

86th Legislative Session – 2011

Committee: Joint Appropriations

Wednesday, February 09, 2011

P - Present
E - Excused
A - Absent

Roll Call

P Sutton
P Haverly
P Heineman
P Novstrup (Al)
P Peters
P Putnam
P Rampelberg
P Dennert
P Wismer
P Juhnke
P Bolin
P Romkema
P Dryden
P White
P Tidemann
P Carson
P Brown, Vice-Chair
P Wink, Chair

OTHERS PRESENT: See Original Minutes

The meeting was called to order by Representative Dean Wink.

Department of Labor and Regulation

Ms. Pam Roberts, Secretary of the Department of Labor and Regulation, introduced the staff members present at the meeting – **Ms. Marcia Hultman**, Deputy Secretary and Workforce Services Division Director; **Mr. Don Kattke**, Unemployment Insurance Division Director; **Mr. Mike Ryan**, Field Operations Division Director; **Mr. Dick Flemmer**, Administrative Services

Division Director; **Mr. Lyle Harter**, Finance and Administrative Services Division Director; **Mr. Merle Scheiber**, Insurance Division Director; **Mr. Tim Ahartz**, Banking Division Deputy Director; **Mr. Mike Youngberg**, Securities Division Incoming Director; **Ms. Erin Menkhaus**, Securities Division Acting Director; **Ms. Dawn Dovre**, Public Affairs Director; **Ms. Nicole Olson-Kasin**, Board of Accountancy Executive Director; **Ms. Kate Boyd**, Cosmetology Commission Executive Director; **Mr. Mike Richards**, Plumbing Commission Executive Director; **Mr. JJ Linn**, Electrical Commission Executive Director; **Mr. Jeff Hazard**, Technical Professions Board Chairman; **Ms. Dee Jones Noordermeer**, Real Estate Commission Executive Director; **Mr. Greg Wick**, Abstractor's Board of Examiners Board President; and **Ms. Sherry Bren**, Appraiser's Certification Program Executive Director.

The department distributed a document outlining the department's FY2012 budget request (**Document #1**) and a summary of the FY2012 budget request (**Document #2**).

For FY2012, the Governor recommends a budget of \$43,600,598; comprised of \$771,983 in general funds, \$34,942, 651 in federal fund expenditure authority, and \$7,885,964 in other fund expenditure authority; and 449.7 FTEs. This is a decrease of \$104,184 (11.9%) in general funds, an increase of \$115,585 in federal fund expenditure authority, a decrease of \$276,543 in other fund expenditure authority, and a decrease of 6.3 FTEs.

The Department of Labor and Regulation (DLR) provided an economic snapshot of South Dakota. The recession started to impact the state by October 2008, and at that time the unemployment rate climbed from 12,235 in December 2007 to 17,635 in December 2008. The unemployment rate increased to 20,945 in December 2009 and leveled off in December 2010 at 20,445.

Secretary Roberts commented that the number of job openings decreased from 14,989 in December 2007 to 9,016 in December 2008. The lowest point was reached in December 2009 with 5,572 job openings. There was an increase in job openings last year, but hiring has been stable and the manufacturing industry is starting to receive more contracts.

Senator Phyllis Heineman asked about people that are unemployed and not looking for jobs. Secretary Roberts responded that in 2010, the DLR noticed that people became discouraged and left the labor force. Many people went into training. The DLR has a dislocated workers fund which paid for training for the participants. Many people participated in this program. In the last couple months, the number of discouraged and dislocated workers has declined, and more people are rejoining the workforce.

Secretariat Administration – For FY2012, the recommended budget is \$18,903,003 and 53.5 FTEs; which is a decrease of \$185,111 from FY2011. The recommendation includes:

- A decrease of \$13,448 in federal fund expenditure authority due to personal services decreases; and
- A decrease of \$20,000 from general funds from matching the adult education literacy (AEL) grant.

Secretary Roberts said that DLR had \$200,000 in general funds that were used as a match for the \$1.2 million AEL grant. The grant is used to fund adult education programs state-wide. Until the last couple years, the amount funded in the grant was increasing. The federal government is now decreasing the grant, and therefore the DLR does not need as much general funds for the match. For FY2012, the DLR is requesting \$180,000 in general funds for the AEL grant match.

Unemployment Insurance Division - For FY2012, the recommended budget is \$4,952,084 and 92.0 FTEs. This is the same recommendation as appropriated in FY2011.

Field Operations - For FY2012, the recommended budget is \$10,397,116 and 187.0 FTEs; which is a decrease of \$321,512 and 5.5 FTEs from FY2011. The recommendation includes a decrease of 5.5 FTEs and \$317,492 in federal fund expenditure authority due to a reduction in funding from the Department of Social Services (DSS) for the Supplemental Nutrition Assistance Program (SNAP) Employment and Training Services.

Secretary Roberts said that there are 19 field offices located throughout the state. Within this division, the DLR performs the job matching services, the work force training program, and administers TANF and SNAP benefits. The changes made in the DSS budget for the SNAP Employment and Training Services program impacts the DLR budget, and therefore DLR requested to eliminate 5.5 FTE and a reduction in federal funds of \$317,492 in FY2012

Currently, South Dakota requires all people that apply for SNAP benefits to be actively searching for employment. This is not a federal requirement and the activity will be removed from most of the state. The DLR will still focus on employment in Sioux Falls and Rapid City where the state has the highest caseload.

In response to **Senator J.E. “Jim” Putnam’s** question, Secretary Roberts said that if the program and funding does not work, the DLR will need to look at transferring people to other divisions or layoffs.

State Labor Law Administration – For FY2012, the recommended budget is \$1,421,906 and 19.7 FTEs; which is a decrease of \$90,079 and 0.8 FTE from FY2011. The recommendation includes a decrease due to reductions in the Human Rights activity.

Secretary Roberts said that the elimination of \$82,313 in general funds is the personal services for the 0.8 FTE for the investigator support in Human Right activity. The elimination of funds

will leave about \$25,000 remaining in the program in addition to federal fund grant. The reduction will eliminate the support for the program (secretary and lawyer on staff). The reduction was needed to meet the 10% budget cut requested by the Governor.

Representative Susan Wismer requested a report of the total number of cases investigated in the last five years by the Human Rights activity.

In response to Senator Putnam's question, **Mr. James Marsh**, Director of the Division of Labor, said that currently the Human Rights activity investigates cases within 90 to 100 days, but the budget reduction will lengthen the time period involved for each investigation.

Banking - For FY2012, the recommended budget is \$1,858,625 and 21.5 FTEs; which is a decrease of \$53,628 from FY2011. The recommendation includes a decrease in other funds for reduced membership dues, contractual services, and state central services billings.

Securities - For FY2012, the recommended budget is \$404,948 and 5.0 FTEs; which is a decrease of \$5,747 from FY2011. The recommendation includes a reduction in other funds for reduced state central service billings.

Insurance - For FY2012, the recommended budget is \$2,316,928 and 28.0 FTEs; which is an increase of \$490,350 from FY2011. This recommendation includes:

- An increase of \$585,198 in federal fund expenditure authority for a federal grant awarded by the Office of Consumer Information and Insurance Oversight;
- A decrease of \$91,400 in other fund expenditure authority for savings from reductions in printing, postage, travel, capital assets, and contractual services which align the budget with anticipated expenses; and
- A decrease of \$19,000 in other fund expenditure authority and corresponding increase in federal fund expenditure authority for personal services expenses that can be paid with the federal health insurance exchange planning grant.

Board of Accountancy – For FY2012, the recommended budget is \$228,894 and 2.5 FTEs; which is a decrease of \$1,173 from FY2011. The recommendation includes a reduction for decreased contractual services.

Board of Barber Examiners – For FY2012, the recommended budget is \$28,607; which is a decrease of \$24 from FY2011. The recommendation includes a reduction for decreased contractual services.

Cosmetology Commission – For FY2012, the recommended budget is \$228,283 and 3.0 FTEs; which is a decrease of \$761 from FY2011. The recommendation includes a reduction for decreased contractual services.

Plumbing Commission – For FY2012, the recommended budget is \$524,203 and 7.0 FTEs; which is a decrease of \$1,278 from FY2011. The recommendation includes a reduction for decreased contractual services.

Board of Technical Professionals – For FY2012, the recommended budget is \$331,763 and 3.5 FTEs; which is a decrease of \$591 from FY2011. The recommendation includes an increase to add a part-time investigator because the department is not able to keep up with the workload. The request also includes a reduction for decreased contractual services.

Electrical Commission – For FY2012, the recommended budget is \$1,464,909 and 22.0 FTEs; which is a decrease of \$3,136 and 0.5 FTEs from FY2011. The recommendation includes a reduction of 0.5 FTEs, which is to be transferred to the Board of Technical Professionals. The request also includes a decrease for contractual services.

Real Estate Commission – For FY2012, the recommended budget is \$514,441 and 5.0 FTEs; which is a decrease of \$92,380 from FY2011. The recommendation includes:

- A decrease of \$91,500 in other fund expenditure authority for reduction in computer services, travel, legal services, and consultants; and
- A decrease of \$800 for other contractual services.

Abstractors Board of Examiners - For FY2012, the recommended budget is \$24,888; which is a decrease of \$72 from FY2011. The recommendation includes a reduction for decreased contractual services.

Representative H. Paul Dennert asked if South Dakota has more people of working age living in the state because the labor force is stable but the number of people unemployed has increased since 2007. Secretary Roberts stated that the surveys count the number of jobs in the state to get the labor force. If a person has more than one job, they are counted multiple times. When a person is unemployed and looking for a job, they are counted once.

Representative Wismer asked about the budget increase in the Division of Insurance. Mr. Merle Scheiber said that the DLR applied for several grants with the Affordable Health Care Act. The increase for FY2012 is for the Rate Informed grant; which will allow the DLR to review rates to determine if they are reasonable.

In response to **Senator Deb Peters'** question, Mr. Scheiber said that the DLR received a \$1 million federal grant. The federal government tried to force the state to take the entire amount or they considered South Dakota ineligible. After working with the federal government and other states, DLR was able to decrease the grant amount to \$585,198, which is the amount DLR saw appropriate for the actuarial study. This is an annual grant that can be renewed in the future.

Bureau of Information and Telecommunications

Mr. Jim Edman, Interim Commissioner of the Bureau of Information and Telecommunications (BIT), introduced the staff present at the meeting – **Ms. Deb Larson**, Finance Manager; **Mr. Jim Neiles**, Bureau of Finance and Management; **Ms. Denise Luckhurst**, Development Director; **Mr. Wayne Hayden-Moreland**, Data Center Director; **Ms. Julie Anderson**, South Dakota Public Broadcasting Director; **Mr. Ben Merrill**, Bureau of Finance and Management; **Mr. Jeff Pierce**, State Radio Communications; and **Mr. Denny Ninceheler**, Telecommunications Services Director.

Distributed was a PowerPoint presentation overview of the FY2012 recommended budget (**Document #3**) and a written summary of the FY2012 budget highlights (**Document #4**).

For FY2012, the Governor recommends a budget of \$48,875,008; comprised of \$6,191,817 in general funds, \$4,279,356 in federal fund expenditure authority, and \$35,403,835 in other fund expenditure authority; and 348.5 FTEs. This is an increase of \$423,131 (7.3%) in general funds, a decrease of \$881,460 in federal fund expenditure authority, a decrease of 6,931,179 in other fund expenditure authority, and a decrease of 27.8 FTEs from the FY2011 budget.

Data Center - For FY2012, the recommended budget is \$7,423,451 and 56.0 FTEs; which is a decrease of \$886,301 and 4.0 FTEs from FY2011. The recommendation includes:

- A decrease of \$250,000 for personal services in other fund expenditure authority and 4.0 FTEs;
- A decrease of \$101,259 to eliminate software applications such as NetIQ and Citrix;
- A decrease of \$36,000 to eliminate Microfocus QALoad maintenance;
- A reduction of \$39,000 for maintenance support levels and monitoring systems;
- A reduction of \$90,000 for mainframe disaster recovery; and
- A decrease of \$325,140 for training, software and hardware refresh, and other maintenance.

Interim Commissioner Edman stated that some of the service impacts from the budget cuts include slower service response times, delay supporting new productivity technologies, reduced technical expertise, and impose storage limitations.

Development - For FY2012, the recommended budget is \$9,819,044 and 127.5 FTEs; which is a decrease of \$698,674 and 4.5 FTEs from FY2011. The recommendation includes:

- A decrease in personal services of \$414,000 in other fund expenditure authority and 4.5 FTEs. Currently, 4 of the positions are vacant;
- An increase of \$118,782 in federal fund expenditure authority for Health Care Reform;
- A reduction of \$110,078 in other funds for hardware and software licensing;
- A decrease of \$60,378 in other funds for training services; and

- A reduction of \$233,000 in other funds for consulting services.

Senator Bruce Rampelberg asked how BIT addresses the loss of employees that write and develop customized software. Interim Commissioner Edman stated that the challenge when customized software is created is to have cross-training and back-up support of employees. Since BIT found it to be more efficient for the customers to have customized applications/programs, BIT has the responsibility to provide continuous support.

In response to Senator Rampelberg's question, Mr. Edman said that cloud computing is the process of taking all the data and moving it to another location that is not necessarily local. The BIT has been doing some cloud computing for a long-time, but it needs to be advantageous for security, storage, and financially. Many of the cloud computing locations are overseas, and BIT does not consider it acceptable to move confidential data to another country.

Mr. Edman stated that some of the service impacts from the budget cuts include reduced software development, decreased technical expertise, decreased developer training, and longer refresh cycles for toolsets.

Mr. Edman said, in response to Senator Rampelberg's question, that the recommended budget will decrease the FTEs that support the state system. When problems arise, they will be prioritized and addressed.

Representative Wismer requested a listing of the average length of time a ticket waits in the queue for service today compared to two years ago.

Telecommunications Services – For FY2012, the recommended budget is \$15,174,967 and 79.0 FTEs; which is a decrease of \$5,174,967 and 5.0 FTEs from FY2011. The recommendation includes:

- A decrease in personal services of \$413,900 in other fund expenditure authority and 5.0 FTEs. Currently, two of the positions are vacant;
- A decrease of \$1,000,242 in federal fund expenditure authority due to excess federal authority relating to the ARRA Broadband Mapping and Planning Grant;
- A reduction of \$267,546 in other fund expenditure authority due to network changes, fewer training software license and support agreements, and hardware upgrades;
- A decrease of \$307,553 in other fund expenditure authority for telephone lines in dormitories;
- A reduction of \$305,923 in other fund expenditure authority by negotiating a new contract extension for telephone services; and
- A reduction of \$2,652,274 for excess other fund authority.

Mr. Edman stated, in response to Representative Wink's question, that BIT only allows for overtime pay for emergencies. He does not expect overtime to increase with the reduction in personal services.

Senator Rampelberg asked if the BIT was planning to expand the bandwidth. Mr. Edman stated that the REED Network with the higher education has the largest need for bandwidth. The K-12 schools do not have as high of need. Last May, BIT began a process that the agency would commit to bandwidth at K-12 schools and any additional bandwidth needed at the school site would be the responsibility of the school district. There are 40 school districts that have upgraded the bandwidth on their own. As technology evolves and the price decreases, the state will be able to increase bandwidth for no additional cost. Mr. Edman noted that funding for the technology is within the Department of Education budget, but the BIT maintains the system.

Some of the service impacts due to the budget cuts include slower service response times, eliminating hardware and software maintenance, longer refresh cycles for hardware upgrades, cutting staff training and tools, purchasing less expensive services, and reduces technical expertise.

Senator Billie Sutton asked about the \$305,000 other fund contract. Mr. Edman stated that the contract is for the telephone provider in the state. The current contract was nearing the end, and therefore the BIT asked the provider to renegotiate for a lower rate, since no other company provides that service in the state. In exchange for having a longer contract, the provider lowered the base rate of the contract.

South Dakota Public Broadcasting – For FY2012, the recommended budget is \$8,024,782 and 57.5 FTEs; which is a decrease of \$757,662 and 10.3 FTEs from FY2011. The recommendation includes:

- A decrease in personal services of \$368,711 from general funds and 10.3 FTEs;
- A reduction of \$40,795 for travel;
- A decrease of \$136,398 due to fewer TV and Radio program acquisitions, supplies and materials, and capital assets;
- A decrease of \$139,500 for educational programming and support; and
- A reduction of \$72,258 for matching funds from the Corporation for Public Broadcasting.

Ms. Julie Anderson explained the responsibilities of the South Dakota Public Broadcasting. They include:

- Providing 24/7 television, radio, and internet programming to the citizens of the state;
- Providing state and national emergency information to the public and commercial broadcasters;
- Broadcasting Amber Alert information;

- Maintaining a network of 10 radio and 9 TV stations, translator station, and interconnection system that covers about 90% of the state;
- Producing local programs and content that inform and educate South Dakotans; and
- Providing educational programs and outreach for preschool, K-12, and life-long learners.

The budget cuts will impact SDPB's services. Some of the effected services are the elimination of preschool, K-12, and life-long learning programming and support services; reduction in broadcast equipment maintenance and response time; reduction in local programming; reduction in closed-caption for the hearing impaired.

Senator Tidemann asked about specifics reductions for local programming. Ms. Anderson said that when the recommended budget was made, SDPB made the commitment that it will still provide the public service obligation by providing broadcasting for the legislature, high school sporting events, and high school fine arts. All other activities are possible budget cuts for FY2012. The proposed budget reductions in SDPB travel will impact the coverage of news and other events in South Dakota.

Ms. Anderson stated that South Dakota was providing more closed-captioning services than required by federal law. Current closed-captioning of the statehouse costs about \$800 per week. These services will be reduced. The Governor's budget address and the State of the State Address will be provided in closed-caption, but most other state house programming will not.

Representative Jim Bolin asked about the SDPB bids for state basketball tournaments. Ms. Anderson responded that SDPB has been the only bidder for the last seven years. No general fund money is used for the bid or the partnership with the High School Activities Association.

In response to Senator Al Novstrup's question, Ms. Anderson stated that the South Dakota High School Activities Association asked the SDPB to continue providing services. The SDPB paid a flat fee of \$60,000 to the South Dakota High School Activities Association to broadcast those events.

In response to Representative Bolin's question about the relationship between SDPB and the Corporation for Public Broadcasting, Ms. Anderson stated that the Corporation for Public Broadcasting was created in the 1960's by the U.S. Congress. It receives money from the federal government and then passes the money to public broadcasters in the form of community service grants. A portion of the money goes directly to PBS, and National Public Radio, and minority consortiums. BIT receives about 20% of the SDPB budget from the Corporation for Public Broadcasting.

BIT Administration – For FY2012, the recommended budget is \$1,369,144 and 18.5 FTEs; which is a decrease of \$579,020 and 4.0 FTEs from FY2011. The recommendation includes:

- A decrease in personal services of \$278,307 in other fund expenditure authority and 4.0 FTEs. Currently, one position is vacant;
- A decrease of \$250,000 due to a reduction of contractual services associated with enterprise-wide initiatives such as state website home page support, project portfolio management, and research subscriptions; and
- A decrease of \$50,713 for other miscellaneous reductions.

The budget reductions will result in the streamlining of governance processes, distribution standardization, and slower service response times.

State Radio Administration – For FY2012, the recommended budget is \$3,504,335 and 10.0 FTEs; which is an increase of \$707,116 from FY2011. The recommendation includes:

- An increase in operating expenses of \$1,000,000 from general funds for upgrades of statewide law enforcement communications system control equipment in order to comply with federal mandates. There will be a transfer of \$1,000,000 from the motor vehicle fund to the general fund to cover the upgrade costs. As a result, there will be a \$0 net impact to the general fund; and
- A decrease of \$39,372 from general funds for networking costs (\$35,920) and other miscellaneous reductions (\$3,452), and \$253,512 in other fund expenditure authority due to excess authority.

Mr. Jeff Pierce stated that there are two sections under state radio – law enforcement telecommunication system and the statewide radio system. The law enforcement telecommunication system is maintained for state, local, tribal, and federal law enforcements across the state.

The statewide radio system currently has 54 sites across the state for the communication system. There are approximately 18,000 radios registered on the system. Each month, BIT generates on average 1.9 million calls; of which 3% is local traffic, 6% is tribal/federal use, and 91% is state traffic. The current system is about maxed out for the number of towers sites that can be put on, the number of counsels that can be placed at dispatch centers, and the number of radios that can be added to the system.

Mr. Pierce stated that BIT was informed about three years ago that the vendor was dropping material support and technical services for the system. If a component in the master site in Pierre was lost, then the entire system would be converted from a wide-area system to a system of 54 individual towers. BIT is working to try and create a plan to maintain the service for the system across the state. Last December, BIT signed an agreement with Motorola to have an upgrade in the system on a lease buyback program. Part of the financing will be from the Highway Fund, the Motor Vehicle Fund, and Game, Fish, and Parks Fund.

The budget increase of \$707,116 for FY2012 is a result of a \$1 million transfer for the lease buyback payment. This increase will be offset by a reduction of \$39,372 in general funds from the state radio general funds in contractual services and an additional \$253,512 reduction in other funds for the state teletype system.

Representative White asked about the lease buyback. Mr. Jim Neiles explained that the plan to fund the \$6 million State Radio Upgrade project. BIT received an interest rate of 2.9% and there is a requirement of a \$1 million down-payment. The funds will be transferred each year for the seven years of the lease. There will be a transfer out of the Highway Fund, the Motor Vehicle Fund, and Game, Fish, and Parks Fund to the general fund in the back of the general bill to cover upgrade costs. Then the appropriations committee will appropriate the general funds within the State Radio budget for the lease buyback payments. The \$1 million is sustainable for the seven years of the lease payments and there is no residual buyout.

Representative Wismer requested historical data of the state radio for the last ten years.

Representative Dennert asked if the costs of radios and batteries have increased. Mr. Peirce stated that the cost associated with a digital trunk system is higher than an analog system. An older radio would cost about \$500-\$600 to replace, but radios on the digital trunk system cost \$1,500-\$5,000. The network BIT is proposing to install this summer is a full P25 system. As the system gets fully migrated, Mr. Pierce expects the cost of radios to decrease.

Senator Heineman asked about replacing radios as performing upgrades. Mr. Pierce responded that outside of a few radios with the state, all other radios purchased will be able to be upgraded with software.

Senator Putnam asked about the transfer from other funds to the general fund. Mr. Neiles stated that this process is used every year when money is transferred from three other funds to the general fund. He is not certain if there is a specific requirement for this process, but the rationale is to show the movement from other funds to general funds for payments.

Senator Putnam stated his concern that money is being taken away from the Motor Vehicle Fund that could be use for repairing roads. Mr. Neiles stated that the additional payments will be shared equally between the Highway Fund, the Motor Vehicle Fund, and Game, Fish, and Parks Fund.

In response to Representative Wismer's questions, Mr. Pierce stated that the system itself will be supported until 2015. BIT has until then to upgrade. The \$6 million upgrade will ensure that the locals will be able to communicate across the state after 2015. If BIT does not upgrade the system, replacement parts and technical support for the current system will not be available after 2015.

Representative Wink asked about vendors that will be able to support the system through 2015. Mr. Pierce stated that the system BIT is upgrading to is the national standard. There are nine vendors that can supply the subscriber radios and all meet the national standard requirements. There should not be an issue of compatibility or supply components to the system.

Representative Dryden asked about the interagency billing reductions. Mr. Edman stated that part of the challenge BIT has in making budget cuts is determining how the cuts will affect the various agencies. The agencies pay for BIT services with a variety of funding sources (general, federal, or other funds). The BIT cuts will reduce the rates billed to the agencies and that will be a reduction in budget requests for each agency. BIT will spend in less in FY2012 than in FY2011.

Senator Peters requested an organizational chart of BIT employees from FY2010, FY2011, and the proposed changes in FY2012.

MOTION: TO APPROVE THE MINUTES OF JANUARY 24, 2011

Moved by: Tidemann
Second by: Brown
Action: Prevailed by voice vote.

MOTION: ADJOURN

Moved by: Haverly
Second by: Brown
Action: Prevailed by voice vote.

Lisa Shafer
Committee Secretary

Dean Wink, Chair