

MINUTES

Government Operations & Audit Committee

Senator Larry Tidemann, Chair
Representative Jean Hunhoff, Vice Chair



**Third Meeting, 2016 Interim
Tuesday, August 23, 2016**

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

The third meeting of the 2016 Interim Government Operations and Audit Committee (Committee) was called to order by Chair Tidemann at 9:00 a.m., August 23, 2016, in room 413, State Capitol Building, Pierre, South Dakota.

A quorum was determined with the following members answering the roll call: Senators Tidemann, Heineman, Novstrup, Representatives Hunhoff, Cronin, Hunt, and Bartling. Senator Sutton joined by conference call. Senator Peters and Representative Dryden were excused.

Staff members present were Mr. Martin Guindon, Auditor General; Mr. Bob Christianson, and Mr. Tim Flannery, State Government Audit Managers for the Department of Legislative Audit (DLA).

NOTE: For the purpose of continuity, the following minutes are not necessarily in chronological order. The bulleted items below each agenda item are documents sent out by the Committee.

Approval of Minutes

Representative Cronin moved, seconded by Representative Bartling, the minutes of the June 20, 2016 meeting be approved ([Minutes 6-20-15 Doc.1](#)). Motion prevailed unanimously on a voice vote.

Item 1 – Department of Legislative Audit to review the calendar year 2015 audit reports of the South Dakota Authority Captive Insurance Company and the South Dakota Property and Casualty Captive Insurance Company

- [SD Authority Captive 2015 Doc.12](#)
- [SD Property Captive 2015 Doc.13](#)

Tim Flannery provided background information about the captive insurance companies. He stated the captive insurance companies were established during the 2015 Legislative session. The Legislature appropriated funds to provide the initial capital contributions to the two captive insurance companies.

Mr. Flannery went through the audited financial statements of the South Dakota Authority Captive Insurance Company, LLC (referred to as Authority Captive). He stated the Authority Captive was established to cover some of the liability risks of the six Authorities in the State of South Dakota: the Science and Technology Authority, the Building Authority, the Health and Educational Facilities Authority, the Educational Enhancement Funding Corporation, the Ellsworth Development Authority, and the Housing Development Authority. The Authority Captive is governed by a five member Board of Managers. The Office of Risk Management serves as the manager and performs functions such as underwriting, billing and collecting premiums, investigating and settling claims, accounting, and

reporting. Mr. Flannery further described the Authority Captive as being broken down into two cells; cell one provides liability coverage for the Science and Technology Authority and cell two provides liability coverage for the remaining five authorities. He added that House Bill 1186, 2015 session, authorized \$2.5 million of Science and Technology Authority Indemnification fund money be used as initial capital for cell one. House Bill 1187, 2015 session, appropriated \$2 million from the State general fund to be used as initial capital for cell two. The Authority Captive began providing coverage on September 1, 2015.

Mr. Flannery reviewed with the Committee the Authority Captive auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with government auditing standards. He added that this auditor's report does not offer an opinion on the overall design and operation of the government's internal control but, if deficiencies in internal control or instances of noncompliance were noted, they would be identified in this report. He stated there were none identified.

Mr. Flannery reviewed with the Committee the Authority Captive independent auditor's report. He added that this report provides an auditor's opinion as to whether the financial statements are presented fairly and accurately. He stated the auditor's opinion is an unmodified opinion, or in other words, a clean opinion.

Representative Cronin asked if the loss reported in the Statement of Revenues, Expenses, and Changes in Net Position will change in future reports. Mr. Flannery stated that start-up costs were largely responsible for this first year loss and that future revenue, through actuarially determined premiums, should cover all expenses. Senator Tidemann asked why the legal fees were so high. Mr. Flannery stated that additional legal costs were incurred to draft new agreements and amend an existing agreement.

Mr. Flannery went through the audited financial statements of the South Dakota Property and Casualty Captive Insurance Company, LLC (referred to as Property and Casualty Captive). He stated the Property and Casualty Captive was established to provide property, business income, and extra expense coverage on the State's buildings. The Property and Casualty Captive is governed by a three member Board of Managers. The Office of Risk Management serves as manager. He added that House Bill 1185, 2015 session, appropriated \$4 million from the State general fund to be used as initial capital for the Property and Casualty Captive. The Property and Casualty Captive began providing coverage on October 1, 2015.

Mr. Flannery reviewed with the Committee the Property and Casualty Captive auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with government auditing standards. He added that this auditor's report does not offer an opinion on the overall design and operation of the government's internal control, but if deficiencies in internal control or instances of noncompliance were noted, they would be identified in this report. He stated there were none identified.

Mr. Flannery reviewed with the Committee the Property and Casualty Captive independent auditor's report. He added that this report provides an auditor's opinion as to whether the financial statements

are presented fairly and accurately. He stated the auditor's opinion is an unmodified opinion, or in other words, a clean opinion.

Representative Cronin asked if there was coverage for the June 2015 storm that damaged the State Capitol Building. Mr. Flannery stated that this storm occurred prior to the start of the Property and Casualty Captive providing coverage, however, there may have been a policy in place at the time of the storm. He stated that he would check with management and get back to the Committee with this information.

Representative Bartling moved, seconded by Representative Cronin to accept the audit reports presented by DLA. Motion prevailed unanimously on a roll call vote.

Item 2 – Follow-up information on the South Dakota Developmental Center

Senator Tidemann stated pursuant to Article Three, Section 15 of the State Constitution he would entertain a motion to go into Executive Session for the purpose of discussing personnel related issues. Representative Cronin moved, seconded by Senator Heineman to go into Executive Session. Motion prevailed unanimously on a voice vote. Senator Tidemann welcomed back the internet listeners and yielded the floor to Representative Cronin. Representative Cronin moved to direct the Secretary of the Department of Human Services to complete an anonymous employee satisfaction survey of the employees at the South Dakota Developmental Center (SDDC) by November 25, 2016 and report the results of the survey back to the Committee. The motion was seconded by Senator Novstrup. Senator Tidemann asked for discussion on the motion. Representative Cronin stated at the June 20, 2016 meeting the Committee heard from a former SDDC employee and others that prior employee satisfaction surveys were not anonymous. Representative Cronin believed this motion would help the Committee better understand the positive or negative issues with the employees of the SDDC and urged Committee support for the motion. Representative Hunhoff stated it is the Committee's responsibility to look at programs to see that they are running at the highest level, knowing that positive employee satisfaction yields the best performance. She added employee satisfaction is important to provide our clients the highest quality of care and urged Committee support for the motion. Senator Heineman applauded Secretary Pearson for being on the path of continuous quality improvement. She mentioned Secretary Pearson has engaged consultants to identify best practices and hoped that Secretary Pearson would share the results with the Committee at a future date. Senator Heineman stated she believes aligning best practices with performance measures will help future Legislators ensure programs are offering the best possible services. Motion prevailed unanimously on a roll call vote. Senator Tidemann stated a letter would be prepared and sent to Secretary Pearson with the requests of the Committee.

Representative Cronin asked Commissioner Gill to explain the whistleblower policy and if SDDC employees are aware of this policy. Commissioner Gill stated the state employee handbook has been reorganized. The new employee handbook has been placed on the desktop computers of all executive branch employees. At the beginning of the handbook there is a letter from the Governor on the expectations of state employees. She added the whistleblower policy is also in the employee handbook. Commissioner Gill stated that there is a BHR Human Resource Manager at the SDDC and that SDDC employees can report to this person or the Attorney General's Office if they have concerns.

Item 3 – Technical Institutes of South Dakota to discuss student numbers, programs, economic impacts facing the schools, and salary enhancements

- [Letter to Lake Area Tech Doc.2](#)
- [Letter to Mitchell Tech Doc.3](#)
- [Letter to Southeast Tech Doc.4](#)
- [Letter to Western Dakota Tech Doc.5](#)

Senator Tidemann stated the reason for the Committee's interest in the Technical Institutes was the report that came out after the 2016 Legislative session which claimed that Southeast Technical Institute was experiencing declining enrollments and facing the possibility of laying off staff.

Tiffany Sanderson, Director for Career and Technical Education, Department of Education thanked the Committee for the opportunity to share information. She stated she would provide a system wide overview prior to turning the presentation over to the Presidents (see [DOE CTE Presentation.pptx](#)). Director Sanderson stated investment in technical education is a worthwhile investment for students, employers, and the communities in South Dakota. She stated each year the technical institutes educate about 6,300 students across a variety of programs. She stated there are a variety of options for students to come in, receive training, and get into the workforce. It's a cost effective and timely way for students to get into a career. Director Sanderson said one of the keystones of the technical institute system is how we connect with our industry partners across the state. Industry partners have influence on the curriculum and programs being offered. There are currently 130 different program options for students and each year 2,500 graduates come out of the system. They can be awarded an Associate in Applied Science degree, diploma, or certificate. Of these graduates, 85% are remaining in South Dakota and filling high technology and high need career fields. Director Sanderson stated that total placement is 98%, which represents students being either employed or moving on to continuing education.

Director Sanderson applauded Mitchell Technical Institute for being named the top on-line two year college in the country by BestColleges.com. In addition, the South Dakota two year college system was rated top in the country for educating students, student outcomes, and placement rates by Wallet Hub. The Wallet Hub survey was completed from a population of 850 community colleges across the country.

Director Sanderson stated that the overarching goals of the technical institutes are to increase the number of skilled professionals in South Dakota and increase the state's economy. She stated that by 2021 they hope to have 3,000 students graduate per year. She added that this year's enrollment numbers are steady to rising. Our statewide graduation rate leads the country at 51% as compared to the national average graduation rate of 19%.

Director Sanderson explained for school year 2015-2016, there were 306 full time instructors on the four technical institute campuses. Of this group, 65% are under the age of 52 and the remaining percentage is close to retirement age. She stated that House Bill (HB) 1182, 2016 session, that provided additional funds for the instructors, will help recruit and retain instructors. She thanked the Legislature for passing this legislation. She explained the challenges the technical institutes have faced in attracting and retaining instructors. The additional funding, provide by HB 1182, has reset pay scales to be more in-line with industry. She stated that administrative rules (ARSD 24:10:49) have been developed to distribute the salary support funds provided by HB 1182. Director Sanderson reviewed terminology and key

calculations contained in the administrative rules to adjust instructor pay to match industry pay. She stated that the administrative rules also include performance as one of the factors in determining an instructor's salary adjustment, at the request of the Legislature. Director Sanderson explained in detail how wage ranges were adjusted to match market values and how \$3 million was distributed to the technical institutes to fill the wage gaps for all 130 programs across the system. She added that every three years pay scales will be reviewed with the assistance of the Department of Labor and the Bureau of Human Resources.

Michael Cartney, President of Lake Area Technical Institute (LATI) thanked the Committee for the additional funding provided by HB 1182. He explained how the funding was used at LATI. He provided a handout (see [LATI Presentation.pdf](#)) that explained the amount of salary enhancement dollars received, the programs offered, and key initiatives at LATI.

Representative Cronin asked how LATI used the one time tuition buy-down money. President Cartney explained LATI received approximately \$360,000 in tuition buy-down and most of that money was used to purchase equipment. Director Sanderson also explained the funding sources for the technical institutes, which included state-aid, national guard dollars, bonding dollars, HB 1182 dollars, and tuition buy-down dollars. Senator Tidemann asked how the scholarship program worked. President Cartney said that currently 10% of students receive scholarships, of which some were from the Build Dakota Scholarship Fund. This program was established by the State and Denny Sanford to assist in overcoming the workforce shortage South Dakota faces. It provides full ride scholarships to students and the students commit to working in the State, in their field of expertise, for a period of time after graduation. Students can go to the Build Dakota Scholarship Fund website and find information about the program.

Mark Wilson, President of Mitchell Technical Institute (MTI) thanked the Committee for the additional funding provided by HB 1182. He stated the salary enhancements were life changing to many individuals and they were very appreciative for the salary increases. He provided a handout (see [MTI Presentation.pdf](#)) that explained the amount of salary enhancement dollars received, the programs offered, and key initiatives at MTI. President Wilson explained a couple key initiatives at MTI: 1) the Center for Student Success, and 2) the registered apprenticeship program.

Senator Heineman asked how performance was addressed in the salary enhancements and what percentage of employees received an increase in pay due to performance. President Wilson stated that enrollment credit hour production in the various programs is the key element in determining instructor performance. He added that about 60% of instructors received performance related increases. Representative Hunhoff asked if there had been growth in on-line education programs. President Wilson said MTI is always looking at on-line education opportunities. He added that on-line opportunities depend on the program and certain programs require a more hands on approach to learning.

Rich Kluin, Vice-President of Finance and Operations, Southeast Technical Institute (SET) provided the Committee a handout of the various programs offered at SET (see [SET Presentation.pdf](#)). He explained the four pillars included in their strategic plan: 1) institutional leadership, 2) marketing and retention, 3) program partnerships, and 4) resource sustainability. Senator Heineman asked if SET has targets or

performance indicators for the areas mentioned. Mr. Kluin stated that SET is working with their advisory council to develop key performance indicators to help track programs.

Mr. Kluin stated the new president, Robert Griggs, will start employment on September 1, 2016. He brings a great deal of experience from his prior employer, Bemidji State University. Mr. Kluin concluded by explaining that SET is just finishing the building of a new 115,000 square foot auto technology lab. This added space may double the number of graduates in this program.

Senator Tidemann asked if there was a budget shortfall at SET. Mr. Kluin stated a media report came out during the budget negotiation process, not at the end when the budget was adopted. At the time of the media report, the projected revenues were down \$1 million and projected expenditures were up \$1 million, for a \$2 million projected shortfall. The final budget has been adopted that has reduced this projected shortfall to \$450,000. Mr. Kluin stated these dollars will be found along the way this year, through staff turnover, reduced project costs, etc. He was encouraged that this year's enrollment counts were ticking up slightly, so the revenue projections look to be on target.

Ann Bolman, President of Western Dakota Technical Institute (WTI), explained the development of a new strategic plan. The new plan focuses on three areas: 1) students, 2) faculty and staff, and 3) community. She mentioned, in the past, teachers weren't provided time to complete assessments of student outcomes. Ms. Bolman stated they have increased the hours in a work day from 7 1/2 to 8 hours and now there is an expectation that faculty will complete various assessments as part of their work day. She hopes this will ultimately lead to improved student performance. President Bolman explained a few key initiatives included in WTI's strategic plan. She described WTI's enrollment goal of 1,500 students and a graduate placement rate of 90%. President Bolman hopes to have a transfer agreement in place with an area university for each program at WTI. She also explained WTI's goal of 500 dual enrollment students; WTI currently has 178 students with dual enrollments.

President Bolman described two new programs offered at WTI: 1) Medical Lab Technician, and 2) Dental Assisting. She stated there are currently 30 students in the Medical Lab Technician program and 24 students in the Dental Assisting program. She concluded by describing several new buildings that will be opening on campus including a diesel technology building, an emergency room simulation center, a public safety building, and an event center.

Item 4 – University Center in Sioux Falls to provide an update on the center

- [Letter to University Center Doc.6](#)

Craig Johnson, Executive Director of the University Center in Sioux Falls (UC), provided the Committee an update on the UC. He stated in March 2016 the Board of Regents approved a memorandum of understanding (MOU) between Dakota State University (DSU), South Dakota State University (SDSU), and the University of South Dakota (USD) to revise the governance model and the operations model at the UC. That model put USD as the lead institution for the UC. Director Johnson stated USD has been empowered to make decisions over the operations and programming at the Center, when necessary. He explained that a UC Coordinating Group has been created which includes members from the three universities in the MOU.

Director Johnson stated a critical issue is the drop in enrollment. Since 2011, the high point for enrollment, the UC has lost 1/3 of the credit hour enrollment. He stated the UC experienced a 20% drop in enrollment for the fall of 2015. He anticipates a 14% drop in enrollment for the fall of 2016. He explained two factors that are contributing to the decrease in enrollment: 1) the increased availability of on-line programs, and 2) the strong job market in the Sioux Falls metro area. Director Johnson explained the UC continues to receive strong student satisfaction rates; however, student life cycles appear to be dropping.

Director Johnson provided an update on the UC's budget. He explained there has been a budget shortfall because of declining enrollment. For the last three budget periods, the partnering universities had to absorb the shortfall. He stated for fiscal year 2016 there was a budget shortfall of \$450,000 that the partnering universities had to cover. Senator Tidemann asked how this shortfall was allocated to the partner universities. Director Johnson stated the \$450,000 was prorated to the partnering universities based on their share of enrollment. Senator Tidemann asked how future revenue will be shared. Director Johnson explained a new model has been developed; 60% of the tuition dollars received will go to the UC, 30% to the home university where the student was enrolled, and 10% to the university that offers the course. Representative Hunhoff asked how UC expenses are allocated. Director Johnson explained that 44% of the operating costs are allocated to USD, 44% are allocated to SDSU, and 12% allocated to DSU. Representative Hunhoff asked if costs are now being born by students on the main university campuses. Director Johnson did not believe this was the case. He stated the UC provides support for on-line students in the Sioux Falls area. These students are taking on-line courses offered by the six main universities; however, they are being served by the UC. Representative Hunhoff stated the UC was built to support education into the future; however, it has not evolved as planned. Director Johnson is hoping that the UC will appeal to the growing number of Sioux Falls area students that are not going on to technical institutes or college anywhere. He stated they are trying to develop a community college atmosphere which may be more appealing to this group. He added the UC can offer two year associates degrees and allow students to transfer to another university to complete a four or five year degree.

Director Johnson concluded the UC is at a point where there needs to be dialog between the Regents and community leaders as to what the revised mission of the UC should be.

Item 5 – Department of Revenue to provide an update on recently passed legislation pertaining to the direct shipment of wine

- [Letter to Revenue Doc.7](#)

Jason Evans, Department of Revenue (DOR), provided historical information on the passage of House Bill (HB) 1001, 2015 Session (see [Direct Shipper Review.pdf](#)). He stated the law had a delayed implementation date of January 1, 2016. There is also a mandatory electronic return filing and tax payment system requirement for wineries and carriers. He stated the delayed implementation date allowed the DOR enough time to implement this electronic system. Mr. Evans explained the following key points of HB 1001:

- Requires wineries and common carriers to annually obtain a \$100 license.
- Allows eligible wineries to ship directly to consumers in South Dakota for personal use only.
- Age verification is required at the time of order and again at the time of delivery.

- Limits each wine recipient to 12 cases annually.

Mr. Evans explained that to qualify for a license the winery must be located in the United States; the winery must produce their own wine and hold a Federal Basic Wine Manufacturing Permit. Mr. Evans provided information on how South Dakota residents can search to find a winery and determine if that winery is licensed to ship to South Dakota. Mr. Evans stated during the first two quarters of 2016 there have been 275 direct shipper licenses issued. Mr. Evans explained the taxes collected in the first two quarters of calendar 2016, \$11,221 of alcohol tax and \$27,565 of state and municipal sales tax.

Mr. Evans explained some of the compliance issues the DOR has experienced. These compliance issues include third party fulfillment warehouses. Carriers report the warehouse name as opposed to a licensed winery. He stated this is an issue the DOR had not contemplated. Another issue is the submission of inaccurate returns. He stated the DOR has seen retailers and unlicensed wineries shipping wine, beer, and distilled spirits to South Dakota consumers and retailers. The final compliance issue mentioned by Mr. Evans was consumers exceeding their case limit.

Item 6 – Bureau of Human Resources to present the annual report of compiled authorizations in accordance with SDCL 5-18A-17.2. The Auditor General will provide an update on conflict waiver forms received.

- [Letter to BHR Doc.8](#)

Chris Houlette, Bureau of Human Resources (BHR), presented the annual report of compiled authorizations received under SDCL 5-18A-17.2 (see [BHR Conflicts Report FY16.pdf](#)). He explained this was the first report prepared by BHR and covered the time period from July 1, 2015 through June 30, 2016. He provided the Committee with the Legislative history and the applicable statutes SDCL 5-18A-17.2 and 5-18A-17.3. He stated the BHR received 19 authorizations (waivers) regarding individuals and two blanket waivers during the reporting period. Mr. Houlette also provided the Committee a report of actual authorizations received by BHR (see [Actual Authorizations to BHR.pdf](#)).

Representative Cronin encouraged state agencies to request information about potential conflicts from job applicants as part of the employment process, similar to the disclosure statements that are required from elected officials. Senator Tidemann asked if any waivers had been denied during the reporting period. Mr. Houlette recalled three waivers being denied. Mr. Houlette explained that an individual can appeal the denial to the Governor's Office. Representative Hunhoff asked if the Committee would see those waivers if they were granted by the Governor's Office during the appeal process. Mr. Houlette stated these waivers would also be provided to the Committee in the annual report.

Martin Guindon, Auditor General, Department of Legislative Audit (DLA) informed the Committee that DLA's website has been updated and now includes a place where people can report suspicions of fraud, waste, or abuse in government.

Auditor General Guindon stated he agreed with Representative Cronin with regard to communicating the various conflict laws with new employees as well as with newly elected officials. He added there are now three sets of conflicts of interest laws: 1) Article III, section 12 of the Constitution, which applies to Legislators, 2) SDCL 5-18A-17.2 which applies to state officers and employees, and 3) SDCL 3-23-8 which

applies to local service agencies, school boards, education cooperatives, and education service agencies. Auditor General Guindon reported on the waivers he has received so far under SDCL 3-23-8. He stated three waivers have been received from boards involving five individuals and 49 waivers from school district boards involving 181 individuals. He added 36% of the waivers involve someone on the school board where their spouse is employed, 13% where the board member is the employee of a contractor doing business with the school.

Auditor General Guindon stated these waiver forms are public documents. He stated he wouldn't necessarily put them out on a website unless there was enough interest from the public, news media, or Legislators. He added these documents are also available locally at the various boards. Auditor General Guindon proposed to the Committee that his annual report of waivers be prepared and presented to the Committee in a summary form. He added if the Committee desired to drill down further into the details we could do that. Representative Hunhoff was not comfortable with a summary report. Auditor General Guindon stated, prior to the filing date for the first required annual report, he would present an example report for the Committee to look at that reflected more detail.

Auditor General Guindon explained that auditors are required to test for compliance with the conflict statute, SDCL 3-23. He proposed adding a step to the statutory compliance checklist, which DLA provides to the independent public accountants, to use in completing their audits. Representative Cronin asked if the conflicts of interest statutes are working to prevent situations similar to what occurred in Platte. Auditor General Guindon stated it is making people ask and answer questions that should have been asked years ago, which is a good exercise. This exercise coupled with the new State Board of Internal Control, which is establishing a code of conduct, are working toward preventing those kinds of things from happening again.

Item 7 – The Buildings South Dakota Fund annual reports

- [Letter to Education Doc.9](#)
- [Letter to Housing Doc.10](#)

Department of Education

Tamara Darnall, Department of Education, presented the annual Workforce Education Fund Report (see [DOE WEF Report FY16.pdf](#)) and explained in 2013 the Legislature passed Senate Bill (SB) 235, which established the Building South Dakota Fund (BSD). Each year 30% of the BSD fund is to be transferred to the Workforce Education Fund (WEF) to be used for the following purposes:

- To fund the limited English proficiency (LEP) adjustment
- Secondary Career and Technical Education Grants (\$1.5 million)
- One-time education enhancement programs

Ms. Darnall explained that FY2014 through FY2016 WEF funds were used for the state's share of the LEP adjustment. She stated in FY2017 state general funds will be used for the LEP adjustment.

Ms. Darnall then provided background information on the Career and Technical Education (CTE) grant program. She added the requirements for this program are outlined in Administrative Rule 24:10:47. She explained that applicants must meet the following criteria to be eligible for a CTE grant:

1. Build, reform or enhance an approved secondary CTE program
2. Align to high-skill, high-demand, and high-wage careers and postsecondary education programs in South Dakota
3. Demonstrate the ability to complete the project

Ms. Darnall described the nine projects that were awarded Career and Technical Education (CTE) grants in FY2016. Representative Cronin asked what the grant to Gayville-Volin was for. Tiffany Sanderson, DOE, explained this grant was used to add a new high school lab for their transportation program. Representative Hunhoff asked what the timeframe was to complete the approved grant projects. Ms. Sanderson stated school district's had 18 months to complete their projects. Senator Tidemann asked for further information on the matching requirement. Ms. Sanderson explained teacher salaries could be used as a match, as long as those salary dollars were not used as a match elsewhere. She also stated Federal funds could not be used as a match with the exception of the Perkins grant.

Ms. Darnall concluded by describing the two programs that will be funded under the one-time education enhancement program:

1. Paraprofessional tuition assistance scholarship program - \$440,000 has been set aside to provide tuition assistance for paraprofessionals working in public school districts with large Native American student populations with a demonstrated academic need.
2. Native American achievement schools grants - \$1.7 million will be granted to fund three Native American achievement schools aimed at improving academic outcomes for Native American students.

Senator Tidemann asked how academic outcomes will be measured. Ms. Darnall stated the schools will have to provide information in their grant applications on how they plan to measure outcomes and DOE will consider these measurements in the grant approval process. Senator Tidemann emphasized the need for measureable outcomes as part of this program.

Housing Development Authority

Mark Lauseng, Executive Director of the South Dakota Housing Development Authority (SDHDA), was present to address the Committee regarding the South Dakota Housing Opportunity Fund (HOF). He provided the Committee with the 2016 HOF Annual Report handout (see [Housing Report FY16.pdf](#)). He stated the SDHDA distributes HOF funds geographically throughout the State with 30% of the funds targeted for Sioux Falls and Rapid City and 70% of the funds targeted for the rest of the State.

Mr. Lauseng stated that applications for the 2016 fiscal year were due by August 31, 2015. He stated HOF funds serve individuals and families at or below 115% of the area median income for the corresponding county. A total of \$6.1 million was requested and \$2.6 million awarded to twenty projects. Mr. Lauseng stated that the projects consisted of new construction of single family homes and multifamily units, homelessness prevention programs and homebuyer assistance. Mr. Lauseng concluded his remarks by providing the Committee summary information of projects since the inception of the program and information on the distribution of projects throughout South Dakota.

Item 8 – The Department of Transportation to provide an update on the collection and use of additional taxes and fees raised by Senate Bill 1, 2015 Session

Lisa Weyer, Director of the Division of Motor Vehicles, Department of Revenue, provided a handout (see [DOR SB1 Collections.pdf](#)) detailing the collections associated with Senate Bill (SB) 1, 2015 Session. She stated motor vehicle excise tax was increased from 3% to 4%; the amount of excise tax collected in FY 2016 was \$109 million compared to the amount collected in FY 2015 of \$87.2 million, a difference of \$21.8 million. She stated motor fuel excise tax was increased by six cents; the amount of motor fuel excise tax collected in FY 2016 was \$186.6 million compared to the amount collected in FY 2015 of \$148.5 million, a difference of \$38.1 million. She stated licensing and registration fees for non-commercial passenger vehicles was increased 20%; the amount of licensing and registration fees collected in FY 2016 was \$110.7 million compared to the amount collected in FY 2015 of \$96.7 million, a difference of \$14 million. She stated wheel tax was increased by five dollars per wheel with a maximum of \$60 per vehicle; the amount of wheel tax collected in FY 2016 was \$14.6 million compared to the amount collected in FY 2015 of \$11.8 million, a difference of \$2.8 million.

Darin Bergquist, Secretary of the Department of Transportation (DOT), provided a handout (see [DOT SB1 Road Bridge funding.pdf](#)) detailing the use of the funds received from SB1. Secretary Bergquist described the impacts of SB1 to the State Highway Fund (SHF) between FY 2014 and FY 2016; FY 2015 had only partial year additional revenue due to tax increases becoming effective April 1, 2015. The additional vehicle excise tax revenue collected comparing FY 2016 with FY 2014 was \$30.3 million. The additional motor fuel tax revenue collected comparing FY 2016 with FY 2014 was \$42.8 million. The total additional revenue collected was \$73 million. Secretary Bergquist stated the projected numbers were based upon FY 2014 data and the actual revenue came in higher than the projected or anticipated revenue.

Secretary Bergquist explained the uses of the SB1 revenue. He stated \$2 million per year from the additional SHF revenues is transferred into the Local Bridge Improvement Grant (BIG) fund. He stated in addition to the \$2 million, \$7 million in local funds are deposited to the BIG fund for a total annual amount of \$9 million. The \$2 million transferred to the BIG fund from SB1, will increase to \$8 million per year beginning in FY 2019. The remaining additional revenue generated by SB1 has been used for highway construction type activity on projects included in the State Transportation Improvement Plan. Secretary Bergquist concluded that the additional funding is making a difference in maintaining our highway system. Representative Hunhoff asked how DOT will know the additional funding is making a difference. Secretary Bergquist stated each year the DOT will prepare and present a report of the current conditions of the bridges and pavements in the state. This report will help in determining the impact of the additional funding. Senator Tidemann asked how BIG fund projects are selected. Secretary Bergquist stated administrative rules have been established, which include the criteria needed to be awarded a grant. He added the Transportation Commission then scores every application based on the criteria and begin selecting projects until the funding runs out. Representative Cronin asked if DOT engineers could be used for some of the County projects. Secretary Bergquist stated there are not enough DOT engineers for our own needs and consulting engineers are hired. He added that local governments typically hire consulting engineers.

Senator Novstrup asked when the rumble strips on Highway 12 would be completed. Secretary Bergquist stated they would be completed in the fall of 2016.

A motion was made by Representative Hunt to approve all handouts from today's meeting as Committee documents, seconded by Representative Hunhoff. The motion passed on a voice vote.

Item 9 – Future topics and next meeting date

The Committee discussed future topics and selected October 18, 2016 as the next meeting date. A motion was made by Senator Heineman to adjourn, seconded by Representative Hunt. The motion passed on a voice vote.