

# MINUTES

## Workforce Housing Study



Representative David Lust, Chair  
Senator Ryan Maher, Vice Chair

**Third Meeting, 2017 Interim**  
**Thursday, October 26, 2017**

**Room 413 – State Capitol**  
**Pierre, South Dakota**

The third meeting of the Workforce Housing Study Committee was called to order by Senator Maher at 10:10 a.m. (CDT) on October 26, 2017, in Room 413 of the State Capitol, Pierre, South Dakota.

A quorum was determined with the following members answering the roll call: Senators Terri Haverly and Jeff Monroe; Representatives Roger Chase, Jason Kettwig, Sue Peterson, Kyle Schoenfish, Jamie Smith, Charles Turbiville, and Susan Wismer (via telephone); Senator Ryan Maher, Vice Chair; and Representative David Lust, Chair. Members excused: Senator Kevin Killer and Representative Sean McPherson.

Staff members present include Clare Charlson, Principal Research Analyst; Emily Kerr, Legislative Attorney; Jeff Mehlhaff, Fiscal Analyst; and Cindy Tryon, Senior 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 office. This meeting was web cast live. The archived web cast is available at the LRC web site at [sdlegislature.gov](http://sdlegislature.gov).*

### **Approval of the Minutes**

**A MOTION WAS MADE BY REPRESENTATIVE TURBIVILLE AND SECONDED BY SENATOR HAVERLY TO APPROVE THE MINUTES OF THE AUGUST 1, 2017, WORKFORCE HOUSING STUDY COMMITTEE MEETING. The motion prevailed on a voice vote.**

### **Grants for Grads Program**

**Mr. Mark Lauseng, Executive Director, SD Housing Development Authority**, told the committee about a new program, Grants for Grads, that will be available in early 2018 ([Document #1](#)). This program is a down payment and loan cost assistance program for first-time homebuyers who are recent graduates of an accredited postsecondary educational institution recognized by the US Department of Education. Mr. Lauseng explained that, in addition to being a recent graduate, the participant must also meet income requirements. The home must be located in South Dakota and be the purchaser's principle residence. The cost of the home must be less than \$250,200. Mr. Lauseng said they expect to fund just over one thousand of these grants and have enough funding for the program to be viable for two to three years.

**Senator Jeff Monroe** asked what the income requirements will be. Mr. Lauseng said the income levels will vary from county to county, but will range from about \$69,000 to \$95,000 depending on the location.

**Representative Jason Kettwig** asked if the applicants must have graduated from a South Dakota higher education institution. Mr. Lauseng said an applicant's degree can be from any accredited institution in the United States which makes this program also a good job recruiting tool.

**Representative Jamie Smith** asked if the degree can also be from a technical school or graduate school. Mr. Lauseng said the program includes any accredited higher education institution, including technical schools and graduate schools.

## **Contractors' Excise Tax and the Building South Dakota Fund**

**Mr. Andy Gerlach, Secretary, Department of Revenue**, gave a PowerPoint presentation regarding Contractor's Excise Tax (CET) and the GOED Reinvestment Payment Program ([Document #2](#)). The CET is a 2% tax on gross receipts of all prime contractors engaged in construction services or realty improvement projects. The CET went into effect in South Dakota in 1979. South Dakota and New Mexico are the only two states that assess this tax. The Department of Revenue works hard to educate out-of-state contractors about this tax.

The CET is the third largest revenue source for the General Fund, accounting for 7% of those dollars. The state has collected about \$431.5 million in CET over the past five years.

**Mr. David Wiest, Deputy Director, Department of Revenue**, responded to committee questions regarding the CET. Mr. Wiest said the CET applies to work for governmental entities as well as private entities. The CET does not apply to the cost of the lot for building projects, but does apply to improvements to the lot.

Mr. Gerlach presented information on the Governor's Office of Economic Development (GOED) Reinvestment Payment Program. Projects with costs exceeding \$20 million are eligible for the Reinvestment Payment Program. If approved for the program, the CET paid on the project is deposited in the Building South Dakota Fund, and a portion or all of the sales and use taxes paid by the project are returned to the project owner through the reinvestment program. The Building South Dakota Fund was created in 2014 and, since then, \$5.6 million in CET has been captured for the reinvestment program. There have been twelve approved projects, of which three have been completed and nine are still active.

### **Building South Dakota Fund: An Overview**

**Mr. Jeff Mehlhaff, Fiscal Analyst, LRC**, presented detailed financial information regarding the Building South Dakota Fund ([Document #3](#)). The document includes a diagram illustrating from where the money comes and the different programs that are funded. Mr. Mehlhaff also provided a fund calculations worksheet.

Mr. Mehlhaff distributed the budget information for Building South Dakota showing the total receipts and expenses for the program since FY2013 ([Document #4](#)).

### **Workforce Education Fund**

**Ms. Tamara Darnall, CFO, Department of Education**, was asked by the committee to give an update on the Workforce Education Fund. Ms. Darnall shared the *Workforce Education Fund Annual Report to the Government Operations and Audit Committee* that was presented in September ([DOE Document](#)). The Workforce Education Fund receives 30% of the Building South Dakota funds which are to be used for secondary career and technical education grants, and one-time education enhancement programs.

### **Committee Discussion/Action**

**Representative David Lust** opened the meeting to committee discussion.

Representation Kettwig said an amount of funding needs to be determined that will make the Building South Dakota program more successful. He said that the amount of \$5 million has been discussed and perhaps that is a good starting point.

Senator Monroe said he has heard comments regarding the taxes and fees on building projects and that they make it difficult for builders to make a profit building affordable housing. He suggested that perhaps incentivizing the builders to undertake these projects would be helpful, including the use of tax increment financing for housing.

Representative Lust said many of the fees and taxes on these building projects are levied locally, so this is not primarily a state problem.

**Senator Ryan Maher** asked if the income requirements for the Governor's House program could be revised. Mr. Lauseng said there is a state board which oversees that program and the board tries not to compete with local builders. The board does change the income requirements as the price of the houses change. According to Mr. Lauseng, there are about 2,700 Governor's Houses that have been sold since 1995.

The committee was given three pieces of draft legislation for consideration.

*[Draft #1](#) – An Act to provide additional funding for the housing opportunity fund by redistributing certain building South Dakota funds.*

Representative Lust explained that this bill shifts some funds that GOED currently controls to the SD Housing Fund.

**Representative Susan Wismer** asked if the term "unobligated fund balance" is defined in statute and that she would be interested in legislation that would define that term.

*[Draft #2](#) – An Act to increase the amount of unobligated cash that may be transferred to the building South Dakota fund after the end of a fiscal year.*

Mr. Mehlhaff said this legislation would put more unobligated general fund dollars into the Building South Dakota program.

*[Draft #3](#) – An Act to revise the amount of project costs required to allow the contractor's excise taxes paid on a project to be deposited into the building South Dakota fund.*

Representative Lust said that rather than proceed with this legislation, it would probably be less cumbersome to use a percentage of the overall contractor's excise tax. Representative Kettwig agreed adding that the legislation would be better stating how much funding is needed and from where the funding will come.

Representative Wismer cautioned that adding general funds to Building South Dakota will take those funds away from other areas such as education.

Representative Lust summed up the discussion on the draft legislation by saying that Draft 1 needs to have section two removed; there is some interest in Draft 2 and increasing the cash balance; and Draft 3 needs a complete rework which includes moving in the direction of a contractor's excise tax and sales tax rebate.

Representative Lust asked the LRC staff to research turning the Bulldoze, Build and Beautify Program from a federal program into a state program. Senator Maher suggested looking back at Governor Janklow's Spruce Up South Dakota program.

## **Adjourn**

**A MOTION WAS MADE BY REPRESENTATIVE TURBIVILLE AND SECONDED BY REPRESENTATIVE CHASE THAT THE WORKFORCE HOUSING STUDY COMMITTEE MEETING BE ADJOURNED. The motion prevailed on a voice vote.**

The committee adjourned at 1:10 pm.