REPORT AND RECOMMENDATIONS
TO THE SOUTH DAKOTA BOARD OF REGENTS
FROM ITS COMMITTEE ON THE SD SCHOOL FOR THE DEAF FACILITIES
23 SEPTEMBER 2017

NOTE: PUBLIC COMMENT SOUGHT. The committee is circulating these recommendations and requests public comments be sent to the full Board of Regents by or before November 15, 2017 (please send comments or questions to info@sdbor.edu).

I. Background. From South Dakota Territorial days through Spring 2010, the South Dakota School for the Deaf (SDSD) served as a residential and full-time day school for the deaf and hard of hearing community in South Dakota. Owing to a major and controversial restructuring of SDSD, after 2010 its facilities and campus changed in fundamental ways. It ceased serving as either a full-time day school or a residential campus. Instead, it refocused much of its operations on inclusive services that are outsourced. Funds that had been budgeted to staff and to support the operations of the resident and full-time, on-site educational programs were reallocated to cover costs of these outsourced programs and other needs.

Although no longer serving as a residential or full-time day school, the SDSD campus remains the primary site for many ongoing functions necessary to SDSD’s basic mission. It provides office space for outreach specialists who provide (a) direct assistance to families and (b) educational and specialized consulting services to school districts. It houses specialized clinical facilities for audiological testing. It is also home for SDSD administrative record-keeping and state-wide budget and oversight activities. Finally, its classrooms and meeting spaces are used for regular educational and training programs at various times throughout the year. The 2010 programmatic shifts amounted to a sea change for SDSD, transforming its role in meeting the needs of deaf and hearing impaired children from a 19th Century model to a 21st Century comprehensive provider of highly specialized services to maximize the opportunities for deaf or hearing impaired children to succeed in mainstream educational settings. The changes at SDSD also resulted in a substantial decrease in SDSD’s budget and full-time staff for the programs based at its historic Sioux Falls campus, and resulted in an administrative consolidation with the South Dakota School for the Blind and Visually Impaired, which is located in Aberdeen. SDSD is

1 The changes faced by SDSD were not unique. They were in large part shaped by technological and instructional advances that brought fundamental changes to the education of deaf and hearing-impaired children across the country. This included a growing national commitment to maximize inclusive learning for children with disabilities in mainstream schools, combined with enhanced quality of school district-based programs for children with deafness or impaired hearing. Improvements in hearing technologies also permitted many hearing impaired children to maximize achievement through education programs based upon oral immersion approaches – where instruction and social interaction employing spoken English facilitate eventual transition into mainstream classrooms and society. These public policy choices and technological developments led to changes in curricula and instructional practices at SDSD and will continue to shape SDSD as they evolve over time.
expected to continue revising its programs according to contemporary best practices. The recommendations in this report intend to provide flexibility for that inevitable and ongoing evolution.

In 2017 the South Dakota legislature passed and Governor Daugaard signed into law HB 1210 and published as Chapter 51 of the 2017 Session Laws, which authorized the sale of SDSD’s property in Sioux Falls. The South Dakota Board of Regents (“BoR” or “Board”) formed a committee on the SDSD facilities to study the issues in detail and make recommendations to the full Board. The committee worked closely with SDSD Superintendent Marje Kaiser and staff, SDSD’s user community, the office of School and Public Lands (“S&PL”) (in particular Commissioner Ryan Brunner) and BoR staff in developing these recommendations. It greatly appreciates the help and support from them and others throughout this process, which it has tried to make as open and deliberate as possible. The committee seeks careful scrutiny and critical comment on this report and these recommendations from interested public -- including the SDSD user community, SDSD staff, SDSD lessees, political leaders and other interested parties prior to final action by the Board, which it anticipates being on or about December 6, 2017. The committee suggests the December deadline in order to allow sufficient time for the Legislature to act. Certain actions recommended by this report must be initiated before December, but none of those are irrevocable. Further, the kind of interim actions recommended for execution before December would better inform, rather than limit, the final decisions that need to be made by the Board in December.

The Committee has held three different publicly advertised meetings. Additionally, committee members have engaged in extensive individual fact-finding efforts and non-public working group meetings in order to determine how best to analyze the issues involved in and approach to the potential sale of SDSD’s property. The committee considered a broad range of options. Various experts were engaged to better inform its deliberations, including (1) an interior design and space utilization architect (Dekker/Perich/Sabatini of Albuquerque) to analyze SDSD’s current space

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2 At its organizational meeting on February 27, 2017, the committee reached consensus on a list of alternatives to consider with respect to SDSD. The one recommended here actually was not on that list, but is something of a hybrid of those considered. The original alternative actions included:

1. **Do nothing.** While expected to be unlikely, it is the baseline from which we measure all other options. Understanding that baseline is critical.

2. **Keep SDSD in its current facility, but improve efficiency/utilization with more or different tenants.**

3. **Sell and replace the SDSD facility, which of necessity would also require us to:**
   a. Buy existing property(ies) that best and most cost effectively meets SDSD’s needs; or
   b. Design and purpose build a new property(ies) that best and most cost effectively meets SDSD’s needs; or
   c. Lease property(ies) that best and most cost effectively meets SDSD’s needs.

4. **Move SDSD and use the facility for another BoR or state use.** If SDSD moves, we have the same subset to consider as in 3 above.
and make recommendations for efficiency improvements, (2) an appraisal firm to better define the value of the SDSD property (Shaykett Appraisal Company, Inc., of Sioux Falls), and (3) four different Sioux Falls commercial real estate experts (NAI Sioux Falls, Bender Commercial Real Estate, Lloyd Companies, and Nelson Commercial Real Estate) who responded to our request for information to determine the best ways and means of extracting the highest value possible from the SDSD property.

- The 41-page architect report is viewable at:  
- The 153-page appraisal is viewable at:  
  https://www.sdbor.edu/mediapubs/Documents/Appraisal_SDSD.pdf

Based on that professional input and information from the user community, political leaders and the public, and its own research and experiences, the committee developed this report and respectfully submits the recommendations contained herein to the full Board for further consideration.

II. Issues – Overview. Like most matters of consequence, this one appears fairly simple from the mountaintop observation deck but gets increasingly complicated as you get below the tree line into the details of daily operations.

By the numbers: The SDSD campus consists of a 14.35-acre tract on E. 10th Street in Sioux Falls, about 2 blocks west of I-229. As viewed by the independent appraiser, roughly 9.35 acres are developed. The other 5 acres are undeveloped except for a running track and green space that are well-maintained and attractive but seldom used (see Exhibit A). If a partial property sale progresses immediately (which the committee recommends), a careful calculation and division of the plat boundaries to be sold will need to be completed. The committee believes such a sale most likely would include all of what the appraisal labels as “undeveloped” space and some of the “developed” space (discussed in detail below).

The buildings on the developed space at SDSD consist of approximately 98,193 gross\(^3\) square feet (“sf”) of one-story buildings (of which 74,150 sf is at ground level and 24,043 sf is in the basement), which are labeled on Exhibit B and break down thusly:

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\begin{align*}
\text{(a) 72,433 sf -- Main Building, which includes 3 connected wings (see Exhibit B). Of that space, 54,858 sf is located on the ground level and 17,575 sf is } \\
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\(^3\) Most of the calculations in this report are based on gross sf, including outside dimensions, interior walls, hallway space, etc. Architect and appraisal measurements vary slightly. Hereafter, all sf measurements should be considered “gross” unless specifically noted as “net.” Net square footage available for use or rental is considerably less than the gross sf shown here, and depends upon the ultimate configuration used for the interior space.
in the basement. Most of this building was constructed in 1979, but the far west addition was added in 1993;

(b) 21,464 sf -- Boiler Plant Building, which houses a legacy gym and pool, as well as a small amount of conference space and shop space in addition to SDSD’s boiler plant (see Exhibit B). 14,996 sf of that building is on the ground, which includes the gym, pool & conference room. The remaining 6,468 sf is in the basement, which includes the boiler facilities and shop area. This building was built in 1925 and is the most difficult to effectively utilize with the changed SDSD mission; and

(c) 4,296 sf -- covered Garage Building, all on the ground level, built in 2002.

The remainder of the developed space is comprised of a large parking area, a SD Department of Environmental and Natural Resources (“SDDENR”) air quality monitoring station near the middle of the property\(^4\), and a small gardening shed on the far northeast corner of the property (see Exhibit B).

Exhibit C helps clarify who uses what portion of that total space today, and what is unused. SDSD currently uses about 34,820 sf of the main building for operations (depicted in green). It leases out 27,218 net sf, leaving about 10,395 sf currently unused (depicted in orange). Of the leased space in the Main building:

(a) SDSU utilizes 20,202 net sf for ag extension services, depicted in blue (all on the ground floor);
(b) USD utilizes 5,294 net sf for climate controlled storage of archived papers, depicted in red (all in the basement); and
(c) SD Association for the Deaf utilizes 1,722 net sf for a museum and office, depicted in yellow (all in the basement).

SDSD currently generates $225,799\(^5\) per year in rental income, which is used to offset its annual operating expense.

\( ^4\) The Air Quality Monitoring Station at SDSD is owned and operated by SDDENR. It is the most sophisticated of SDDENR’s air quality monitoring sites and is the only EPA mandated NCORE air quality facility in the state. It was located on the SDSD property in 2008. It is a necessary state function, but SDDENR pays no rental for use of the land. It could be moved to another location in Sioux Falls, but as of the date of this report, SDDENR does not have a hard cost estimate associated with such relocation. It should be noted that no moving costs or new location lease costs to the state are included in this report in the event that it would need to be moved from SDSD property.

\( ^5\) The breakdown of current rental income is as follows:

- $155,628 from SDSU
- $ 28,678 from pool rentals
- $ 26,470 from USD
- $ 300 from SDAD
- $ 14,723 from various temporary users (mainly gym and pool users)
It would be clear to the most casual observer that the existing facilities at the SDSD are underutilized. On most days, one can walk through the facility and see a lot of unused space. But what isn’t clear is that it might make sense to leave it that way for the immediate future, at least until material capital expenditure improvements in the normal course of business are required in the facility.

When you get past the visceral optics of substantial unused space and dig into the reality of operations, it does not take long to understand that a major challenge facing SDSD is the fairly dramatic change of facility use during recent years with no realistic change in facility design. When the facility’s primary delivery method was changed from a residential school into a statewide administrative oversight and outreach center, it retained some historical albeit part-time school functions and most administrative functions, but gained new clinical services and outreach specialist functions. To illustrate but oversimplify, it’s a full-time residential school building repurposed primarily as office space but still expected to serve as a day school at various times throughout the year. No money has been spent to redesign SDSD facilities for their radically revised uses. The result is large classrooms used as offices and shared as classrooms on occasion, massive hallways designed for bustling school traffic that no longer exists, etc. Adding a level of inefficiency is the requirement that many of the teaching professionals spend a much greater part of their work-week in outreach efforts on the road than in the facility. Nevertheless, these professionals need office space in the facility when they are there. When they do use the office space, the statutory student privacy rights and client confidentiality privileges involved in many of their professional consultations or client counseling discussions require the use of private offices. In short, the SDSD building was designed and built for primary purposes other than those for which it is now primarily used. Not incidental to our analysis, that purpose-built design is not highly attractive to the typical commercial office space market and the expected cost to retrofit the facility for commercial office space would affect sale price.

In a perfect world, it would be preferable to have a purpose-built, concentrated facility designed specifically for the SDSD in light of its current mission. That is difficult given the limitations of its current 40-year-old main building.

That is not to suggest improvements cannot be made. With modest additional resources and focused attention, the committee believes the SDSD facility can be rendered much more efficient than it is today. For reasons discussed more fully in the “Issues – Specifics” section of this report, however, that is not as simple as it might first appear. It is clear to the committee that maximizing efficiency and utilization of SDSD is likely to be an ongoing and iterative -- and not necessarily linear -- process. There are logical and immediate and substantial steps that can be taken. But there is a longer path to follow in order to fully maximize user needs and taxpayer efficiency.

**III. Issues – Specifics.** A more in-depth look at some of the issues that the committee found important may offer additional perspective or insight on its recommendations:
a. **Here or There?** Based on the appraisal price of $6.6 million and the needs of SDSD and the other two regental institutions currently renting space at the SDSD facilities, it does not appear to make much sense to move, even before taking into consideration the legitimate historical ties to and sense of 'place' felt by the SDSD user community. It just doesn't pencil out to make a move. In order to facilitate meaningful analysis of the committee's findings and to test and verify the correctness of our assumptions and calculations, some key assumptions are presented here:

- Total sf needs of SDSD = 21,850 sf.\(^6\)
- Total cap ex needed by SDSU to repurpose another facility for like needs = $155,500.\(^7\)
- Total cap ex needed by USD to repurpose another facility for like needs = $1,200,000.\(^8\)
- Total projected cost of relocation of SDSD to another facility = $100,000.\(^9\)
- Lost annual income to SDSD if moved = $225,799 plus whatever rental income could be generated by 25,087 sf to be rented.\(^10\)
- Cost per sf to build = $240/sf ($170 construction costs + $70 design, engineering, management, etc.).
- Cost per sf to lease (assuming "B" space) = $15 per sf + utilities.\(^11\)

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\(^6\) This is based on the report of the architect, a link to which is provided elsewhere in this report. The committee believes this is a reasonable preliminary finding, but also feels there is more work to be done to test the assumptions in that report. For example, it assumes that each outreach consultant headquartering at the Sioux Falls facility requires his or her own enclosed workspace given certain sensitive or confidential information being handled. Given that much of their time is spent outside of the office, the committee is requesting further information concerning the pros and cons of office rotation (vs. permanent assigned offices) in a manner that preserves confidentiality. The committee will review best practices and cost vs. benefits information before making final recommendations on SDSD space needs. A similar analysis of SDSU space needs will be conducted. With regard to USD, the committee is satisfied that the space amount being utilized is appropriate and will be 100% filled pending a decision on the facility (as discussed elsewhere, the uncertainties relating to the future of SDSD is causing considerable problems for the full utilization of that space).

\(^7\) See note from Karla Trautman, SDSU, at Exhibit D.

\(^8\) See note from Dan Daily, USD at Exhibit E.

\(^9\) The moving costs depicted here are rough guesstimates based on members' own historic experiences and a rough assessment of what would be required to be moved. They assume almost no retrofitting would be needed in the event suitable space can be found elsewhere. In SDSD's case they are likely much higher because of specialized needs like sound booths requiring disassembling and reassembling and retrofitting requirements are more likely than not.

\(^10\) This sf figure comes from adding the 12,117sf of currently unused space to the additional 12,970 sf of new empty space that might result from SDSD downsizing its current footprint consistent with the architect's suggestion, although both of those figures remain open issues for reasons discussed elsewhere in this report.

\(^11\) This does not include the cap ex needed by SDSD to repurpose another rental facility to be compatible with SDSD equipment and needs. That cost is not knowable without identifying specific
Based on these rough assumptions, the committee finds the following:

i. A new 21,850 sf purpose-built facility for SDSD would cost approximately $5.2 million for the building. Adding land value estimated at between $1 million and $2 million, this translates into a $6.2 million to $7.2 million-estimated one-time cost for building a new SDSD facility. Operating expenses are, for purposes of this report, assumed to net out given the lower sf of a new facility vs. the cheaper utility costs associated with the existing SDSD boiler plant facility.

ii. Leasing suitable space for a 21,850 sf facility in a 2017 market at $15/sf would cost $327,750 per year in ongoing rent, which does not include operating expenses and would escalate annually. Further, this figure does not include the one-time cap ex required for either (A) moving SDSD or (B) repurposing the facility to be leased, both of which will be substantial for reasons stated above (e.g., disassembling and reassembling sound booth rooms, redesigning space, etc.) or (C) the loss of about $300,000 in rental income per year from current and immediately foreseeable tenants. For purposes of this report, we estimate about $150,000 per year in maintenance savings that might be realized by leasing vs. owning the facility. Combining new lease costs and lost revenues and subtracting the maintenance savings, this alternative amounts to a net negative impact on SDSD’s operating budget of $477,750 per year. Rentals costs for other regental lessees currently at the SDSD likely would increase as well (in addition to very large one-time costs that would need to be incurred by both USD and SDSU to move existing facilities to new rental space). Assuming $15/sf rental market, SDSU’s rental costs would increase by $93,567 annually. In the event USD could find suitable storage space, its costs would increase by $52,940. So the net annual costs to the regental system under the leasing option would be $624,257 in 2017 dollars.

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12 This estimate is based on a business guess of true savings to be realized from personnel and M&R costs in the event that the move would involve renting vs. owning the facility, but those savings depend upon the terms of the lease to be negotiated and other variables that need to be better analyzed. For purposes of this report, a realistic range is $50,000 to $250,000 per year.

13 This assumes that USD is able to find a space that would obviate the plan set forth by USD in Exhibit E. If USD ultimately was able to find such space, it would require significant additional HVAC/climate control retrofitting costs not estimated or included in this report.
iii. More analysis involving (A) remodeling costs and best practices, (B) lessee coordination and accommodation, and (C) prospective tenant requirements needs to be undertaken in order to make intelligent recommendations about whether to either use existing facilities largely as they are configured today (until such time as major cap ex would be required in the normal course) or whether and when to repurpose existing facilities (including which sections of facilities to redesign and when).

iv. Market demand for the SDSD space and the outcome of C above will help determine whether SDSD should remain a landlord or become a tenant in its current building (see “Landlord or Tenant” discussion below).

b. Sale by Subdivision vs. Total Property. Total property sale. If the price is in the range of the appraisal, the committee does not believe a sale of the entire property makes much sense. If a materially higher price emerges from a strategic buyer, it may well make sense to sell the entire property. The committee recommends that the BoR Finance department develop a more sophisticated model to more precisely determine replacement costs. Using that and professional realtor advice, the “pre-emptive price” a strategic buyer would need to offer to make relocation of current BoR and other state users a logical decision should be developed and marketed accordingly.

c. Partial Property Sale. There is considerable excess property at SDSD that is easily sub-dividable without materially affecting the operations or marketability of the remainder. An immediate objective after securing a realtor should be to determine exactly how that subdivision should be platted to secure the highest sale price while still retaining the maximum value of the remainder. The objective of that assessment and division will be to maximize net value to the state. That division will require extensive discussion with city officials concerning offsets and other regulatory requirements, and with real estate professionals to determine what is most attractive to potential buyers.

d. What to Sell? Developed vs. Undeveloped land. When making the above-referenced subdivision, it is intuitively obvious that the eastern 2/5ths (+/-) of the SDSD property that now consists of a running track and green space should be its core (see Exhibit A). Also, it seems likely to the committee that some of the parking lot could be sold or leased and would be attractive to a potential bidder. The location of the SDDENR’s Air Quality monitoring station (see Exhibit B) complicates that somewhat, but doesn’t make it impossible. Some or all of the garage space might be attractive to a potential buyer.

Pursuing a subdivision of SDSD property now does not preclude a sale of the entire property at the right price, nor does it preclude real estate professionals from further subdividing the undeveloped property to be sold in more than one parcel if it makes sense. However, in a general sense, the committee has found it helpful to view the entirety of the property as either “developed” (i.e.,
the western end of the property with buildings on it) or “undeveloped” (i.e., the eastern end that is bare land. That said, some overlap in the parcel(s) to be sold is likely to occur.

Existing Buildings. Even at the appraised valuation of $6.6 million, a sale or long term lease of some or all the buildings on the developed portion of the property is not out of the question. The issue of relocation and ownership are two different issues. Whether SDSD is to remain in its current building should be decided in December. The analysis of whether or not it will be the landlord or tenant of that building may take longer to determine (see subsection f below). Whether a sale-leaseback or retained ownership makes more sense will be determined by the market.

As explained in the next subsection, when the decision of “what to sell” is made, a final determination about “how” to sell it will need to be made (e.g. the Legislature could authorize the sale of non-trust lands through a mechanism other than an in-person auction). Commissioner Brunner and BoR legal counsel will help make those determinations and recommendations to the Legislature in consultation with the real estate professional selected.

e. Trust and Non-Trust Parcels. In doing the title work in preparation for a potential sale, S&PL and BoR counsel discovered from the territorial records that – contrary to the understanding and expectation of the BoR, S&PL, the South Dakota Legislature and everyone else familiar with SDSD – most of SDSD property is NOT situated on S&PL Trust property (see Exhibit F). This is significant because it provides more flexibility in the sale of that part of the SDSD property, as well as the use of sale proceeds, and because it will require an amendment to the legislation in order to complete a sale. As it turns out, the undeveloped property most conducive to a sale is not trust land.

To the extent trust rules do not apply, the timeline below may need to be adjusted or the sale packaging will need to clarify that any agreement will be subject to full Board and other required approvals.

f. Landlord or Tenant in the Remainder? If the committee’s recommendation to parcel and sell the surplus property of SDSD is followed, there still remains an issue of what to do with the remaining property that houses the buildings. It may be possible (but not considered highly likely) that a sale of that property might still make sense. The committee believes this is part of the ongoing analysis that needs to be completed to maximize efficiency in the SDSD buildings. If the Board can effectively consolidate SDSD and other regental tenants’ operations, the remainder of the facility may attract an interested buyer who would use the remaining space and continue leasing to BoR on a long-term basis.
In the more likely alternative, SDSD should more aggressively seek additional tenants to fill that unused space. Given the current condition of the facility, ideally that would be a long-term tenant with the capital necessary to build out the remaining space and the flexibility to work with SDSD and the other tenants in our effort to consolidate and coordinate space. Communication Services for the Deaf (“CSD”) or other regental or state agency tenants comprise an immediate target market (if only because of coordination flexibility, and shared mission expectations), but more traditional commercial opportunities should be aggressively pursued as well.

There are an endless number of variations on how to most effectively and efficiently utilize the existing buildings on the SDSD campus. For purposes of this section, the committee notes only that (a) the complexities involved in this aspect of the issue will take longer to develop, and (b) that there remains a fundamental question on whether the best interests of the SDSD and the state as a whole are better served with SDSD as a landlord or tenant. Marketplace developments (particularly with current and prospective tenants) and additional pricing information will help answer that question as the partial sale progresses.

g. Sale vs. Long-term Lease vs. Short-term Lease? A consideration in the analysis of any potential transaction(s) is whether it should be structured as a sale, long-term lease or short-term lease. The pros and cons of each structure involve a myriad of issues that are very fact intensive and fluid. The committee notes that this issue is of considerably greater import if the transaction involves S&PL trust property. This structure question will work itself out based on best practices and financial analysis applied to whatever facts develop and the preferences of both parties involved. It is not terribly productive to attempt to make that determination with respect to the ultimate transaction structure until a proposal is before us.

h. Capital Cost vs. Operational Efficiency. Returning to the issue of why knowingly allowing inefficient space utilization may make more sense than expected, the oversimplified answer is capital cost. More study on this issue is needed, but the initial architectural report indicates that material capital costs required to consolidate space may exceed the savings (or revenue generated from repurposing and leasing) in the near term.

A comprehensive analysis of the existing buildings needs to be undertaken, involving design options, construction pricing and operational efficiency. The committee believes there exists real potential to make material improvements, but the process involves many moving parts – including

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14 CSD is a non-profit provider of communication services for the deaf community, including video relay services. It is not affiliated with SDSD or BoR, but has been an important member of the user community whose mission is aligned with SDSD’s.
bringing either (a) a prospective buyer or (b) prospective additional tenants to the table before final decisions are made.

i. **Boiler Plant.** The existing 100-year-old boiler plant building and facilities housed there present particular challenges. While aged, the facility has been well maintained and appears to be in good condition. An issue requiring more exploration is a sale or long-term lease of the pool area and the gymnasium and conference space in that facility. SDSD rarely utilizes any of those spaces for its own operations, but rents them on a part-time basis. Part-time rents do not provide a net return, however, given the cost of maintenance and operations. SDSD needs to undertake a more intensive marketing effort to permanently and fully lease those spaces on commercially viable terms. If that effort does not produce full-time renters, alternative options for those facilities need to be revisited, including mothballing.

j. **SDSD Mobile Lab.** SDSD currently owns an expensive mobile lab vehicle that houses equally expensive and sensitive equipment. That unit is currently stored off location in a commercial rental unit large enough to hold it. It should be housed in a facility co-located on whatever property SDSD uses in the future. SDSD last year identified a very cost efficient space at its campus that could utilize some of the existing infrastructure to build a suitable storage space at a cost of considerably less than the cost of building a new garage. However, BoR counsel concluded that it would constitute “new construction” requiring legislative approval. That approval should be incorporated in any subsequent legislative action on this project if no pre-emptive purchaser for the total property emerges and the final Board decision is to remain on the current SDSD property.

k. **The Price of Limbo.** Whatever the decision, the committee urges prompt action on the SDSD issue. The uncertainty of its future has resulted in a planning limbo for all involved. Normal maintenance spending on the campus has been largely halted. Tenants’ plans are on hold. Perhaps the best example of that is the current unused storage space being rented by USD. USD was in the process of moving very old and delicate archive material to this space, which has been repurposed and very effectively meets its storage needs at a relatively inexpensive price. While the space is completed, it is at about 50% capacity. USD stopped transporting these materials recently because of the uncertainties involved (given both the expense and risk of damage in double moves).

The point here is that, as relates to the current SDSD buildings, some finality with the decision to be made in December is important. The committee believes that we should market the “entire property” as aggressively as possible between now and December 6. If a strategic buyer willing to pay considerably more than appraised value surfaces between now and then, reconsidering the sale of the entire property is warranted. If not, the BoR
decision in December should be final – at least as to the location of SDSD and other tenants in the building. Ultimate ownership of the building(s) and more efficient space utilization by all BoR tenants should be subject to ongoing scrutiny. In this regard, the committee feels that both SDSD space and SDSU space are particularly susceptible to change and improvement for efficiency. It may make sense to consolidate or move within the building. It would not make sense to force either of them out of the building after that time. USD’s space, on the other hand, does not lend itself to consolidation or movement within the existing building. Its location in the basement and its archival-specific design and its 100% space utilization make that impractical.

I. **New Legislation.** SL 2017, ch 51, presupposes that all of the SDSD property is held in Trust, a historical assumption that was widely shared by the rest of state government -- including the BoR. It is possible to affect a sale that involves no Trust land. It is also possible that an immediate sale would involve both Trust and Non-Trust property, depending on how the above-referenced platting is ultimately concluded. Under either scenario, slight modifications to that legislation will be needed, and BoR counsel, in coordination with the office of S&PL, should assist in developing draft legislative language to accomplish whatever option the BoR ultimately choses.

IV. **Findings and Conclusions.** The existing SDSD facilities are underutilized. Given the appraised value of $6.6 million for the entire facility, it does not make good sense to sell the entire property unless a strategic buyer surfaces who is willing to pay considerably more money for the entire property. An aggressive marketing effort should be undertaken to see if that purchaser exists, but the BoR should move forward simultaneously to most effectively subdivide the SDSD property, and move forward promptly to sell the undeveloped portion.

For the remainder of the property with existing buildings, a more aggressive and comprehensive space consolidation/utilization plan needs to be developed. This needs to be balanced by and coordinated with long-term cap ex requirements and user needs. While SDSD has leased some of the unused space, more effort needs to be directed towards developing a plan to consolidate SDSD operations and effectively leasing out the remainder of the existing facilities.

The committee would like to note that the recommendations in this report should not be construed as criticism of SDSD. Through a very difficult downsizing process in recent years, SDSD under Superintendent Kaiser has managed its facilities and services consistent with Board direction. While leasing opportunities obviously have been discussed and acted upon in the past, BoR historically has counseled caution in selling or repurposing too much space until the long-term mission of SDSD took clearer shape. In short, SDSD has correctly executed the direction provided by BoR. The committee does not believe that was an unwise approach, but also believes that the time has come to act more aggressively. We think it important to acknowledge that the BoR was first nudged -- then nudged a little harder -- into undertaking this
exercise by the Governor and Legislature. We would also like to acknowledge that it was a correct nudge and that this analysis has been a healthy and we think useful exercise in the kind of good governance that will result in a more efficient operation at SDSD and utilization of public funds, for which we all share responsibility.

V. Recommendations. The committee’s recommendations, set forth below, need to be read in the context of an ongoing analysis. While we believe it is time to act, we do not think it wise to do so without regard to changing facts and circumstances. In short, the BoR should keep an open mind as this process moves forward and new information is developed. These recommendations are not set in stone. We emphasize again our desire and need for informed comments to help improve these recommendations as we move forward. For those who see immediate flaws in the analysis, please don’t wait until the deadline to reply. With those qualifications, the following constitute the committee’s recommendations as of the date of this report:

a. Based on the commercial appraisal analysis conducted on SDSD Property (which found its total value to be approximately $6.6 million), the committee recommends that **the core SDSD operations should continue at its historical location on the current site** for the following reasons:

i. Testimony from the SDSD primary user community demonstrated a strong and logical sense of historic attachment to the location. It carries a strong sense of place and historical Dakota commitment to our special schools that predates statehood.

ii. The net cost of replacement with downsized facilities sufficient to serve SDSD needs would be significantly higher than utilization of the existing core SDSD facilities.

iii. There are reasonable opportunities to improve efficiencies of SDSD and SDSU operations within its existing facilities.

iv. SDSD would lose significant operating revenue generated from leasing its non-core facilities, and the leasehold costs for sister regental institutions that lease non-core SDSD space would increase dramatically.

v. There are reasonable opportunities to increase rental income with new lessees once the future direction of SDSD has been clarified.

b. Notwithstanding the committee’s belief that the regental system’s needs are best served by remaining in the existing older facilities at SDSD, the committee recommends **proceeding immediately with the sale of the roughly 2/5ths of the SDSD property**. Depending on the final boundary lines to be drawn in relation to that sale, the expected sale price for the undeveloped land would be about $2,000,000. In the course of this process, qualified real estate
professionals would conduct a market survey to determine whether there are any potential buyers who would be willing to pay materially more than the $6.6 million appraised value for the entire SDSD property, in which case selling the entire SDSD property and relocating the SDSD and other regental lessees should be reconsidered. Financial returns balanced against SDSD mission needs should be the primary consideration.

c. The committee believes **there is substantial additional work to be done in improving efficiencies and income generation opportunities on the remaining 3/5ths of the SDSD Property**. Specifically, the committee recommends more aggressive efforts to (a) reduce the amount of space used by SDSD operations, (b) coordinate and consolidate space used by both SDSD and SDSU in an effort to maximize leasing options for the remainder of the Main building; (c) market the unused portions of the remaining SDSD property to new lessees (including the large spaces of the boiler plant building), and (d) work with professional commercial real estate brokers to determine whether a commercially viable transaction can be structured for the remaining 3/5ths of the SDSD Property – including a scenario where SDSD becomes a tenant with a commercial owner or a partial sale of the building(s).

**Timelines and Specifics.** The Committee found that the SDSD Property presents immediate opportunities but also carries with it ongoing challenges. The price tag associated with converting admittedly inefficient historic space into more efficient office operations better tailored to SDSD current mission is significant. Additional financial analysis will be required to make the best long-term decision with respect to this older space. Additional reports will be generated as that analysis progresses. An estimated timeline for next immediate steps is as follows:

d. Interview and select a commercial real estate professional in Sioux Falls (expecting to complete realtor engagement before the end of September). The purpose and scope of the engagement will be to help BoR:

i. structure the best subdivision of the existing 14.35 acre property (i.e., determine which portion to keep for existing and future operations and which portion to sell as surplus property) (targeted completion sometime in October);

ii. undertake a “market reality check” screening to determine whether or not there is a strategic buyer interested in paying materially more than the appraised value for the entire 14.35-acre SDSD property (i.e., a complete property sale price sufficient to justify relocating SDSD and other existing tenants, and forego future rental prospects)¹⁵ (begin

¹⁵ The marketing toward a “strategic buyer” for the entire property will not terminate at the commencement of a formal process to sell the surplus property. If such a strategic buyer is found at
those marketing efforts as soon as possible, continuing through December);

iii. simultaneously structure the most commercially attractive sale process possible (i.e., private listing, auction, etc.) for the surplus property (target going to market with surplus property late October or November); and

iv. assist in developing the best possible commercial deal structure for selling the existing buildings and leasing back space for SDSD and other regental operations, which will be used for comparison to a scenario where SDSD retains ownership with additional renters. NOTE: The idea is to motivate the real estate professional to find a more compelling commercial alternative to the committee’s expectation that it likely than not makes the most sense for SDSD to continue to own these buildings (ongoing effort, targeting interim update report in January 2018);

e. Meet with Sioux Falls city officials and real estate broker to work through issues associated with making the best possible subdivision of the property, and plat it accordingly (initiate by the end of September, immediately after selecting real estate professional).

f. Present final platting of full SDSD property subdivision to the full BoR for approval to move forward with the process to sell the surplus (expected by end of October).

g. BoR Finance office should undertake a more rigorous analysis of the rough assumptions included in this report and develop a robust financial model to:

   i. measure the full costs of remaining in place vs. moving; and
   ii. better inform the analysis of whether it makes sense in any given space to expend capital costs to consolidate or lease vs. intentionally using excess space to save capital costs until needed in the ordinary course of business.

h. Develop draft legislation that (a) accommodates options for the sale of, and expenditure of proceeds from, the unexpected non-trust land that was discovered, (b) provides for the on-site construction of a large garage to house the SDSD mobile lab, and (c) addresses any other issues that may surface prior to legislative session (targeting by January 1).

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any point prior to execution of a purchase agreement for the surplus property, the larger sale could always pre-empt the surplus sale process.
i. Make a final determination as to whether or not SDSD and other regental tenants should remain in the current SDSD Main building or be moved (by December 6).

j. Using models referenced above, continue to advance analysis of best and highest use of existing space, including remodeling, cost efficiencies for existing SDSD operations and more aggressive marketing of excess space for new tenants, with immediate focus on CSD and other BoR users and state agencies. This process should include in particular coordinated discussions between SDSD and SDSU (and potentially prospective tenants and/or buyers), guided by real estate professionals, to determine whether each and both can structure their operations in the SDSD buildings in less space that is consolidated in areas that make their operations more efficient and the remainder more attractive to potential tenants or buyers (targeting initial interim update report by mid January 2018).

Public comments on and suggested modifications to this report and these recommended actions should be sent to info@sdbor.edu or mailed to:

Dr. Mike Rush  
Executive Director  
South Dakota Board of Regents  
306 East Capitol Ave., Suite 200  
Pierre, SD 57501

We greatly appreciate the advice and input from the public to date, and the great support from the Commissioner of S&PL, the Governor’s office and numerous legislators who have taken an active interest in this issue.

Respectfully Submitted to the full Board, by its Committee on the SDSD Facilities

Kevin V. Schieffer, Chairman  
Randy Schaefer, Member  
Jim Morgan, Member  
Bob Sutton, Ex Officio
Good afternoon, Marjorie!

Thank you for your hospitality at the BOR meeting on Thursday, August 30th!

I was to send to you the costs incurred by SDSU to renovate the space we currently occupy at SDSD. This renovation occurred in 2011.

Renovation Cost: $120,000
Smart Classroom Technology Investment: $35,600 (this is for the technology only – not furnishings)

Please let me know if you need additional information from us.

Thank you!
Karla

SDSU Extension

Karla Trautman
Interim Director
karla.trautman@sdstate.edu
154 Berg Agricultural Hall, Box 2207D
South Dakota State University
Brookings, SD 57007
Phone: (605) 688-4792
Fax: (605) 688-6733
http://www.igrow.org

South Dakota State University, South Dakota counties, and USDA cooperating. South Dakota State University adheres to AA/EEO guidelines in offering educational programs and services.
EXHIBIT E

Kaiser, Marje

From: Weisgram, Molly
Sent: Thursday, August 31, 2017 9:00 AM
To: Kevin Schieffer; Bob Sutton; Jim Morgan; Randy Schaefer
Cc: Shekleton, Jim; Rush, Mike; Kaiser, Marje; Abbott, James W.
Subject: FW: Information on USD Libraries use of SDSD per Regent Schieffer's request

Follow Up Flag: Flag for follow up
Flag Status: Flagged

All,

Please see the below information per Regent Schieffer's request.

Molly

Molly Weisgram
Executive Assistant to the CEO and Board
System Director of Student Affairs

South Dakota Board of Regents
306 E. Capital Ave, Ste. 200
Pierre, SD 57501
(605) 773-3455

From: Daily, Dan L
Sent: Wednesday, August 30, 2017 5:10 PM
To: Stein, Jeryl Lynn <jeryllynn.stein@sdbor.edu>
Cc: Abbott, James W. <james.abbott@usd.edu>; McNaughton, Laura J <laura.mcnaughton@usd.edu>
Subject: Information on USD Libraries use of SDSD per Regent Schieffer's request

Jeryl Lynn:

Regent Schieffer asked me to send him the following information. Please forward this email to him.

Regent Schieffer:

Currently, USD Libraries is leasing approximately 5,000 SF of secure, climate-controlled space at the SDSD. Approximately 50% of this space is currently being used to house archival collections and provide associated workspace for an externally-funded, professional archivist.

If USD has to vacate SDSD, relocating the USD archival operations from SDSD to I.D. Weeks library will require a $1.2 million dollar capital investment by USD. The cost is due to expanding the current space for archival operations in I.D. Weeks, including installing a new HVAC system for the archival operations.

Due the uncertain future of SDSD, I cannot follow through on plans to relocate biomedical journals housed at I.D. Weeks and retained by USD per agreement with the National Library of Medicine (NLM). USD participates in the NLM's National
Print Retention Program to ensure preservation of key biomedical journals for USD faculty and students and researchers throughout the state and beyond. Similarly, USD has an agreement with the Federal Depository Library Program, through which it has developed one the strongest collection of federal documents in region, and these collections date back to the 18th century. These collections are used, but will be best housed at SDSD. If USD can keep its lease at SDSD, I will follow through with plans to relocate the fore-mentioned collections.

Relocating substantial parts of the biomedical journal collection and federal documents will fully utilize the USD-leased at SDSD. Moreover, this plan dovetails with USD planning to continue transforming collection space at ID Weeks into student-centered space.

Thanks so much for the opportunity to provide information at today’s committee meeting.

Dan

Daniel Daily
Dean of Libraries
Assistant Professor
University Libraries
University of South Dakota
414 East Clark Street
Vermillion, SD 57069
605-677-5122 (I.D. Weeks) /605-357-1397 (Wegner Health Science Information Center)
dan.daily@usd.edu