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2016 K-12 Education Funding Package
Frequently Asked Questions

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NEW K-12 FUNDING FORMULA

A-1. What are the basics of the new funding formula, and when do they take effect?
The new funding formula is based on a target statewide average teacher salary of $48,500 and a target student to teacher ratio. This ratio is based on a sliding scale determined by student enrollment:

- Fewer than 200 students: 12 students to 1 teacher
- Between 200 and 600 students: Sliding scale between 12 to1 and 15 to 1
- More than 600 students: 15 students to 1 teacher

The new funding formula begins with the start of FY 2017.

A-2. How is the sliding scale for the target student-teacher ratio determined?
For districts with 200 to 600 students, the target ratio is determined as follows:

Target Teacher Ratio = (.00750 X State Aid Fall Enrollment) + 10.50

A-3. Is my district required to have the target ratio as calculated by the new funding formula?
The number of teachers a district wants to employ is a local school board decision. The target ratio, and resulting FTE calculation, is for funding purposes only and does not require districts to strictly meet the target ratio or to use a certain level of funding for benefits or overhead costs. Those factors are used to calculate total need. Districts retain local control on how to use the dollars they receive.

A-4. Will there be annual increases under the new funding formula?
Yes. Similar to the current funding formula, the target teacher salary of $48,500 outlined in SB 131 will be increased annually by the index factor or 3 percent, whichever is less. The allowances for benefits (29 percent) and overhead (31 percent) built into the new formula are applied on top of this annual increase.

Section 22 of SB 131 also outlines a process for a Teacher Compensation Review Board to review comparable wage indexes in surrounding states every three years. The board will report its findings to the Governor and Legislature.

A-5. Does the two-year average for student enrollment apply under the new formula?
No. The new formula does not have an allowance to use a two-year average for student enrollment. State aid in FY 2017 will be based on the fall 2016 state aid fall enrollment only.

A-6. How will DOE calculate and pay general state aid until the fall 2016 state aid fall enrollment count is finalized?

The department will use 90 percent of the estimated FY 2016 fall enrollment (reported by districts as part of the FY 2015 state aid fall enrollment verification process) to calculate state aid payments until the fall 2016 state aid fall enrollment student count is finalized.

A-7. Will opt-out funding count towards local effort?
No. School districts' local tax effort for FY 2017 will be based on an amount raised by applying the statewide maximum general fund levies and will NOT include any additional property taxes received as a result of an opt out.

A-8. Are the second half pension fund pay 2016 taxes included as local effort in FY 2017 calculation of state aid?
Yes. SDCL 13-13-10.2(6) was amended to include one-half of the taxes levied for the pension fund to be included as local effort.

A-9. Will districts still receive the adjustment to need as outlined in ARSD 24:17:03:07?
Yes. This allowance (residentially placed students attending short-term group care education programs) will still be included to determine state aid for those select districts where it applies.

A-10. The new funding formula has an "alternative need" calculation option. What districts would benefit from using this calculation of total need?
Districts with very high amounts of "other revenue" may want to consider using this alternative need option. Per SB 131, Section 4:

(5A) "Alternative per student need," is calculated as follows:

- (a) Add the total need for each school district for school fiscal year 2016, including the small school adjustment and the limited English proficiency adjustment, to the lesser of the amount of funds apportioned to each school district in the year preceding the most recently completed school fiscal year or school fiscal year 2015 pursuant to §§ 13-13-4, 23A-27-25, 10-33-24, 10-36-10, 11-7-73, 10-35-21, and 10-43-77;
- (b) Divide the result of (a) by the September 2015 fall enrollment, excluding any adjustments based on prior year student counts;

(5B) "Alternative local need," is the alternative per student need multiplied by the fall enrollment, excluding any adjustments based on prior year student counts;

Districts have until July 1, 2016, to contact the department to indicate that they would like to use this alternative need calculation. Select districts for which this option may be beneficial will be contacted soon and meetings scheduled to discuss this option for FY 2017.

REQUIRED ACCOUNTABILITIES

B-1. What is considered new money under the new funding formula?
New money is the increase in funding received by a school district in FY 2017, excluding any changes in enrollments and less revenues generated by the pension fund levy for FY 2016. The department has posted a spreadsheet calculating new money and the accountability targets for each school district at http://doe.sd.gov/2016EducationPackage.aspx Click on "Accountability Calculator" under the "Resources" section.

B-2. SB 131 contains a requirement that 85 percent of the increase in funding goes directly towards impacting teacher salaries. How will this work?
Within Section 27 of SB 131, there are two accountabilities that districts must meet moving from FY 2016 to FY 2017. First, a district must spend 85 percent of its total new money on instructional salaries and benefits. Second, a district's average instructional salary and benefits must also go up by 85 percent of the percentage increase in new money. Districts must meet BOTH of these measures in order to avoid a penalty in FY 2018.

Calculating Accountability #1: Multiply the amount of new money (see B-1) by 85 percent. This is the MINIMUM dollar amount that teacher salaries and benefits must increase by.

Calculating Accountability #2: Divide the amount of new money (see B-1) by the amount of total need generated under the funding formula in place for FY 2016. Multiply the result by 85 percent to arrive at the MINIMUM percent that teacher salaries and benefits must increase by.

B-3. Which teachers are included when calculating the two accountabilities above?
For both accountabilities, the calculation includes ALL K-12 certified instructional staff regardless of whether they are paid out of the general fund or special education fund.

If a district chooses to transfer money from the general education fund to the special education fund in order to address SPED teacher salaries, it should be mindful of the maintenance of effort required under federal special education law.

B-4. How are certified instructional staff defined?
Generally speaking, certified instructional staff are defined as those individuals assigned the professional activities of instructing pupils in self-contained classes or courses, or in classroom situations. The number of certified instructional staff is usually expressed in full-time equivalents.

The following categories of teachers meet this definition and are to be included as part of both accountability calculations.

- Elementary school teachers
- Middle school / junior high teachers
- High school teachers
- Gifted education teachers
- Kindergarten and junior kindergarten teachers
- LEP teachers
- Title I teachers
- Special education teachers

The following categories do not meet this definition of classroom instructional staff and, therefore, are not included in the accountability calculations.

- Pre-K teachers
- Long-term substitutes
- Counselors
- Administrators
- Librarians
- Speech therapists
- Technology coordinators

B-5. What amounts should be reported or included in the instructional salary information to meet the accountabilities?
The reported salary should be reflective of the total contract salary cost for K-12 teachers. Contract salary amounts should exclude bonuses, extra-duty pay and extended contract pay.

B-6. If a teacher is part-time librarian and part-time teacher, does the teaching portion of the FTE need to meet the 85 percent increase?
Yes. Districts will need to accurately report the split.

B-7. If one of our teachers also serves as activities director and part of his teaching salary is coded to extracurricular duties, do I use both parts of his salary in calculating the average?
Only report the part of the FTE associated with an instructional assignment. Do not include that portion of the FTE for administrative responsibilities.

B-8. If we have a teacher resign mid-year and hire a replacement, whose information do I use?
In this example, both teachers would be reported as .5 FTE, with the appropriate salaries and benefits reported for each contract.

B-9. If we adjust wages mid-year for lane changes, do I use the actual amount paid in FY 2016?
The reported salary should be reflective of the total actual salary cost to the school district for the teacher.

B-10. If a teacher has an extended contract (eg., 198 days vs. 178 days), do I use the actual 198-day contract amount and a 1.11 FTE in calculating the average salary?
Report only the contract amount for the regular school year. Do not include any amount added for an extended contract.

B-11. If we have an early retirement benefit paid to retired teachers, does it figure into the salary/benefits calculation in any way?
Only certified instructional staff who are actively teaching and instructing students should be reported. Do not include retired teachers.

B-12. How does teacher sharing between districts affect the 85 percent accountability?
Typically when sharing a teacher, one district employs the teacher, and the other district pays the district in which the teacher is employed. Only the district that directly employs the teacher would report the associated salary and benefit costs.

B-13. If I have 10 teachers with an average salary of $48,000 who leave my district and I hire 10 new teachers with an average salary of $38,000, how does that impact my target salary?
This is difficult to answer as it depends on the total number of certified instructional staff as well as the impact of the teachers leaving on overall compensation. If the impact is negative and the district can document the impact of these changes, the district could present this situation to the School Finance Accountability Board for an exemption (see B-27).

B-14. What if the data reported in the Personnel Record Form in fall 2015 is inaccurate?
The PRF database is open until mid-June. Districts may make corrections to data reported for the current school year until that database closes.

B-15. My district is hiring two new certified instructional staff next year due to enrollment growth. Last year we had 165 certified instructional staff, and next year we have to spend $1.2 million

new dollars on instructional staff. If we grow our number from 165 to 167, can the $1.2 million include the cost of the new teachers we are adding?
Yes. The additional expenditure could be used to meet Accountability #1 related to overall dollars expended (see B-2), but the district must also meet Accountability #2, which is an overall percentage increase in average teacher salaries and benefits.

B-16. Is funding generated by student growth included in the calculations for the two accountabilities?
No. The accountabilities noted above exclude any effect due to changes in school district fall enrollment from FY 2016 to FY 2017. (See Section 27 (2) of SB131.)

B-17. What is the effect, if any, of this language in HB 1182 (Section 21): "... excluding the effect due to change in the school district's fall enrollment ..."? Do schools have to be concerned about any changes in enrollment between September 2015 and September 2016?
The amounts required for the two accountabilities are calculated as if enrollments remain constant. The amount of total need for FY 2017 will be based on the fall 2016 enrollment count.

B-18. Is my district still held to the 85 percent accountabilities if enrollment in fall 2016 is less than enrollment in fall 2015 and my district's new funding amount is less?
Yes. The district is held to both accountabilities. If the district is not able to meet the accountabilities, it could present this situation to the School Finance Accountability Board for an exemption (see B-27).

B-19. Is sparsity funding part of the accountability requirements?
No. Sparsity is a separate appropriation and is not included in the 85 percent accountability requirements.

B-20. Do expenditures from the pension fund count to meet the accountability requirements in FY 2017?
Yes. Expenditures to the South Dakota Retirement System on behalf of a teacher from the pension fund would be included in total benefit expenditures to meet the 85 percent accountability requirements.

B-21. What accountabilities are in place after FY 2018?
For FY 2019, 2020 and 2021, if a district's average teacher compensation is less than the district's average teacher compensation in FY 2017, state aid to general education funding to the district in the following fiscal year shall be reduced by an amount equal to $500 for each teacher employed in the school district.

B-22. What counts as benefits related to the two accountabilities?
Benefits will be defined as per the School District Accounting Manual.

200 Employee Benefits - amounts paid by the LEA on behalf of employees. These amounts are not included in the gross salary, but are over and above. Such payments are fringe benefit payments; and, while not paid directly to employees, nevertheless are part of the cost of salaries and benefits. Examples are: (1) Group Health or Life Insurance, (2) Contributions to Employee Retirement, (3) Social Security, (4) Worker's Compensation, and (5) Payments Made to Personnel on Sabbatical Leave.

Data reported would include each teacher salary and total benefits as outlined on page 6.

Benefits Include:							
SS/Medicare	Group Health, Dental, Etc.	Workers Comp	Disability Insurance	Unemployment	Retirement (Gen)	Retirement (Pen)	TOTAL BENEFITS
X	X	X	X	X	X	X	X
X	X	X	X	X	X	X	X
X	X	X	X	X	X	X	X
X	X	X	X	X	X	X	X
X	X	X	X	X	X	X	X
X	X	X	X	X	X	X	X
X	X	X	X	X	X	X	X
X	X	X	X	X	X	X	X
X	X	X	X	X	X	X	X
X	X	X	X	X	X	X	X

B-23. How should districts divide benefits for part-time teachers/part-time administrators if the benefits are different for each?
The total benefits reported for each teacher (based on FTE) should only be that portion associated with the teaching contract salary.

B-24. Should schools include sabbatical leave as a benefit?
Schools should include sabbatical leave only if associated with a salary paid to a certified instructional teacher and actual benefits were paid by the school district.

B-25. What will be the verification process for the two accountabilities related to teacher salaries?
As noted previously, the department has sent out a spreadsheet showing the calculations for the two accountabilities to be met. That document is posted at http://doe.sd.gov/2016EducationPackage.aspx. Look under the "Resources" section and click on "Accountability Calculator."

The department is working on a data collection to collect the FY 2016 baseline data. This collection will be a part of the district's Annual Financial Report, but we are hoping this specific module can be made available to districts by early June. The data collection will include elements such as: teacher name, SSN, FTE, and salaries and benefits for all teachers.

B-26. What is the penalty if a district fails to meet both of the accountabilities for funding received in FY 2017?
If a district fails to comply with these two requirements, the district's state aid to general education funding in FY 2018 will be decreased by an amount equal to 50 percent of the increase in local need.

B-27. What is the penalty if a district fails to meet the accountability requirement for FY 2019, 2020 and 2021?
For each of these years, if a district's average teacher compensation is less than it was in FY 2017, the district's state aid to general education funding to the district in the following fiscal year will be reduced by an amount equal to $500 for each teacher employed in the school district.

B-28. Are there exceptions to the penalties established under the new law?
SB 131 calls for a process by which a school district may request that a penalty (imposed as a result of not meeting the two accountabilities) be waived, if the district can demonstrate special circumstances. The bill establishes a School Finance Accountability Board and directs that board to promulgate rules to establish this appeal process. Any waivers recommended by this board must be approved by a committee of the Legislature.

A district also may make a request to the School Finance Accountability Board to waive a fund balance penalty if it can demonstrate that its lowest monthly general fund cash balance percentage is the result of special circumstances. Any waivers recommended by this board must be approved by a committee of the Legislature.

B-29. Explain Section 28 of SB 131 regarding starting teacher salaries.
The language in Section 28 outlines legislative intent. The department will not be collecting data specific to *starting* teacher salaries.

B-30. If a district has a very low special education fund balance, can a district apply to the extraordinary cost fund for the additional cost of increasing teacher pay?
Districts meeting the guidelines for applying for ECF funding may submit an application. More information is available at http://doe.sd.gov/ofm/exordincost.aspx

RESERVE FUND CAPS

C-1. Will there be an excess fund balance penalty imposed for districts that do not receive state aid?
Reserve fund caps will be calculated in the same manner for all districts. However, districts that do not receive state aid will not have any funds deducted, since there is no allocation to reduce.

C-2. What is the penalty for districts exceeding the allowable general fund cash balance?
Beginning on July 1, 2018, a school district's state aid for general education as calculated pursuant to SDCL 13-13-73 shall be reduced by subtracting the allowable general fund cash balance from the lowest general fund monthly cash balance. If the result is less than zero, the reduction equals zero. (See Section 24 of SB 131.)

C-3. Are there any exclusions or exemptions that can be deducted from the fund balance such as opt-out revenue?

No. There are no exemptions allowed under the new law.

C-4. Is there a possibility of looking at two consecutive years of excess before implementing the fund balance penalty?
As the statute is written, this is not an option. Districts with special circumstances resulting in an excess cash balance can appeal to the School Finance Accountability Board (see B-27).

C-5. When do the general fund cash balance caps become law?
General fund cash balances will be calculated starting in FY 2017. Penalties will be applied beginning in FY 2019, based on FY 2018 general fund cash balances reported as per SDCL 13-8-47.

C-6. Will general fund cash balance penalty dollars be reallocated back to districts as they were in the previous fund balance penalty statutes?
No. There is no provision for any reallocation of the dollars in the statute.

C-7. Will the special education excess fund balance penalty be determined like the general fund – using the lowest monthly cash balance?
No. The calculation for special education excess fund balance was not changed.

PENSION LEVY

D-1. Does the 2nd half of the taxes collected from the pension levy stay in the pension fund?
Funds collected from the pay 2016 pension levy will still be deposited into the pension fund.

D-2. Does the 2nd half of the taxes collected from the pay 2016 pension levy count as local effort?
Funds collected in FY 2017 from the pay 2016 pension levy will count as local effort for FY 2017.

D-3. How long do I have to spend down my pension fund balance?
Any balance must be spent down before the start of FY 2021. At that time, any remaining balance must be transferred to the general fund.

D-4. What is the earliest date we can move the pension fund reserves to the general fund?
June 30, 2020, is the earliest date that these funds can be transferred.

D-5. If we leave the pension fund reserves where they are for five years, what can we spend the money on? Can we use it for general fund purposes during that time period?
Balances in the pension fund can be spent on early retirement programs or South Dakota Retirement System contributions.

D-6. Can the remaining pension dollars transferred into the general fund on June 30, 2020, be spent on any purpose?
Yes. Amounts transferred from the pension fund to the general fund may be spent on any general fund purpose.

D-7. Can a district transfer the funds raised the from pension fund in FY 2017 into the general fund?
No. Districts must still expend pension funds on early retirement programs and South Dakota Retirement System contributions from the pension fund for FY 2017-FY 2020.

OTHER REVENUE

E-1. What funding sources are considered "other revenue"?
Other revenue includes the following: Utility Taxes (Rural Electric & Telephone), Bank Franchise, Local Revenue in Lieu of Taxes, County Apportionment, County Revenue in Lieu of Taxes, and Wind Farm Taxes. (Revenues from wind farms established after July 1, 2016, will not be included for the first five years and will be phased in for another four years.)

E-2. How will other revenues be equalized under the new formula?
Starting in FY 2018, any amount of those other revenues being equalized that exceeds the base amount will be counted as local effort for those districts with growing other revenues. The base amount is the greatest amount of other revenues collected by each district in FY 2013, FY 2014 and FY 2015.

The growth in other revenues will then be "equalized" through the state aid formula by adjusting the overhead rate to increase the statewide overhead amount by the sum of the amounts that districts exceed the other revenue base amount.

E-3. Will other revenues continue to be paid to districts in the same manner as they currently are received?
Yes. There has been no change in the process of making other revenue payments to public school districts. School districts will continue to receive other revenue payments in the same manner as they currently receive them.

E-4. For those districts that will not receive state aid (eg., Lead-Deadwood, Custer, Hill City), does all of the other revenue generated become part of local effort, or does only the part remaining after equalization (i.e. 80%, 60%. 40%, 20%, 0%) become part of local effort?
Just like the old funding formula, if local effort – which will now include property taxes and the amount of those other revenues that exceed the base – exceeds total need, that amount will stay with the district.

E-5. Will DOE post a baseline for other revenue on the new webpage?
Yes. More information related to an other revenue baseline will be posted to the following webpage: http://doe.sd.gov/2016EducationPackage.aspx