

87<sup>th</sup> Legislative Session – 2012

Committee: Joint Appropriations

Tuesday, February 14, 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.

**Secretary of State**

Jason Gant, Secretary of State appeared before the Joint Appropriations Committee to present the proposed FY13 budget. Document No.1 was distributed.

The proposed budget totals \$4,484,757 which involves \$898,123 in general funds, \$3,131,026 in federal funds and \$455,608 in other funds.

Major expansions/reductions include the Governor's proposed salary policy and computer and space billings. The computer and space billings amount to \$8,890 involving \$3,008 in general funds, \$1,362 in federal funds and \$4,520 in other funds.

Secretary Gant said his office is using technology and efficiencies to work through the 10% cut taken in last year's budget. The biggest efficiency for the office currently is the online corporate filing system. Secretary Gant said after just 6 months they have seen 86% of the corporations using the online feature. A bill is currently making its way through the 2012 Legislative Session that will allow new corporations coming into South Dakota to use the online registration.

Secretary Gant said the office recently implemented two areas in an effort to increase efficiencies. The first is a new online recording system dealing with campaign finances and the second allows lobbyists to register online. Secretary Gant said his office dealt with over 1,000 PAC and candidate reports last year (all on paper); not only will they save on staff time but printing and postage costs will be reduced.

Secretary Gant told the Committee there are 3 other bills in the 2012 Legislative process that will have an impact on the Secretary of State's budget. SB 191 will require the Secretary of State's Office to issue certificates to institutes of higher education authorizing them to provide postsecondary education. This will be a one-time expense. HB 1059 and HB 1130 deal with the Uniform Commercial Code filing system. Secretary Gant said his agency is concerned about the age of the current UCC system and is looking for ways to generate funds to pay for a new system.

The Secretary of State's office is gearing up for upcoming elections, especially the June 5<sup>th</sup> Presidential Primary and the general election.

Representative Bolin asked about the federal funds that come to the Secretary of State's office. Secretary Gant said as a result of Congress passing the Help America Vote act in 2002, the federal government issued funds to every state to eliminate the punch card ballots and to assist with disability voting. In addition new touch screen voting machines were installed at numerous voting establishments. Because these were federal mandates they were funded with federal money. South Dakota received \$350,000 in FY10 and will receive \$6,000 for the upcoming election. The \$2.9 million is grant funds awarded to the counties to spend on elections. The large balance is due to South Dakota being able to save money over time; however, once the reserve is depleted funding will come from the counties general funds. Secretary Gant said South Dakota already has the Help America Vote funds so they are not in jeopardy if the federal government does not pass a new bill.

### **State Auditor**

Steve Barnett, State Auditor appeared before the Committee to discuss the Office's budget. Also in attendance were Dennis Keith, Judy Flagstad, Jason Lutz, Robert Swanson and Amanda Schmitgen. Document No. 2 was distributed.

The department's proposed budget totals \$1,235,461 including \$1,135,461 in general funds and \$100,000 in other funds. In addition to the increases for the Governor's proposed salary increase and computer and space billings, the office is requesting an additional \$11,713 from general funds for a permanent part-time claims auditor. The office currently has a turn-around time of 5-7 days on vouchers and anticipates a 3-4 day turn-around time with an additional claims auditor.

Auditor Barnett reported that \$44,000 was reverted back to the general fund at the close of FY11.

Auditor Barnett told the Committee a relatively new duty for his office is the Equal Access to the Courts Commission. Revenue is collected through filing fees for court services and deposited once a month by the Department of Revenue. Expenditure authority of \$100,000 was granted for payment of Commission expenses and grants to non-profit entities that are funded by the legal service corporations and deliver legal services to persons meeting eligibility requirements.

Representative Romkema asked for an explanation of the \$4,869,503 fund balance in Company 8000-Agency Fund. Auditor Barnett said it deals with social security and agreed to provide additional information to the Committee.

### **State Treasurer**

State Treasurer Rich Sattgast met with the Joint Appropriations Committee to discuss the proposed FY13 budget. Also in attendance were Lee DeJabet, Sandy Tillman and Mary Ann Gabriel. Document No. 3 was distributed.

The proposed budget totals \$3,369,735 involving \$468,460 in general funds and \$2,901,275 in other funds. \$4 billion in cash receipts are handled each year.

Mr. Sattgast said Treasury Management (\$468,460) is funded entirely with general funds and Unclaimed Property (\$2,901,275) with other funds. Between \$8-\$9 million dollars in unclaimed property is collected each year with approximately \$2 million paid out. In response to Senator Heineman's question, Mr. Sattgast said the difference between what is collected and what is paid out remains with the state, held until claimed. The office placed nearly \$23 million in the trust fund last year. Ms. DeJabet reminded the Committee that Unclaimed Property is funded 86% with other funds, 16% for personal services and 70% is to pay claims.

The only expansions or reductions in the budget deal with the Governor's proposed salary increase and computer and billing charges.

Senator Novstrup asked if very small amounts of unclaimed property could be taken in, deposited and not run through the process. Ms. DeJabet said it has been discussed; however, small dollar amounts are treated the same as large amounts, the process is the same. Property valued at less than \$50.00 can be lumped together but the national trend is to do away with that feature. It proves to be difficult, if not impossible, to prove what property belongs to whom. Most reports today are done electronically and require additional information that helps find the rightful owners.

Senator Peters asked for an explanation of the \$100,000 increase in Contractual Services between FY 10 and FY12. Ms. DeJabet said it was likely to pay for outside attorneys. Ms. DeJabet agreed to provide additional information to the Committee.

Senator Peters asked about the increase in travel, contractual services and capital outlay. Ms. DeJabet said they have assumed the normal outreach program; travel increases are due to higher costs and associated increases in contracts costs.

Senators Peters and Haverly renewed their earlier request for historical data on what has been paid out on contracts for accounting compacts, In addition, Senator Haverly asked for information on what was paid out of unclaimed property trust fund over the past year and what the payments were for. Senator Peters also asked for a copy of a compact showing the terms.

### **Office of School and Public Lands**

For FY2013, the Governor recommends a budget of \$729,668; comprised of \$504,668 in general funds, \$225,000 in other fund expenditure authority, and 6.0 FTEs. This request is a total increase of \$12,325 (2.5%) in general funds from the FY2012 budget. The recommendation also includes a decrease of 1.0 FTEs from the FY2012 budget.

**Mr. Jarrod Johnson**, Commissioner of the Office of School and Public Lands (SPL), and **Mr. Justin Ohleen**, Deputy Commissioner of SPL, distributed a handout listing the agency's responses to the Budget Call letter, reversions to the general fund, and dam assessment priorities. **(Document #4)**

The major FY2013 budget changes include:

- FTE Reduction – The funding for the accounting/office manager position was cut in FY12 budget and the duties were distributed to the remaining FTEs. The position is currently vacant and the Commissioner proposes to cut that FTE;

- Interagency Billing Increases – The Bureau of Administration and the Bureau of Information and Telecommunications have increased their billing rates to all agencies; and
- Governor's Recommended Salary Policy - Increase of \$11,530 from general funds.

Commissioner Johnson stated that the budget for the Office of School and Public Lands (SPL) is funded primarily through state general funds and partially from the pesticide registration fees deposited in the Weed and Pest Control Fund. Revenue projections from service leases during FY2013 are steady and should provide approximately \$4.5 million. He is optimistic that oil and gas revenue from annual rents and bonuses payments could continue to increase as new exploration continues. The state will continue to receive royalty payments from producing wells which will account for \$2.5 million in additional revenue.

Distributed to the committee was a handout entitled "School and Public Lands Oil Production FY07-FY11". (**Document #5**)

Commissioner Johnson said that oil production is a potential industry that can grow in South Dakota. SPL collects revenue from surface leases, oil and gas production revenue, and interest earned on the permanent trust fund. Per statute, half of the money is paid annually to K-12 education, the endowed institutions, and the Board of Regents. The other half is deposited into the respective fund. For FY2011, SPL returned \$10 million to K-12 education, the Board of Regents, and endowed institutions.

In response to Representative Carson's question, Commissioner Johnson said that the 12.5% royalty paid to SPL is based on 1/8<sup>th</sup> the volume of oil per barrel that is removed from the ground.

Distributed to the committee was the "December 2011 State Land Sales". (**Document #6**)

Commissioner Johnson said that SPL held auctions in Aurora County, Minnehaha County, and Spink County in December 2011. The sale will bring in \$3.6 million to the REDI Fund and \$140,000 to the permanent fund.

In response to Senator Brown's questions, Commissioner Johnson said that the total number of properties that were available to be listed as surplus was reduced based on the Governor's discretion. The non-selected land is still being worked on to sell. Some of the properties that were not selected to be sold include:

- Property by the prison in Sioux Falls;
- Land by the Veteran's Home in Hot Springs;
- Shooting range in Custer;
- Property by the River in Yankton; and

- Land by a lagoon in Aurora County.

Commissioner Johnson said that he will provide the committee information about all the properties that are identified as surplus.

Commissioner Johnson said that the Governor's FY2013 budget recommendation is similar to the budget approved for FY2012. The only changes include an increase for space billings and computer rates, an increase for the Governor's salary policy, and a decrease in 1.0 FTE due to the budget cut last year. He stated that SPL concurs with the Governor's recommended FY2013 with one caveat – if the committee believes that any state employee that has received a salary increase during the salary policy freeze, which would include some SPL staff, should not be eligible for an increase in FY 2013, he supports that decision.

The liability of the dams is an issue that exists and needs to be addressed with repairs. At this time, SPL has not been able to find a solution that does not include a general fund appropriation for the repairs. In response to Representative White's question, Deputy Commissioner Ohleen stated that SPL does not have anything in the budget for a long-term solution. However, a small discretionary fund is available to repair smaller issues.

Representative Bolin asked about FEMA ability to help pay for the dam repairs. Deputy Commissioner Ohleen replied that FEMA will not pay 100% of the repair costs. If SPL is awarded a grant, then FEMA will pay up to 75% of the cost and the local state holders are responsible for the remaining 25% on a 3-1 match.

Commissioner Johnson said, in response to Senator Putnam's questions, that revenue generated from the investments is outlined on page 8 of the Legislative Research Council's budget brief. He said that that state pays for inflation based on the state constitution. In FY2010 and FY2011, the SPL was able to keep the inflation adjustment because of increased inflation payments made in the past. The constitutional changes in 2000 allowed SPL to invest in equities and not solely bonds to capture the performance of SDIC investments. At that time, a letter from Mr. Steve Meyers stated that if the payment was not adjusted for inflation, over time the permanent trust fund would not be able to support the payout.

In response to Representative Dennert and Senator Heineman's questions, Deputy Commissioner Ohleen stated that the payment to school districts is based on revenue from surface leases, ½ of the oil and gas production revenue, and interest earned on the permanent trust fund. The payout this year is expected to be \$10 million. On February 1, 2011, SPL paid \$6 million to K-12 education. That payment, combined with the payment in June to the Board of Regents, will total about \$10 million. The FY2013 payment is expected to be about the same depending on the year end inflation number.

Representative White asked about the \$5 million needed for dam repairs and the possibility of creating a capital outlay fund to address future repair problems. Deputy Commissioner Ohleen stated that SPL has about 96 dams and the cost repair assessment study was performed on 17 dams. Commissioner Johnson commented that there is a constitutional issue in creating a capital outlay fund in that every dollar generated from school income needs to be paid back to the schools.

### **Subcommittee of Revenue Projections**

Chairman Corey Brown announced the Subcommittee on Revenue Projections: Those involved are: Senator Tidemann, Chairman, Representative Carson, Vice-Chair along with Representative Wismer, Representative Dryden, Representative White, Senator Heineman, Senator Peters and Senator Sutton.

MOTION: ADJOURN

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

Barb Bjorneberg and Lisa Shafer  
Committee Secretary

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Corey Brown, Chair