

# State Aid 101

Presented by  
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# A Little Background First...

- 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).

# More Background

- 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 targeted ratio is 53.8% state funding and 46.2% local property taxes.

# 3 Steps to Funding Formula

## 1) Determine Local Need

- Per Student Allocation (PSA) x State Aid Fall Enrollment
- Small School Adjustment (SSA)
- Limited English Proficient (LEP) Adjustment

## 2) Determine Local Effort

- Property valuations
- Setting the Levies (Cutler/Gabriel)

## 3) Determine State Share

- Local Need minus 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;
  - (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;

# 1) Determine Local Need

- Begin with previous year's PSA
- Calculate the inflationary increase to PSA (Index Factor)
  - CPI or 3%, whichever is less
- Determine state aid fall enrollment
  - Number of students last Friday of September
  - Minus students for whom district receives tuition
  - Plus students for whom district pays tuition
  - Use the greater of the current year or average of 2 previous years
- Add Small School Adjustment (SSA) if applicable
- Add LEP Adjustment if applicable

# The Per Student Allocation (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 \$4,781.14.

Each school fiscal year thereafter, the per student allocation is the previous fiscal year's per student allocation increased by the **index factor**;

- The FY2015 per student allocation was set by SB 188 from the 2014 Legislative Session.

# The Index Factor

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 FY2015, the Legislature appropriated a 3.36% increase, or about 1.8% higher than statutorily required 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</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       | \$4,781       |
| \$ Increase--       |  | \$79          | \$119         | \$151         | \$127         | \$164         | \$136         | \$140         | \$0           | -\$415        | \$101         | \$135         | \$155         |
| % Increase Funded-- |  | 2.0%          | 3.0%          | 3.7%          | 3.0%          | 3.8%          | 3.0%          | 3.0%          | 0.0%          | -8.6%         | 2.3%          | 3.0%          | 3.4%          |
| 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.

# State Aid Fall Enrollment

- **State Aid Fall Enrollment:**

*Greater of the current year enrollment or the average of the two previous years enrollment* of students in grades K-12 as of the last Friday in September, adjusted for students for which tuition is paid and reduced by students for whom tuition is received.

# “Greater Of” Language

- Allows districts to use either two-year average or current year count of students, whichever is greater
- Softens blow for districts with declining enrollment
- For the 2014-15 school year, 65 districts are eligible to use the 2 year averaging count

# Calculating Fall Enrollment

- Enrollment on the last Friday in Sept. of current year (Fall Enrollment)
- Compare the current year fall enrollment to 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)

Example:

|           | <b>FY2013<br/>Fall Enroll.</b> | <b>FY2014<br/>Fall Enroll.</b> | <b>Prior 2 yr.<br/>avg.</b> | <b>FY2015<br/>Fall Enroll.</b> | <b>State Aid<br/>Pmt.</b> |
|-----------|--------------------------------|--------------------------------|-----------------------------|--------------------------------|---------------------------|
| Example 1 | 640                            | 630                            | 635                         | 620                            | <b>635</b>                |
| Example 2 | 640                            | 630                            | 635                         | 650                            | <b>650</b>                |

Payment for  
15 additional  
students



# Local Need – Fall Enrollment

(based on FY15 budget)

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

|                            |               |
|----------------------------|---------------|
| State Aid Fall Enrollment  | 131,250       |
| x PSA                      | \$ 4,781.14   |
| <hr/>                      |               |
| = Need for Fall Enrollment | \$627,524,625 |

# Other Adjustments

- There are two adjustments to local need within the general education funding formula:
  - The Small School Adjustment
  - The Limited English Proficiency (LEP) Adjustment

# 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;



# Small School Adjustment (SSA)

- Put in place to recognize that there are economies of scale in larger districts that can't be obtained in smaller districts
- For districts with enrollments less than 600
- SSA is fixed dollar amount per student based on sliding scale
  - The greater the enrollment, the smaller the adjustment per student
- Adjustment is based on the FY2006 PSA of \$4,732.72
  - This does not increase with the Index Factor

# Calculation of the SSA

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

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

$$((-0.0005 \times \text{SAFE}) + .3) \times 4,237.72 = \text{SSA PSA}$$

$$((-0.0005 \times 201) + .3) \times 4,237.72 = \$845.43$$

$$((-0.0005 \times 300) + .3) \times 4,237.72 = \$635.66$$

$$((-0.0005 \times 400) + .3) \times 4,237.72 = \$423.77$$

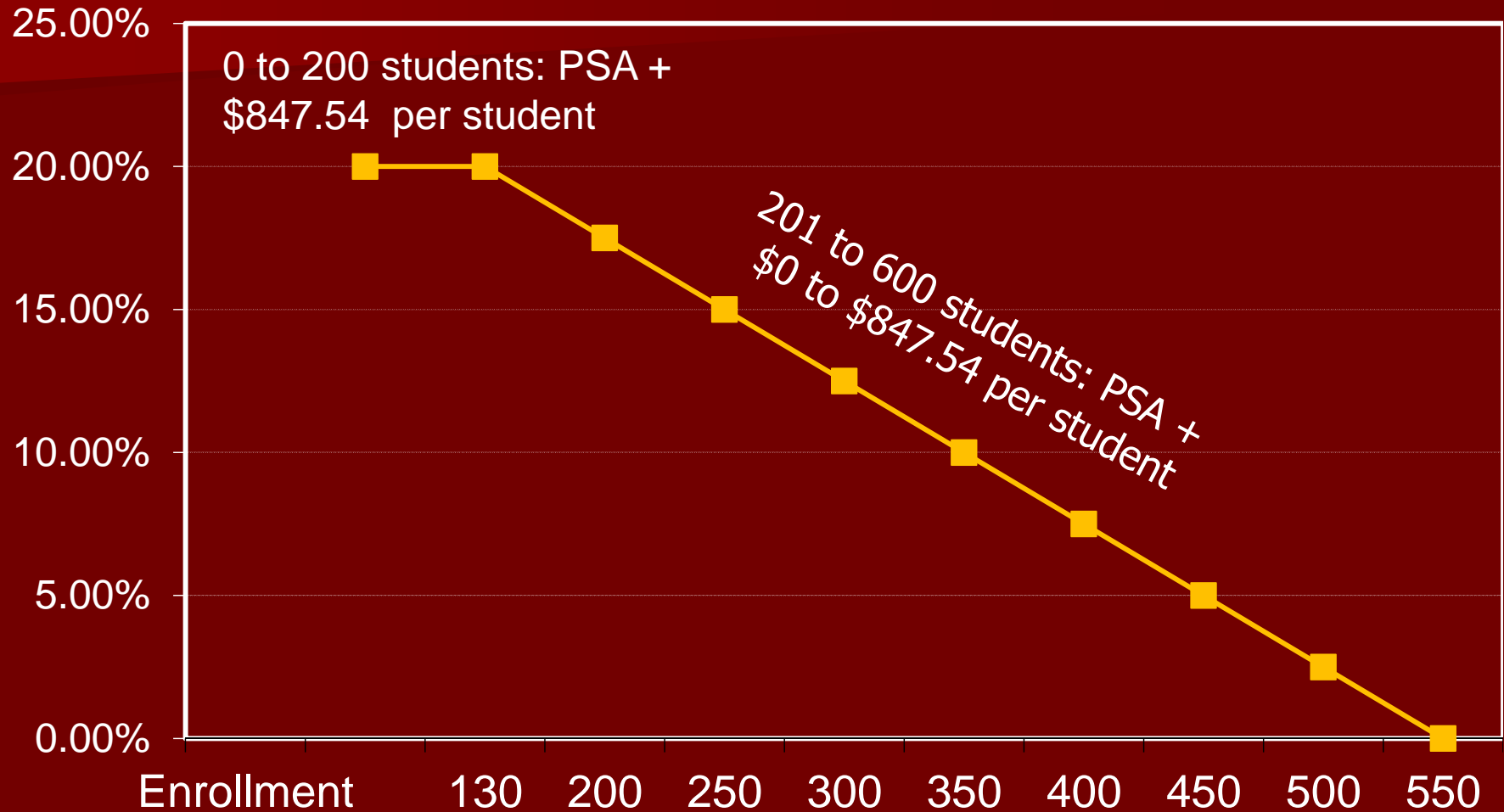
$$((-0.0005 \times 500) + .3) \times 4,237.72 = \$211.89$$

$$((-0.0005 \times 599) + .3) \times 4,237.72 = \$ 2.12$$

$$((-0.0005 \times 600) + .3) \times 4,237.72 = \$ 0.00$$

*In FY2015, 109 of the 151 public school districts qualified for the small school adjustment*

# SSA is a Sliding Scale



# Limited English Proficient (LEP) Adjustment

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;

# Limited English Proficient (LEP) Adjustment

- Part of SB235 of the 2013 Legislative session
- Put in place to recognize that there are additional costs associated with educating children who are not proficient in the English language
- Adjustment is based on the 25% of the *current* PSA multiplied by the number of children who score below a 4.0 on the state-administered language proficiency assessment in the prior school year

# Calculation of LEP Adjustment

|               | LEP Adj.<br>(PSA X 25%) | # LEP<br>Students | LEP Need    | State<br>Share % | State Share \$<br>(Workforce<br>Fund) |
|---------------|-------------------------|-------------------|-------------|------------------|---------------------------------------|
| FY15 Budgeted | \$ 1,195.29             | 3,117.0           | \$3,725,703 | 53.80%           | \$ 2,004,428                          |
| FY15 Actual   | \$ 1,195.29             | 2,650.0           | \$3,167,505 | 51.76%           | \$ 1,639,501                          |
| FY16 Budget   | \$ 1,219.19             | 2,807.5           | \$3,422,876 | 53.20%           | \$ 1,820,970                          |

- As per SB235 of the 2013 legislative session, the state share of the LEP Adjustment is picked up by the Workforce Education Fund for FY 2014, 2015, and 2016

# Putting it All Together: Local Need

(based on FY15 budget)

## 1) Determine Local Need

- PSA x State Aid Fall Enrollment
- + SSA X State Aid Fall Enrollment
- + LEP X (.25 X PSA)

|                                    |    |             |
|------------------------------------|----|-------------|
| <b>State Aid Fall Enrollment</b>   |    | 131,250     |
| X 2014-2015 Per Student Allocation | \$ | 4,781.14    |
| <b>Sub Total</b>                   | \$ | 627,524,625 |
| <b>Plus Other Adjustments:</b>     |    |             |
| Small School Adjustment            | \$ | 17,583,588  |
| LEP Adjustment]                    | \$ | 3,725,703   |
| <b>Equals Statewide Local Need</b> | \$ | 648,833,916 |

# 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



## 2) Determine Local Effort

- $\text{Property Valuations}/1000 \times \text{Levies} = \text{Local Effort}$ 
  - Levies set annually by the legislature
- Valuations represent an 85% median level of assessment as determined by the Department of Revenue
- Property taxes paid on calendar year basis
- State aid calculated on fiscal year basis
- When calculating 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

# Classes of Property

There are 3 classes of property that are recognized. Levies for pay 2015 were set by SB 37 from the 2014 session and are as follows:

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

# Setting Levies – Cutler/Gabriel

- 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. However, any increase to the per student allocation that exceeds 3% is not a factor in the levy adjustment process.
- 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).

# Relationship of Levies

- 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%).

# Calculation of Local Effort

(based on FY15 budget)

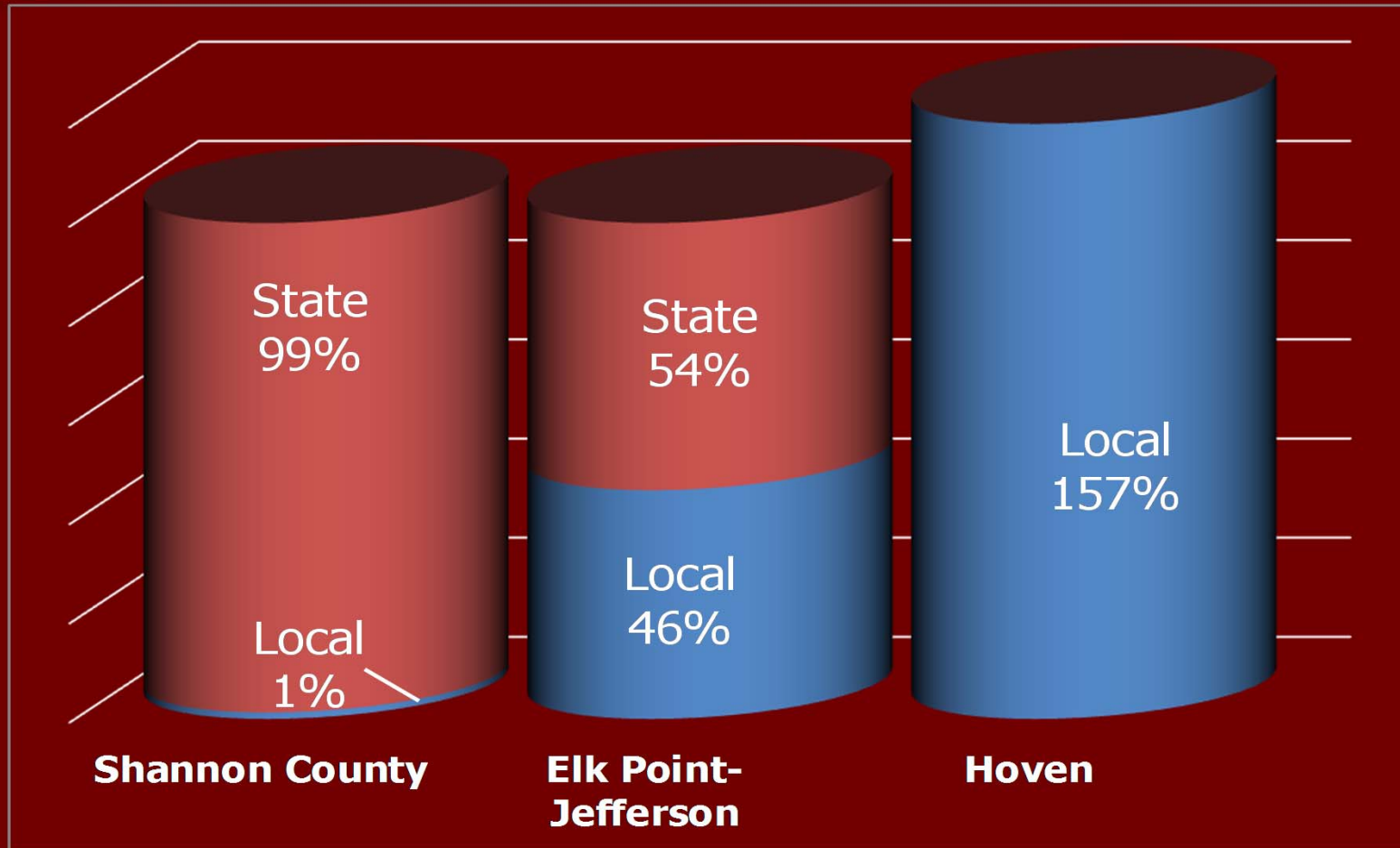
| <b>SCHOOL DISTRICT GENERAL FUND LEVIES</b>      |                     |                      |                        |                      |
|---|---------------------|----------------------|------------------------|----------------------|
|   | <b>AG</b>           | <b>Owner Occ</b>     | <b>Other/Utilities</b> |                      |
| 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                |                      |
| <b>STATE AID PROPERTY VALUATIONS TOTAL</b>      |                     |                      |                        |                      |
|   | <b>AG</b>           | <b>Owner Occ</b>     | <b>Other/Utilities</b> | <b>Total</b>         |
| 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<br>for pay 2015                  | 13%                 | 2%                   | 1%                     |                      |
| <b>AMOUNT RAISED (Valuation/\$1,000 x Levy)</b> |                     |                      |                        |                      |
|   | <b>AG</b>           | <b>Owner Occ</b>     | <b>Other/Utilities</b> | <b>Total</b>         |
| 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        |
| <b>FY15 ESTIMATE OF LOCAL EFFORT</b>            |                     |                      |                        |                      |
|   | <b>AG</b>           | <b>Owner Occ</b>     | <b>Other/Utilities</b> | <b>Total</b>         |
| 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           |                      |
| <b>TOTAL</b>                                    | <b>\$55,464,672</b> | <b>\$107,099,997</b> | <b>\$146,729,634</b>   | <b>\$309,294,303</b> |

# "Lost" Local Effort

- There are a few districts who generate more in local effort than the district's total need in the funding formula
- This local effort is "lost" to the formula when determining the statewide local effort
- Therefore, an adjustment is made in the funding formula
  - For FY15 budgeted \$2,999,066
  - FY15 final is \$3,924,437

# Local Effort Varies At District Level

Some districts are better able to raise local effort



# State Aid to General Education

## FY2015 "Lost" Local Effort

| District Name                    | TOTAL<br>Need | 1st Half Local<br>Effort<br>(Pay 2014) | 2nd Half Local<br>Effort<br>(Pay 2015) | "Lost" Local<br>Effort (Local<br>Effort - Total<br>Need) |
|----------------------------------|---------------|--|--|--|
| Agar-Blunt-Onida 58-3            | \$1,490,642   | \$1,013,234                            | \$1,057,103                            | \$579,695  |
| Custer 16-1                      | \$4,129,614   | \$2,167,285                            | \$2,216,597                            | \$254,268  |
| Elk Mountain 16-2                | \$56,287      | \$98,627                               | \$101,071                              | \$143,411  |
| Hill City 51-2                   | \$2,558,954   | \$1,584,688                            | \$1,582,313                            | \$608,047  |
| Hoven 53-2                       | \$602,269     | \$458,139                              | \$484,576                              | \$340,446  |
| Lead-Deadwood 40-1               | \$3,846,833   | \$2,883,186                            | \$2,962,217                            | \$1,998,570  |
| <b>TOTAL "LOST" LOCAL EFFORT</b> |               |  |  | <b>\$ 3,924,437</b>                                      |



# 3) Determine State Share

(based on FY15 budget)

- State Share =
  - Local Need
  - Local Effort
  - + Adjustment for “Lost” Local Effort

|  |                       |
|--|-----------------------|
| <b>Statewide Local Need</b>                          | <b>\$ 648,833,916</b> |
| Less: Statewide Local Effort                         | \$ 309,294,303        |
| Adjust for districts whose local effort exceeds need | \$ 2,999,066          |
| <b>Total Fiscal Year 2015 State Aid</b>              | <b>\$ 342,538,679</b> |

# State Aid for Special Education

## ■ Similarities:

- Start with a level of funding per student
  - Increases each year by the index factor
- Multiply the funding per student by the number of students
- Determine local effort by setting a levy based on a goal state effort 2 years out

## ■ Differences:

- Instead of one PSA, there are 6 different levels
- Funding per disability level is rebased after every 3 years
- 2 levies – one for the formula local effort and a maximum levy for districts that have higher cost programs
- Levy is the same across all property classes
- Extraordinary cost fund
- Maintenance of Effort

# 1) Determine Local Need

- Begin with previous year's funding per disability level
- Figure inflationary increase for each disability level
  - CPI or 3%, whichever is less
- Determine Child Count per disability level
  - Number of students as of Dec. 1 of the previous school year
- Add in \$4M for Extraordinary Cost Fund (ECF)

# Disability Levels

Funding is broken out into 6 levels of disability:

13-37-35.1. Definition of terms. Terms used in chapter 13-37 mean:

- (1) "Level one disability," a mild disability;
- (2) "Level two disability," cognitive disability or emotional disorder;
- (3) "Level three disability," hearing impairment, deafness, visual impairment, deaf-blindness, orthopedic impairment, or traumatic brain injury;
- (4) "Level four disability," autism;
- (5) "Level five disability," multiple disabilities;
- (5A) "Level six disability," prolonged assistance;

# Extraordinary Cost Fund (ECF)

- \$4M set aside for extraordinary expenses incurred by districts in providing special education services
  - Funds not expended carry over to fund ECF in next year
  - Fund cannot exceed \$5.5M
- Districts apply annually for ECF based on 3 areas:
  - High Cost Student
  - High Cost Program
  - Supplemental Aid
- Requests are reviewed by the Extraordinary Cost Oversight Board
  - Board makes recommendations to Secretary

# Putting It All Together: Local Need

(based on FY15 budget)

- 1) Determine Local Need:  
Funding Per Disability Level  
X Child Count  
+ ECF Funding

| Disability Level                   | Funding Per Student | Child Count | Local Need           |
|------------------------------------|---------------------|-------------|----------------------|
| Level 1                            | \$4,800.57          | 14,159      | \$ 67,970,753        |
| Level 2                            | \$11,801.45         | 2,696       | \$ 31,816,709        |
| Level 3                            | \$15,688.59         | 366         | \$ 5,742,024         |
| Level 4                            | \$14,008.12         | 884         | \$ 12,383,178        |
| Level 5                            | \$21,210.57         | 384         | \$ 8,144,859         |
| Level 6                            | \$7,643.78          | 298         | \$ 2,277,846         |
| <b>FORMULA NEED</b>                |                     |             | <b>\$128,335,370</b> |
| Extraordinary Cost Fund Allocation |                     |             | \$ 4,000,000         |
| <b>STATEWIDE LOCAL NEED</b>        |                     |             | <b>\$132,335,370</b> |

## 2) Determine Local Effort

- Just like State Aid to General Education, Property Valuations/1000 x Levies = Local Effort
  - Levies set annually by the legislature
- Unlike the General Education funding formula, levies are set the same for all property classes
- Goal for state aid is approximately 39.3%
- Districts are allowed to levy a maximum levy of up to 0.20 more than formula levy is have a higher need
- For Pay 2015 the formula levy was set at 1.278 for all property classes
  - Maximum levy was 1.478

# 3) Determine State Share

(based on FY15 budget)

- State Share =
  - Local Need
  - Local Effort
  - + Adjustment for “Lost” Local Effort

|   |                      |
|---|----------------------|
| Less: Statewide Local Effort                    | \$ 91,814,824        |
| Adjust for districts whose local effort exceeds | \$ 8,310,524         |
| <b>Total Fiscal Year 2015 State Aid</b>         | <b>\$ 48,831,070</b> |



# Sparsity Formula

- School districts that meet certain criteria are considered to be sparse.
  - Fall enrollment per square mile  $\leq 0.50$
  - Fall enrollment  $\leq 500$
  - Land area  $\geq 400$  square miles
  - At least 15 miles to nearest high school
  - Levies at the maximum level
- These districts are eligible for payment of up to 75% of the PSA for each student with a maximum payment of \$110,000



**For More Information**

[www.doe.sd.gov](http://www.doe.sd.gov)