

87th Legislative Session – 2012

Committee: Joint Appropriations

Thursday, January 19, 2012

P - Present
E - Excused
A - Absent

Roll Call

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

OTHERS PRESENT: See Original Minutes

The meeting was called to order by Chairman Corey Brown.

Bureau of Information and Telecommunications

Mr. Jim Edman, Deputy Commissioner of the Bureau of Information and Telecommunications (BIT), introduced the staff present at the meeting – Ms. Emily Ward, Bureau of Finance and Management; Mr. Dennis Ninceheler, Telecommunications Services Director; Mr. Jeff Pierce, State Radio Communications; Ms. Linda Peterson, Development Director; Ms. Julie Andersen,

South Dakota Public Broadcasting Director; Mr. Jim Neiles, Bureau of Finance and Management; and Ms. Deb Larson, Finance Manager.

Distributed was a PowerPoint presentation (**Document #1**) and the BIT responses to the questions in the Budget Call letter (**Document #2**).

For FY2013, the Governor recommends a total budget of \$47,642,481; comprised of \$6,301,970 in general funds, \$4,290,290 in federal fund expenditure authority, and \$37,050,221 in other fund expenditure authority; and 348.5 FTEs. This request is a total increase of \$1,767,473 – made up of an increase of \$110,153 (1.8%) general funds, increase of \$10,934 (0.3%) federal funds, and an increase of \$1,646,386 (4.7%) in other fund expenditure authority – from the FY2012 budget.

After Mr. Dom Bianco, Commissioner of BIT, was hired, the mission and vision of BIT was rewritten. Four strategic goals were also implemented. They include:

- Provide a reliable, secure, and agile infrastructure;
- Deliver valuable services at economical costs;
- Recruit, build, and retain a highly skilled workforce; and
- Provide e-government solution and evolving technologies.

The Bureau of Information and Telecommunications provides services to a variety of clients including the three branches of government, K-12 education, post secondary education, city government, county government, and local citizens.

Since 2002, bandwidth has increased seven times. Public schools and government offices now have 100 megabits per second (Mbps) bandwidth. The statewide public internet capacity has increased from 185 Mbps in 2002 to 3,000 Mbps in 2011; a 1,600% increase in 10 years.

In response to **Senator Larry Tidemann's** question, Mr. Edman stated that there was no additional cost to increase the bandwidth from 1,362 Mbps in 2010 to 3,000 Mbps in 2011. The increase was accomplished by working with the providers to change the current technology in place to have a backup link. This increased capacity to receive more internet access for the same price.

Representative Dean Wink asked about the reduction in FTEs. Mr. Edman stated that the majority of the cuts were made last year. Twenty-eight positions were cut. Some include: 10 FTES from South Dakota Public Broadcasting, 6 FTES from IT developers, 5 FTES for IT telecommunication positions, and 4 FTES for IT data center positions.

In reaction to the BIT's goal to provide e-government solution and evolving technologies, BIT has developed a new state homepage that has an emphasis on searching the internet. The BIT has

worked with the Department of Revenue to create a self-service terminal where citizens can renew registrations online instead of at a courthouse.

Mr. Edman stated that security is a tremendous concern for BIT. Since September 2011, there have been 70 key logger events where people in the public have been infected with malware viruses. In the last six weeks, there have been specific targeted attacks to individual infrastructure from Germany, Singapore, Ukraine, and China.

Since 2002, the only way to view of state tournament events was to personally attend. However, over the past 10 years, technology has improved allowing the South Dakota Public Broadcasting (SDPB) to offer broadcasts of events over three television channels, live on the internet, and archived.

The FY2013 budget request of \$45,875,008 is similar to the request made in FY2003. Except for an increase of \$13 million in FY2009 for the development of the REED Network, the BIT budget request has been fairly stable for ten years.

Mr. Edman stated, in response to Representative Wink's questions pertaining to the REED Network capacity, that each public university campus has five waves of REED Network connectivity. Each wave allows up to 10 Gigabit capacity. Currently, South Dakota State University is utilizing the largest amount of capacity with only 10% of one wave. All campuses are using two waves and three are set aside for future use.

The FY2012 budget included a 13.9% decrease in all funding types. The Governor recommends a FY2013 budget of \$47,642,481 and 348.5 FTEs; which is an increase of 3.9% over the FY2012 budget. The recommended budget includes increases for:

- Rapid City Phone Services - \$370,000;
- Training - \$264,300;
- Disaster Recovery Plan - \$250,000;
- Interagency Billings - \$60,579; and
- Employee Compensation - \$822,594.

In July 2011, the BIT took over the Rapid City area telephone service accounts. The Bureau of Information and Telecommunications undertook the additional workload without an increase in FTEs. Mr. Edman noted that amendments to the FY2012 budget will be made to account for the increased service.

The \$370,000 increase includes \$290,000 to service the Qwest/Century Link accounts, \$30,000 for the one-time account and feature changes that are routing with managing accounts, and \$45,000 for wiring and repairs. The increase for the Rapid City phone services will pay

Qwest/Century Link for the services. The agency will also increase billing authority to recover the costs from the other clients.

In response to **Senator Deb Peter's** questions, Mr. Edman stated that BIT took over the Rapid City area telephone service accounts because the agency currently provide the service to Sioux Falls, Aberdeen, and Brookings. By BIT taking on the additional phone lines, the service was increased to more users without an increase in FTEs. He is fairly confident that the administrative cost to state government is cheaper than using the private sector.

Mr. Edman said, in response to **Senator Al Novstrup's** questions, that there are 14,000 phone lines statewide with 1,250 of those being in the Black Hills area. **Mr. Dennis Ninceheiser** added that there is no additional administrative cost to perform this service. The BIT is asking for authority to pay Qwest/Century Link. Then BIT will bill the customers for the service provided.

The recommended increase for training in the FY2013 budget is \$264,300. This includes \$81,500 for the data center, \$70,900 for development, and \$111,900 for telecommunication services. In response to Representative Wink's questions, Mr. Edman stated that training will be provided both in-house and with private contacts depending on the interest. It is estimated that 50% of the BIT staff will be involved in the training.

The Governor recommends an increase of \$250,000 to develop a disaster recovery plan to insure availability of priority IT services through natural and man-made disaster impacting technological services. Mr. Edman noted that BIT has a mature process of disaster recovery for the mainframe services, but the client areas are not as sufficient. The intent is to create an insurance plan that will provide critical services is a disaster occurs to the data center. Part of plan is to research the available options to determine the most prudent steps to go forth.

Senator J.E. "Jim" Putnam asked about a priority list. Mr. Edman stated that prioritization differs based on clients in that each client believes all their data needs to be backed-up and re-running immediately if a disaster occurs. The disaster recovery plan will include expertise to help build a plan to select types of hardware and software needed to carry forward. A priority list will be created by making a list of questions to ask clients to determine a priority scheme of importance. The odds of a disaster striking all state participants is low, but if it occurred, there would need to be a scheme to determine what is top priority.

Currently, BIT is actively working on a Broadband Initiative project. The initiative is grant BIT received from the National Telecommunications and Information Administration. The primary purpose of this is to map broadband or high speed internet statewide. Twice annually, data is collected from the 42 providers across the state. The Federal Communication Commission (FCC) is moving the standard for broadband to a higher requirement. Slide 21 of Documenting #1

shows a map of South Dakota with underserved broadband areas. Part of the project is to identify un-served and underserved areas from a broadband perspective.

Another portion of the project, as in regards to technology planning, is providing assistance in the technology planning area to community anchor institutions (cities, counties, schools, etc.). Typically those institutions are an underserved area in the technology market. BIT is working with any of the local community anchor institutions. BIT built a series of public service announcement to promote broadband across the state. BIT is trying to identify the unique ways people are using broadband. A video of a rancher that is creatively using internet for annual bull auction was shown. The video is available at broadband.sd.gov.

In response to **Representative Susan Wismer's** and **Senator Jeffrey Haverly's** questions, Mr. Edman stated that the one of the goals of the project is to inventory the current broadband availability to help build a national broadband map. Regardless of where a person lives, broadband should be available to ensure that all parts of the state are able to economically compete.

Senator Peter's asked about open bids for services and how they impact BIT rates. Mr. Edman replied that services are up for bid depending on when contracts expire. Currently the Ethernet contract for the K-12 schools closed last week and the computers are on an open bid basis of about every 3-6 months.

Mr. Jeff Pierce provided an update on the next generation telephony outlined on Slide 23 of Document #1. Currently, BIT has about 18,000 phone lines including the Centrek lines.

In October 2001, the FCC adopted some rule changes for the Universal Services Fund – a fund created to promote telephone voice access in rural and underserved areas around the country. This fund has been issuing about \$8 billion annually to rural voice services across the country, and has been operating under the Telecommunications Act of 1996. Some of the proposed rules changes include:

- Re-designation of the Voice Universal Services Fund funding from voice to broadband;
- Elimination of the inter-carrier compensation process in which a local telephone company is paid for an incoming call from an outside telephone company. The change will result in a bill-and-keep system so that the usage and billing locally will support local operations.

Mr. Pierce noted that the changes will have an impact on the entire industry especially South Dakota and other rural states.

In the next ten years, there will be major technological changes for voice and there is a potential for higher cost from the providers. The rural companies have fewer subscribers to cover the costs

and BIT expects either a consolidation of the carriers or higher costs to the clients. To address this, BIT is working on Internet Plethora (IP) systems. There are three pilot systems online – the Aberdeen Department of Labor and Regulation system and two systems in the Custer area at the Department of Corrections STAT Academy. The new IP telephony phones share local data with the rest of the IT through common wiring plan. The new IP telephone phones offer more variety than the current Centrak lines. When the bandwidth is available between sites, it is a potential for BIT to link the systems together and calls between the different systems/towns will be local calls.

Mr. Edman noted that the change to the Universal Services Fund will have an annual budget impact of about \$90 million to phone companies across South Dakota.

Representative Wismer requested that BIT provided an updated statistical comparison of the call tickets and responses with the FTE reduction.

Senator Phyllis Heineman requested the top performance indicators and priority matrix for the BIT's new goals.

Representative Jim Bolin asked about the impact to South Dakota Public Broadcasting (SDPB) if the federal funding was cut by 10%. **Ms. Julie Andersen** stated the SDPB received funding from the U.S. Department of Labor, Health, and Human Services. Currently, that department's budget is passed; however the department could receive about a 6% cut to the total budget and that will impact SDPB. A 10% reduction of federal funds to SDPB would be about a \$150,000 impact. She noted that SDPB will also have a reduction regardless of the federal budget cuts because of advanced funding. When SDPB loses local, state, and private donation funding, that impacts in outlying year what the federal grant total. It is expected to be about a \$70,000 reduction next fall.

Representative Wismer asked how SDPB instituted the 10% budget cut for FY2012. Ms. Andersen replied that SDPB had a target of over \$500,000 in state funds to cut from the FY2012 budget in addition to a reduction in federal funds and grants. The primary reduction was the elimination of about 16%-18% of the staff. She commented that since most offices are not located in Pierre, it was not easy for staff to transfer to another state agency. SDPB is now challenged to accomplish the tasks and mission of SDPB with limited FTEs. After the cuts, services to education nearly do not exist.

In response to Representative Wismer's question about an update on the capital investment to the system, Mr. Pierce told the committee that the investment was an upgrade on the network infrastructure in the basement of the Becker-Hansen Building. The upgrade was completed on January 11, 2012, and the system is on-line. The Watertown Police Department joined later and their system became available on-line on January 18, 2012.

In response to committee questions about state radio, Mr. Pierce said that it is BIT's goal to increase coverage when able. Currently, there are areas identified (northeastern South Dakota) and targeted for site selection coverage profiles to improve coverage. When funding is available, there are areas that BIT wants to increase the number of state radio sites.

Department of Environment and Natural Resources

Secretary Steve Pirner met with the Committee to present the Department of Environment and Natural Resources (DENR) FY13 budget request. Also in attendance were Vicki Murray, Dave Templeton, Tim Tollefsrud, Rob Green and Jim Feeney. Documents 3 and 4 were distributed.

Secretary Pirner reported the following regarding the DENR operating budget:

- DENR utilized 90% of its total budget authority (excluding authority for the Regulated Substance Response and Environmental Livestock Cleanup Funds).
- DENR utilized 100% of its general funds.
- No transfers between personal services and operating were needed.
- DENR utilized 100% of its FTE allocation.
- DENR's turnover rate was 5.8%.

In regard to the department's information budgets, Secretary Pirner reported:

- Regulated Substance Response Fund
 - Created by the 1988 Legislature to deal with environmental cleanups
 - Life of Fund expenditures - \$3,545,489
 - Utilized \$198,955 last year to respond to 6 cleanups.
 - FY 2011 end-of-year cash balance - \$2.96 million.
 - Future liabilities to the Fund -
 - ▶ Environmental cleanups – we have about 200 to 250 spills per year.
 - ▶ EPA Brohm Mine Superfund site – state must provide 10% match for the projected \$80 million EPA Superfund cleanup; the state is then 100% liable for long-term water treatment costs after EPA leaves.
- Environmental Livestock Cleanup Fund
 - Created by the 1998 Legislature to act as a safety net.
 - Life of Fund expenditures - \$230,281.
 - Utilized \$43,393 last year to respond to one livestock cleanup.
 - FY 2011 end-of-year balance - \$1.13 million.
 - Future liabilities to the Fund -
 - Several livestock operations are going through bankruptcy and the fund may be needed to ensure the manure holding ponds have adequate capacity for runoff and snowmelt.

- Petroleum Release Compensation Fund
 - Created by the 1988 Legislature to financially assist tank owners with cleanups and to meet the federal environmental financial responsibility requirements.
 - Active cases – 133.
 - Utilized \$425,627 last year to respond to 97 cleanups.
 - FY 2011 end-of-year balance - \$3.28 million
 - Future liabilities to the Fund
 - Ongoing abandoned underground tank removals
 - Ongoing reimbursement for regulated petroleum tank releases.
 - Ongoing federal financial assurance for tank owners.

The department's FY13 budget request totals \$21,660,423, a reduction of \$11,984,837 from FY12.

Major Expansions and Reductions include:

Governor's Salary Policy and Health Insurance

- General Funds - \$292,378
- Federal Funds - \$329,446
- Other Funds - \$187,302

Space Billing and Computer Services

- General Funds - \$6,434
- Federal Funds - \$9,952
- Other Funds - \$4,651

Reduction of ARRA federal funds

- Personal Services – (\$275,000)
- Operating – (\$12,540,000)
- Total Federal Reduction – (\$12,815,000)

Total Increases/Decreases

- General Funds - \$298,812
- Federal Funds – (\$12,475,602)
- Other Funds - \$191,953

Secretary Pirner told the Committee that except for the Governor's proposed salary policy and space billings and computer services charges, the department had a no growth budget. The cuts made in FY12 remain in place. DENR is requesting no expansion in FTEs, no expansion in personal services and no expansion in operating expenses. Secretary Pirner said DENR will use existing resources to continue to take on new priorities even as workloads grow.

Representative Carson asked if the state had spent or obligated all of the ARRA funds. Secretary Pirner said yes. Senator Heineman asked about the reduction in personal services. Secretary

Pirner said under the stimulus funding, the spending authority would revert to the original funding source. Representative Wismer asked if all federal grant money planned for during the budget cuts in FY12 had materialized. Secretary Pirner said yes, all funding sources came through and this budget year is working as planned.

Secretary Pirner briefed the Committee on the department's "Top Five Priority Areas":

Oil and Gas Initiative: In response to the question "why is the oil drilling not happening in South Dakota", Secretary Pirner said it is because North Dakota's Bakken Formation does not exist in South Dakota. However, the Tyler Formation and Three Forks Shale being developed in North Dakota do exist in South Dakota but remain effectively unexplored. Because South Dakota wants to accelerate work on the Oil and Gas Initiative and promote more development, department staff has developed interactive maps for One Stop Shop for Oil and Gas Information. Information is available online at www.sddenr.net/sdoil. The department is working to show potential industries what is available under the surface in South Dakota. Secretary Pirner said the interactive maps and online database has information for nearly 100,000 drill holes. This online information has been available since late December. Senator Heineman suggested the department keep track of how many hits the website receives. Secretary Pirner said design of the database and web information was done in-house.

The online database for nearly 100,000 drill holes includes the following information:

- Records of oil and gas drilling from over 1,900 locations,
- Records of water well completion from over 62,245 locations,
- Other records of test hole and well drilling from over 34,350 locations, and
- Records of DENR's observation well measurements from 1,555 wells.

Representative Romkema questioned why the number of drilling permits has gone up but the permit fees have gone down. Mr. Tollefsrud said the permit fee is a one-time application fee. The conservation and severance taxes are going up because the prices of production are going up.

Building Public Infrastructure to Grow our Economy: DENR had a strong year for upgrading drinking water, wastewater and solid waste facilities, awarding \$109 million in grants and EPA low interest loans. In addition, DENR provided financial assistance to 86 different projects and awarded 36 small community planning grants. And finally, DENR awarded a \$1 million grant to the Ellsworth Development Authority for design of a regional wastewater treatment system.

Growing our Agricultural Economy: Secretary Pirner spoke to three different projects:

- Long View Farms – a 4,900 head confined hog unit near Wagner. DENR has introduced HB 1011 to clarify less than 18 gallons per minute of water use by a confined livestock operations is domestic use and does not need a water right permit.

- Veblen Dairies – two dairies in Veblen totaling 13,676 head that had financial and environmental problems. DENR helped bankruptcy trustees keep overfull manure lagoons environmentally safe and has successfully transferred the two water pollution control permits to the new owners.
- Hanson County Dairy – a proposed 7,000 head dairy. DENR’s Water Management Board approved a water right permit over local objections. That permit has been appealed to circuit court by the opponents on the basis of improper notice.

Growing our Mineral and Energy Economy:

- Expansion of Wharf Resources Gold Mine – DENR’s Board of Minerals and Environment approved a permit to expand the Wharf mine by 530 acres. This expansion saves 150 high-paying mining jobs for 7-10 years.
- Spearfish Hydroelectric Plant Saved – The Federal Energy Regulatory Commission issued a federal operating license as recommended by DENR.
- Nakota Energy near Bear Butte – DENR’s Board of Minerals and Environment approved a new spacing order for the new Gullickson Oil Field over the objections of 5 tribes. Two wells have been drilled to date.
- Hyperion Energy Center – DENR’s Board of Minerals and Environment approved the air quality permit in September 2011. The new permit contains an extension of the deadline for beginning construction to March 2013. The revised air quality permit now goes back to Circuit Court.

Regulatory Reform: In response to Governor Daugaard’s request that all state agencies review their rules and regulations, DENR has identified 109 pages to be eliminated and have repealed 57 pages to date.

Representative Romkema asked how the Trans-Canada pipeline would affect the Hyperion project. Secretary Pirner said it has no affect. In response to Representative Wink’s question, Secretary Pirner said in the event of a spill, the first agency to act would be the Federal Department of Transportation. In South Dakota the Public Utilities Commission has authority only over the location of the line. DENR’s authority deals with cleaning up a leak or spill. Senator Sutton asked where the funds would come from if DENR had to clean up a spill. Secretary Pirner said legislation was passed in 1988 to deal with environmental cleanups. The company is responsible for all cleanup and repair, no matter the cost. It is the company’s responsibility to seek reimbursement from any other involved party. However, if the company proves to be unresponsive, the state has a cleanup fund (Regulated Substance Response Fund) that would respond to a discharge. The federal government has a \$1 billion trust fund (comes from oil companies), administered by the US Coast Guard. If a spill threatens any water, they can come in and help with the spill. Representative Wink asked if there was adequate funding available to take care of potential spills. Secretary Pirner said yes. South Dakota has approximately 200-250 spills a year, a majority of which are cleaned up by the company.

Senator Tidemann asked how deep the Trans-Canada pipeline is laid. Secretary Pirner said as a general rule the pipe is laid three feet deep. Pipe that travels under rivers is usually bored and that depth varies by location.

Representative Wismer asked for an explanation of the increased funding for “movement to job worth”. Secretary Pirner told the Committee engineers and environmental scientists are included in the “banded occupation” series and that a majority of the department’s personnel were in that category. The Bureau of Personnel will expand on this issue at their budget hearing. Senator Tidemann commented on the low turnover rate in DENR and said perhaps the “movement to job worth” would help in recruiting new staff.

Senator Tidemann asked for information on the ozone standards in South Dakota. Secretary Pirner said the ozone standards were lowered again a few years ago and the EPA is looking to lower them again. South Dakota’s air quality is good; however, the standards keep going down. Ozone drift from the western states cause our numbers to go up in certain areas.

MOTION: ADJOURN

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

Barb Bjorneberg and Lisa Shafer
Committee Secretary

Corey Brown, Chair