through a competitive process directed by a panel of experts and state leaders. The proposals will be reviewed on their merits, the potential to produce economic benefit to the state, and their long-term viability. Examples of how Performance Improvement Funds could be used in research were provided by the Board of Regents:

- Grant Match Funds -- Identifying funds to match federal and private grants for the purchase of equipment will increase the number of grant applications and awards, bringing additional research activity to South Dakota. Matching funds hold the promise of accessing federal, corporate, and private funds for equipment from entities that otherwise may not be interested in partnering with institutions. This demonstrates to potential grantors the state's continuing support for research. Specialized equipment is very expensive, and external funding organizations often require matching funds or a university commitment to purchase that equipment. Matching funds are often beyond the campuses' limited resources, however. As many matching grant requirements vary from 10 percent to 50 percent (depending on agency or program), any amount of funding has the potential to yield non-state income and investments into the state's research strategy.
- Advancing High-Tech Research in Wind Energy, the Biofuels Industry, Medical Research, or Financial Services -- Proposals that have the potential to advance industries important to the future economy and competitiveness of South Dakota will be given preference. The ability to advance DUSEL, wind energy, the biofuels industry, medical research, or the financial services sector will benefit South Dakota in the long term. Competitive proposals to advance research, leverage non-state funds, or develop industry partnerships will be solicited and evaluated.

The "student success" portion of the Performance Improvement Fund will be used, on a one-time basis, to build an early-alert system that targets at-risk students. Student retention continues to be a serious issue for postsecondary institutions nationwide, and this early-warning system can give campus personnel tailored feedback to reach the at-risk students and determine how best to intervene and shape strategies to improve their success.

Senator Heineman asked if the Letter of Intent could be amended to include the reduction to E-learning. The committee discussed possible amendment to the Letter of Intent for the Performance Improvement Fund.

It was determined that the committee will address the Letter of Intent with the E-learning amendment at the June meeting.

Letter of Intent #5

Department of Education

Excess State Aid to Education

The Legislature approved a Per Student Allocation for FY2012 of \$4,389.95. The Department of Education estimates a fall enrollment for FY2012 of 125,987.88 students. The total amount of state aid, which includes total local need, an adjustment for small schools, and an adjustment for districts that don't receive state aid, for the State of South Dakota is \$572,694,377. That total includes both local effort (property taxes) and funding from the State.

The total amount estimated to be paid by local property tax payers is \$270,356,497. This estimate is based on property valuations which may increase or decrease at a different rate than that estimated during the Legislative Session. If the estimate is too high, and the actual property tax collections are lower than estimated, the State must pay the difference to the school districts. However, if the estimate is low, and the actual property tax collections are higher, the state will realize a savings.

It is the intent of the 2011 Joint Committee on Appropriations that any savings realized due to higher than estimated property tax valuations, or lower than estimated fall enrollment count, be redistributed to the FY2012 State Aid to Education through special legislation in the 2012 Legislative Session

After discussing the Excess State Aid to Education Letter of Intent, it was determined that a Letter of Intent was not needed because the Legislature can address the issue during the next legislative session.

REPRESENTATIVE DENNERT MOVED, SECONDED BY SENATOR BROWN, TO TABLE THE EXCESS STATE AID TO EDUCATION LETTER OF INTENT. The motion prevailed on a voice vote.

Session Wrap-up

Mr. Fred Schoenfeld, Chief Fiscal Analyst for the Legislative Research Council, distributed three documents:

- “Summary of the FY12 Budget” – gives history comparison (**Document #2**);
- “FY2011 and FY2012 Sources and Uses Scorecard” (**Document #3**); and
- The FY2012 General Bill Summary (**Document #4**).

Adjourn

SENATOR BROWN MOVED, SECONDED BY SENATOR PETERS, TO ADJOURN. The motion prevailed unanimously on a voice vote.

The committee adjourned at 1:54 p.m.



All Legislative Research Council committee minutes and agendas are available at the South Dakota Legislature's Homepage: <http://legis.state.sd.us>. Subscribe to receive electronic notification of meeting schedules and the availability of agendas and minutes at **MyLRC** (<http://legis.state.sd.us/mylrc/index.aspx>).

**Redistributed Rate-Reduction Burden
FY12 Provider Rate Reduction Proposal Using One-Time Money**

	% Reduction	General	Federal/Other	Total	Difference from Governors Revised General
Hospitals	-11.48%	-8,391,064	-12,651,983	-21,043,047	4,759,943
■ Reinstated Graduate Medical Education		1,225,700	1,812,723	3,038,423	1,225,700
				0	
Auxiliary Placement	-4.7%	-334,511	-47,880	-382,391	189,756
Physicians				0	
■ Primary Care/Pediatricians	-4.5%	-472,295	-731,495	-1,203,790	267,916
■ All other	-5.1%	-1,002,422	-1,552,561	-2,554,983	568,637
Pharmacies	-3.8%	-542,784	-802,738	-1,345,522	307,901
Durable Medical Equipment	-6.4%	-230,255	-345,119	-575,374	130,615
Emergency Medical Transportation	-5.1%	-101,153	-151,382	-252,535	57,380
Optometrists/Ophthalmologist	-6.4%	-81,187	-126,848	-208,035	46,055
Chiropractors	-6.4%	-14,485	-22,851	-37,336	8,217
Dentists	-6.4%	-403,243	-645,698	-1,048,941	228,745
Psychiatric Residential Treatment (Medical Services)	-4.5%	-196,503	-301,896	-498,399	111,469
Long Term Care (Nursing Home, Hospice, Assisted Living)		-3,442,339	-5,090,975	-8,533,314	1,952,713
■ Assisted Living and Hospice	-4.5%	-272,879	-403,568	-676,447	
■ Nursing Homes 0-50% Medicaid Occupancy	-4.0%	-601,194	-889,123	-1,490,317	
■ Nursing Homes 51-56% Medicaid Occupancy	-3.75%	-737,199	-1,090,264	-1,827,463	
■ Nursing Homes 57-66% Medicaid Occupancy	-3.00%	-1,534,283	-2,269,098	-3,803,381	
■ Nursing Homes 67% or more Medicaid Occupancy	-1.8%	-203,995	-301,693	-505,688	
■ 9 Critical Access Nursing Homes	-1.8%	-92,789	-137,229	-230,018	
Elderly Nutrition Program - Senior Meals	-3.2%	-39,258	-117,773	-157,031	22,269
In-Home Services for the Elderly	-3.2%	-182,569	-98,085	-280,654	103,565
Group Care Providers (Child Protection)	-4.5%	-225,147	-47,008	-272,155	127,717
Psychiatric Residential Treatment (Child Protection)	-4.5%	-319,193	-472,418	-791,611	181,066
Substance Abuse Providers	-4.5%	-503,811	-151,861	-655,672	285,794
Community Mental Health Centers	-4.5%	-480,800	-435,192	-915,992	272,740
Dept of Human Services - Community Services	-4.5%	-1,852,853	-2,549,085	-4,401,938	1,051,055
Dept of Corrections - Community Services	-4.5%	-453,177	-49,729	-502,906	257,071
Unified Judicial System - Community Services	-4.5%	-56,981		-56,981	31,656
Totals		-18,100,330	-24,579,855	-42,680,185	12,187,980

Totals of FY12 Governor Daugaard's Budget Rec.

-30,343,689 -40,154,944 -70,498,633