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Capital Outlay

The purpose of this Tax Fact is to provide a general overview of the property tax impact on South Dakota school's Capital Outlay Fund. It is not intended to answer all questions that may arise. The information contained in this fact sheet is current as of the date of publication.

February 2022

School District Funds

School district funds are all moneys received from all sources. Examples of these sources are: federal, state or other local government sources; taxes; income from school property; borrowing sources; and other sources. (SDCL 13-16-1)

The major school district funds are:

- General Fund (SDCL 13-16-3)
- Capital Outlay Fund (SDCL 13-16-6)
- Special Education Fund (SDCL 13-37-16)

This document will focus specifically on the Capital Outlay Fund and how money for this fund is generated.

Capital Outlay Fund Defined

Generally, the capital outlay fund of the school district is a fund for expenditures related to the purchase or lease of real property or equipment. (SDCL 13-16-6)

> As a general rule, a school district may transfer from its capital outlay fund to its general fund no more than 45% of the total tax revenues deposited into the capital outlay fund during the current school fiscal year. (SDCL 13-16-6)

The fund may be used for:

- Land
- Existing facilities
- Improvement of grounds or equipment
- Construction or remodeling of facilities
- Purchase or lease of equipment
- Installment or lease-purchase payments for the purchase of real property, plant, or equipment
- Payment of capital outlay certificates
- Student transportation
  - ⇒ A school district may use capital outlay funds to pay up to 15% of contracted student transportation costs, and 15% of mileage reimbursement costs defined by SDCL 13-30-3.
- Textbooks and instructional software
- Warranties on capital assets

If you have any questions about a school district's capital outlay budget, contact the school district administrator or business official.

Capital Outlay Levy Defined

South Dakota state law (SDCL 13-16-7) allows a school district to authorize an annual tax levy up to $3.00 per $1,000 of taxable valuation for capital outlay fund purposes. The capital outlay levy is the same for all land classes.

Capital Outlay Limitations Defined

Growth + 3% Limitation (SDCL 13-16-7)

The Growth + 3% Limitation states that the total amount of taxes collected from the capital outlay levy cannot increase annually more than 3% plus the growth factor. This is the general rule.

Growth factor is defined as any new construction which has occurred in the last year within the school district boundaries.

$3,400 Per Student Limitation (SDCL 13-16-7.2)

The $3,400 Per Student Limitation allows a school district to levy up to $3,544 for each enrolled student from the previous school year for taxes payable 2023. ***This is the alternative to the general rule if the amount of funds calculated are less than the Growth + 3% Limitation.***

$1,400 Per Student Limitation (SDCL 13-16-7.3)

The $1,400 Per Student Limitation applies only to those school districts that were limited to less than $1,400 per student for taxes payable 2020 and who chose to exceed the limitation provided in SDCL 13-16-7 for taxes payable 2021. Each year thereafter, the $1,460 will increase annually by the lesser of 3% or CPI.

All limitation calculations are based upon the maximum taxes allowable, not actual tax dollars requested.

Regardless of which limitation applies, a school district may never exceed a $3.00 capital outlay levy.

School districts created or reorganized are exempt from the annual limitation for two years after creation.

Determining the Appropriate Capital Outlay Annual Limitation

Other than those districts subject to the $1,400 Per Student Limitation, a school district will be limited to the maximum revenue allowed by either the Growth + 3% Limitation or the $3,400 Per Student Limitation, whichever is less. The school district and the Department of Revenue will analyze the data and calculations annually:

- If the lesser is the Growth + 3% Limitation, then the school district may request up to the dollar amount calculated by the increase of growth and 3%.
- If the lesser is the $3,400 Per Student Limitation, then the school district may request up to $3,544 per student for taxes payable 2023. Each year thereafter, the $3,544 will increase annually by the lesser of 3% or CPI (does not include growth).

If the $3,400 Per Student Limitation applies, the school district and the Department of Revenue will analyze the data and calculations:

- **If the school district incurred capital outlay debt prior to July 1, 2016,** it can request any necessary capital outlay debt payment funds plus up to $3,544 per student. This may include any debt existing prior to July 1, 2016 that is refinanced without incurring new debt. Interest accrued prior to refinancing is not considered new debt.
- **If the school district did not incur capital outlay debt prior to July 1, 2016,** then it will use the $3,400 Per Student Limitation.

Regardless of which limitation applies, a school district may never exceed a $3.00 capital outlay levy.

A school district subject to the $3,400 Per Student Limitation in 2021, 2022, and 2023 may transfer from its capital outlay fund to its general fund the same total dollar amount that was transferred in fiscal year 2020.

Beginning in 2024, all school districts will be limited to transferring to the general fund an amount up to 45% of the total tax revenues deposited into the capital outlay fund during the current school fiscal year. (SDCL 13-16-7.4)

Capital Outlay Fund Opt Out (SDCL 10-12-43.1)

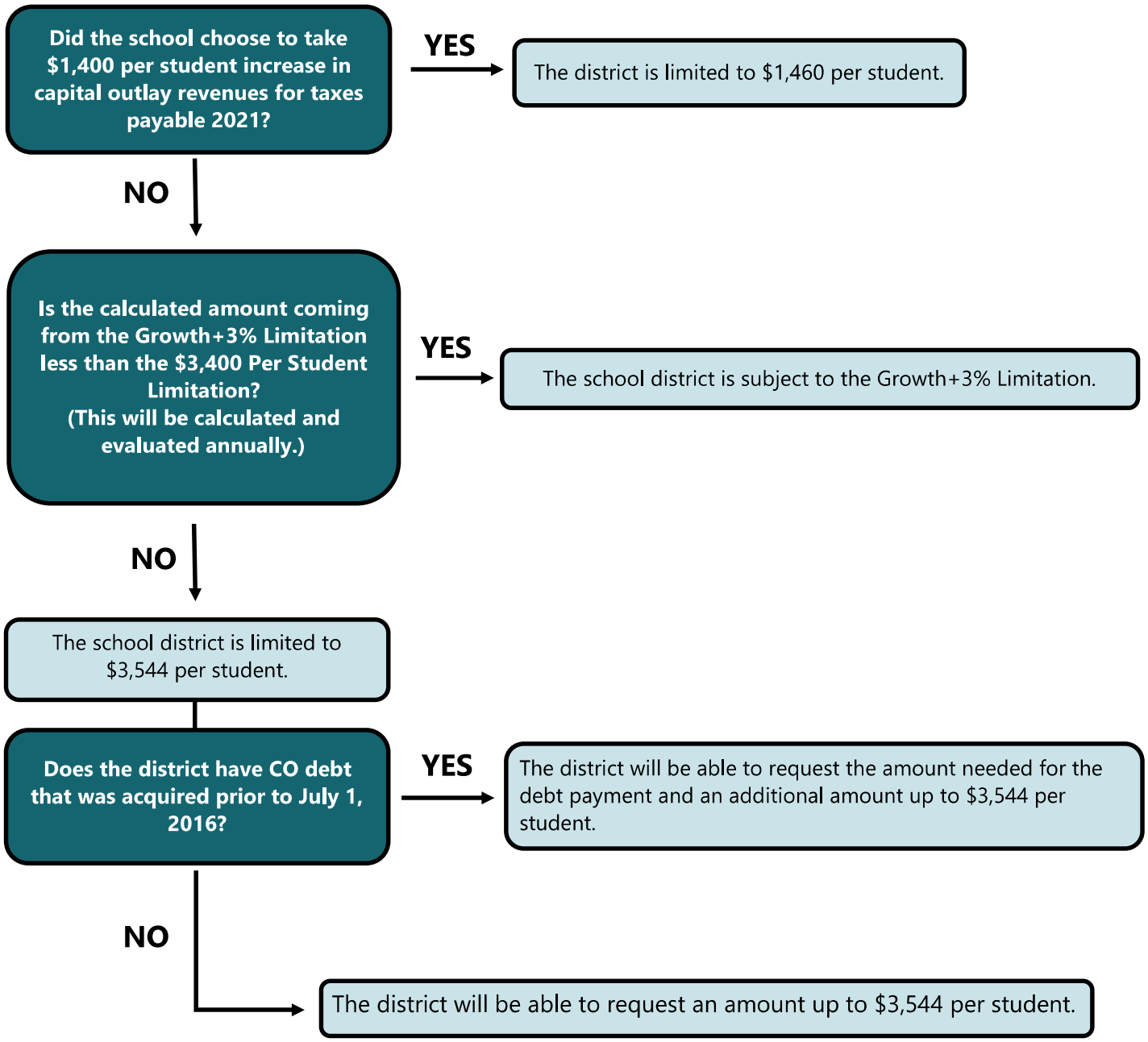
If the school district is subject to the $3,400 Per Student Limitation and cannot operate on the revenues generated by that limitation, the school district may choose to "opt out" of the capital outlay limitation by imposing an excess tax levy. Any opt out funds cannot be transferred into the school district's General Fund.

Opting out **requires a two-thirds vote of the governing body** on or before July 15th. The decision to opt out must be published within ten days of the decision. The decision may be referred to a vote upon a petition signed by at least five percent of the registered voters in the taxing district and filed with the governing body within twenty days of the first publication. *The election must be held on or before October 1st.*

The total capital outlay levy, including the main capital outlay fund request, capital outlay debt payments request, and the opt out request, cannot exceed a levy of $3.00 per $1,000 of taxable value.

For more information on the opt out process, please refer to Opt Outs for School Districts Only.

What Capital Outlay limitation applies to my school district?



Regardless of which limitation applies, a school district may never exceed a $3.00 capital outlay levy.

Contact Us

If you have any questions, please contact the **South Dakota Department of Revenue.**

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