



Legislative Research Council

MINUTES

Legislative Planning Committee

Second Meeting
2014 Interim
July 21, 2014

Room 413
State Capitol
Pierre, South Dakota

The July 21, 2014, meeting of the Legislative Planning Committee was called to order by the Chair, Representative Munsterman, at 10:09 a.m. (CDT) in Room 413 of the State Capitol in Pierre, South Dakota.

A quorum was determined with the following members answering the roll call: Representative Scott Munsterman, Chair; Senator Mike Vehle, Vice Chair; Senators Ryan Maher, Bruce Rampelberg, and Billie Sutton; and Representatives Jacqueline Sly and Susan Wismer. Members excused: Senators Corey Brown and Tom Jones; and Representatives Kristin Conzet and Brian Gosch.

Staff members present included Clare Charlson, Principal Research Analyst; David Ortbahn, Chief Research Analyst; Annie Mehlhaff, Chief Fiscal Officer; and Traci Thompson, Legislative Secretary.

(NOTE: For purpose of continuity, the following minutes are not necessarily in chronological order. Also, all referenced documents distributed at the meeting are attached to the original minutes on file in the Legislative Research Council (LRC). This meeting was web cast live. The archived web cast is available at the LRC web site at <http://legis.sd.gov/>.)

Approval of Minutes

REPRESENTATIVE SLY MOVED, SECONDED BY SENATOR RAMPENBURG, TO APPROVE THE MINUTES OF JUNE 16, 2014. The motion prevailed unanimously on a voice vote.

The Capital Outlay Fund & Other School District Revenue

Mr. Michael Houdyshell, Director, Property and Special Taxes Division, Department of Revenue, gave a presentation entitled, *Capital Outlay Taxes (Document #1)*. This presentation dealt mainly with capital outlay taxes and the revenues generated by the capital outlay levy. He also discussed property taxes and the fundamentals of the system in place in South Dakota with the implementation of the productivity methodology that is being used to determine the valuation of agricultural property.

Senator Sutton asked whether schools had increased their capital outlay fund levies over the past ten years and, if so, what were the variables involved with the school district fund levy changes. Senator Sutton also asked why there was such a drastic decrease in capital outlay

taxes paid in 2009 compared to 2008. Mr. Houdyshell stated that that he didn't have that information with him, but he would investigate and provide the answer.

In response to a question asked by **Representative Wismer** regarding the logic of the capital outlay fund levy increase limitation being limited to four years, Mr. Houdyshell stated that originally the agricultural land was supposed to be assessed at full productivity within four years which would have been 2015. However, due to the fact that some land was so undervalued with regard to the new methodology, the limitation has since been extended to 2019. Mr. Houdyshell stated that a task force appointed by Governor Daugaard and the legislature's Agricultural Land Assessment Implementation and Oversight Advisory Task Force have also been looking into the issues surrounding the capital outlay fund.

Mr. Houdyshell noted that the Special Taxes Division is also looking into the effects that have resulted from the repeal of the 150% rule for non-agricultural properties, the agricultural land valuations during the productivity method implementation, and the assessment of land with conservation easements and other use restrictions that may have not been previously taken into account.

Ms. Tamara Darnall, Director of the Division of Finance and Management, Department of Education, shared a presentation entitled, *Capital Outlay Debt and Other Revenues*, which is included in a document distributed to committee members at the June 16, 2014, meeting.

Ms. Darnall began by explaining the three categories of long term debt which include capital outlay certificates, installment purchase contracts, and "Q Debt".

In response to questions on the issuance of capital outlay certificates, Ms. Darnall explained that a school district could issue certificates for an amount up to 1.5% of the school district's taxable valuation per project without election or public hearing. If the percentage is higher, it would require a public vote. A school district's total indebtedness cannot exceed ten percent of the district's taxable valuation, and accumulated unpaid principal balances from issuances from the capital outlay fund cannot exceed three percent of the district's taxable valuation.

Senator Vehle inquired as to the number of school districts that are taking advantage of issuing these capital outlay certificates. Ms. Darnall stated that the information is available but that she could not verify it due to the fact that it is self-reported by the school districts.

Senator Rampelberg asked who is responsible for monitoring school districts to make sure they were following these rules. Ms. Darnall responded by saying that, until now, the Department of Education had not really looked at the specific information regarding the capital outlay bonds. She stated that each school district has an audit done by an independent auditor and that report would then be sent to the Department of Legislative Audit. Representative Wismer added that once the audit is complete and sent to the Department of Legislative Audit, it is reviewed and made available to the public.

At the request of Senator Vehle, Ms. Darnall said that she would work on a report that would show flexibility expenditures and long-term debt by district within the context of capital outlay and what was included in those flexibilities.

Ms. Darnall continued the presentation by giving an overview of other revenue that school districts may collect outside the state aid funding formula and the possibilities for equalizing that revenue.

When asked what “*revenue in lieu of taxes*” would consist of, Mr. Houdyshell answered by saying that an example would be money paid by the federal government for federal lands within South Dakota. Chair Munsterman asked if there had ever been a dollar for dollar comparison as to what is paid by the federal government versus the state valuation. Mr. Houdyshell said that federal lands are not assessed by the state and therefore, there would be no way to compare.

Senator Sutton asked for further clarification regarding the change in how utility gross receipts are calculated. Mr. Houdyshell responded saying that the tax was based on gross receipts, but now, with the new methodology, it is based on generation or per kilowatt.

Representative Wismer requested that when the committee moves into the discussion of reserves that they be sure to quantify the effect that this particular policy change had on the level of the reserves as measured on June 30.

Ms. Darnall continued with the discussion of the variability of “other revenues” per student dependent upon the school district, and the potential impact of equalization.

Chair Munsterman recessed at 12:09 p.m., and reconvened at 1:05 p.m.

Teacher Shortage in South Dakota Schools

Robert Monson, Executive Director, School Administrators of South Dakota (SASD), shared a presentation entitled, *Teacher Shortages*, (**Document #2**) and began by telling the committee that the teacher shortage is real, it was predictable, and it is only going to get worse. He said the perception is that there is only a shortage of teachers in math and science and in rural school districts. He went on to say this is not the case. The goal of every administrator is to put the very best teachers in the classroom, but the current environment does not support this. Recently, eighty percent of school districts responded to a survey by the SASD which showed alarming results. He stated that by the end of May, most teacher vacancies are usually filled. However, of the 121 districts reporting, 238 teaching positions, or nearly thirty percent of the total vacancies, were still vacant by the end of May this year. He said that it is getting much more difficult to recruit and retain teachers because of the lucrative contracts offered by bordering states and other private industries. While he appreciated the money that the legislature appropriated last year, he said it is not nearly enough, and that school districts are only getting further behind. In conclusion, he offered some possible solutions to help this situation which include looking at a retire/rehire option to keep teachers in South Dakota, creating a special tax just for education, and increasing sales tax revenue by one-half percent, and dedicating it to schools.

Robert Sittig, Superintendent, Baltic School District, stressed the importance of teachers in society and how challenging that profession has become due to societal and family changes, the Common Core Standards, the new teacher evaluation model, and increased

accountability. Due to all of these, he said it is even more important to attract the best people and to encourage the best and the brightest to go into the teaching profession. He also emphasized that, with salaries ranking at the very bottom, teachers are not feeling appreciated. He finished by reading a letter written by **Leslie Judding**, Superintendent, Watertown School District, that said the Watertown School District had thirty-two openings this year and they were having great difficulty trying to hire teachers because so many were crossing the border. Being unable to hire two special education teachers resulted in the district hiring two elementary teachers and paying to have them certified in special education. She would like to see South Dakota begin honoring the teaching profession by supporting teachers financially and emotionally.

Dean Christensen, Superintendent, Deuel School District, discussed his increased difficulty in hiring teachers. He has been with the district for eleven years and stated that it has become more difficult each year to hire teachers. He says the biggest concern facing the Deuel School District is hiring teachers to replace those retiring, those leaving the profession for better opportunities, and those leaving the state to teach across the border. He noted another alarming fact which is the extremely low number of students wanting to become educators. He said that even giving teachers a twenty-five percent raise would still rank them at the very bottom among the other states (**Document #3**).

Senator Sutton asked how things had changed over the past ten years. Mr. Christenson responded by referencing an occasion eleven years ago when there was an opening for an elementary teacher. Eighty applications were received, and he could be extremely selective as to whom he interviewed. Today, he may only receive a few and has to interview everyone who applies.

Jarod Larson, Superintendent, Timber Lake School District, gave an overview of his school district and then shared a story regarding a physical education teacher vacancy. The district had received one application. He stated that an offer was extended to a potential candidate from Nebraska with a salary of \$40,500. He was not able to hire the young man because a Nebraska school district offered him a salary of \$69,432. Mr. Larson went on to share more information about open positions and the lack of qualified applicants. In closing, he shared some information that came from research conducted by Stanford University showing that teacher quality directly impacts student achievement (**Document #4**).

When asked how the public could be convinced of how bad the situation is since test scores have not fallen and schools still do an amazing job, Mr. Larson responded by saying that he did not have the answer, but that teachers would continue to do the very best they can for the children of Timber Lake. While being very proud of the job that schools are doing with less, Mr. Monson felt the public does get the impression that there is not a crisis. He went on to say that he felt test scores would be lower in the future due to the situation that South Dakota is in regarding the teacher shortage.

Tim Rhead, Superintendent, Alcester-Hudson School District, spoke on the challenges his district is facing in dealing with teacher retirements and teachers leaving the field along with the inability to hire new teachers, especially being so close to the Iowa border where the pay is much higher (**Document #5**). He went on to say the low number of applicants has resulted in

lower qualified teachers being hired. When asked what conditions made teaching more difficult and if students have changed over the years, Mr. Rhead responded by saying a big concern is parents not supporting the teachers. Mr. Monson stated that changes in family structure have also increased difficulties in the classroom.

Roger De Groot, Superintendent, Brookings School District, began by responding to the previous question as to whether students have changed. He felt that students have changed a great deal, and that behavior issues are much more common. The Brookings School District has had to open a behavior school which he never dreamed they would need. Another issue that he did not believe he would ever have to confront is the teacher shortage. Being from a college town, he always felt that finding highly qualified teachers would be easy, but that is no longer the case. The demand for teachers has never been greater. He has had to advertise multiple times, change job descriptions, and still was forced to hire mediocre teachers. Low salaries and low respect for teachers are what he feels is responsible.

Senator Sutton asked if the teacher shortage is a national problem or if it is more of a South Dakota problem. Mr. Monson responded by stating that he has visited with other states, especially neighboring states, and they are having difficulties in hiring math and science teachers like South Dakota experienced a few years ago, but they are not having the over-all shortage like South Dakota. Representative Sly added that she is involved with the Education Commission of the States as a commissioner, and they are having the exact same discussions that are being held here regarding teacher recruiting and retention, except that South Dakota has the added detriment of a lower salary. She noted that a public relations campaign might be helpful.

Joel Jorgenson, Superintendent, Hamlin School District, shared he has been with the school system for thirty years. Ten years ago when the school had an opening for an elementary teacher, it received over fifty applications. In comparison, this year, it received just four applications. If it receives a single application, the school is happy. So far the teachers hired have worked out well, but he is afraid that the time is coming when the school district will be unable to hire enough teachers.

Dr. Tim Mitchell, Superintendent, Rapid City Area Schools, shared the difficulties his school district is having with regard to not only hiring and retaining teachers, but also bus drivers as well. Currently, the district is short nine bus drivers and they have received word that bus drivers will be running dual routes. There is currently a need for two deaf educators. They have been able to hire one teacher out of Texas, but they have been unable to hire another one. Dr. Mitchell also commented on the additional difficulties that revolve around schools with high percentages of minorities and high poverty levels. Bumps in salary have been appreciated, but they are not keeping up with the increase in health insurance premiums. On a final note, he was excited to say that they had offered ten critical teaching needs scholarships to ten juniors and ten seniors who were all in South Dakota institutions studying to become teachers. His fear is these scholarships will be paid off by other states to get them to leave South Dakota.

Senator Rampelberg commented on the complexity of this issue and asked for guidance from those who are directly involved in a school system. Mr. Monson replied by saying that school officials are dealing with so much right now that they are looking for legislators to stand up and

say that education is important and to find a way to fix it. Dr. Mitchell added that he would like to see both sides confront the brutal facts of the problem, collaborate, communicate, and find a solution.

Committee Discussion

Representative Wismer thanked the school administrators for sharing their stories. She continued by saying she felt term limits were a big deterrent from finding solutions with legislators constantly changing and not being familiar with the issues. She would also like to see the executive branch take on a leadership role in trying to find the solution to the education crisis.

Planning for Future Meetings

Topics suggested for future meetings include the level of reserves in school districts in comparison to spending levels, and how the reserves fluctuate throughout the year; how teacher salaries are set in surrounding states; administrator salaries; critical teaching needs scholarships; exempted sales tax revenues; the amount of capital outlay funds used by schools, and the possibility of restricting those uses; and what can be done to entice students into the teaching profession.

Senator Vehle would like to see dashboard indicators the committee can use to track progress toward the established goals.

REPRESENTATIVE WISMER MOVED, SECONDED BY SENATOR RAMPENBERG, TO ADJOURN. The motion prevailed unanimously on a voice vote.

The committee adjourned at 4:05 p.m.