

## State Aid to K-12 General Education Funding Formula

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*Synopsis: Governor Dennis Daugaard proposed House Bill 1182, Senate Bill 131 and Senate Bill 133, based on the recommendations of the Blue Ribbon Task Force. These three bills passed the 2016 legislature and take effect on July 1, 2016. House Bill 1182 included a half-cent increase in the state sales tax, which took effect June 1, 2016. This is expected to provide an additional \$67 million for K-12 education, \$36 million for property tax relief, and \$3 million for technical institutes.*

### Funding K-12 Education

The new funding formula, which is based on a target statewide average salary of \$48,500, works as follows: For each district, calculate a target student-to-teacher ratio, based on a sliding scale by student enrollment (see below).

- The district's target number of teachers is calculated by dividing the district's fall enrollment by the target student-to-staff ratio.
- The district's total instructional need is calculated by multiplying the district's target number of teachers by the statewide target for average teacher salary, and by increasing that total by 29% for benefits.
- The total instructional need is increased by 31% to cover non-instructional costs. This category includes operating costs as well as salaries and benefits of non-instructional staff, such as administrators, guidance counselors, librarians, and school nurses.
- These steps calculate the district's total need for state aid. At this point, local effort is applied against total need, with the state providing any necessary funds to achieve the total need.

### Target Teacher Ratio Factor

The law provides the following sliding scale for the target ratio, based on student enrollments (districts use the enrollment of either the current year or previous two years, whichever is the lowest):

- Less than 200 – 12 students to 1 teacher
- Between 200 & 600 – Sliding scale between 12 to 1 and 15 to 1
- Greater than 600 – 15 to 1

This sliding scale retains the same enrollment thresholds as the current small school factor of the previous funding formula.

The formula does not require school districts to strictly meet the target ratio or to use a certain level of funding for benefits and overhead costs. Those are merely used to calculate total need, and districts retain local control on how to use the dollars they receive.

### Calculating the Number of Students

The state aid formula uses a fall enrollment count. State aid fall enrollment is essentially a school district's enrollment on the last

Friday of September. This number includes students tuitioned out of the district and students who are enrolled less than full-time, but it does not include students for whom a district receives tuition.

### **Funding for Local Need**

The money to pay for local need is raised through both local and state taxes.

The taxes to pay the local need are divided between money raised through school district taxes, called "local effort," and money from the state's budget raised with state taxes, called "state aid."

### **Determining Local Effort**

The state Department of Revenue calculates the value of a school district's taxable property, upon which local effort is raised through local property taxes.

The level of general education tax levy for school purposes is capped in law. School boards may "opt out" of the maximums if two-thirds of the board supports it. This decision may be referred to a public vote, if 5 percent of the electorate signs a petition against the "opt out."

- For taxes payable in 2016, school districts can levy a maximum of:
- \$1.568 per thousand for agricultural property,
- \$4.075 per thousand for owner-occupied property, and
- \$8.727 per thousand for non-agricultural property.
- For FY2017 only – local effort will also include the second half of the pension levy revenue requested by the district for pay 2016.

The local effort is the amount of money raised by applying the maximum local

property tax levies against the value of taxable property.

### **Determining State Aid**

The amount of state aid provided to school districts is calculated by taking the total "local need" minus "local effort."

A hypothetical school district example:

\$2,634,000	Local Need
- \$1,081,284	Local Effort
= \$1,552,716	State Aid

### **Future Components of the Funding Formula**

Included with the new funding formula legislation were other components with delayed implementation dates. Effective in fiscal year 2019 districts may be penalized if exceeding an allowable percentage of cash, based on a monthly report of cash balances in their general fund. The percentage cash balance will be calculated by dividing the lowest monthly cash balance of the previous 12 months by the total general fund expenditures. The purpose of this mechanism is to ascertain the cash level that, over the course of a year is never used. Districts' cash allowances are based on student counts:

- Less than 200 students 40%
- Between 200 and 600 30%
- Greater than 600 25%

Once in effect, a district that is in excess of the cash limits would have its state aid reduced dollar-for-dollar. The Governor will appoint a five member oversight board to consider requests to waive the limits in special circumstances.

Another future impact (fiscal year 2018) on the new funding formula are the other state funding sources that all school districts receive but were previously counted outside of the formula and therefore were not

equalized across all districts. The new formula will bring equity to these other revenues over time by counting these sources as local effort, while giving schools a glide-path to that solution through the phase-in period.

These other revenues are: utility taxes (rural electric & telephone), revenue in lieu of taxes (local and county), county apportionment, bank franchise and wind farm taxes.

Initially each school district will be assigned a base that will hold its other revenues harmless in the first year, based on the greatest of its previous three years of collections. This base will be stepped down over five years, at 20% per year.

Each year, any other revenue collected beyond the “hold harmless base” will be counted as local effort and therefore equalized across districts through the funding formula. At that point, these revenue sources will be treated in the same way as local property taxes.

This new money will not offset state or local funding and will not take any funds away from the state’s education system. The state’s share of funding ratio will be adjusted so that the state’s dollar amount contribution is not reduced and local property taxes are not impacted.

For districts with very high levels of other revenue, the new law also will allow an optional alternative to phase into the new formula. School districts that would lose money from this switch have an opportunity to opt out of the new formula, keep their current funding, which will remain frozen at the fiscal year 2016 amount per student generated through the formula plus revenues from the other identified revenues to be equalized. When the inflationary increases to the new formula catch up with that school district, they may opt into the new formula.

The state aid formula is not the only source of revenue for South Dakota schools. It is only one of more than 50 sources of revenue that local schools can use for educating students.

Some of the other revenue sources for general education include:

- federal grants
- rental income
- investment income
- fines

Schools also have other specialized funds to pay for certain education projects, including:

- revenue collected from local taxpayers for capital outlay and bond redemption, over and above the per-student allocation;
- federal, state and local funds for special education, over and above the per-student allocation for special education students.

### **More Money for Sparse Districts**

Recognizing the unique challenges faced by extremely rural, isolated schools, districts that meet the definition of “sparse” receive additional money outside of the formula. These districts are eligible for additional state dollars not to exceed \$110,000 per district. If the total appropriation for sparsity is less than the calculated amount for each district, the dollars available will be prorated to each district.

The criteria for meeting the definition of “sparse” include:

- State aid fall enrollment less than 500
- State aid fall enrollment per square mile of 0.5 or less
- School district area of 400 sq. miles or more

### **Schools Receive Funds Through Other Sources**

- Distance of at least 15 miles between a district's secondary attendance center and that of an adjoining district
- Must operate a secondary attendance center
- Levies at the maximum levy for general fund purposes

Calculation of this additional aid is outlined in SDCL 13-13-79.

### **For More Information**

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