

## ISSUE BRIEF

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

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*Recent Changes: The 2026 legislature approved SB245 which provides significant property tax relief by decreasing the levy for the owner-occupied property tax classification. The bill creates Homeowner Property Tax Reduction Fund to support this relief. As a result, the state will take on an increased share of funding for general education.*

#### Funding K-12 Education, FY2027

The target teacher salary for FY2027 is \$63,700.69. The formula is calculated 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 current year state aid 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 a calculated overhead rate (FY2027 = 38.80%) 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 current year state aid fall enrollment):

- 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 small school adjustment 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 K-12 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.

A weighted count of 25% of eligible English Learner students is also included.

A weighted count of 10% of Alternative Instruction students participating in high school activities association sanctioned sports is also included.

### 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 2027, school districts can levy a maximum of:

- \$1.051 per thousand for agricultural property,
- \$0.669 per thousand for owner-occupied property, and
- \$4.867 per thousand for non-agricultural property.

The local effort is the amount of money raised by applying the maximum local property tax levies against the value of taxable property.

Another component of local effort for school districts are other revenues. These revenue

sources are treated in the same way as local property taxes.

These other revenues include utility taxes (rural electric & telephone), revenue in lieu of taxes (local and county), county apportionment, bank franchise and renewable facility taxes (wind & solar).

The inclusion of other revenues in local effort 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.

### 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 – Prop Taxes
- \$ 52,000	Local Effort – Other Revenue
= \$1,500,716	State Aid

For districts with very high levels of other revenue, statutes also allow an optional alternative to phase into the new formula. School districts that would lose money from this switch have an opportunity to utilize an alternative per student need formula, keeping 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 the school district, they may opt into the new formula. Currently, one school district remains on the alternative per student need methodology.

## Other Components of the Funding Formula

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 is 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 balance 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 exceeds the cash limits would have its state aid reduced dollar-for-dollar. The Governor appointed a five-member oversight board to consider requests to waive the limits in special circumstances.

## Schools Receive Funds Through Other Sources

The state aid formula is not the only source of revenue for South Dakota schools. It is only one of many more 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 \$137,000 per 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
- 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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