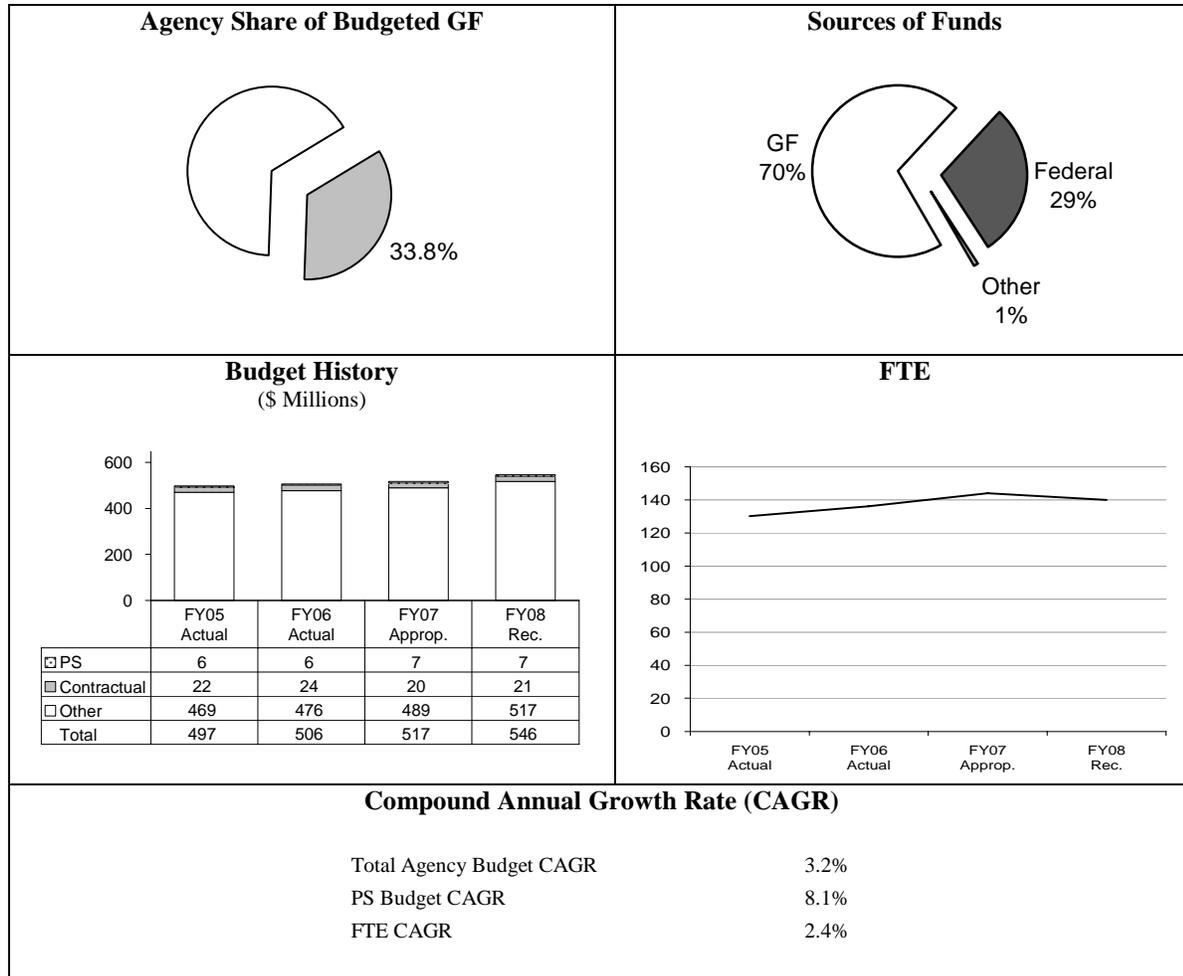


FY2008 Budget Briefing

Department of Education



Key Responsibilities

- To advocate for education;
- To facilitate the delivery of statewide educational services; and
- To promote efficient, appropriate, and quality educational opportunities for all persons residing in South Dakota.

Key Personnel

- Dr. Rick Melmer, Secretary
- Darla Mayer, Director, Office of Finance and Management

Department of Education Total

The Governor recommends a total appropriation of \$545,793,526 and 140.0 FTEs for the Department of Education for FY08. This is an increase of \$28,641,105 total funds and a reduction of 4.0 FTE. The total funding is comprised of a recommended appropriation of \$383,352,265 from general funds, \$157,610,618 in federal fund expenditure authority, and \$4,830,643 in other fund expenditure authority. The Governor's recommended funding amounts are increases over FY07 of 6.8%, 2.7%, and 3.1%, respectively. The total increase is 5.5% over FY07.

Item	Actual FY06	Budgeted FY07	Agency Req. FY08	Gov Rec. FY08	Inc/Dec FY08	% Change From FY07
Personal Services	6,332,385	7,292,178	7,292,178	7,455,501	163,323	2.2%
Travel	795,355	616,260	626,959	626,959	10,699	1.7%
Contractual Services	23,575,681	20,458,335	21,135,663	21,200,463	742,128	3.6%
Supplies & Materials	740,632	699,970	701,970	701,970	2,000	0.3%
Grants And Subsidies	470,381,986	485,445,931	509,250,886	513,250,886	27,804,955	5.7%
Capital Outlay	4,182,149	2,614,747	2,532,747	2,532,747	(82,000)	(3.1%)
Other	73,822	25,000	25,000	25,000	-	0.0%
Total	506,082,010	517,152,421	541,565,403	545,793,526	28,641,105	5.5%
Funding Types						
General	356,227,669	359,034,749	379,286,423	383,352,265	24,317,516	6.8%
Federal	146,650,330	153,430,792	157,452,100	157,610,618	4,179,826	2.7%
Other	3,204,010	4,686,880	4,826,880	4,830,643	143,763	3.1%
Total	506,082,009	517,152,421	541,565,403	545,793,526	28,641,105	5.5%
FTE	136.2	144.0	144.0	140.0	(4.0)	(2.8%)

The Governor's recommendation throughout this analysis also includes funding for Performance and Compensation Equity (PACE) movement of 2.5% for those employees who are paid under the job-worth of their pay range, a 3% across-the-board increase for all permanent employees, and an increase in the employer paid portion of the state health insurance plan. The recommended amounts for each segment of the compensation package are as follows:

	General Funds	Federal Funds	Other Funds	Total
2.5% PACE Movement	36,914	35,000	869	72,783
3% Across-the-Board	97,453	94,043	2,312	193,808
Health Insurance	14,671	15,161	494	30,326
Total	149,038	144,204	3,675	296,917

Major Expansions and Reductions

Program	Agency Request			Governor's Recommendation		
	State General Fund	All Funds	FTE	State General Fund	All Funds	FTE
A. State Aid to General Education	17,460,194	17,460,194	0.0	17,460,194	17,460,194	0.0
B. Teacher Compensation Assistance Program	-	-	0.0	4,000,000	4,000,000	0.0
C. Technology In Schools	1,440,876	1,440,876	0.0	1,440,876	1,440,876	0.0
D. Career and Technical Education	300,000	1,171,308	0.0	300,000	1,171,308	0.0
E. State Aid to Post-secondary Technical Institutes	1,050,604	1,050,604	0.0	1,050,604	1,050,604	0.0
F. Education Resources	-	3,262,849	0.0	-	3,262,849	0.0
G. Education Service Agencies	-	(1,122,849)	0.0	-	(1,122,849)	0.0
H. State Library	-	-	0.0	(133,595)	(133,595)	(4.0)
I. GEAR UP Grant	-	1,150,000	0.0	-	1,150,000	0.0
J. Governor's Salary Policy	-	-	0.0	149,038	296,917	0.0
K. M&R Recalc	-	-	0.0	50,398	64,800	0.0
Total	20,251,674	24,412,982	0.0	24,317,515	28,641,104	(4.0)

- A. The Governor recommends a status quo appropriation from the general fund for State Aid to General Education for FY08 based upon a 3% inflationary increase in the per student allocation but a declining adjusted average daily membership statewide.
- B. The Governor recommends an increased appropriation of \$4,000,000 from the general fund for a new program called "Teacher Compensation Assistance Program". The details of the new program have not been established, however, the Governor announced in his budget speech that it was his intent that the funds be used to boost teacher pay.
- C. The Department requests, and the Governor recommends, an increase of \$1,440,876 from the general fund for ongoing costs associated with the maintenance of the K-12 technology infrastructure at school districts across the state.
- D. Increases in the Career and Technical Education Division are primarily for federal grant awards.
- E. The Governor recommends an increase for State Aid to Postsecondary Technical Education Institutes based upon 3% inflation in the per student average and an increase in the number of students at the institutes.
- F. The Governor recommends funding for the New Governor's Teacher Academy and federal fund expenditure authority for Title and IDEA grants. The Governor also recommends a transfer of federal fund expenditure authority that was unused in the Education Service Agency budget (Item G.).

- G. The Governor recommends a transfer of unused federal fund expenditure authority in the Education Service Agency budget to the Education Resources budget to utilize assessment money for the NCLB program.
- H. The State Library's role, programs and services are being redefined based on the needs of its customers. The recommended budget includes a decrease of \$133,595 in general funds and 4.0 FTEs.
- I. The Department was recently awarded a grant to address the graduation rate of Native American students. The six-year \$6.9 million grant will fund project "GEAR UP".
- J. The Governor's recommended salary policy includes \$149,038 from the general fund, \$144,204 from federal funds, and \$3,675 from other funds.
- K. The Governor recommends an increase of \$64,800 in all funds to account for a recalculation in the method of recovering maintenance and repair funding for the Capitol Complex.

General Administration

For FY08 the Governor recommends total funding of \$6,667,899 for the General Administration program. This funding consists of \$1,477,234 from the general fund, \$5,176,991 in federal fund expenditure authority, \$13,674 in other fund expenditure authority, and 33.0 FTEs. The FY08 funding is \$47,418 more from the general fund and \$1,184,844 more in federal fund expenditure authority, but the same in other fund expenditure authority and FTEs as the FY07 budget.

General Administration includes the Secretariat and the Office of Finance and Management. The former is the policy-setting head of the department and includes the South Dakota Board of Education which also sets policy for public education in South Dakota. The Office of Finance and Management is the financial and statistical center for all public education, Kindergarten through postsecondary technical and has as a major duty administering the State Aid to Education process and formulae. General Administration also includes the No Child Left Behind Act coordinator and Indian Education coordinator.

Item	Actual FY06	Budgeted FY07	Agency Req. FY08	Gov Rec. FY08	Inc/Dec FY08	% Change From FY07
Personal Services	1,681,702	1,836,371	1,836,371	1,913,857	77,486	4.2%
Travel	95,058	49,588	49,588	49,588	-	0.0%
Contractual Services	444,867	425,812	425,812	430,588	4,776	1.1%
Supplies & Materials	67,726	61,520	61,520	61,520	-	0.0%
Grants And Subsidies	2,397,014	3,053,546	4,203,546	4,203,546	1,150,000	37.7%
Capital Outlay	60,837	8,800	8,800	8,800	-	0.0%
Other	8	0	0	0	-	0.0%
Total	4,747,212	5,435,637	6,585,637	6,667,899	1,232,262	22.7%
Funding Types						
General	1,437,238	1,429,816	1,429,816	1,477,234	47,418	3.3%
Federal	3,195,329	3,992,147	5,142,147	5,176,991	1,184,844	29.7%
Other	114,645	13,674	13,674	13,674	-	0.0%
Total	4,747,212	5,435,637	6,585,637	6,667,899	1,232,262	22.7%
FTE	32.6	33.0	33.0	33.0	-	0.0%

Budget Notes

- As part of the 2010 E Initiative, the Department recently applied for and received a grant to address the graduation rate of Native American students. The six year \$6.9 million grant from the U.S. Department of Education will fund project "GEAR UP". The Agency requests \$1,150,000 in federal fund expenditure authority for the first year of the grant. The Governor recommends this requested increase.

- The Governor recommends an increase of \$1,376 in general funds and \$3,400 in federal fund expenditure authority to account for a recalculation in the method of recovering maintenance and repair funding for the Capitol Complex. This item is found throughout the Department of Education's budget.

	General Funds	Federal Funds	Other Funds	Total Funds
General Administration	1,376	3,400	-	4,776
State Aid				
Career and Tech Ed	82	1,447	77	1,606
Education Resources	594	5,785	11	6,390
State Library	48,346	3,682	-	52,028
Total Department	50,398	14,314	88	64,800

Selected Performance Indicators

	FY06			FY07			FY08
	Proposed Estimate	Actual	Difference Over (Under) Estm.	Proposed Estimate	Current Estimate	Change in Estimate	Estimate
Scholarship Programs Administered	3	3	0	3	3	0	3
Scholarships Awarded	97	97	0	97	97	0	101
Scholarship Dollars Awarded	\$145,000	\$151,000	\$6,000	\$140,000	\$145,500	\$5,500	\$147,000
School Districts - Public	168	168	0	168	168	0	167
Schools - Public	689	713	24	680	702	22	702
Instructional FTE - Public	9,900	8926	(974)	8900	8900	0	8,875
K-12 Fall Enrollment-Public	121,000	120,682	(318)	119,700	120,082	382	119,500
K-12 Fall Enrollment-Nonpublic	17,050	16,707	(343)	17,200	16,500	(700)	16,400
Accredited Private Schools *	80	72	(8)	80	72	(8)	72

* The private accredited school totals do not include cooperatives, multi-districts, adjustment training centers, and correctional facilities.

State Aid to Education (Excluding Postsecondary Technical)

State Aid to Education traditionally consists of a number of individual programs which are appropriated as line items in the General Appropriation Act, while there may be a change in the list of items from one year to the next. The following items compose the Governor's State Aid to K-12 Education recommended appropriations for FY08: State Aid to General Education, State Aid to Special Education, Alternative Education Program, National Board Certified Teachers, Teacher Compensation Assistance Program*, and Technology in Schools. State Aid to Postsecondary Technical Education, though it goes to four local school districts, is not included in this table.

For information purposes, the following table shows State Aid to K-12 Education only:

Item	Actual FY06	Budgeted FY07	Agency Req. FY08	Gov Rec. FY08	Inc/Dec FY08	% Change From FY07
Personal Services	0	0	0	0	-	0.0%
Travel	1,277	0	0	0	-	0.0%
Contractual Services	6,345,899	6,440,000	7,880,876	7,880,876	1,440,876	22.4%
Supplies & Materials	2,631	0	0	0	-	0.0%
Grants And Subsidies	322,730,431	326,485,835	343,946,029	347,946,029	21,460,194	6.6%
Capital Outlay	2,820,479	2,311,325	2,311,325	2,311,325	-	0.0%
Other	37	0	0	0	-	0.0%
Total	331,900,754	335,237,160	354,138,230	358,138,230	22,901,070	6.8%
Funding Types						
General	330,104,895	331,677,160	350,578,230	354,578,230	22,901,070	6.9%
Federal	0	0	0	0	-	0.0%
Other	1,795,861	3,560,000	3,560,000	3,560,000	-	0.0%
Total	331,900,756	335,237,160	354,138,230	358,138,230	22,901,070	6.8%
FTE	0.0	0.0	0.0	0.0	-	0.0%

The following pages depict the individual components of State Aid to Education.

*Teacher Compensation Assistance Program is a new line item in the FY08 recommended budget and was not requested by the Department. It replaces School Efficiencies and Education Enhancement [Trust Fund earnings] Distribution.

State Aid to General Education

The Governor's recommended appropriation for State Aid to General Education for K-12 includes an increase of \$16,865,385 over FY07. This recommended appropriation is \$299,704,345 from the general fund.

Item	Actual FY06	Budgeted FY07	Agency Req. FY08	Gov Rec. FY08	Inc/Dec FY08	% Change From FY07
Grants And Subsidies	280,022,412	282,838,960	299,704,345	299,704,345	16,865,385	6.0%
Total	280,022,412	282,838,960	299,704,345	299,704,345	16,865,385	6.0%
Funding Types						
General	280,022,412	282,838,960	299,704,345	299,704,345	16,865,385	6.0%
Federal	0	0	0	0	-	0.0%
Other	0	0	0	0	-	0.0%
Total	280,022,412	282,838,960	299,704,345	299,704,345	16,865,385	6.0%

Budget Notes

- The Governor's recommended appropriation for State Aid to General Education shown above is based upon an inflationary increase in the Per Student Allocation (PSA) of 3% raising it from SDCL 13-13-10.1(4)'s \$4,364.85 to \$4,495.80. This is an increase in PSA of \$130.95.
- The Governor's recommendation also uses a figure of 124,254 for adjusted average daily membership (AADM). This is a decline of 504 from the 124,758 used for FY07.
- The department calculates each school district's AADM according to SDCL 13-13-10.1(2) and multiplies that by PSA to determine Local Need. The district's property tax revenues are its Local Effort. Local Need minus Local Effort equals State Aid to that district.
 - Local Need = AADM times PSA
 - State Aid = Local Need minus Local Effort
 - Total State Aid = the sum of all districts' State Aid
- The Legislature adjusts statutory, mandatory property tax levies to maintain a proportional state/local balance from year to year reflecting increases in state appropriations and growth in local property values.

- Because the State Aid Formula is driven by AADM and calculated such that a district's State Aid is the difference between Local Need and Local Effort, not all districts receive the same amount of State Aid per student. Differing amounts of State Aid per student to the various districts, therefore, ultimately result in differing adjusted PSA. According to the Governor's calculations:

# Of School Districts	Adjusted	
	Average Daily Membership	Per Student Allocation
48	200 or less	\$5,395
77	201 to 600	\$4,496 to \$5,395
43	601 or more	\$4,496

- 7-Year State Aid to General Education Funding History:

Fiscal Year	AADM	PSA	Total State Need	State Aid Expenditure	State Aid as % of Total State Need
FY 2002	130,711	3,775.91	493,552,972	268,383,440	54.4%
FY 2003	128,931	3,889.19	501,437,156	264,852,086	52.8%
FY 2004	128,189	3,948.00	506,090,172	273,683,236	54.1%
FY 2005	126,809	4,086.56	518,212,587	280,720,707	54.2%
FY 2006	126,099	4,237.72	534,372,254	280,022,412	52.4%
FY 2007	124,297	4,364.85	542,537,760	282,838,960 **	52.1%
FY 2008*	124,254	4,495.80	558,621,133		

*Governor's Recommended Budget for FY08.

** FY 2007 Budgeted Amount

State Aid to Special Education

A total appropriation of \$43,701,684 from the general fund is the Governor's recommendation for State Aid to Special Education for FY08. This amount represents an increase of 1.4% over the appropriation for FY07.

Item	Actual FY06	Budgeted FY07	Agency Req. FY08	Gov Rec. FY08	Inc/Dec FY08	% Change From FY07
Grants And Subsidies	42,202,575	43,106,875	43,701,684	43,701,684	594,809	1.4%
Total	42,202,575	43,106,875	43,701,684	43,701,684	594,809	1.4%
Funding Types						
General	42,202,575	43,106,875	43,701,684	43,701,684	594,809	1.4%
Federal	0	0	0	0	-	0.0%
Other	0	0	0	0	-	0.0%
Total	42,202,575	43,106,875	43,701,684	43,701,684	594,809	1.4%

Budget Notes

- The State of South Dakota uses a formula to calculate the amount of state aid to special education distributed to a school district each year. Local need for special education is calculated using a formula based upon a child count and six disability levels. Each disability level has a specific allocation amount specified in law and inflated annually by 3% or the consumer price index, whichever is lower. A portion of the money going into the formula is funded by the general fund, and a portion is funded by local property taxes. The local need is compared to the local tax effort calculated using the required levy as specified in law in order to determine the amount of state aid to special education for each school district.
- The Governor's recommendation reflects SDCL 13-37-16.2, which mandates that local levies for special education be adjusted when valuations grow faster than local need.
- The special education formula does not reflect an adjustment for small schools, but it does take into account Child Count statistics, which include private school students and those in home schools.
- The disability brackets' per student allocations are being increased the same 3.0% rate for inflation as State Aid to General Education.
- The FY08 State Aid to Special Education Estimate was determined as follows:

Estimated Costs

Base Formula	\$ 41,527,022
Extraordinary Cost Fund Need*	3,765,247
Total Estimated Costs for FY08	45,292,269

Available Funds

Base FY07 Appropriation	43,106,875
Projected Carryover from FY07	1,590,585
Total Available Funds	44,697,460

FY08 Increase Needed **\$ 594,809**

*Based on average growth of 7.9% in the past two years.

Alternative Education Program

For FY08 the Governor recommends an appropriation of \$450,000 from the general fund, the same amount as for FY07 and previous years, for State Aid to Alternative Education. This program provides funding for alternative education sites or schools that work with the Department of Labor to provide public education in an alternative setting to traditional high school.

Item	Actual FY06	Budgeted FY07	Agency Req. FY08	Gov Rec. FY08	Inc/Dec FY08	% Change From FY07
Grants And Subsidies	450,000	450,000	450,000	450,000	-	0.0%
Total	450,000	450,000	450,000	450,000	-	0.0%
Funding Types						
General	450,000	450,000	450,000	450,000	-	0.0%
Federal	0	0	0	0	-	0.0%
Other	0	0	0	0	-	0.0%
Total	450,000	450,000	450,000	450,000	-	0.0%

National Board Certified Teachers

The Governor recommends a status quo appropriation of \$90,000 from the general fund for State Aid to National Board Certified Teachers. This program provides stipends and reimburses fees associated with teachers taking national examinations for certification in their fields.

Item	Actual FY06	Budgeted FY07	Agency Req. FY08	Gov Rec. FY08	Inc/Dec FY08	% Change From FY07
Grants And Subsidies	55,444	90,000	90,000	90,000	-	0.0%
Total	55,444	90,000	90,000	90,000	-	0.0%
Funding Types						
General	55,444	90,000	90,000	90,000	-	0.0%
Federal	0	0	0	0	-	0.0%
Other	0	0	0	0	-	0.0%
Total	55,444	90,000	90,000	90,000	-	0.0%

Budget Note

➤ The Department is projecting 60 participants in FY08.

Teacher Compensation Assistance Program

The Governor recommends that \$4,000,000 from the general fund be appropriated in FY08 for this new program. This program, part of the Governor's "2010-E Initiative," will provide incentives to local school districts to improve salaries. The Governor recommends this as an on-going program.

Item	Actual FY06	Budgeted FY07	Agency Req. FY08	Gov Rec. FY08	Inc/Dec FY08	% Change From FY07
Grants And Subsidies	0	0	0	4,000,000	4,000,000	0.0%
Total	-	-	-	4,000,000	4,000,000	0.0%
Funding Types						
General	0	0	0	4,000,000	4,000,000	0.0%
Federal	0	0	0	0	-	0.0%
Other	0	0	0	0	-	0.0%
Total	-	-	-	4,000,000	4,000,000	0.0%

Budget Notes

- During the 2006 legislative session, the Education Committee, at the request of the Governor, introduced SB199 that would have "created the teacher compensation assistance program within the Department of Education to provide funds to school districts for the purpose of assisting school districts with teacher compensation." In that bill, the department was to provide at least two-thirds of the funds for the teacher compensation assistance program to each participating school district. That legislation did not pass. The Governor is again requesting funds for a similar program.
- Details of this program were not available at publication time.

Technology in Schools

Funding for the Technology in Schools program, as recommended by the Governor for FY08, totals \$10,192,201 which is a 27.8% increase in general funds over FY07. Of this amount the Governor recommends an appropriation from the general fund of \$6,632,201 and \$3,560,000 in other fund expenditure authority. This program provides state funding to support the Dakota Digital Network and distance education in South Dakota.

Item	Actual FY06	Budgeted FY07	Agency Req. FY08	Gov Rec. FY08	Inc/Dec FY08	% Change From FY07
Personal Services	0	0	0	0	-	0.0%
Travel	1,277	0	0	0	-	0.0%
Contractual Services	6,345,899	6,440,000	7,880,876	7,880,876	1,440,876	22.4%
Supplies & Materials	2,631	0	0	0	-	0.0%
Grants And Subsidies	0	0	0	0	-	0.0%
Capital Outlay	2,820,479	2,311,325	2,311,325	2,311,325	-	0.0%
Other	37	0	0	0	-	0.0%
Total	9,170,323	8,751,325	10,192,201	10,192,201	1,440,876	16.5%
Funding Types						
General	7,374,464	5,191,325	6,632,201	6,632,201	1,440,876	27.8%
Federal	0	0	0	0	-	0.0%
Other	1,795,861	3,560,000	3,560,000	3,560,000	-	0.0%
Total	9,170,323	8,751,325	10,192,201	10,192,201	1,440,876	16.5%
FTE	0.0	0.0	0.0	0.0	-	0.0%

Budget Notes

- The Governor's recommended appropriation for FY08 is again based upon use of e-Rates, a program established by Congress and the Federal Communications Commission to provide discounts and reimbursements of costs so schools and libraries in all communities can reap the benefits of affordable telecommunications and internet access.
- Along with e-Rate revenue, is a donation from Citibank that is being utilized for the laptop initiative. End of year balance (6/30/06) of the Citibank revenue was \$4,047,306.
- The Department is requesting an increase of \$1,440,876 in general funds for ongoing costs associated with the maintenance of the K-12 technology infrastructure at school districts across the state. The Governor recommends this increase.

Career and Technical Education

The Governor recommends total funding of \$7,176,834 and 11.5 FTEs for the office of Career and Technical Education for FY08. This includes a recommended increase in appropriation from the general fund of \$1,114,521, an increased appropriation of \$883,438 in federal fund expenditure authority, and an increase of \$77 in other fund expenditure authority. This program coordinates and approves secondary career and technical education programs throughout the state and distributes State Aid to Postsecondary Technical Institutes.

Item	Actual FY06	Budgeted FY07	Agency Req. FY08	Gov Rec. FY08	Inc/Dec FY08	% Change From FY07
Personal Services	547,717	606,752	606,752	631,874	25,122	4.1%
Travel	85,750	73,438	74,137	74,137	699	1.0%
Contractual Services	953,211	467,359	616,660	618,266	150,907	32.3%
Supplies & Materials	55,769	60,518	60,518	60,518	-	0.0%
Grants And Subsidies	4,233,537	3,968,231	5,789,539	5,789,539	1,821,308	45.9%
Capital Outlay	14,659	2,500	2,500	2,500	-	0.0%
Other	0	0	0	0	-	0.0%
Total	5,890,643	5,178,798	7,150,106	7,176,834	1,998,036	38.6%
Funding Types						
General	432,471	447,331	1,547,331	1,561,852	1,114,521	249.1%
Federal	5,400,747	4,577,192	5,448,500	5,460,630	883,438	19.3%
Other	57,424	154,275	154,275	154,352	77	0.0%
Total	5,890,642	5,178,798	7,150,106	7,176,834	1,998,036	38.6%
FTE	11.1	11.5	11.5	11.5	-	0.0%

Selected Performance Indicators

	FY06			FY07			FY08
	Proposed Estimate	Actual	Difference Over (Under) Estm.	Proposed Estimate	Current Estimate	Change in Estimate	Estimate
Secondary Schools and Postsecondary Institutions:							
School Districts with Programs	125	142	17	130	145	15	150
Approved Secondary Programs	340	374	34	350	380	30	385
Approved Postsecondary Programs	108	112	4	110	114	4	119
Technical Assistance Visitations	150	175	25	168	185	17	195
Minority Participation:							
American Indian	2,800	2,143	(657)	2,200	2,163	(37)	2,183
Black	320	295	(25)	260	300	40	305
Oriental	230	232	2	200	238	38	245
Spanish	350	359	9	320	370	50	382

Budget Notes

- The Department requests additional federal fund expenditure authority for the federal program entitled “High Schools That Work”. The program is a school improvement model that engages states, school leaders and teachers in partnerships with students, parents, and

community to improve the way high school students are prepared for work and higher education. The Governor recommends this item.

- The Department also requests \$99,301 in general funds to increase the state matching funds for administrative costs for the Perkins program. The increase allows for the continuation of the contracts with universities, postsecondary institutes and consultants. The Governor recommends this increase.
- The Department is requesting \$1,000,000 in general funds to enhance secondary career and technical education programs, which will continue the grant program funded by SB168 in the current fiscal year. SB168 appropriated \$1,000,000 from the general fund for distribution to school districts through a competitive grant process. Priority was to be given to those programs that are innovative or enhanced, that are collaborative efforts, or that include entrepreneurial activities, internships, or career guidance. The Governor recommends this increase.
- The Department requests \$821,308 in federal fund expenditure authority for anticipated pass through grants for secondary and postsecondary career and technical education programs. The Governor recommends this increase.

Postsecondary Vocational Education

For State Aid to Postsecondary Vocational Education for FY08 the Governor recommends an appropriation of \$19,127,140 from the general fund, an increase of \$1,050,604 over FY07 or 5.8%. This appropriation is distributed to the four postsecondary technical institutes based upon enrollments and student completions of academic programs.

Item	Actual FY06	Budgeted FY07	Agency Req. FY08	Gov Rec. FY08	Inc/Dec FY08	% Change From FY07
Contractual Services	824,000	824,000	824,000	824,000	-	0.0%
Grants And Subsidies	16,136,433	17,252,536	18,303,140	18,303,140	1,050,604	6.1%
Total	16,960,433	18,076,536	19,127,140	19,127,140	1,050,604	5.8%
Funding Types						
General	16,960,433	18,076,536	19,127,140	19,127,140	1,050,604	5.8%
Federal	0	0	0	0	-	0.0%
Other	0	0	0	0	-	0.0%
Total	16,960,433	18,076,536	19,127,140	19,127,140	1,050,604	5.8%

Budget Notes

- The Governor's recommended increase in appropriation of \$1,050,604 from the general fund is the result of applying 3.0% inflation to the per-student average and multiplying that by an expected larger number of students at the postsecondary technical institutes. For the current year, the per-student average is \$3,644.39 and there are 4,734 student-FTEs. The number of students for FY08 is expected to increase to 4,876 and 3% inflation on the per-student amount brings that to \$3,753.72. Multiplying the per-student amount by the number of student-FTEs yields the \$18.3 million shown for FY08 Grants and Subsidies.
- The Department requests a decrease of \$800,000 in the non-recurring postsecondary formula budget that was to be a one-time increase in the formula payment in FY07. This reduction is included in the calculation above. The Governor recommends the change.

Education Resources

The Governor recommends for FY08 an overall increase of \$3,409,041 for the Education Resources program. Of the dollar amount, the Governor recommends an increase of \$46,890 from the general fund, \$3,218,465 in federal fund expenditure authority, and \$143,686 in other fund expenditure authority. This brings the total funding and staffing for the program to \$150,292,768 and 63.0 FTEs. This program provides general and fiscal support and coordination of all public elementary and secondary schools in the state, distributes money from federal and other sources, and administers a number of activities from child/school nutrition to statewide, standardized testing.

Item	Actual FY06	Budgeted FY07	Agency Req. FY08	Gov Rec. FY08	Inc/Dec FY08	% Change From FY07
Personal Services	2,901,335	3,394,556	3,394,556	3,534,358	139,802	4.1%
Travel	539,397	420,753	430,753	430,753	10,000	2.4%
Contractual Services	11,027,055	9,179,372	9,309,372	9,315,762	136,390	1.5%
Supplies & Materials	458,470	432,249	432,249	432,249	-	0.0%
Grants And Subsidies	124,659,572	133,404,872	136,527,721	136,527,721	3,122,849	2.3%
Capital Outlay	1,058,739	51,925	51,925	51,925	-	0.0%
Other	1	0	0	0	-	0.0%
Total	140,644,569	146,883,727	150,146,576	150,292,768	3,409,041	2.3%
Funding Types						
General	3,902,711	3,785,253	3,785,253	3,832,143	46,890	1.2%
Federal	135,540,877	142,325,626	145,448,475	145,544,091	3,218,465	2.3%
Other	1,200,981	772,848	912,848	916,534	143,686	18.6%
Total	140,644,569	146,883,727	150,146,576	150,292,768	3,409,041	2.3%
FTE	59.4	63.0	63.0	63.0	-	0.0%

Budget Notes

- The Department requests an increase of \$20,000 in other fund spending authority for the increased travel and contractual services costs associated with the implementation of the new administrative rule requiring on-site accreditation reviews. The Department will introduce legislation that will allow them to use the Institute Fund to pay for teacher retention and training. The Governor recommends this increase.
- As of June 30, 2006, the Institute Fund, created in 13-42-5.11, had a cash balance of \$524,399. The revenues to the fund equaled \$144,414, while expenses equaled \$2,881, and net transfers out of the fund were \$65,867. The overall change in the FY06 balance of the fund was an increase of \$75,666.
- For FY08 the Governor recommends an increase of \$120,000 in other fund expenditure authority for the Governor's New Teacher Academy. The program was started two years ago as a means to provide professional development and to support teachers who are new to the profession. Hosted by the Department of Education, the event brings together first- and second-year teachers to learn from one another, to network, and to share success stories as well as challenges. The academy is led by South Dakota teachers who are leaders in their field (eg., National Board Certified). Participants develop supportive relationships with their peers. The federal funding source (Teacher Quality Enhancement) is no longer available. Therefore, the Agency is requesting a change to the law that prescribes uses of the

State Institute Fund and request “teacher retention and training” be included. As of 6/30/06, the State Institute Fund had a cash balance of \$524,400.

- The Department requests an increase of \$2,000,000 in federal fund expenditure authority in anticipation of increased federal funding available to pass through to local education agencies from Title and IDEA programs. The Governor recommends this increase.
- The Department and Governor recommend a shift in federal fund expenditure authority originally budgeted in the Education Service Agencies budget. The federal funding in that program is no longer available. Because of increased requirements in assessment from USDOE, the current federal assessment grant must be used to meet this mandate in this budget.

Revenues

	FY06			FY07			FY08
	Proposed Estimate	Actual	Difference Over (Under) Estm.	Proposed Estimate	Current Estimate	Change in Estimate	Estimate
Teacher Certificates	120,000	144,413	24,413	120,000	145,000	25,000	145,000

Selected Performance Indicators

	FY06			FY07			FY08
	Proposed Estimate	Actual	Difference Over (Under) Estm.	Proposed Estimate	Current Estimate	Change in Estimate	Estimate
<i>Office of Curriculum, Technology Assessment</i>							
Video-Based Classes Offered							
Over Digital Dakota Net (DDN)	101	166	65	167	175	8	180
Students Participating DDN Class	901	2,100	1,199	2,761	2,100	(661)	2,100
Prof. Dev. Offerings via DDN	416	104	(312)	675	110	(565)	115
Ed. "Events" Offered via DDN **	267	497	230	475	510	35	520
<i>Office of Accreditation & Teacher Quality</i>							
School Districts - Public	168	168	0	160	168	8	167
Schools - Public	702	713	11	690	702	12	702
Certified Staff - Public	9,900	9,026	(874)	9,900	9,000	(900)	9,000
Accredited Private & Tribal	78	72	(6)	80	72	(8)	72
Children Excused from Attendance	2,022	2,796	774	2,200	2,800	600	2,800
Certificates in Effect	26,000	21,648	(4,352)	26,000	22,000	(4,000)	22,000
Certificates Suspended/Revoked	6/5	11/1	5/(4)	7/6	6/5	(1)/(1)	6/5
Approved Teacher Ed. Insitutions	12	11	(1)	12	11	(1)	11
<i>Office of Educational Services and Support:</i>							
<i>CANS Performance Indicators:</i>							
Agencies	355	360	5	360	360		360
Number of Meals (millions)	24.5	29.5	5	25	29.5		30
Food Distribution							
Lbs of Food (Millions)	6.5	6.5	0	6.6	6.5		7
Value of Food (Millions)	\$6.0	\$6.2	\$0.2	\$6.1	\$6.3		\$6.4
<i>Federal Programs:</i>							
Title I, Part A							
Programs/Districts/Number		158/337/28,207			158/337/28,207		158/337/28,207
Homeless Programs							
Programs/Districts/Number		2/2/998			2/2/1,000		2/2/1,000
Migrant Program							
Programs/Districts/Number	900	900	0	800	800	0	600
Neglected/Delinquent Programs	20	24	4	24	24	0	24
Title V Grants	167	167	0	167	167	0	167
Title III Eng. Language Acquisition	6	10	4	27	10	(17)	10
Title I Part B Even Start:							
Adults/Children	245/348	106/144	(139)/(204)	245/348	110/150	(135)/(198)	10/150
Parents as Teachers Educators	62	35	(27)	62	35	(27)	35
Children Enrolled in Special Ed:							
Ages 6-21/3-5/B-2	15,380	14,884	(496)	15,150	14,900	(250)	14,900
Ages 3-5	2600	2747	147	2703	2750	47	2,750
Ages Birth-2	830	935	105	830	950	120	950
Total Children with Disabilities	18,105	17,631	(474)	17,853	17,650	(203)	17,650
Public Schools Monitored	33	38	5	36	36	0	38
Nonpublic Facilities & State							
Institutions Reviewed	10	6	(4)	5	6	1	6
Advisory Panel Meetings	4	4	0	4	4	0	4
Interagency Coordination Council Meeting	4	4	0	4	4	0	167
Districts Receiving IDEA, VI-B	170	167	(3)	167	167	0	167

➤ **Education Service Agencies**

Education Service Agencies were created by the Legislature in 2004. For FY08, the Governor recommends a decrease in the base budget of \$1,122,849, entirely in federal fund expenditure authority. The department contracts with the seven education service agencies to support local public schools, allocate federal money for specific federal mandates, and support curriculum and professional development activities.

Item	Actual	Budgeted	Agency Req.	Gov Rec.	Inc/Dec	% Change
	FY06	FY07	FY08	FY08	FY08	From FY07
Travel	141	0	0	0	-	0.0%
Contractual Services	3,081,038	1,872,849	750,000	750,000	(1,122,849)	(60.0%)
Total	3,081,179	1,872,849	750,000	750,000	(1,122,849)	(60.0%)

Funding Types

General	1,449,085	500,000	500,000	500,000	-	0.0%
Federal	1,632,094	1,372,849	250,000	250,000	(1,122,849)	(81.8%)
Other	0	0	0	0	-	0.0%
Total	3,081,179	1,872,849	750,000	750,000	(1,122,849)	(60.0%)

- The Department and Governor recommend a shift in federal fund expenditure authority originally budgeted here. The federal funding available has decreased by \$1,122,849. Because of increased requirements in NCLB assessment, the current federal fund expenditure authority is needed in the Education Services and Support budget.

Selected Performance Indicators

	FY06		Difference Over (Under) Estm.	FY07			FY08
	Proposed Estimate	Actual		Proposed Estimate	Current Estimate	Change in Estimate	Estimate
Total ESA professional dev.							
participants (single dist.) events		16,297		9,800	15,000		15,000
participants (regional) events		9,501		5,000	10,000		10,500
Percent satisfaction with ESA							
support services		84%		80%	85%		1
development opportunities		81%		85%	85%		1

State Library

For FY08, the Governor recommends for the State Library funding of \$2,275,666 from the general fund, \$1,178,906 in federal fund expenditure authority, and \$186,083 in other fund expenditure authority. These amounts represent a decrease from FY07's general fund amount of \$42,987, an increase of \$15,928 more in federal fund expenditure authority, and no change in other fund expenditure authority. FTEs are recommended to decrease by 4.0.

Item	Actual FY06	Budgeted FY07	Agency Req. FY08	Gov Rec. FY08	Inc/Dec FY08	% Change From FY07
Personal Services	1,201,631	1,454,499	1,454,499	1,375,412	(79,087)	(5.4%)
Travel	73,731	72,481	72,481	72,481	-	0.0%
Contractual Services	899,611	1,248,943	1,328,943	1,380,971	132,028	10.6%
Supplies & Materials	156,035	145,683	147,683	147,683	2,000	1.4%
Grants And Subsidies	225,000	480,911	480,911	480,911	-	0.0%
Capital Outlay	227,435	240,197	158,197	158,197	(82,000)	(34.1%)
Other	73,776	25,000	25,000	25,000	-	0.0%
Total	2,857,219	3,667,714	3,667,714	3,640,655	(27,059)	(0.7%)
Funding Types						
General	1,940,836	2,318,653	2,318,653	2,275,666	(42,987)	(1.9%)
Federal	881,283	1,162,978	1,162,978	1,178,906	15,928	1.4%
Other	35,100	186,083	186,083	186,083	-	0.0%
Total	2,857,219	3,667,714	3,667,714	3,640,655	(27,059)	(0.7%)
FTE	33.1	36.5	36.5	32.5	(4.0)	(11.0%)

Budget Notes

- The Governor is recommending a reorganization of the State Library. The library's role, programs and services are being redefined based on the needs of its primary clientele including libraries of all types across the state, state government employees, elected officials, and citizens who are blind, visually impaired or who have physical disabilities. Some of the State Library's collections will be redistributed where they will be immediately accessible to the public either through a local library or the South Dakota Library Network.
- The recommended budget includes a decrease of \$133,595 in general funds and 4.0 FTE in the personal services budget and a shift of resources that net a zero change in the operating expense budget.

Selected Performance Indicators

	FY06			FY07			FY08
	Proposed Estimate	Actual	Difference Over (Under) Estm.	Proposed Estimate	Current Estimate	Change in Estimate	Estimate
SDLN Full Member/Associate Libraries	62	60	(2)	61	63	2	64
SDLN Remote Member Libraries	150	150	0	150	150	0	355
Bibliographic Records on SDLN	4,300,000	4,500,000	200,000	4,650,000	4,650,000	0	4,750,000
Group Training Opportunities Provided	120	26	(94)	150	75	(75)	85
Attendance at Workshops	3,500	854	(2,646)	3500	2,400	(1,100)	3,000
On-Site Visits: Public, Institutional, Sch	200	42	(158)	200	200	0	300
Libraries' Administrative Questions Ansv	1500	721	(779)	2000	1,500	(500)	2,500
Exhibits and Information Booths	5	7	2	7	31	24	45
Total Requests Received	65,000	69,317	4,317	60,000	60,000	0	60,000
Requests from State Employees	4,000	4,608	608	4,000	5,000	1,000	6,000
Items Loaned	105,000	80,822	(24,178)	100,000	60,000	(40,000)	50,000
Patrons Using Public Terminals	9,000	9,961	961	9,500	5,000	(4,500)	4,000
Electronic Views (InfoTrac State Library)	70,000	34,590	(35,410)	50,000	40,000	(10,000)	50,000
Electronic Views (ProQuest Statewide)	500,000	565,371	65,371	630,000	630,000	0	640,000
Electronic Views (E-Books Statewide)	22,000	29,591	7,591	28,000	31,000	3,000	32,000
State Library Web Page Users' Views	700,000	1,167,129	467,129	1,400,000	1,400,000	0	1,400,000
Interlibrary Network Borrows	525,000	530,000	5,000	80,000	60,000	(20,000)	60,000
State Publications Items Distributed	20,000	15,825	(4,175)	20,000	15,000	(5,000)	13,000
Braille and Talking Book Library:							
Users	5,533	5,526	(7)	5,560	5,747	187	5,977
Circulation of Library Materials	118,472	110,921	(7,551)	123,525	115,358	(8,167)	119,972
Volunteer Hours	1026	500	(526)	965	450	(515)	450
Talking Books from Library							
of Congress	19,262	19,500	238	19,715	19,500	(215)	19,500
Educational Material Titles	1,062	1,355	293	1,112	1,382	270	1,410
Total Collection Volumes	180,232	189797		186,780	193592		197,464
Total Collection Titles	44,027	45202		46,380	46106		47,028
Summer Reading Program Participants	74	51	(23)	69	50	(19)	50

Other Departmental Issues

A. Interim Appropriation Actions

No interim appropriations actions were taken. The Department reverted \$2,867,470 to the general fund at the end of FY06. The vast majority was from unused state aid money.

B. Audit Findings

Finding No. 12000200501:

Subrecipient monitoring of payments made to the Local Education Agencies (LEAs) was inadequate. Questioned Costs: \$3,798

Analysis:

The South Dakota Department of Education's desk audits of local education agencies (LEAs) were not performed in accordance with the Department's policy on fiscal monitoring. Our testing revealed that none of the fiscal year (FY) 2004 desk audits (44) had been performed and only twenty-four out of the forty-five FY 2003 desk audits had been performed and the file closed. A sample of ten FY 2003 closed desk audits was tested for propriety. Six of the ten closed desk audits tested were found to have variances where the totals reported on the desk audit checklist did not agree with the amounts reported on the FSRs or the supporting documentation submitted by the LEA. Three instances were noted where the amounts reported on the desk audit checklist did not agree with the amounts claimed on the FSRs. Four instances were noted where amounts on the desk audit checklists were not supported by documentation in the audit files. In addition, one desk audit was marked as being closed, but the desk audit checklist had not yet been completed. We could find no evidence that any action was taken by the Department to resolve any of the issues raised as a result of variances identified.

The job position responsible for performing the desk audit function had experienced employee turnover, increased workload and responsibilities, insufficient training and limited supervision of the performance of the necessary duties.

RECOMMENDATIONS:

1. We recommend desk audits be performed accurately and in a timely manner in accordance with departmental policy.
2. We recommend employees receive timely and appropriate training to perform their job responsibilities accurately and efficiently.
3. We recommend employees be appropriately supervised to assure job performance.

Auditee's Corrective Action Plan:

The individual in the position responsible for performing the desk audit function has experienced a significant increase in workload associated with other responsibilities and has not been able to adequately perform the desk audit function as established in the Department's policies. The department recognizes the importance of monitoring subrecipient payments on a timely basis and is taking steps to hire an additional staff person to be responsible solely for the monitoring of payments to the Local Education Agencies (LEAs).

Finding No. 12000200502:

The core indicators of performance reported in the 2003-2004 Accountability Report (Form IV) Consolidated Annual Performance, Accountability, and Financial Status Report (Accountability Report) could not be substantiated as being accurate.

Analysis:

Title 20 of the United States Code, section 2323(c)(1), states:

(1) In general

Each eligible agency that receives an allotment under section 2321 of this title shall annually prepare and submit to the Secretary a report regarding—

(A) the progress of the State in achieving the State adjusted levels of performance on the core indicators of performance; and

(B) information on the levels of performance achieved by the State with respect to the additional indicators of performance, including the levels of performance for special populations.

The Accountability Report is completed by the South Dakota Department of Education (DOE) which provides the Secretary of the United States Department of Education with the required indicators of performance for the Vocational Education grant. Each secondary and post-secondary school, with approved career and technical education programs, submits forms to DOE with the required statistical data relating to the core indicators of performance. DOE then summarizes the data for each core indicator on a worksheet which is then used to prepare the Accountability Report. The DOE could not locate the worksheet prepared to summarize this data for secondary schools. Utilizing the available supporting documentation retained by DOE, (the forms that contained the statistical data relating to the core indicators of performance as submitted by secondary schools) we attempted to substantiate that the grand total line for each indicator level was accurately reported. Our calculations revealed the following variances:

In all cases, the number of students per the recalculation was less than the number of students reported per the Accountability Report. DOE officials could not explain why the differences existed except that some forms from secondary schools could be missing.

As a result, inaccurate statistical information for core indicators of performance may have been reported on the 2003-2004 Accountability Report.

RECOMMENDATIONS:

4. We recommend all original supporting documentation and summary worksheets prepared to support the amounts reported in the Accountability Report be properly prepared and retained.
5. We recommend the DOE determine why the variances exist in the amounts supported by source documentation versus the amounts originally reported in the Accountability Report, and, if necessary, submit a revised Accountability Report with the correct information.

Auditee's Corrective Action Plan:

The department plans to review the documentation available and resubmit the report to the federal agency. A software program is under development that will be utilized to more accurately collect and report the required data in the future.

Finding No. 12000200503:

State aid for special education was incorrectly calculated and distributed to the school districts.

Analysis:

South Dakota Codified Law (SDCL) 13-37-36.3 states:

The secretary of the Department of Education shall compute state aid for special education for each school district according to the following calculations:

- (1) Calculate the local need of a school district;
- (2) State aid for special education is:
 - (a) Local need minus local effort, the difference multiplied by the effort factor; or
 - (b) Zero if the calculation in (a) is a negative number.

The formulas the Department of Education used to calculate state aid for special education did not properly account for the prior year's excess fund balances, per SDCL 13-37-44, in a manner consistent with the provisions of SDCL 13-13-74. The formulas allocated all of the prior year's excess fund balances to the 2nd half calculation of aid and none to the 1st half calculation of aid. Fifty percent of the excess fund balances should have been allocated to the 1st half calculation of aid and fifty percent to the 2nd half calculation of aid. Allocating all of the excess fund balance to the 2nd half calculation of aid increased local effort in the 2nd half and decreased local effort in the 1st half. For thirteen schools, whose local effort was close to their local need, this caused an increase in the 1st half payment but not an equal decrease in the 2nd half payment. As a result, these thirteen school districts were overpaid a total of \$158,049 in state aid for special education.

RECOMMENDATIONS:

6. We recommend state aid for special education be calculated and distributed in accordance with state law.
7. We recommend corrective action be taken to recover the over payments in state aid for special education.

Auditee's Corrective Action Plan:

The error in calculating excess fund balances for state aid to special education has been noted, and procedures established to prevent the reoccurrence of this error in the future. The overpayments to the school districts will be recovered by the Department.