

## **Appropriations Committee**

### **Study Assignment**

A continuing review of the appropriations process.

### **Summary of Interim**

On June 28, 2006, the Committee reviewed the budget transfers and investment income proration report prepared by the Bureau of Finance and Management. The Committee also heard testimony from the Office of Tourism regarding ethanol vouchers; received an update on the Agricultural Experiment Station at Cottonwood; and was informed by the Department of Social Services on residential treatment facility and nursing home reimbursement rates. The Committee adopted the FY 2007 Letters of Intent.

### **Listing of Legislation Adopted**

None.

### **Summary of Meeting Date & Places**

The committee met on June 28, 2006, in the State Capitol in Pierre.

### **Listing of Committee Members**

Committee members included: Senators Jerry Apa (Co-Chair), Julie Bartling, William Earley (Vice Chair), Jason Gant, Brock Greenfield, Gary Hanson, William Napoli, Orville Smidt, and Duane Sutton; and Representatives H. Paul Dennert, Mary Glenski, Jeffery Haverly, Jean Hunhoff, Ted Klaudt (Vice-Chair), Deb Peters, J.E. "Jim" Putnam (Co-Chair), Val Rausch, and Larry Tidemann.

### **Listing of Staff Members**

Reed Hoiwegner, Chief Fiscal Analyst; Mark Zickrick, Principal Fiscal Analyst; Annie Mehlhaff, Principal Fiscal Analyst; Sue Cichos, Senior Fiscal Analyst; Aaron Olson, Fiscal Analyst; and Lisa Shafer, Legislative Secretary.

## **Board of Regents Agency Review Committee**

### **Study Assignment**

An agency review of the Board of Regents pursuant to SDCL 1-26E-2.

### **Summary of Interim**

The first meeting of the Board of Regents Agency Review Committee was held on Thursday, June 29, 2006, at the State Capitol in Pierre, South Dakota.

The meeting primarily consisted of an opening presentation by members of the Board of Regents and the Board of Regents' staff and a tour of their office, which is located approximately one block east of the Capitol. Board president, Harvey Jewett, of Aberdeen began with an overview of the board, its responsibilities, and the institutions under its jurisdiction. He discussed the student populations served by the board, and some of the financial issues facing the board including tuition rates and faculty salaries. Mr. Jewett spoke of the need to focus on non-traditional students, whose numbers have risen dramatically in recent years. Many of them are served at self-support centers across the state including the SD Public Universities and Research Center in Sioux Falls and Capital University Center in Pierre.

Board of Regents' Executive Director, Dr. Robert T. "Tad" Perry, stressed that the board must recruit both faculty and students on a national level. He noted that South Dakota is slightly below the national average in terms of the numbers of citizens age 25-64 who have earned an associate degree or higher, and that the state will need to produce at least twenty percent more graduates each year just to keep from falling behind even more. He also provided the board with an overview of the regental system's budget. Thirty percent of the funding comes from the state, and its largest expense is paying teachers salaries and other costs related to instruction. Dr. Perry concluded his remarks by pointing out that enrollment numbers in higher education in the state continue to rise, despite the fact that the number of students enrolled in K-12 in the state is declining.

The committee also heard from several key staff members from the central office of the Board of Regents who briefly described their roles and responsibilities. Following that, Dr. Perry discussed the board's four policy goals for public higher education. They include providing access to postsecondary education to every qualified South Dakotan, improving academic quality, enhancing the state's long-term economy, and improving efficiency in the delivery of educational services.

On September 5, 2006, committee members divided into subcommittees and spread across the state to gather public testimony on the Board of Regents at five different locations. The committee held public hearings on the campuses of SDSU, USD, NSU, SDSM&T, and at the SD Public Universities and Research Center in Sioux Falls. Committee members at all locations reported having a good turnout and hearing valuable testimony. Among the many topics discussed was the credit hour requirement necessary to maintain an Opportunity Scholarship, the concern that too many students entering postsecondary education in this state need remediation in math, and also the concern that the Board of Regents is perhaps micromanaging the institutions it oversees and treating them all the same despite their differences.

On the following day, September 6, 2006, the full committee gathered at the State Capitol in Pierre for their second meeting. The members began by hearing from a panel of presenters who discussed what our public schools are doing to prepare students for success at our universities. Panel members included Dr. Perry; Dr. Rick Melmer, Secretary of the Department of Education; Tom Oster, Superintendent of the Avon School District; and Cheryl O'Brien, the Curriculum Services Coordinator for the Sioux Falls School District. Dr. Perry noted that in 2005, eighty-six percent of high school seniors were ready for college-level English and seventy-four percent were ready for college-level algebra. Dr. Melmer spoke of the correlation between family income and academic achievement. Students whose family incomes are higher score higher on academic achievement tests. Tom Oster discussed his school district's policy of requiring all students to take four years of English, social science, and lab science and three years of math, and how that policy has improved academic achievement among the students. Lastly, Cheryl O'Brien spoke of the increased acceptance and demand for advanced placement courses within the Sioux Falls district.

The committee then heard from a second group of panelists who talked about the postsecondary education available in this state in terms of whether it is preparing students adequately for the workforce and meeting the needs of business and industry. The panel included Curt Everson, SD Bankers Association; David Owen, SD Chamber of Commerce and Industry; Orlen Tschetter, Sioux Valley Hospital; and Dawn Morris, Morris, Inc. The panelists agreed that the graduates coming out of the state's higher education system are generally well-trained in their respective fields, but that they sometimes lack basic skills such as verbal and written communication skills and problem solving skills.

The committee's final meeting was held on Tuesday, October 24, 2006, at the State Capitol in Pierre. Dr. Perry discussed with the committee South Dakota's rankings on the most recent state report card on higher education. He noted that since 1992, the state's grades have improved in every category except affordability. In that category, South Dakota, along with 42 other states, received an "F". Dr. Perry explained that the low grade is due to the report card's emphasis on needs-based financial assistance, and it does not, in his view, accurately reflect the state's recent efforts to provide financial incentives to students. He said that the state could further improve affordability by reducing the self-support tuition rate to the state tuition rate, making the Opportunity Scholarship competitive with other states, and providing a low-income loan guarantee program. To further enhance participation in higher education, the board is considering offering one free college course to adults over age twenty-five.

Dr. Perry then reviewed with the committee the written responses to the many questions that members posed at the second meeting. Among other issues, he discussed the pay system for faculty members. Faculty members are not granted across-the-board increases, but rather receive increases based on performance, market, and institutional priorities. He explained to the committee the process through which programs on the campuses are added and dropped, and he provided some statistics relative to the SD Opportunity Scholarships, which were awarded to 2,100 students this fall.

Lastly, the committee discussed and adopted two pieces of legislation. One of the proposed bills simply makes style and form changes to some of the older statutes relating to the Board of Regents, and the other one repeals certain programs once under the authority of the board which are no longer functioning.

The committee recommends to the Executive Board that the Board of Regents be continued; having found the board met the burden of establishing sufficient public need is present to justify its continued existence.

### **Listing of Legislation Adopted**

- An Act to revise the style and form of certain provisions relating to the Board of Regents.
- An Act to repeal certain references to certain defunct programs under the authority of the Board of Regents.

### **Summary of Meeting Date & Places**

The committee met on June 29, September 6, and October 24 at the State Capitol in Pierre.

The committee met in subcommittees and held simultaneous public hearings at the following five sites on September 5:

- South Dakota State University, Brookings
- University of South Dakota, Vermillion
- South Dakota School of Mines & Technology, Rapid City
- Northern State University, Aberdeen
- South Dakota Public Universities and Research Center, Sioux Falls

### **Listing of Committee Members**

Committee members were: Representative Tim Rave, Chair; Senator Mike Broderick, Vice Chair; Senators Jim Hundstad, Frank Kioucek, Dave Knudson, and Duane Sutton; and Representatives Jim Bradford, Michael Buckingham, Cooper Garnos, Alan Hanks, Phyllis Heineman, Thomas Hills, Barry Jensen, Larry Rhoden, Bill Thompson, Shawn Tornow, and Ken Weems.

Staff members included: Clare Charlson, Senior Research Analyst; Annie Mehlhaff, Principal Fiscal Analyst; and Lisa Shafer, Legislative Secretary.

## **Department of Military and Veterans Affairs Agency Review Committee**

### **Study Assignment**

An agency review of the Department of Military and Veterans Affairs pursuant to SDCL 1-26E-2.

### **Summary of Interim**

The Department of Military and Veterans Affairs Agency Review result of SDLC Chapter 1-26E, which was enacted in 2003 and requires the Executive Board of the Legislative Research Council to establish committees each year to review the operations of state agencies so that each agency is reviewed once every ten years.

The Executive Board requested the Department of Military and Veterans Affairs Agency Review Committee to address a number of focus points during its review of the department. The primary focus points were the operations of the State Veterans Home and recruiting and retention efforts for the South Dakota National Guard. Other focus points included adequacy of services to families of deployed guard members; performance of South Dakota National Guard units; armories, unit locations, and restructuring; fiscal situation; education benefits for veterans and guard members; other state benefits and exemptions for veterans and guard members; veterans bonus programs; eligibility for veterans programs; and the role of Veterans Service Officers.

The first meeting of the Department of Military and Veterans Affairs Agency Review Committee was held in the Capitol in Pierre on July 25, 2006. The committee heard presentations by staff of the Department of Military and Veterans Affairs and the South Dakota National Guard providing an overview of Department and Guard operations and activities. Adjutant General Michael Gorman, Deputy Secretary Andy Gerlach, LTC Don Hollis of the Army National Guard, LTC Al Punt of the Air National Guard, and Division of Veterans Affairs Director Dennis Foell briefed the committee in their respective areas. Topics included key personnel, agency organization and missions, department budget, Army Guard structure, Air Guard structure, units, armories, federal/state roles, unit activations and costs, projections, benefits for veterans and Guard members, programs of the Division of Veterans Affairs, and Veterans Service Officer functions and activities. The committee heard testimony from several county and tribal Veterans Service Officers and other interested parties. Several committee members submitted additional questions to the department, and the department responded with detailed responses mailed to committee members and staff.

The committee held its second meeting in Rapid City on Monday, September 25, 2006 and in Hot Springs on Tuesday, September 26, 2006. The September 25 session was held at South Dakota National Guard Headquarters at Camp Rapid, and the September 26 session was held at the Michael J. Fitzmaurice State Veterans Home. At Camp Rapid, Mr. Bob Arneson of the South Dakota Veterans Service Officers Association discussed the need for a salary increase for Veterans Service Officers. Adjutant General Gorman provided an overview of recent National Guard actions and programs. Major John Weber gave a presentation on recruiting and retention issues for the National Guard and reported that the Guard is generally in good condition in those areas although some issues need to be addressed, such as increasing recruiting rates in larger market communities like Sioux Falls and Rapid City and addressing recruiting needs that will arise with planned changes

to the force structure of the Guard. Lieutenant Colonel Harvey Fitzgerald discussed the South Dakota National Guard Family Support Program. The Family Support Program has become extremely important with the deployment of South Dakota National Guard troops to Iraq and Afghanistan and is evolving as more experience is gained. The committee also toured the Camp Rapid facility. On Tuesday, the committee heard a presentation by Superintendent Larry Wilcox of the South Dakota State Veterans Home and toured the State Veterans Home facility.

Chair Gordon Pederson sent a letter on behalf of the committee to the Department of Military and Veterans Affairs requesting the department and the Veterans Commission to address the issue of salaries for Veterans Service Officers. The committee will also introduce a bill to make form and style changes to statutes pertaining to the Department of Military and Veterans Affairs and to update obsolete statutes.

### **Listing of Legislation Adopted**

An Act to clarify, repeal, update, and make form and style changes to certain statutes dealing with military and veterans affairs.

### **Summary of Meeting Dates and Places and Listing of Committee Members**

The committee met in the State Capitol in Pierre on July 25, 2006, and at Camp Rapid in Rapid City and the State Veterans Home in Hot Springs on September 25 and 26, 2006.

Members of the committee included Committee members are Representative Gordon Pederson (R Chair); Senator Jim Lintz (R-Hermosa, Vice Chair); Senators Gene Abdallah (R-Sioux Falls), Stan Adelstein (R-Rapid City) and J.P. Duniphan (R-Rapid City); and Representatives Paul Dennert (D Art Fryslye (R-Willow Lake), Jeff Haverly (R Rapid City), Alice McCoy (R-Rapid City), Deb Peters (R-Hartford), J.E. "Jim" Putnam (R Armour), Val Rausch (R-Big Stone City), Tim Rounds (R-Pierre), Donna Schafer (R Vermillion), David Sigdestad (D-Pierpont), and Larry Tidemann (R-Brookings).

Committee staff members were Tom Magedanz, Principal Research Analyst, Mark Zickrick, Principal Fiscal Analyst, and Reta Rodman, Legislative Secretary.

## **State-Tribal Relations Study Committee**

### **Study Assignment**

The State-Tribal Relations Study Committee held one meeting during 2006, on February 2006, in Pierre during the Legislative Session.

### **Summary of Interim**

The State-Tribal Relations Study Committee is an ongoing interim committee that was created in statute (SDCL 2-6-20) in 1993 as a part of the state's reconciliation efforts. The committee, which generally does not propose legislation, provides a forum within state government for discussion by Indians and non-Indians of issues affecting the Native American community. The committee also serves as a way of familiarizing legislators with such issues. The committee continued in 2006 with Senator Stan Adeistein as the Chair and Representative Paul Valandra as Vice Chair.

The committee held its only meeting of the year in the Capitol in Pierre on February 27, 2006. The primary topic at the meeting was uranium mining and its impacts in the Black Hills. Ms. Charmaine Whiteface, representing the Defenders of the Black Hills, Rapid City, discussed potential contamination in numerous areas of western South Dakota resulting from uranium exploration and mining operations beginning in the 1950s. She noted that in many cases these sites were not properly covered after cessation of mining. She stated that monitoring done by her group has shown elevated levels of radioactive material and that radioactivity can be carried in blowing dust and can also contaminate rivers and streams. She stated that this situation threatens the health of large number of South Dakotans and that there is evidence of elevated rates of cancer and other health problems in areas affected by uranium mining and exploration. She noted that there is also oil in the area and that there has been renewed interest in oil exploration as well as uranium development.

Mr. Steve Pirner, Secretary of the Department of Environment and Natural Resources, stated that uranium mining took place in the northwestern and southwestern corners of South Dakota from the early 1950s through the early 1970s. Many of the abandoned mines are on U.S. Forest Service land, and the department is working with the Forest Service on reclaiming some of these sites. The state does not do the testing on tribal lands; the tribes have an agreement with the federal Environmental Protection Agency (EPA) which specifies that testing on tribal lands will be done by EPA. Mr. Pirner stated that a small number of drinking water samples may be slightly above the standards and that there is some concern about radioactive dust in localized areas but that it does not travel very far. He said that this is the reason for the work that the Forest Service is currently doing. Mr. Pirner stated that reclamation involves gathering up radioactive tailings, covering them and reseeding the area and that the Forest Service is currently involved with reclamation. He stated that money is a problem and that the Forest Service does not have sufficient funding to reclaim all of the affected areas. Mr. Pirner stated that SB 62 was passed during the 2006 Legislative Session because of increased interest recently in new uranium exploration. SB 62 would increase the surety requirements for operators and also provides for rules to regulate the construction, operation, monitoring, and closure of uranium and other mines using in situ leach processes. He also stated that because of recent renewed interest in uranium development, DENR is planning to increase its testing activity.

The committee sent a letter to Governor Rounds requesting that the appropriate state agencies coordinate among themselves and with federal agencies and tribes to expedite testing and monitoring for radioactive materials associated with uranium exploration and mining. DENR responded to committee concerns with a written report submitted to the committee in May of 2006.

The committee also sent a letter to Governor Rounds urging further training in cultural sensitivity for all law enforcement personnel and other applicable state and local government personnel involved in corrections, criminal justice, and social services. The letter also indicated that the committee supports the findings of the Equal Justice Commission, including their recommendation that statistical data be compiled on race for arrests and traffic stops.

The committee heard public testimony on these and other issues.

### **Listing of Legislation Adopted**

None.

### **Summary of Meeting Dates and Places and Listing of Committee Members**

The committee met in the State Capitol in Pierre on February 27, 2006.

Members of the committee included Rep. Stan Adelstein (Chair) and Representative Paul Valandra (Vice Chair); Senators Julie Bartling, Tom Dempster, Bob Gray, and Theresa Two Bulls; and Representatives Jim Bradford, Cooper Garnos, J.E. "Jim" Putnam, and Thomas Van Norman.

Staff member: Tom Magedanz, Principal Research Analyst.

## **Telecom Taxes Study Committee**

### **Study Assignment**

A study of state and local taxes and fees imposed on the telecommunications industry and how the taxes and fees are distributed. The study shall include the following elements: Examine all types of technology and the taxes and fees paid; determine whether the gross receipts tax on wireless telecommunications industry levels the playing field in the telecommunications industry; identify alternative sources of replacement revenue if any telecommunications taxes and fees are decreased or repealed; compare the impact of the gross receipts tax on a competitive communications industry versus a regulated communications industry; compare the taxes and fees paid by South Dakota telecommunications companies and consumers to the amount paid in surrounding states; determine whether the gross receipts tax captures any income from nonresidents when they utilize wireless communications services in South Dakota; review the impact of new technology including Voice over Internet Protocol (VOIP) on current providers and the ability of the state to impose tax and fees on new technology; review current federal legislation and dockets at the FCC which might involve South Dakota's ability to apply taxes, fees, and regulations to telecommunications and information development. Determinations shall be made whether these taxes and fees affect the affordability of certain telecommunications services or influence the type of telecommunications service selected for use. The committee shall make recommendations on the type and amount of taxes and fees that should be levied on the telecommunications industry and how that money should be distributed. The recommendations shall consider the equity, efficiency, neutrality, and simplicity in administering any taxes and fees levied on the industry.

### **Summary of Interim**

During the first meeting on June 28, the committee reviewed the various classes of telecommunication companies and the taxes and fees imposed on the industry. The committee started the meeting with a discussion on wireless companies. Jim Fry, the Executive Director of the Legislative Research Council, stated that wireless telecommunication companies were centrally assessed in the 1990's and that assessment was based on a computation of values using cost, income, and market components. Intangible assets were also included in that assessment. It was determined by the courts that wireless phones were outside the realm of central assessment even after an amendment was made to the statutes in 1998. In 2003, the Legislature enacted chapter 10-33A that imposed a 4% gross receipts tax on wireless services. Sixty percent of the revenue from the tax on wireless services is deposited in the Property Tax Reduction Fund, which was \$4,927,150 in 2005, and forty percent is distributed to the counties, which was \$3,271,974 in 2005. VoIP services, however, are not classified as wireless services and do not remit the gross receipts tax based on a number of factors, primary among them being that there is no clear nexus.

Fred Baatz, Principal Research Analyst of the LRC, explained the gross receipts tax on local exchange telephone companies that have less than 50 million dollars in annual gross receipts and the history of gross receipts tax. During the 2002 session, the ceiling for the maximum gross annual revenue was increased from \$25 million to \$50 million and the rate of taxation changed to a flat 4% for all local telephone exchange companies. About 30 telecommunications companies currently provide local exchange telephone services with annual gross receipts less than \$50 million. The entire amount of the gross receipts tax is

dedicated to school funding and the distribution is based on the gross receipts received by the company in each school district. The revenue from these companies exceeded \$9 million in 2006.

Michael Kenyon, Director, Property and Special Taxes for the Department of Revenue and Regulation, stated that the purpose for central assessment is to have a uniform assessment process for all telephone companies that are centrally assessed. Central assessment is not too different from local assessment. To complete a central assessment, there are three steps: valuation, allocation, and distribution. First, the value of the whole company is determined using the cost, market, and income approaches. Next, the department allocates the value of the company based upon the percentage of the company's real property that is within South Dakota. The South Dakota value is then distributed to the various taxing entities. The following companies are centrally assessed: Qwest, MCI, McLeod, AT&T, and South Dakota Network. Four of the five telephone companies only provide long distance coverage (MCI, McLeod, AT&T, and South Dakota Network).

If a municipality owns and operates a telephone company, the municipality is exempt from being centrally assessed or taxed based on gross receipts pursuant to chapter 10-33. The municipalities of Brookings, Beresford, and Faith own and operate their own telecommunications systems. However, certain wireless telecommunication services provided by municipalities are subject to the gross receipts tax pursuant to chapter 10-33A.

Jan Talley, Director of Business Tax for the Department of Revenue and Regulation, explained the state sales tax imposed on telecommunications services. Sales taxes are applied at the customer's primary place of use (P P U) which is determined by the customer's residential or business street address listed in the bill. On wireless services, there is a state sales tax and municipal tax whether it is an interstate or intrastate call when the PPU is in the state of South Dakota. Landlines pay both the state sales tax and the municipal tax and are applicable to calls that begin or end in South Dakota that have South Dakota as the billing address.

Ms. Talley stated that the amount paid for local government's 911 fee, state and federal municipal tax, federal excise tax, telecommunications relay service charge, and telecommunications disability device fee is exempt from sales tax. However, sales tax is owed on a fee that is passed on to the customer by the business if the tax or fee is originally imposed on the business not the customer. The other taxes and fees are often passed down to the customer by the company and reflected on the customer's bill. If listed as a line item on the bill, the fee was passed to the customer. The gross receipts tax imposed on telecommunication companies is in lieu of a property tax, and this tax is typically passed to the consumer. Any cell phone charges for additional features and services are also subject to state and municipal sales tax.

Aaron Olson, Fiscal Analyst for the LRC, explained the following taxes and fees that customers pay for telecommunication services.

- The subscriber line charge is a fee paid to the local telephone company to connect them to the telephone network and the Federal Communications Commission (FCC) regulates and caps the fee. Currently the cap is at \$6.50 per landline phone. The money received goes directly to the local telephone company.

- The universal service fee is authorized by the FCC for maintenance and access to the local telephone network. This fee helps make phone service affordable and available to all Americans. All telephone companies providing interstate service must contribute to the universal service fee under a congressional mandate. This fee, although not mandated to do so, is often passed to the customers as a line item on the bill. Companies contribute a quarterly adjusted percentage of the amount billed to residential and business customers into the Universal Service Fund.

The FCC allows for a local number portability fee to be placed on all telephone lines for compensation when customers switch telephone companies and take their number with them. This fee is often placed on a customer's bill as a line item of typically a few cents to a dollar, or by raising the customer's monthly rate. The FCC does not regulate the amount charged, but it must be just and reasonable. A porting fee is allowed, but there are no regulations preventing a new carrier from paying old carriers porting costs.

The 911 emergency surcharge fee is a fee charged to cover the construction, maintenance, and upgrades of 911 services and related facility costs. It also covers the cost of local governments providing 911 services. SDCL chapter 34-45 was adopted in 1989 and placed the responsibility on the local government for providing 911 services. A surcharge of up to 75 cents per month on telephone lines is allowed.

- The American with Disabilities Act requires all voice service companies to provide access to a Telecommunication Relay Service and contribute to the a shared fund to support the service. A 15 cents per line fee is imposed in South Dakota on local exchange service lines, cellular phones, and radio pager devices. The Department of Revenue and Regulation monthly deposits 90% in the telecommunication fund for the deaf and 10% in the telecommunication fund for other disabilities.
- A tax is charged by the South Dakota Public Utilities Commission to defray the costs for the regulations of telecommunications, electricity, and natural gas. The South Dakota Public Commission Gross Receipts Tax Fund is established in SDCL chapter 49-1A, and funded by assessing a tax of 0.15% on the annual intrastate gross receipts received by a utility.
- The wireless companies impose a regulatory and administrative fee that helps wireless companies recover certain expenses. The regulatory fee helps to defray costs from various regulatory mandates, whereas the administrative fee section defrays other telecommunication costs. They are company specific charges and not taxes or fees that are required to be collected from customers by the federal or state government, but an additional fee imposed by certain wireless companies.

John De Witte, Vantage Point Solutions, made a presentation concerning VoIP, which can be defined as making a phone call over the Internet. This type of connection is very reliable with high voice quality, but does not handle information bursts very well. The voice is sent in real time by splitting the voice into network packets and routing the connection. Reassembly of the voice occurs at the destination. With the voice communication traveling in packets, the connection may travel different routes allowing many users to share the network. Customers may prefer VoIP because the cost is inexpensive and there are new features not available with conventional phones.

The future projection of wireless phones is that they will outnumber landline phones due to high speed Internet, growth of wireless, and younger generations choosing a wireless phone over a landline. The number of landlines has declined from 187.5 million in 2000 to 171.5 million in 2004. Long distance companies have tried to compete by declining prices by 60% over last decade. VoIP subscribers started to grow in 2003. The number of subscribers in a five year period is projected to increase to a total of 17 million; about 10 million more than 2006. The revenues for VoIP in the United States have increased from \$212 million in 2004 to \$1 billion in 2005. In 2006, VoIP revenues are projected to be approximately 7% of combined revenues of traditional local and long distance service providers and are expected increase to 31% by 2010. VoIP providers bypass the local telephone companies, and therefore no access fees are collected. Without any fees and taxes collected for VoIP services, the tax base decreases.

The Telecom Taxes Study Committee held its second meeting on August 2, 2006. The committee heard reports that the telecom industry and its customers paid approximately \$60 million dollars in telecom taxes, fees, and surcharges in FY 2006 to the state and its political subdivisions. In FY 2006, the wireless companies remitted approximately \$8.75 million dollars to the property tax reduction fund and the counties. The number of wireless phones and landlines in South Dakota were approximately the same in 2005, about 450,000 each. Initiated Measure 8, the repeal of the gross receipts tax on wireless telecommunications services, will be on the 2006 ballot. The average monthly bill for wireless phones has decreased from \$67.31 in 1993 to \$35.62 (in 1993 dollars) in 2005.

There are currently 37 PSAP's (Public Safety Answering Point) handling the 911 emergency phone calls. Tom Dravland, Secretary of Public Safety, and Bob Wilcox, Executive Director, of the Association of County Commissioners, reviewed the basic operations and services provided by the PSAP's and the consolidations and improvements of service that are being made. Mr. Dravland also stated that a survey is being conducted on the PSAP's to assess the readiness of the service, the protocols being used, and the impact of the new telecom technology. Pieter Poll, Chief Technology Officer for Qwest, also shared his perspective on the future of the telecom industry. The growth rate in communications traffic demand is expected to increase by 78% compounded annually. E-mails are expected to increase from 130 billion in 2005 to 276 billion in 2009. Instant messages are expected to increase from 14 billion in 2005 to 46.5 billion in 2009. He stated that the applications used by the customers are driving the market and the networks. As new applications are developed, the network has to be enhanced or built to accommodate the applications.

During the third meeting on September 6, 2006, Jason Dilges, Commissioner, Bureau of Finance and Management, explained that Initiated Measure 8, proposes to repeal the 4% Wireless Telecommunications Gross Receipts Tax. The state would lose \$3.6 million in FY 2007, and the counties would lose \$2.4 million. The state and counties also would lose \$10 million every year from FY 2008 forward—\$6 million state, \$4 million counties. Neither small nor large landline telecommunications companies will be affected by the passage of Initiated Measure 8.

It was stated that it is becoming more difficult to treat wireless and landline use differently and the question was posed whether there are any models that can be used to try to address the issue. Neal Osten, Federal Affairs Counsel for Communications and Interstate Commerce for the National Conference of State Legislatures (NCSL), re his nnf of such

models. He said that it is hard to come up with a model regarding telecommunications taxes for every state because such taxes are imposed and applied so differently in every state.

The Telecom Tax Study Committee did not propose any legislation.

### **Summary of Meeting Dates & Places and Listing of Committee Members**

The committee met on June 28, August 2, and September 6. The committee meetings were located in Pierre.

Committee Members Were: Senator Tom Hansen, Chair; Representative Hal Wick, Vice Chair; Senators Jerry Apa, Jason Gant, Royal "Mac" McCracken, Kenneth McNenny, Garry Moore, and Ed Olson; and Representatives Joel Dykstra, Bob Faehn, Mary Glenski, Thomas Clover, Tom Hackl, Roger Hunt, Charles Turbiville, and Mark Willadsen.

Staff members were: Fred Baatz, Principal Research Analyst; Aaron Olson, Fiscal Analyst; and Lisa Shafer, Legislative Secretary.