

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

*Synopsis: The amount of state aid provided to local school districts for general K-12 education is based on an equitable formula that starts with the same amount of funding per student. Small schools receive more money per student. The total amount of per-student funding for a school district is paid for by a combination of money raised by the school district through local property taxes and money raised by the state through statewide taxes. School districts also have other sources of revenue for general education beyond state aid.*

### Funding K-12 Education

South Dakota's current formula for funding K-12 education took effect Jan. 1, 1997. It begins with the premise that money spent on education should be based on how much it takes to educate a student. Previously, state aid to K-12 education had been based on an expenditure-driven formula.

Over the years the South Dakota Legislature has made changes to the formula, including:

- Changing the small school adjustment to be based on a fixed dollar amount (2007 Session)
- Changing the way the formula counts students – moving to a fall count when enrollments are typically higher (2007 Session)
- Allowing for districts to use either a two-year average of the past two years or current year count of students, whichever is greater (2010 Session)

### Per-Student Allocation

The state aid formula starts with the same amount of money for each student's education. It is called a per-student

allocation. In 1997, the per-student allocation was set at \$3,350. By law, the per-student allocation is adjusted annually by the same rate as inflation (as measured by the Consumer Price Index) or 3 percent, whichever is less.

The following table shows the per-student allocation for the past five years:

School Year	Per-Student Allocation	Percent Change
2010-2011	\$4,805	0.0%
2011-2012**	\$4,390	-8.6%
2012-2013	\$4,491	2.3%
2013-2014	\$4,626	3.0%
2014-2015*	\$4,781	3.36%

\* % of increase is greater than CPI

\*\* PSA reduced due to structural deficit in State's budget

The per-student allocation is not a spending cap on how much money a school can spend per-student for their education. The per-student allocation is the standard amount that can be raised through local property taxes and state aid.

### 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.

The count of students for funding purposes uses either: 1) the current year's state aid fall enrollment, or 2) the average of the state aid fall enrollment for the past two years, whichever is higher. The ability to average over a two-year period helps to soften the blow of declining enrollment.

Up until the 2007-2008 school year, the state aid formula used an average daily membership number, which was not finalized until the school year was completed. The switch to counting students in the fall provides school districts with actual numbers for budgeting purposes. It also could benefit some districts in that many of them experience larger enrollments in the fall.

**The Small School Adjustment**

The state aid formula recognizes that economy of scale causes smaller school districts to incur higher costs to educate a student. An adjustment in the formula provides additional dollars to the state's small schools.

During the 2007 legislative session, legislators changed the small school adjustment to a *fixed* dollar amount per-student based on a sliding scale that declines as enrollment grows.

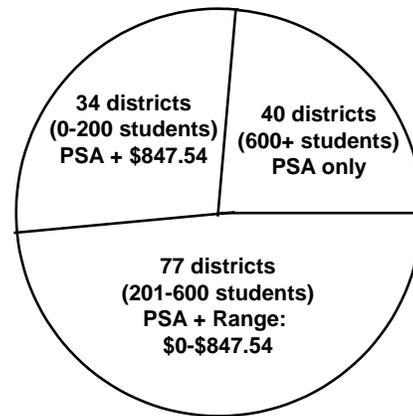
South Dakota had 151 school districts for the 2013-2014 school year. To determine state aid funding, the districts are divided into the following size categories:

- 200 students or less,
- greater than 200 students but less than 600,
- 600 students or more.

Schools with 600 students or greater are assigned the basic per-student allocation. For 2014-2015, the basic per-student allocation is \$4,781.14.

Every school district in South Dakota with fewer than 600 students is assigned an increase to its per-student allocation known as the small school adjustment.

For the 2013-2014 school year, 111 school districts (74 percent) qualified for the small school adjustment and received more than the basic per-student allocation.



The smallest school districts, those with 200 or fewer students, received an additional \$847.54 to their per-student allocation.

School districts with more than 200 students but less than 600 students are assigned an increase to their per-student allocation on a sliding scale, ranging from the basic per-student allocation up to a maximum of \$847.54 per student.

**Local Need**

Local need is calculated by taking the school district's state aid fall enrollment and multiplying it by the per-student allocation.

A hypothetical large school district example:

600	State aid fall enrollment
X \$4,781	Per-student allocation
= \$2,868,600	Local Need

A hypothetical small school district example:

$$\begin{array}{r}
 200 \text{ State aid fall enrollment} \\
 \times (\$4,781 + \$847.54) \text{ Per-student allocation} \\
 \hline
 \text{w/ small school adj.} \\
 = \$1,125,708 \text{ Local Need}
 \end{array}$$

### 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 is referable to a public vote, if 5 percent of the electorate signs a petition against the "opt out."

For taxes payable in 2015, school districts can levy a maximum of:

- \$1.782 per thousand for agricultural property,
- \$4.252 per thousand for owner-occupied property, and
- \$9.106 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.

### 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:

$$\begin{array}{r}
 \$2,634,000 \text{ Local Need} \\
 - \$1,081,284 \text{ Local Effort} \\
 \hline
 = \$1,552,716 \text{ State Aid}
 \end{array}$$

### Share of Funding

In recent years, state aid has paid for more than half of all local need. At the same time, property tax levies have decreased because of property tax relief.

School Year	State Share (state aid)	Local Share (local effort)
2009-2010	56.1%	43.9%
2010-2011	56.1%	43.9%
2011-2012	52.6%	47.4%
2012-2013	52.7%	47.3%
2013-2014	52.1%	47.9%

### 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 more than 60 sources of revenue that local schools can use for educating students.

Some of the other revenue sources for general education include:

- federal grants
- utility taxes (formerly gross receipts)
- bank franchise taxes
- rental income
- investment income
- fines

In 2012-2013, these "other" sources of general revenue accounted for approximately \$1,377 per-student statewide over and above the per-student allocation. Not every district receives money through these "other" sources.

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
- 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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