

STATE AID TO GENERAL EDUCATION

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What is State Aid?

Total Need

—

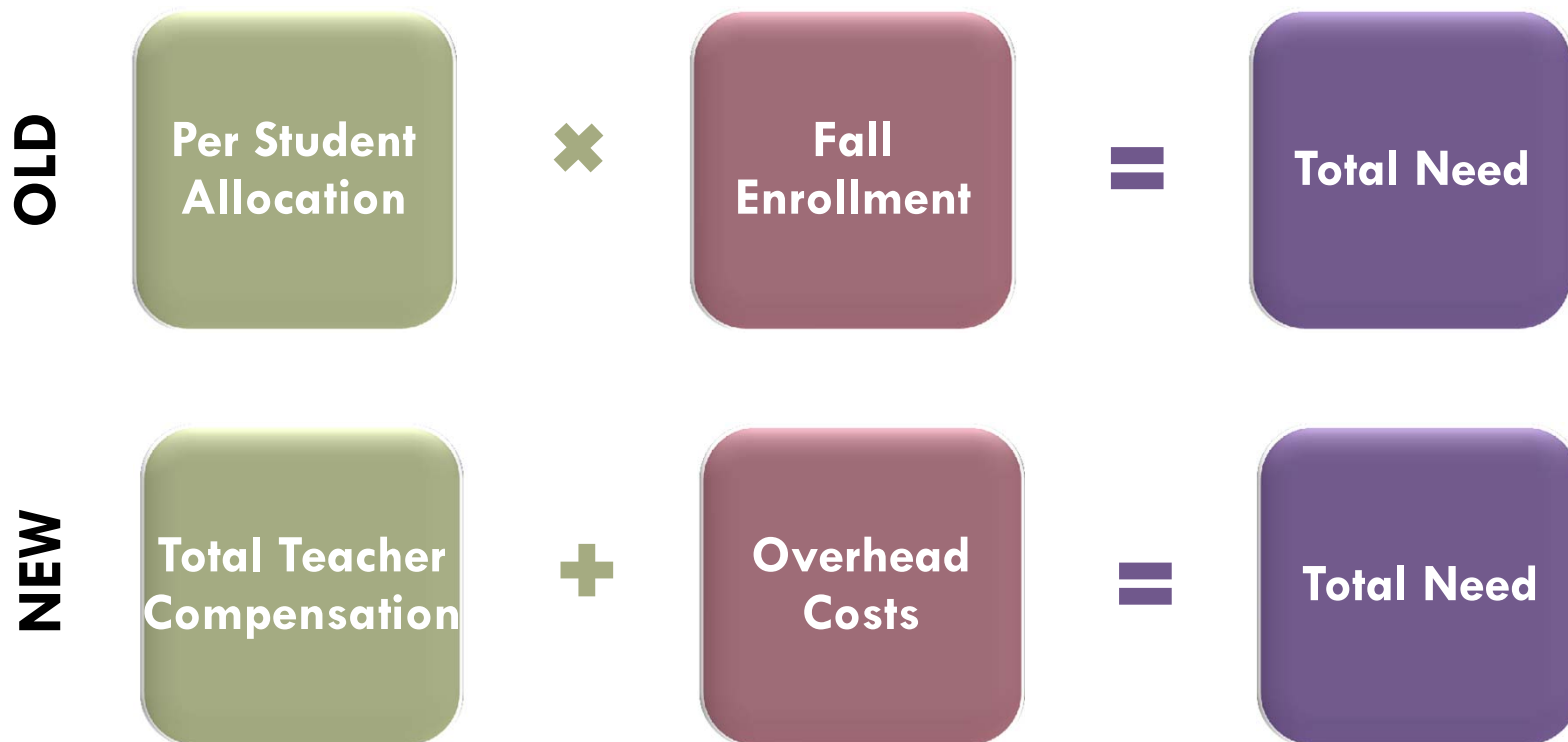
Local Effort

=

State Aid

How Has the Formula Changed?

The focus of the formula is based on a target teacher salary + benefits instead of a dollar amount per student



Why Was the Formula Changed?



- **Teacher salaries**
- **Blue Ribbon Task Force**
 - ▣ **More funding needed for education to increase teacher salaries**
 - ▣ **Desire to understand how money is being spent**
 - ▣ **Ensure funding is available and used to increase salaries**

Total Need

**Total Teacher
Compensation**

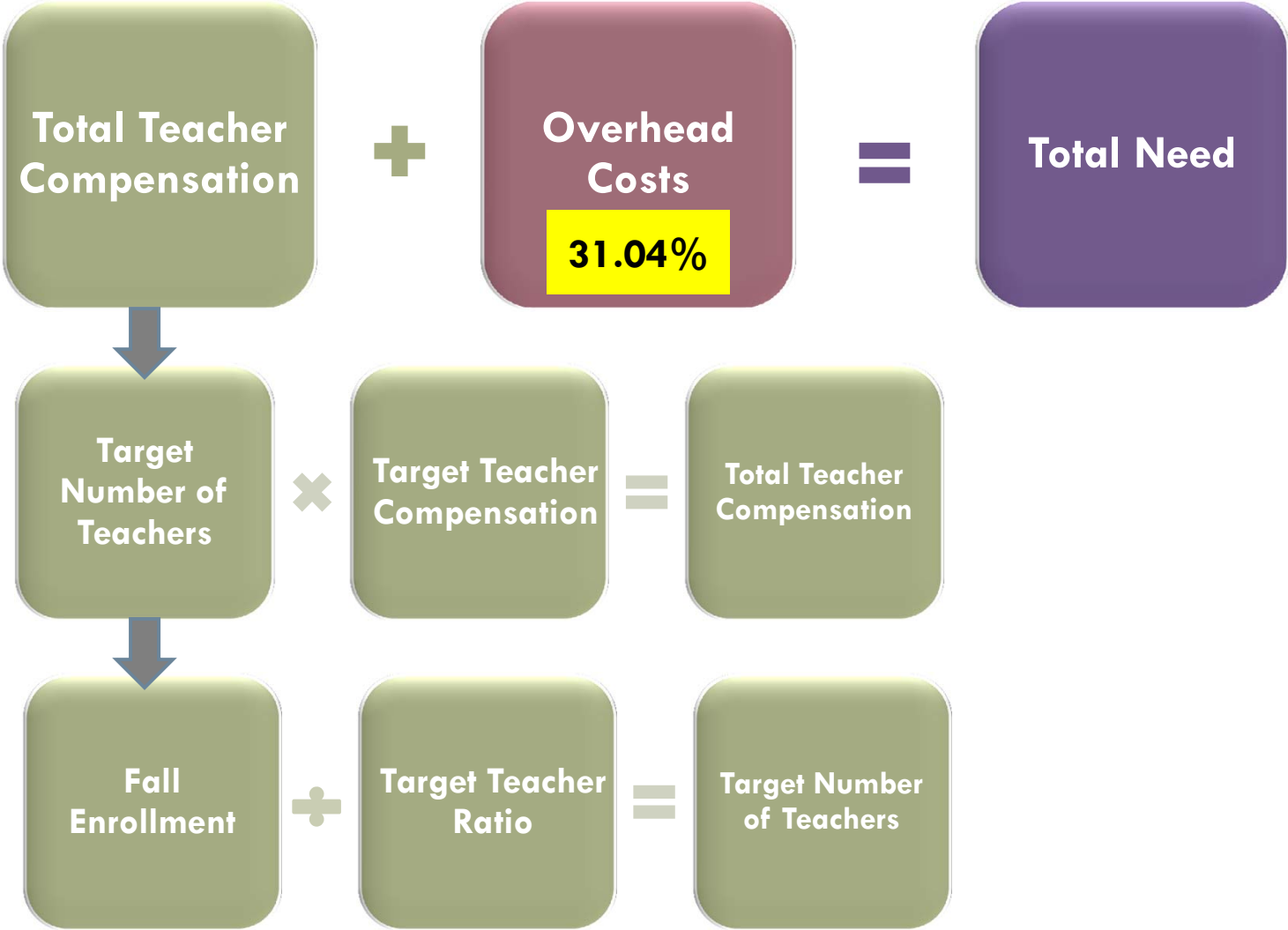
+

Overhead Costs

=

Total Need

Total Need



Local Effort

Property Taxes
Generated by
General Fund Levy
Collected at Local
Level

+

Select Other
Revenues Above
Base Collected at
Local Level

=

Local Effort

Property Taxes



General Fund Levies

- **3 classes of property that are recognized**
- **Pay 2018 levies set in SB35 (2017 session):**
 - **Agricultural (Ag)**
 - **\$1.507/\$1,000 of taxable valuation for pay 2018 taxes**
 - **Owner Occupied (OO)**
 - **\$3.372/\$1,000 of taxable valuation for pay 2018 taxes**
 - **All Other (Commercial, Utilities, etc.)**
 - **\$6.978/\$1,000 of taxable valuation for pay 2018 taxes**



Calendar or Fiscal Year?

- **Property taxes are based on a calendar year**
- **State aid is calculated on a fiscal year**
 - ▣ **When calculating local effort, $\frac{1}{2}$ of the current calendar year and $\frac{1}{2}$ of the next calendar year is used to determine total property valuations in the formula**
 - **i.e. FY2018 Local Effort is based on $\frac{1}{2}$ of taxes payable in 2017 (July – December) and $\frac{1}{2}$ of taxes payable in 2018 (January – June)**

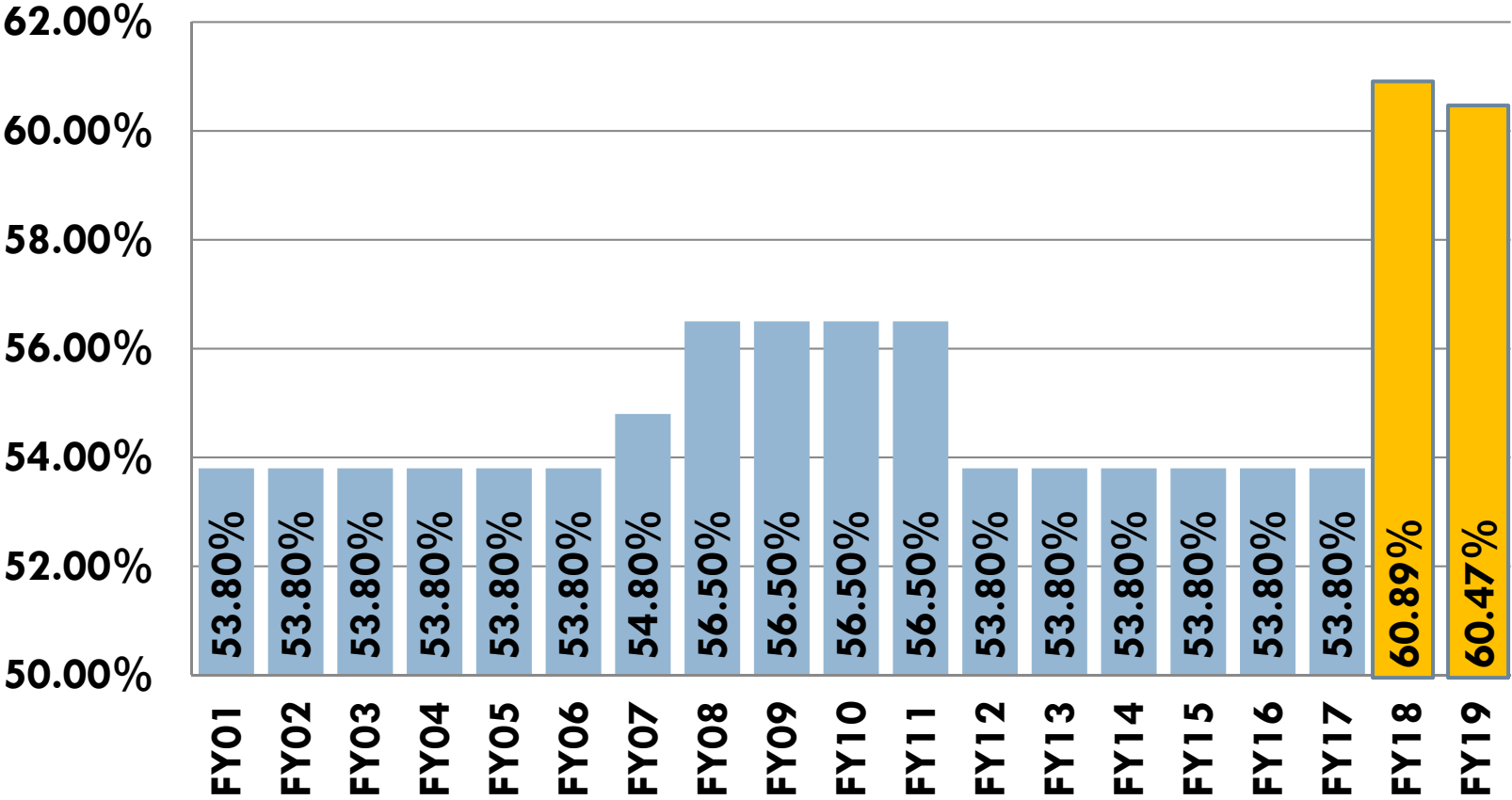


State/Local Proportion

- **When adjusting levies each year, the proportion of state and local effort should remain constant**
- **Levies are set to maintain the state and local share 2 years out**
 - ▣ **When budgeting for FY2018, goal was to maintain state/local proportion in FY2019**
 - ▣ **State/local proportion will be adjusted annually to reflect adjustments in local effort due to equalizing other revenue**



State/Local Proportion



Property Tax Relief

- In HB1182 of the 2016 legislative session, the legislature allocated 34% of the proceeds of the half-cent sales tax to property tax relief
- This was projected to generate approximately \$36 million for the first year and the levies were adjusted accordingly



Property Tax Relief Impact to Levies

	Levies		
	AG	Owner Occ	Other
2010 pay 2011	2.554	3.965	8.491
2011 pay 2012	2.388	3.965	8.491
2012 pay 2013	2.322	4.029	8.628
2013 pay 2014	2.090	4.296	9.200
2014 pay 2015	1.782	4.252	9.106
2015 pay 2016	1.568	4.075	8.727
2016 pay 2017 Gov Rec	1.518	3.874	8.297
Plus Statewide Pension	0.233	0.233	0.233
2016 pay 2017 With Pension	1.751	4.107	8.530
Less Property Tax Relief	(0.183)	(0.420)	(0.900)
2016 pay 2017 Final	1.568	3.687	7.630



ADRDL

- In SB35 of the 2017 legislative session, the legislature adjusted the Ag levy by 0.073 to generate an estimated savings of \$1.615 M in state aid
- Ag picked up a bigger portion of the formula so that the “savings” to the state could be used for the bond payment for the Animal Research and Diagnostic Laboratory (ADRDL)



Other Revenues As Local Effort



*If <0 , then 0



Other Revenues Equalized

- **The following revenues are being equalized under the current formula and counted as local effort upon equalization:**
 - **Gross receipts tax on utilities**
 - **Local revenue in lieu of taxes**
 - **County apportionment of revenue from traffic fines**
 - **County revenue in lieu of taxes**
 - **Wind farm tax**
 - **Bank franchise tax**
- **The funds will continue to be collected and maintained by the local school district**

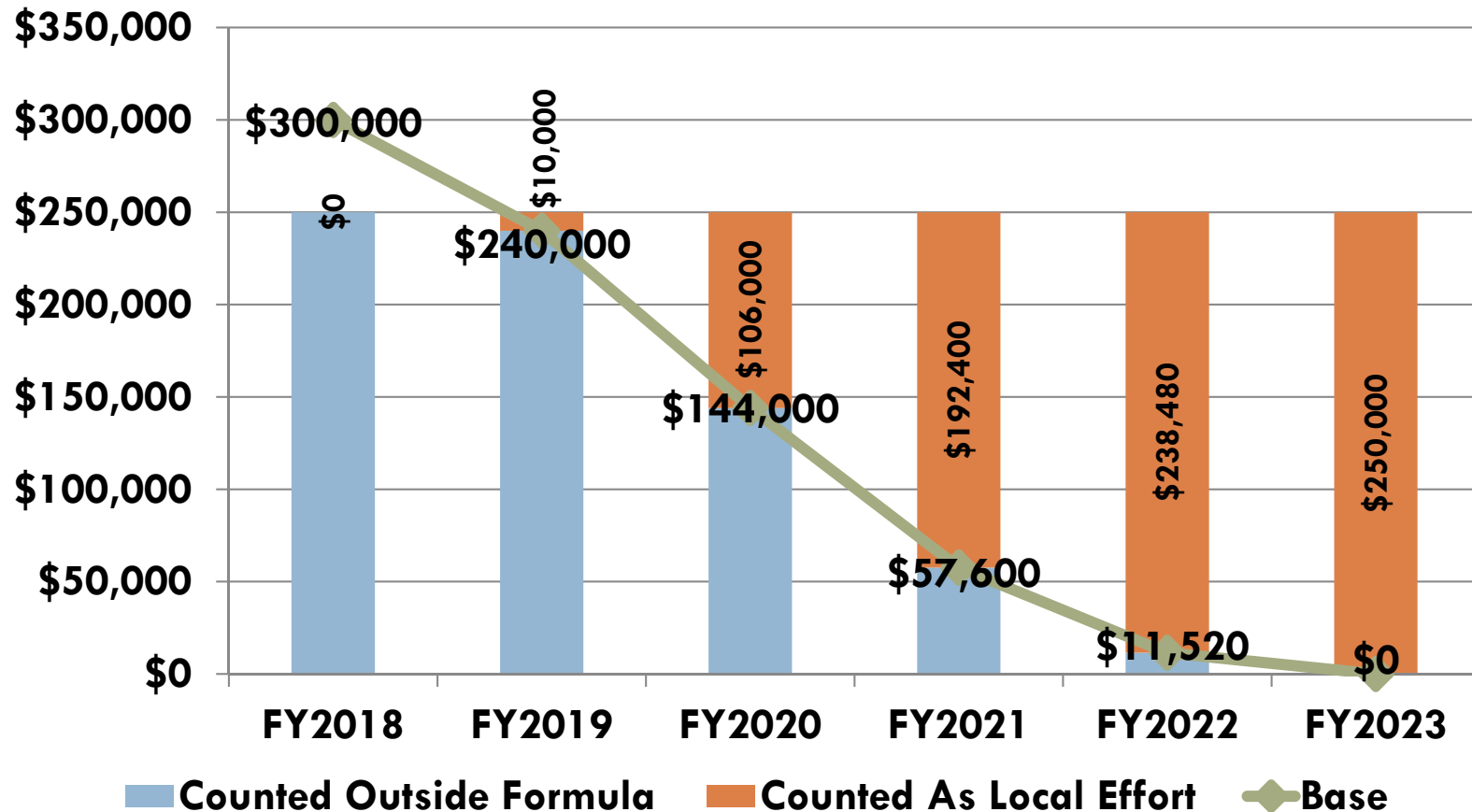


It's All About the Base

- ▣ **FY2018 Base = 100% of largest collection between FY2013-FY2015**
- ▣ **FY2019 Base = 80% of FY2018 Base**
- ▣ **FY2020 Base = 60% of FY2018 Base**
- ▣ **FY2021 Base = 40% of FY2018 Base**
- ▣ **FY2020 Base = 20% of FY2018 Base**
- ▣ **FY2023 Base = 0% of FY2018 Base**



It's All About the Base

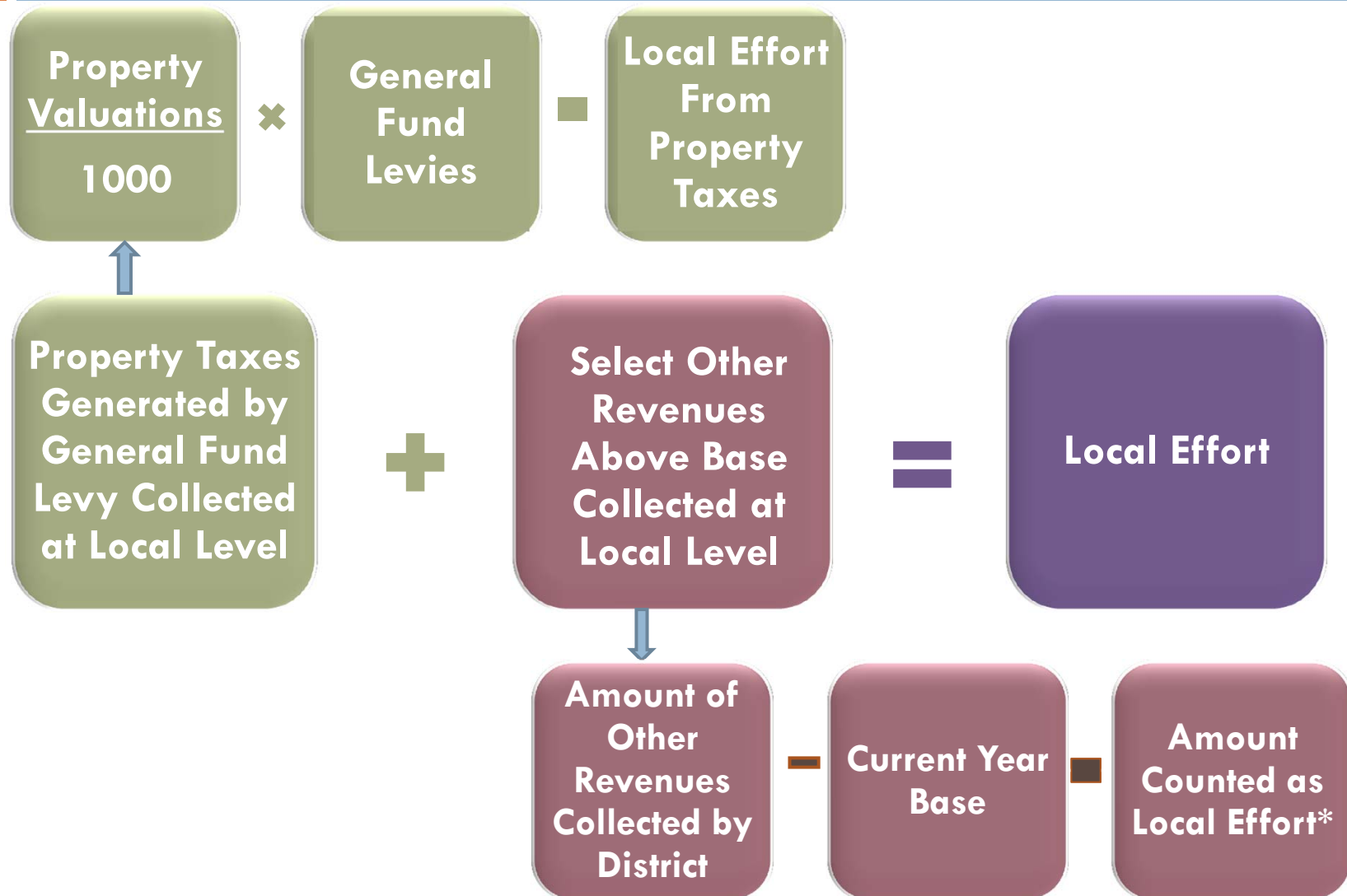


Wind Farms

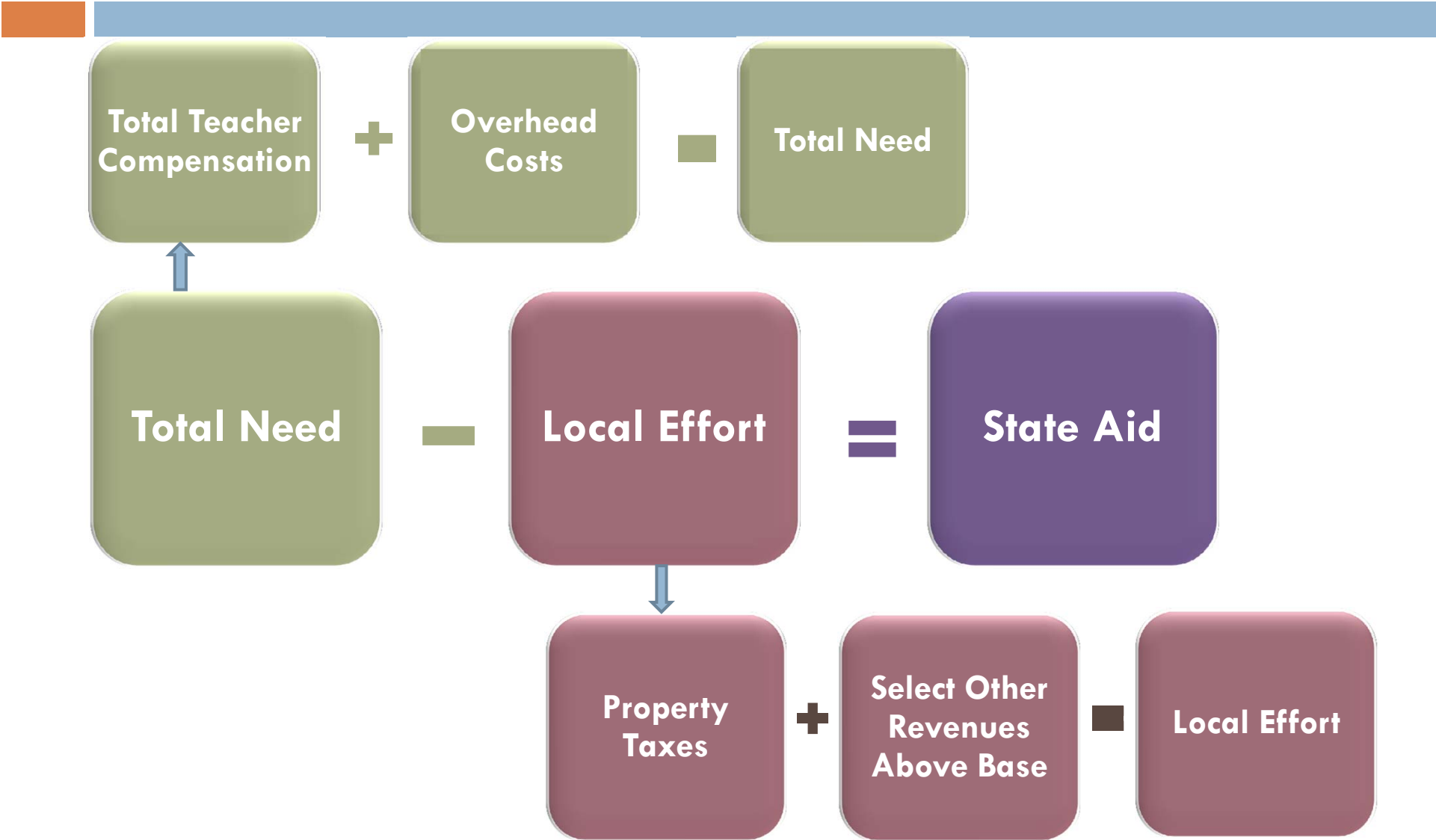
- **Wind farms that produce energy prior to July 1, 2016 will be part of the initial equalization**
- **For new wind farm projects, the wind farm taxes will be outside of the formula for five years and then will be phased into local effort over the next five years**



Local Effort Recap



State Aid – Putting it Together



Accountabilities – FY2017

- § **A district must spend 85% of its \$ increase in local need on instructional salaries and benefits for certified instructional staff.**
- % **A district's average teacher salaries and benefits must increase by 85% of its % increase in local need.**
- ***The increase in local need, or “new money” is calculated by comparing the increase in local need from FY2016 to FY2017 less the amount of revenue generated by the pension levy in FY2016***
 - ***Excludes any effect due to change in fall enrollment***
- ***Failure to meet the accountabilities will result in a decrease in FY2018 state aid equal to 50% of the “new money”***

Accountabilities – FY2019+



- **A district's average teacher compensation must be greater than the district's average teacher compensation in fiscal year 2017**
 - **If not, state aid to general education funding shall be reduced by \$500 per teacher in the next fiscal year**

Fund Balance Caps

- **Statutory caps on school district general fund reserves were reinstated**
- **Tiered reserve cap system based on lowest of previous 3 year's enrollments.**
 - **Less than 200** **40%**
 - **Between 200 and 600** **30%**
 - **Greater than 600** **25%**
- **Based on lowest monthly cash balance**
- **Districts that exceeds the reserve fund cap will have state aid payment reduced on a dollar-by-dollar basis.**
- **Begins in FY2019 based on FY2018 expenditures/cash balances**

Capital Outlay

- **Repealed the sunset of the temporary capital outlay flexibilities and made them permanent**
 - **Can be used for ANY general fund purpose**
 - **Allowable amount: 45% of capital outlay tax revenues**
- **Requires annual requests for capital outlay be made in the form a dollar amount instead of a levy**
- **Limits future capital outlay growth to increase by 3% or inflation, whichever is less, plus new construction**
- **Imposes an alternative maximum on capital outlay collections at \$2800 per student**
 - **This amount will increase annually by 3% or inflation, whichever is less**
 - **Takes effect in FY2021**

More Information



<http://doe.sd.gov/2016EducationPackage.aspx>

- **Accountability Calculator**
 - **FAQs**
- **Funding Formula Memo**
 - **Select Other Revenues**