State Aid to General Education Funding Formula

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Agenda

- State Aid to General Education Formula Local Need
- Local Effort
- Other Revenues
- Accountabilities
- Fund Balance Caps
- Capital Outlay

General State Aid Terms To Know

- State Aid Fall Enrollment
- Target Teacher Ratio
- Formula Number of Teachers
- Target Teacher Salary
- Target Teacher Benefits
- Target Teacher Compensation
- Overhead Rate
- Local Effort
- Other Revenue Amount

3 Steps to the State Aid Formula

Local Need

- Target Number of Teachers
  x Target Teacher Compensation
  + Overhead Costs
- Limited English Proficiency (LEP) Adjustment

Local Effort

- Valuations x Levies
- Property Valuations
- Set the Levies

State Share

- Local Need less Local Effort

Local Need

1

Target Number of Teachers:	
State Aid Fall Enrollment Count	
/ Target Teacher Ratio	
Target Number of Teachers	-

2

LEP Adjustment	
Number of Eligible LEP Students	
X LEP Weight	25%
Weighted LEP Student Count	-
LEP Target Number of Teachers	-

3

Target Number of Teachers	-

Target Number of Teachers	-

4

Teacher Compensation		
Target Teacher Salary (FY2017)	$	48,500
X Target Teacher Benefits %		29%
Target Teacher Compensation	$	62,565
Need based on Target Teacher Compensation	$	-

5

Overhead Costs		
X % of Overhead Costs (FY2017)		31.0%
State Aid Share Overhead Costs	$	-

GENERAL STATE AID LOCAL NEED	**$**	**-**

Target Number of Teachers

1

Target Number of Teachers:	
State Aid Fall Enrollment Count	
/ Target Teacher Ratio	
Target Number of Teachers	-

State Aid Fall Enrollment

- Number of K-12 students enrolled in all schools operated by the school district
- Still taken on the last Friday in September
- Now look only at the current year count
  - No longer take into consideration the averaging of the two prior years

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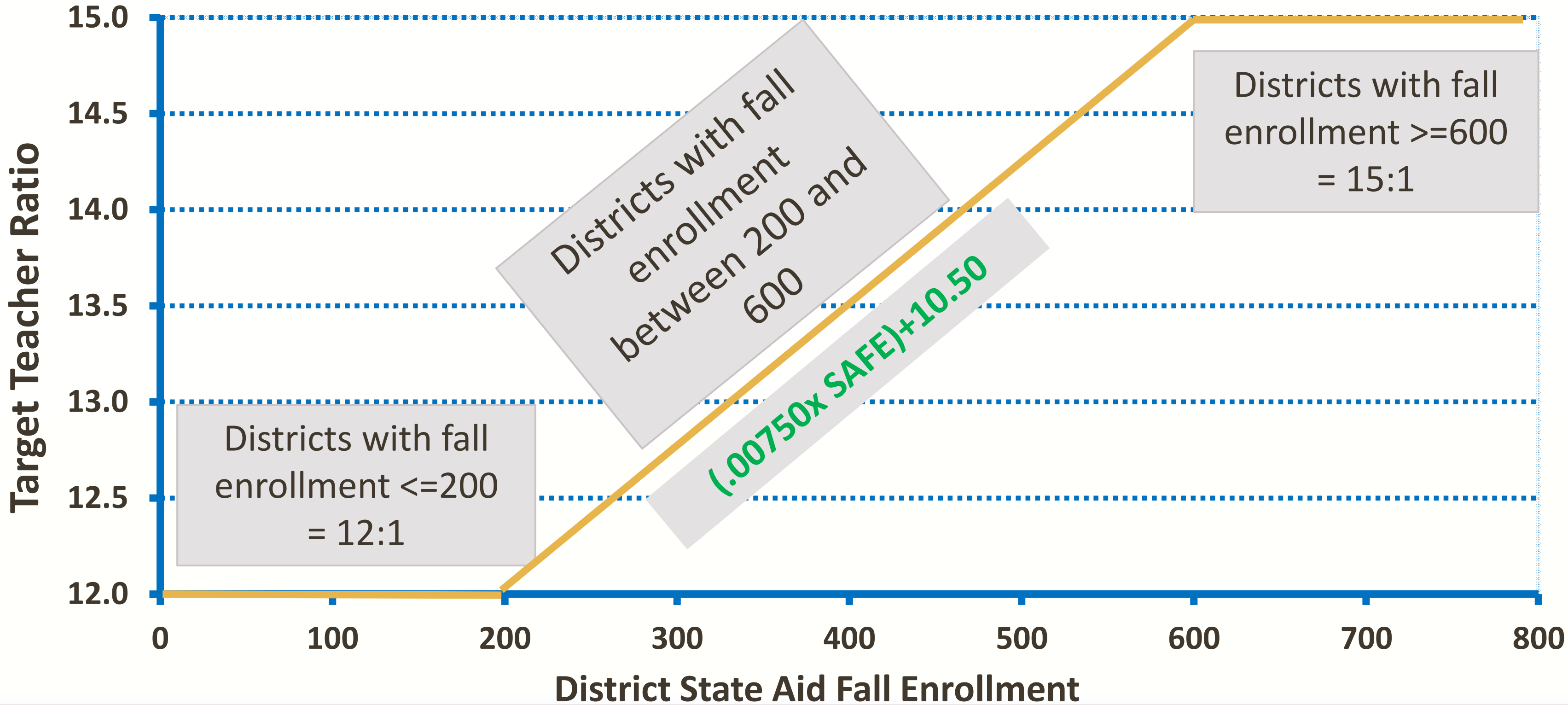
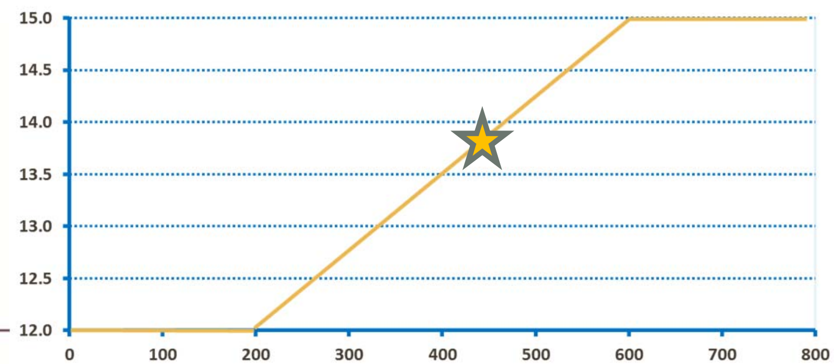
Target Teacher Ratio



Target Number of Teachers

1

Target Number of Teachers:	
State Aid Fall Enrollment Count	449
/ Target Teacher Ratio	13.87
Target Number of Teachers	32.38



LEP Adjustment

.25 × Number of K-12 students, who in the prior school year, scored below level 4 on the state-administered language proficiency assessment = LEP Adjustment

LEP Adjustment

2

LEP Adjustment	
Number of Eligible LEP Students	5.00
X LEP Weight	25%
Weighted LEP Student Count	1.25
/ Target Teacher Ratio	13.87
LEP Target Number of Teachers	0.09

Target Number of Teachers

3

Target Number of Teachers:	
State Aid Fall Enrollment Count	449
/ Target Teacher Ratio	13.87
Target Number of Teachers	32.38
LEP Adjustment	
Number of Eligible LEP Students	5.00
X LEP Weight	25%
Weighted LEP Student Count	1.25
LEP Target Number of Teachers	0.09
Target Number of Teachers	32.47

Target Teacher Compensation

- Target teacher compensation = target teacher salary + target teacher benefits
  - Target teacher salary: $48,500 for school FY2017
    - Increases by the index factor in following years
    - Governor's recommendation for FY2018 is $48,985
    - Reviewed after every 3 years by the Teacher Compensation Board
  - Target teacher benefits: target teacher salary x 29%
    - Target teacher benefits are $14,065 for FY2017
    - Because benefits are tied to target teacher salary, they also increase by the index factor each year

Index Factor

- The "Index factor," is the annual percentage change in the consumer price index for urban wage earners and clerical workers or 3%, whichever is less
  - The annual percentage change is calculated by the Bureau of Labor Statistics

Target Teacher Compensation

4

Target Number of Teachers		32.47
Teacher Compensation		
Target Teacher Salary (FY2017)	$	48,500
X Target Teacher Benefits %		29%
Target Teacher Compensation	$	62,565
Need based on Target Teacher Compensation	$	2,031,360

Overhead Costs

- Total Target Teacher Compensation x Overhead Rate
  – For FY2017, the overhead rate is 31%
  – For FY2018, the overhead rate is 31.04%
    - Beginning in FY2018, the overhead rate is adjusted as other revenues are equalized.

Overhead Rate

5

Need based on Target Teacher Compensation	$	2,031,360
Overhead Costs		
X % of Overhead Costs (FY2017)		31.0%
State Aid Share Overhead Costs	$	629,722

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Total Need

Target Number of Teachers:	
State Aid Fall Enrollment Count	449
/ Target Teacher Ratio	13.87
Target Number of Teachers	32.38

LEP Adjustment	
Number of Eligible LEP Students	[illegible]
X LEP Weight	25%
Weighted LEP Student Count	1.25
LEP Target Number of Teachers	0.09
Target Number of Teachers	32.47

$2,661,082

Teacher Compensation		
Target Teacher Salary (FY2017)	$	48,500
X Target Teacher Benefits %		29%
Target Teacher Compensation	$	62,565
[illegible] Target Teacher Compensation	$	2,031,360

[illegible]ts		
X % of Overhead Costs (FY2017)		31.0%
State Aid Share Overhead Costs	$	629,722

GENERAL STATE AID LOCAL NEED	[illegible]

Local Effort

- Local effort is the amount of money raised by applying the maximum property tax levies against the value of taxable property
- The maximum tax levy a school district can impose is set in statute

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Determining Local Effort

Property Valuations / 1,000	×	Levies	+	Other Revenues (Beginning July 1, 2017)	=	Local Effort

General Fund Levies

- There are 3 classes of property that are recognized.
- Levies for pay 2017 were set by HB 1044 from the 2016 session which are as follows:
  - Agricultural (Ag)
    - $1.568/$1,000 of taxable valuation for pay 2017 taxes
  - Owner Occupied (OO)
    - $3.687/$1,000 of taxable valuation for pay 2017 taxes
  - All Other (Commercial, Utilites, etc.)
    - $7.630/$1,000 of taxable valuation for pay 2017 taxes

Calculating Local Effort

- Property taxes are based on a calendar year
- State aid is calculated on a fiscal year
  - When calculating local effort, ½ of the current calendar year and ½ of the next calendar year is used to determine total property valuations in the formula
    - i.e. FY2017 Local Effort is based on ½ of taxes payable in 2016 (July – December) and ½ of taxes payable in 2017 (January – June)

State/Local Proportion

- When adjusting levies each year, the proportion of state and local effort should remain constant
- Levies are set to maintain the state and local share 2 years out
  - When budgeting for FY2018, must maintain state/local proportion in FY2019
  - For school fiscal years 2017 to 2022, the state/local proportion shall be adjusted annually to reflect adjustments in local effort due to equalizing other revenue

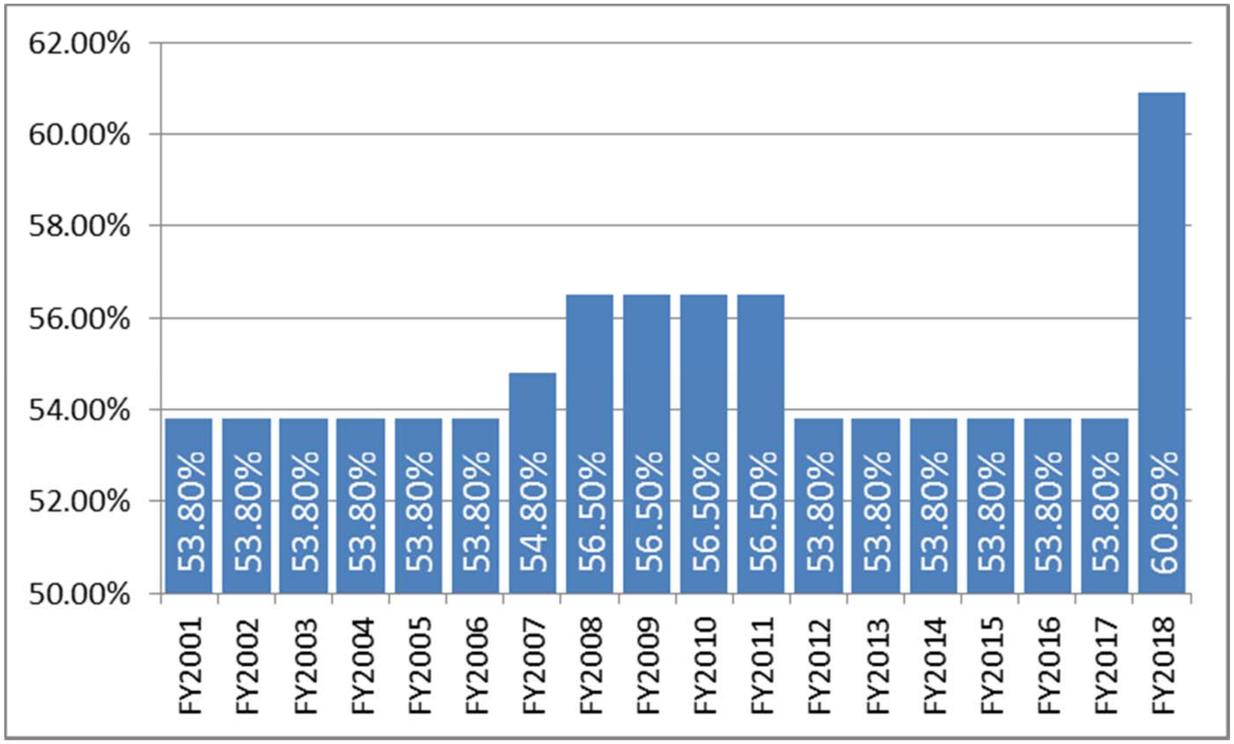
State Share

State Share	
1/2 Pay 2016 Local Effort	$587,485
1/2 Pay 2017 Local Effort	$476,948
Local Effort*	$ 1,064,433

**For FY2017, Local Effort also includes revenue collected from Pension Levy from July 1 – December 31, 2016*
Beginning in FY2018 Local Effort will also include other revenues for eligible districts

GENERAL STATE AID STATE SHARE	**$ 1,596,649**

Target State Share



Property Tax Relief

- In HB1182 of the 2016 legislative session, the legislature allocated 34% of the proceeds of the half-cent sales tax to property tax relief
- This was projected to generate approximately $36 million for the first year

Effect on Levies

Levies

	AG	Owner Occ	Other
2010 pay 2011	2.554	3.965	8.491
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	1.782	4.252	9.106
2015 pay 2016	1.568	4.075	8.727
2016 pay 2017 Gov Rec	1.518	3.874	8.297
Plus Statewide Pension	0.233	0.233	0.233
2016 pay 2017 With Pension	1.751	4.107	8.530
Less Property Tax Relief	**(0.183)**	**(0.420)**	**(0.900)**
2016 pay 2017 Final	1.568	3.687	7.630

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 at the state level and the state must provide for the lost local effort

Other Revenue Equalization

The following revenues are set to be equalized under the current formula and will be counted as local effort upon equalization:

- gross receipts tax on utilities
- local revenue in lieu of taxes
- county apportionment of revenue from traffic fines
- county revenue in lieu of taxes
- wind farm tax
- bank franchise tax

Other Revenue Equalization

- Other revenues to be counted as local effort will be phased in over 5 years
- Each school district will be given a base that will hold its other revenues harmless in the first year
  - Based on the greatest of collections from FY13, FY14, and FY15
- The base will be stepped down over 5 years, at 20% per year

Fiscal Year	Other Revenues Included in Formula
2018	Base Amount
2019	20%
2020	40%
2021	60%
2022	80%
2023	100%

- Each year, any other revenue collected beyond the base will be counted as local effort and the overhead rate will be adjusted

Calculation of Base Amount

A base amount would be calculated for each district based on the greatest amount of annual collections over a 3 year period.

Compare FY2013, FY2014, and FY2015 and find the year with the highest revenue:

District A

FY2013 = $130,851

FY2014 = $183,586

FY2015 = $129,755

In this scenario, FY2014 is the highest. So District A's base would be calculated off of $183,586.

Other Revenue Equalization Example: District Level

	Base Percentage	Base Amount	Estimate Other Revenue Collections	Amount District Keeps	Amount to be Equalized
FY2017	NA		$ 128,058.00	NA	NA
FY2018	100%	$ 183,586.00	$ 128,058.00	$ 128,058.00	$ -
FY2019	80%	$ 146,868.80	$ 128,058.00	$ 128,058.00	$ -
FY2020	60%	$ 110,151.60	$ 128,058.00	$ 110,151.60	$ 17,906.40
FY2021	40%	$ 73,434.40	$ 128,058.00	$ 73,434.40	$ 54,623.60
FY2022	20%	$ 36,717.20	$ 128,058.00	$ 36,717.20	$ 91,340.80
FY2023	0%	$ -	$ 128,058.00	$ -	$ 128,058.00

Other Revenue Equalization Example State Level

Base %	Fiscal Year	Statewide Need - Teacher Compensation	Overhead Rate	Statewide Need - Overhead Costs	Other Revenue to be equalized	Statewide Need - Overhead Costs + Equalized Other Rev	Adjusted Overhead Rate
NA	FY2017	$ 578,337,379	31.00%	$ 179,284,587	NA	$ 179,284,587	31.00%
100%	FY2018	$ 581,232,541	31.00%	$ 180,182,087	$ 257,799	$ 180,439,886	31.04%
80%	FY2019	$ 598,669,517	31.04%	$ 185,853,083	$ 4,742,201	$ 190,595,284	31.84%
60%	FY2020	$ 616,629,603	31.84%	$ 196,313,143	$ 9,200,000	$ 205,513,143	33.33%
40%	FY2021	$ 635,128,491	33.33%	$ 211,678,537	$ 11,200,000	$ 222,878,537	35.09%
20%	FY2022	$ 654,182,346	35.09%	$ 229,564,893	$ 11,600,000	$ 241,164,893	36.87%
0%	FY2023	$ 673,807,816	36.87%	$ 248,399,840	$ 12,000,000	$ 260,399,840	38.65%
					$ 49,000,000		

Wind Farms

Wind farms that produce energy prior to July 1, 2016 will be part of the initial equalization

For new wind farm projects, the wind farm taxes will be outside of the formula for five years and then will be phased into local effort over the next five years

Accountabilities – FY2017

$ A district must spend **85% of its $ increase in local need** on instructional salaries and benefits for certified instructional staff.

% A district's average teacher salaries and benefits must increase by **85% of its % increase in local need**.

- *The increase in local need, or "new money" is calculated by comparing the increase in local need from FY2016 to FY2017 less the amount of revenue generated by the pension levy in FY2016*
  - *Excludes any effect due to change in fall enrollment*
- *Failure to meet the accountabilities will result in a decrease in FY2018 state aid equal to 50% of the "new money"*

Accountabilities – FY2018 +

Teacher Compensation:

- A district's average teacher compensation must be greater than the district's average teacher compensation in fiscal year 2017
  - If not, state aid to general education funding shall be reduced by $500 per teacher in the next fiscal year

Fund Balance Caps

- Statutory caps on school district general fund reserves were reinstated
- Tiered reserve cap system based on lowest of previous 3 year's enrollments.
  - Less than 200 — 40%
  - Between 200 and 600 — 30%
  - Greater than 600 — 25%
- Based on lowest monthly cash balance
- Districts that exceeds the reserve fund cap will have state aid payment reduced on a dollar-by-dollar basis.
- Begins in FY2019 based on FY2018 expenditures/cash balances

Monthly Cash Balance Example

	Monthly Cash Balances	Annual Expenditures	Monthly Cash Balance Percent
July	$8,143,306	$24,200,757	34%
August	$7,995,944	$24,200,757	33%
September	$6,941,511	$24,200,757	29%
October	$5,653,431	$24,200,757	23%
November	$8,433,411	$24,200,757	35%
December	$8,342,863	$24,200,757	34%
January	$7,475,993	$24,200,757	31%
February	$6,785,938	$24,200,757	28%
March	$6,467,937	$24,200,757	27%
April	$5,582,186	$24,200,757	23%
May	$7,631,139	$24,200,757	32%
June	$8,682,339	$24,200,757	36%

Capital Outlay Changes

1. Repealed the sunset of the temporary capital outlay flexibilities and made them permanent
   – Can be used for ANY general fund purpose
   – Allowable amount: 45% of capital outlay tax revenues
2. Requires annual requests for capital outlay be made in the form a dollar amount instead of a levy
3. Limits future capital outlay growth to increase by 3% or inflation, whichever is less, plus new construction
4. Imposes an alternative maximum on capital outlay collections at $2800 per student
   – This amount will increase annually by 3% or inflation, whichever is less
   – Takes effect in FY2021

More Information

http://doe.sd.gov/2016EducationPackage.aspx

- Accountability Calculator
- FAQs
- Funding Formula Memo
- Select Other Revenues