



Legislative Research Council

MINUTES

Legislative Planning Committee

Third Meeting
2014 Interim
September 8, 2014

Room 413
State Capitol
Pierre, South Dakota

The third meeting of the Legislative Planning Committee was called to order by Representative Scott Munsterman, Chair, at 10:00 a.m. (CDT), on Monday, September 8, 2014, 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 Corey Brown, Tom Jones, Ryan Maher, Bruce Rampelberg, and Billie Sutton; and Representatives Brian Gosch (via telephone), Jacqueline Sly, and Susan Wismer. Member excused: Representative Kristin Conzet. Staff members present included Clare Charlson, Principal Research Analyst; David Ortbahn, Chief Research Analyst; Amanda Jacobs, Research Analyst; 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 REPRESENTATIVE GOSCH, TO APPROVE THE MINUTES OF JULY 21, 2014. The motion prevailed unanimously on a voice vote.

Opening Remarks

Chair Munsterman welcomed the members of the committee and asked Ms. Amanda Jacobs, LRC's new staff member, to introduce herself.

School District Reserves and School District Budgeting

Mr. Martin Guindon, Auditor General, Department of Legislative Audit, stated that he sees every audit report that comes in from every school district for review and approval. In response to a question asked at the previous meeting regarding whether the reports that came in were audits or compilations, he stated that the reports are audits that are done in accordance with government auditing standards. His presentation entitled, *School District Fund Balances (Document 1)*, explains fund balances; the factors that affect school districts' finances and fund balances; the history of school fund balance limitations; and observations from analysis of fund balance data. He also included a spreadsheet that shows South Dakota School

Districts Consolidated Balance Sheets for Selected Funds from June 30, 2013 (**Document 2**), and charts that showed General Fund Balances as a percentage of General Fund Expenditures from FY1998 through estimated FY2015, and Historical K-12 Enrollments starting in FY1998 through FY2013 (**Document 3**).

Mr. Guindon showed that for FY2013, salaries and benefits accounted for 82% of the total statewide expenditures, with 9.58% being used for employee healthcare, as opposed to 5.5% used for employee healthcare in 1999. In comparing FY1999 with FY2013, 52% of the additional state aid money awarded, or \$47 million, has gone to pay for healthcare and insurance benefits.

Senator Tom Jones inquired whether Mr. Guindon could provide information that would show the percentage of state aid revenue in comparison to the total revenue over the past ten to fifteen years. Mr. Guindon said that he would be happy to provide that information to the committee.

When asked a question regarding what is considered an unassigned fund balance, Mr. Guindon said that if you subtract your liabilities from your assets, what is left would make up your unassigned fund balance. As far as how much of a fund balance a school district has comes down to management intent. School districts need to determine how much cushion is needed when considering unexpected revenue and expenses, and changes in enrollment. If management and governance are done well, the district's fund balance will also do well.

When asked if there is any sort of management training offered to school districts to help with budgeting, Mr. Guindon said that he could only share what his office is doing. He explained that, by statute, his office must give assistance to the local governments on accounting, financial reporting, and complying with the law. He said that after going through this data, he feels that it would be beneficial to address the issues of budgeting, planning, and forecasting for budgeting purposes the next time school training events are scheduled.

Ms. Darla Mayer, Business Manager, Pierre School District, distributed her presentation entitled, *General Fund – Budgeting & Fund Balance (Document 4)*. She began by sharing with the committee her work history and said that she was present to provide a school district perspective, as a business manager, on budgeting and fund balances.

Ms. Mayer explained the difficulty in budgeting when revenue is unknown, but the majority of expenses are fixed. With regard to the Pierre School District, Ms. Mayer said that 85% of the general fund goes to pay salaries and benefits. The next largest expenditure is for building operations which accounts for seven percent. These costs do not vary with regard to enrollment. If enrollment numbers decline and the majority of the fixed expenses remain the same, the school district cannot fund its budget. Ms. Mayer stated that she does work on school budgets five years in advance because salaries given today will affect the budget in five years.

When asked whether there is a formal process used to look at the economy for future budget projections, Ms. Mayer said that business managers do a great job of helping each other look for indicators that could impact future budgets. There are fall and spring conferences that provide training, and the Department of Legislative Audit provides debit/credit workshops

where budgeting issues are addressed. The difficulty with a formal system is that what works for one district may not work for another. Priorities of school districts may differ widely.

In response to a question as to whether the previous budget or actual numbers are used to calculate future budgets, Ms. Mayer said that her district always uses actual numbers, rather than previous projections. With insurance costs rising as much as they have, she said that it is important to use actual numbers.

When asked if there are reasons for school districts to have large fund balances, Ms. Mayer responded by saying that increased enrollment, staff turnover and resignations, uncertain revenue, and changes in gross receipt tax laws could all contribute to a higher fund balance. She noted that there are many variables, and that the goal is to break even. She said school districts want to use the funds that are available, but they also need to make sure that they can cover their expenses.

In closing, Ms. Mayer wanted to emphasize that the per student allocation only went from \$6,277 in 2007 to \$6,520 in 2013 which is only a 3.9% increase over those six years.

Proposed Legislation Impacting Other School District Revenues

Representative Dan Dryden, District 34, presented two bills that he introduced during the 2014 Legislative Session. HB 1205 – *An Act to create the school district tax revenue fund and to revise the distribution of certain tax revenues to school districts* and HB 1204 – *An Act to include certain funds in a school district's local effort for purposes of the state aid to general education formula*.

HB 1205 would seek to equalize proceeds generated through the bank franchise tax, the wind energy tax, the cooperative telephone gross receipts tax, and the electric cooperative generation tax. Currently, these revenues are distributed in the local district where they are generated. Representative Dryden said he would like to include a hold harmless provision so districts that currently receive these funds would not lose revenue that they have already planned on, but as future revenues grow, the excess money would be placed in a fund and distributed on a per student basis. He added that, currently, there are winners and losers in the way these funds are distributed, and he would like to see all students benefit from these revenue sources.

HB 1204 attempts to equalize the highway fine moneys collected by the counties that currently go to school districts in the county where the money is collected. Under this proposal, the approximately ten million dollars of fine money now collected statewide would be included in the definition of local effort in the state aid to education formula. The increased local effort would then be offset by the addition of approximately \$11.2 million of state funding to maintain the balance dictated by the Cutler-Gabriel amendment. He clarified that all school districts would get to keep their fine money, as required in the South Dakota Constitution, but the state would add to it so that all school districts would benefit from this revenue, even those that do not receive much in highway fine money currently.

When asked what the biggest hurdles are in passing such legislation, Representative Dryden responded by saying that finding the additional \$11 million in state money needed to fund the

legislation, and overcoming the misconception and fear that highway fine money is going to be taken away.

The State's Teacher Shortage and Possible Solutions

Mr. Wade Pogany, Executive Director, Associated School Boards of South Dakota; Mr. Robert Monson, Executive Director, School Administrators of South Dakota; and Mr. Mitch Richter, South Dakota United School Association, reminded the committee that they had been challenged to come up with ideas to help solve the teacher shortage in the state. In keeping with the challenge, they presented the committee with a proposal **(Document 5)**, which would establish a Teacher Salary Enhancement Fund (TSEF).

The proposal would do the following:

- 1) Set up a fund for additional revenue directed toward enhancing teacher salaries;
- 2) Set up conditions by which schools must qualify for the funds; and
- 3) Set up a funding mechanism to raise revenue for the fund.

Mr. Pogany estimated that increasing the sales tax collected during the months of June, July, and August by one cent would generate between 40 and 45 million dollars in revenue per year which would be used to fund the TSEF. The goal of the proposal is to raise the average teacher salary in South Dakota by \$4,000.

The legislation would also appropriate \$250,000 annually to be used to promote teaching and to attract prospective new teachers into the teaching profession.

When asked about a minimum base salary and how it would affect current teachers, Mr. Pogany responded by saying that the goal was to set a minimum base salary and shift current teachers up the pay scale.

When asked whether schools could use the money for something other than teacher salaries, Mr. Pogany said that it clearly states in the legislation that the money is only to be given to current certified instructional staff.

When asked whether tuition reimbursements would work in tandem to the TSEF, Mr. Monson said that he feels that it is important to bring legislation that would allow for this. He continued by saying that if salaries are being discussed to attract students into the teaching profession, other means of attracting teachers also need to be discussed.

Senator Vehle wondered whether setting goals for schools, rather than for individual teachers, would allow for more successful schools. Mr. Monson stated that the most important thing we can put in front of our students is not programs, but great people. By raising salaries, we will be able to attract great people into the profession.

Representative Munsterman expressed that he thinks the model is solid with the goal set at attracting and retaining teachers. He appreciates the performance measures that are included and the revenue source, along with defining how the funds are to be used. However, he questions whether there is data to show that an additional \$4,000 added to teachers' salaries would be enough to solve the problem. He stated that he would like to see more research

done to ensure that this proposal would create a more successful outcome for South Dakota students. Mr. Pogany responded by saying that he would love to be able to add \$8,000 to teacher salaries so that South Dakota schools could be more competitive with neighboring states, but he did not feel asking for that sum was realistic. He felt that raising the teacher salaries by \$4,000 would definitely help.

Representative Jacqueline Sly stated that she also appreciates the steps that have been taken, but feels that this is only one piece of the solution. Marketing also needs to be addressed in order to sell it to the public. Senator Vehle agreed that positive marketing is needed and stated that he would like to change the thought process to focus more on the positive aspects of the teaching profession rather than the low pay.

Public Testimony

Ms. Mary McCorkle, President, South Dakota Education Association, introduced herself to the committee, and stated that she is a teacher from the Mobridge-Pollock School District currently on full-time release for three years to serve as president and represent the association's 6500 members from across the state. She mentioned that the teacher shortage across South Dakota is a significant multi-faceted issue. She gave several examples of school districts that still need to hire additional teachers. She also stated that not only are attracting and hiring teachers a priority, but she would also like to see more emphasis on field training and support given to new teachers to help them be successful. She concluded by saying that she is a voice for what is good for our schools, our teachers, our support personnel, and our students.

Ms. Ruth Rehn, Pierre, stated that she grew up in South Dakota and became a teacher in Minnesota and then returned to the state to work for the South Dakota High School Activities Association. She said that she is excited to see that people are thinking outside the box to find a solution to the teaching crisis in South Dakota.

Planning for Future Meetings

Chair Munsterman asked committee members what they feel would be most beneficial to do at the next meeting. Several members mentioned that a review would be good since the committee has already received so much information. Therefore, Chair Munsterman suggested that he and Senator Vehle look back at the information the committee has received so far and provide the committee members with a review.

Chair Munsterman also noted that the committee would reach out to the South Dakota Education Association and to Ms. Joy Smolnisky from the South Dakota Budget and Policy Project to see if they would like to make presentations at the next meeting.

Representative Susan Wismer said that she is interested in seeing some of the projected numbers from the two ideas proposed by Representative Dryden and also from the Teacher Salary Enhancement Fund proposal, as submitted by Mr. Pogany, Mr. Monson, and Mr. Richter.

Senator Billie Sutton mentioned that he thinks it is important to keep apprised of the work of the Governor's task force looking at capital outlay funds.

When asked if the committee would sponsor any legislation during the upcoming legislative session, Chair Munsterman said that legislation could be brought forward, but since this is a two-year committee, he wants to make sure that committee members have a good understanding of school funding before any decisions are made.

Chair Munsterman asked that a review of possible legislation repealing the foundation program fund be put on the agenda for the next meeting.

Next Meeting Date

The next meeting of the Legislative Planning Committee is scheduled for November 17, 2014, at 10:00 a.m. in Room 413 of the State Capitol.

Adjournment

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

Chair Munsterman adjourned the committee at 3:21 p.m.