

The State Aid to General Education Formula & General Education Levy Adjustment

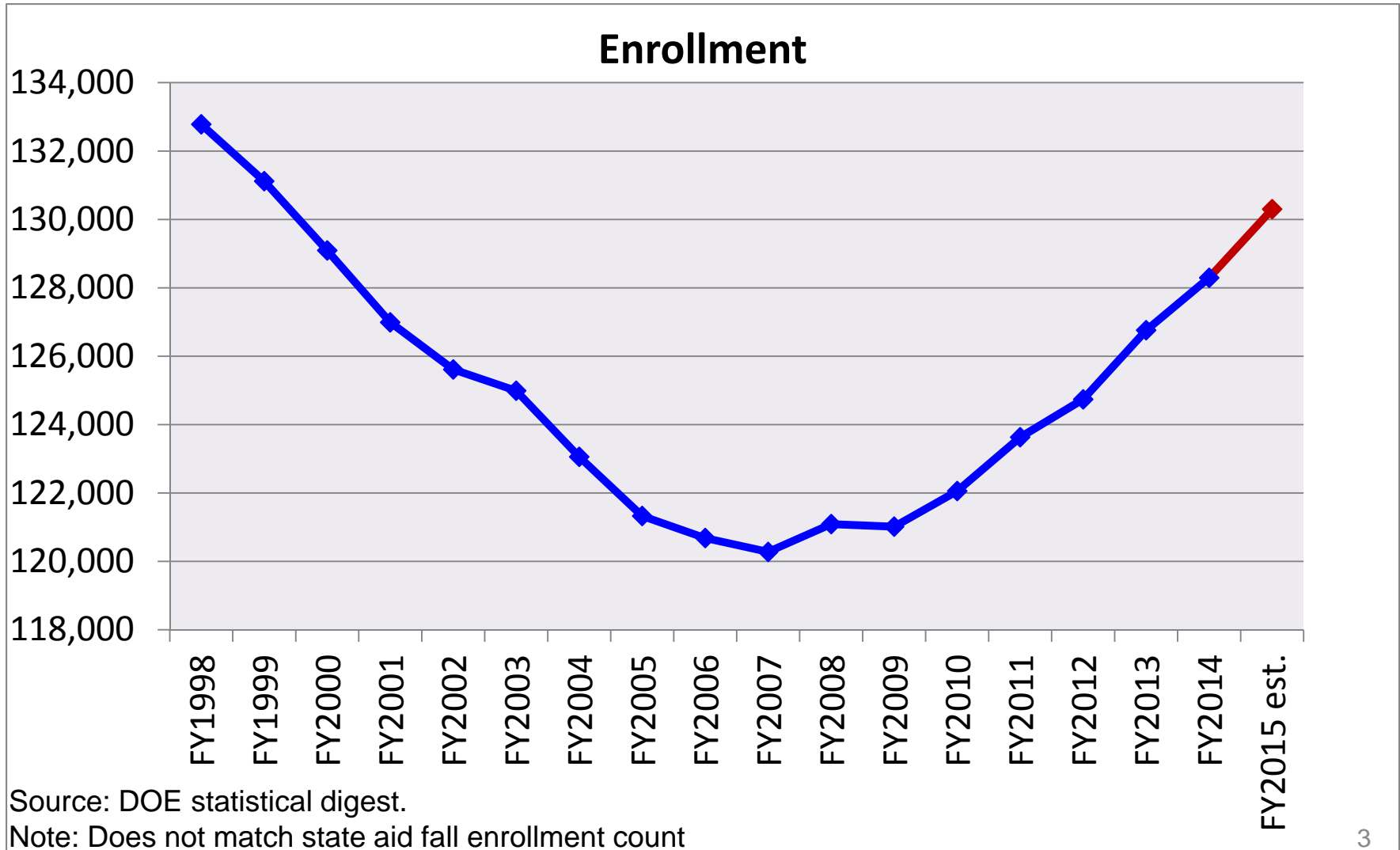
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State Aid to General Education

- There are 151 public school districts in South Dakota for FY2014.
- Current formula for funding general K-12 education took effect Jan. 1, 1997, with several major changes made by the 2007 Legislature and the 2010 Legislature.
- The base formula starts with the same amount of funding per student (per student allocation or PSA).
- The general funding for K-12 schools is paid by a combination of money raised by local property taxes and money raised by the state through statewide taxes.
- Per statute, the targeted proportion of local funding and state funding must remain constant when making the levy adjustment.
- The current target is 53.8% state funding with the remaining coming from local property taxes.

Historical K-12 Enrollments



3 Steps to the Formula

1. Determine Local Need (Total Resources Needed)
 - Per Student Allocation (PSA) X State Aid Fall Enrollment
 - Small School Adjustment
 - LEP Adjustment (New addition for FY2014 per SB235)
2. Determine Local Effort (Valuations x Levies)
 - Property Valuations
 - Setting the Levies (Cutler/Gabriel)
3. Determine State Share
 - Local Need less Local Effort

Local Need

13-13-10.1. Definition of terms. Terms used in this chapter mean...

(5) "Local need," is the sum of:

(a) The per student allocation multiplied by the fall enrollment; and

(b) The small school adjustment, if applicable, multiplied by the fall enrollment; and

(c) The limited English proficiency (LEP) adjustment, calculated pursuant to subdivision (2D) if applicable; (LEP Started in FY2014)

Local Need – The PSA

13-13-10.1. Definition of terms. Terms used in this chapter mean...

(4) "Per student allocation," **for school fiscal year ~~2012 is \$4,389.95~~ 2015 is \$4,764.42**. Each school fiscal year thereafter, the per student allocation is the previous fiscal year's per student allocation increased by the **index factor**;

Local Need - The PSA (cont.)

- Index Factor
 - annual inflationary increase to the Per Student Allocation

13-13-10.1. Definition of terms. Terms used in this chapter mean...

(3) "Index factor," is the annual percentage change in the consumer price index for urban wage earners and clerical workers as computed by the Bureau of Labor Statistics of the United States Department of Labor for the year before the year immediately preceding the year of adjustment or three percent, whichever is less;

Calculating the Index Factor

- Per statute, the increase for the year before the year preceding the year of adjustment is typically used.
- In FY2013, a 2.3% ongoing increase to the PSA was appropriated.
- In FY2014, a 3.0% increase was appropriated which is the maximum increase under current law, which calls for the increase in CPI-W or 3%, whichever is less.
- In FY2015, the Governor is recommending a 3% increase, or 1.4% higher than the increase in the index factor of 1.6%.

| CPI-W | | | | |
|--------|-------|--------|------|--------|
| 2011:2 | 2.213 | 2.1732 | 2.3% | FY2011 |
| 2011:3 | 2.230 | | | |
| 2011:4 | 2.237 | | | |
| 2012:1 | 2.250 | | | |
| 2012:2 | 2.254 | 2.2427 | 3.2% | FY2012 |
| 2012:3 | 2.267 | | | |
| 2012:4 | 2.279 | | | |
| 2013:1 | 2.286 | | | |
| 2013:2 | 2.284 | 2.2787 | 1.6% | FY2013 |

PSA Increase vs. Index Factor

The index factor referenced in statute is the typical increase to the Per Student Allocation (PSA) each year. The actual amount funded can be changed before the final budget is passed each year.

| | Historical Increases in the Per Student Allocation | | | | | | | | | | | | |
|----------------------------|----------------------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-------------------|
| | <u>FY2003</u> | <u>FY2004</u> | <u>FY2005</u> | <u>FY2006</u> | <u>FY2007</u> | <u>FY2008</u> | <u>FY2009</u> | <u>FY2010</u> | <u>FY2011</u> | <u>FY2012</u> | <u>FY2013</u> | <u>FY2014</u> | <u>FY2015 Rec</u> |
| PSA-- | \$3,889 | \$3,968 | \$4,087 | \$4,238 | \$4,365 | \$4,529 | \$4,665 | \$4,805 | \$4,805 | \$4,390 | \$4,491 | \$4,626 | \$4,764 |
| \$ Increase-- | | \$79 | \$119 | \$151 | \$127 | \$164 | \$136 | \$140 | \$0 | -\$415 | \$101 | \$135 | \$139 |
| % Increase Funded-- | | 2.0% | 3.0% | 3.7% | 3.0% | 3.8% | 3.0% | 3.0% | 0.0% | -8.6% | 2.3% | 3.0% | 3.0% |
| Index Factor-- | | 1.5% | 2.2% | 2.0% | 3.0% | 3.0% | 2.5% | 3.0% | 1.2% | 1.2% | 2.3% | 3.0% | 1.6% |

The above information does not include one-time increases to school funding. One-time increases were funded in FY2004 (\$58.55/student), FY2005 (\$73.74/student), FY2007 (\$54.00/student), FY2012 (\$167.06/student), and FY2013 (\$75.87/student).

Local Need

(recent changes)

- SB157 of the 2007 legislative session created a newly defined “fall enrollment” to calculate state aid payments. (vs. Average Daily Membership previous to 2007)
- With the passage of HB1248 of the 2010 legislative session, state aid payments beginning in FY2011 were based on the current year’s fall enrollment as opposed to the previous year’s fall enrollment making budgeting more difficult.
- HB 1248 also repealed the Increasing enrollment supplement, but held the declining enrollment supplement harmless. By holding the declining enrollment supplement harmless, enrollment calculations for state aid payments now cover three years of enrollment data.
- SB 235 from the 2013 Legislative session added an adjustment for Limited English Proficient (LEP) students, which provides an additional 25% of a per student allocation for qualifying students.

Local Need – Fall Enrollment (cont.)

To calculate the total fall enrollment to be used in calculating state aid for the school year the following would be done for each school district:

of students enrolled on the last Friday in Sept. of current year

Less the # of students for whom the district receives tuition

Plus the # of students for whom the district pays tuition

= Fall Enrollment for current school year

Compare the average of the fall enrollment for the prior two years

The larger of the two is be used for calculating state aid for the current fiscal year (referred to as state aid fall enrollment)

Local Need – Fall Enrollment

(based on the FY2015 Governor's Recommended Budget)

To come up with the local need based on fall enrollment:

State Aid Fall Enrollment x PSA = Need for Fall Enrollment

131,250 (est.) x \$4,764.42 (FY15 PSA) = **\$625,330,125**

Local Need - Small School Adjustment (SSA)

13-13-10.1. Definition of terms. Terms used in this chapter mean...

(2C)"Small school adjustment," calculated as follows:

(a) For districts with a fall enrollment of two hundred or less, multiply 0.2 times \$4,237.72;

(b) For districts with a fall enrollment of greater than two hundred, but less than six hundred, multiply the fall enrollment times negative 0.0005; add 0.3 to that result; and multiply the sum obtained times \$4,237.72;

Local Need – SSA (cont.)

Based on the statute, this is how the formula looks:

$$\text{Districts } \leq 200 = .2 \times 4,237.72 = \$847.54$$

$$\text{Districts } > 200 \text{ and } \leq 600 =$$

$$(.3 - .0005 \times \text{FE}) \times 4,237.72 = \text{SSA PSA}$$

$$(.3 - .0005 \times 201) \times 4,237.72 = \$845.43$$

$$(.3 - .0005 \times 300) \times 4,237.72 = \$635.66$$

$$(.3 - .0005 \times 400) \times 4,237.72 = \$423.77$$

$$(.3 - .0005 \times 500) \times 4,237.72 = \$211.89$$

$$(.3 - .0005 \times 599) \times 4,237.72 = \$ 2.12$$

$$(.3 - .0005 \times 600) \times 4,237.72 = \$ 0.00$$

In FY2014, 111 of the 151 public school districts qualified for the small school adjustment

Local Need – Limited English Proficiency adjustment (LEP)

13-13-10.1. Definition of terms. Terms used in this chapter mean...

(2D)"Limited English proficiency (LEP) adjustment," is calculated as follows:

- (a) Multiply 0.25 times the per student allocation; and
- (b) Multiply the product obtained in subsection (a) times the number of kindergarten through twelfth grade students who, in the prior school year, scored below level four on the state-administered language proficiency assessment as required in the state's consolidated state application pursuant to 20 USC 6311(b)(7) as of January 1, 2013;

Local Need – Putting it all Together

(based on the FY2015 Governor's Recommended budget)

Base Need Total = \$625,330,125

Small School Adjustment Total = \$ 17,583,588

LEP Adjustment Total = \$ 3,712,674

TOTAL LOCAL NEED = \$646,626,387

Local Effort

13-13-10.1. Definition of terms. Terms used in this chapter mean...

(6)"Local effort," the amount of ad valorem taxes generated in a school fiscal year by applying the levies established pursuant to § 10-12-42;

Local Effort = Property Valuations/1,000 X Levies

Property Classes & School District General Fund Levies

There are 3 classes of property that are recognized. Levies for pay 2014 were set by SB 28 from the 2013 session and the recommended levies for pay 2015 are as follows:

- **Agricultural (Ag)**
 - \$2.090/\$1,000 of taxable valuation for pay 2014 taxes
 - \$1.782/\$1,000 of taxable valuation for pay 2015 taxes
- **Owner Occupied (OO)**
 - \$4.296/\$1,000 of taxable valuation for pay 2014 taxes
 - \$4.252/\$1,000 of taxable valuation for pay 2015 taxes
- **All Other (Commercial, Utilities, etc.)**
 - \$9.200/\$1,000 of taxable valuation for pay 2014 taxes
 - \$9.106/\$1,000 of taxable valuation for pay 2015 taxes

Calculating Local Effort

- Valuations represent an 85% median level of assessment as determined by the Department of Revenue
- Property taxes are based on a calendar year basis
- State aid is calculated on a fiscal year basis
- When calculating the property valuations, $\frac{1}{2}$ 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. FY2015 Local Effort is based on $\frac{1}{2}$ of taxes payable in 2014 (July – December) and $\frac{1}{2}$ of taxes payable in 2015 (January – June)

Cutler/Gabriel

(setting the levies)

- Per statute, general fund levies of a school district must be adjusted in order for local effort to increase at the same percentage rate as local need. This means that the proportion of local effort and state aid is targeted to remain constant when setting the levies.
- To comply with Cutler/Gabriel, we must look out two years when figuring proportional shares of local effort and state aid (FY2016 when budgeting for FY2015)
- This can cause the state/local proportion to be different in the budget year (FY2015), but the target is 53.8% state funding for the year succeeding the budget year (FY2016).

Cutler/Gabriel

(levy adjustment changes)

- Prior to property taxes payable in 2011, the levy adjustment for each property class was done **proportionally**.
 - Example - The state wide estimate of property taxable value growth was 5%, then typically each levy would be reduced 2% to obtain a total increase in local effort of 3%.
 - If one property class had a higher valuation growth rate than another, it would pay a slightly larger portion of local effort.
- The passage of SB 149 from the 2009 session separated the levy adjustment for Agriculture property from Non-Ag property, ensuring Ag property's contribution towards local effort remains constant (currently targeted at 18.45% of local effort).
 - Now, the growth in valuation of each property class has to be estimated individually so the Agriculture mil levy is set to target the same share of local effort (approximately 18.45%).

Local Effort – Calculations

SCHOOL DISTRICT GENERAL FUND LEVIES

| | AG | Owner Occ | Other/Utilities |
|-------------------|---------|-----------|-----------------|
| 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 est | \$1.782 | \$4.252 | \$9.106 |

STATE AID PROPERTY VALUATIONS TOTAL

| | AG | Owner Occ | Other/Utilities | Total |
|--------------------------------|------------------|------------------|------------------|------------------|
| 2011 pay 2012 | \$21,199,956,763 | \$23,897,051,510 | \$15,422,245,257 | \$60,519,253,530 |
| 2012 pay 2013 | \$23,008,211,055 | \$23,862,359,867 | \$15,547,711,043 | \$62,418,281,965 |
| 2013 pay 2014 | \$27,031,806,559 | \$24,811,653,067 | \$15,951,422,048 | \$67,794,881,674 |
| 2014 pay 2015 est | \$30,545,941,412 | \$25,307,886,128 | \$16,110,936,268 | \$71,964,763,808 |
| Assumed growth for pay 2015 | 13% | 2% | 1% | |

AMOUNT RAISED (Valuation/\$1,000 x Levy)

| | AG | Owner Occ | Other/Utilities | Total |
|-------------------|--------------|---------------|-----------------|---------------|
| 2011 pay 2012 | \$50,625,497 | \$94,751,809 | \$130,950,284 | \$276,327,590 |
| 2012 pay 2013 | \$53,425,066 | \$96,141,448 | \$134,145,651 | \$283,712,165 |
| 2013 pay 2014 | \$56,496,476 | \$106,590,862 | \$146,753,083 | \$309,840,420 |
| 2014 pay 2015 est | \$54,432,868 | \$107,609,132 | \$146,706,186 | \$308,748,185 |

FY15 ESTIMATE OF LOCAL EFFORT

| | AG | Owner Occ | Other/Utilities | Total |
|-----------------|---------------------|----------------------|----------------------|----------------------|
| 1/2 pay 14 Est. | \$28,248,238 | \$53,295,431 | \$73,376,541 | |
| 1/2 pay 15 Est. | \$27,216,434 | \$53,804,566 | \$73,353,093 | |
| TOTAL | \$55,464,672 | \$107,099,997 | \$146,729,634 | \$309,294,303 |

State Share

(based on Governor's Recommended FY2015 budget)

State Share = Local Need – Local Effort
+ Valuation “lost” in formula

State Share = \$646,626,387
- \$309,294,303
+ \$ 2,999,066

FY2015 Budget = \$340,331,150 State Share

For More Information

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