



Policy Update: School Funding and the 2011 Legislative Session

INTRODUCTION

This issue brief provides analysis of legislative proposals surrounding school funding in South Dakota. The information is current as of February 15, 2011, and is intended to provide school leaders with a resource to help explain various education funding proposals.

THE GOVERNOR'S PLAN: \$60 MILLION CUT TO K-12

Gov. Dennis Daugaard announced a proposed state budget to lawmakers on Jan. 19. The governor's spending plan included a 10 percent cut to the per-student allocation. The impact of the governor's proposal is illustrated in the chart below. In addition to cuts to the per-student allocation, the governor has recommended a host of other cuts to the Department of Education totaling more than \$1.8 million.

IMPACT: GOV. DAUGAARD'S K-12 FUNDING PROPOSAL			
CURRENT PSA	GOV. PROPOSED	DIFFERENCE	STATEWIDE IMPACT*
\$4804.60	\$4324.14	- \$480.46	- \$59.5 MILLION

* Statewide impact includes decreases in both state and local revenue delivered to local school districts through the state aid to education formula.

ESTIMATED TIMETABLE OF RECOVERY

Gov. Daugaard's proposal sets the per-student allocation back nearly 6 years, establishing a new base per-student allocation for FY12. The chart below shows an estimation of the time it would take for the per-student allocation to recover to FY11 levels. The estimates include two possible scenarios. The first is based on a 1.25 percent annual increase, which follows the average post-recession increase in the CPI-W. The second projection is based on an average CPI-W growth of 2 percent per year, which represents the average growth in the CPI-W over the past 10 years. According to ASBSD's calculations, recovering to FY11 funding levels will take six to nine years, assuming policymakers choose to honor the annual per-student funding adjustment required by state law.

ESTIMATED YEARLY PER-STUDENT ALLOCATIONS										
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
1.25%	\$4,324	\$4,380	\$4,435	\$4,491	\$4,547	\$4,604	\$4,661	\$4,719	\$4,778	\$4,838
2%	\$4,324	\$4,380	\$4,468	\$4,557	\$4,648	\$4,741	\$4,836			

Note: For the purposes of these projections, ASBSD used a 1.3 percent CPI-W growth for 2013, which is based on both the actual growth so far this year and the expected growth trend for the rest of FY11.

ESSENTIAL LEGISLATION

In order to implement the proposed cuts to K-12 education, Gov. Daugaard has introduced legislation to make changes to current law. Those measures are outlined below.

SENATE BILL 185: SB 185 is the governor's bill to reduce the per-student allocation by 10 percent. It establishes a new base per-student allocation of \$4324.14.

HOUSE BILL 1243: HB 1243 is the governor's bill to reduce school district general fund levies in conjunction with the 10 percent decrease in the per-student allocation. In a normal year, levies on various classes of property are reduced to account for valuation growth, but the adjustment is only a few cents. In this legislation, levies would be reduced: 28 cents for owner-occupied property, 32 cents for agricultural property and 60 cents for commercial property.

LEGISLATIVE PROPOSALS: SHORT TERM SOLUTIONS

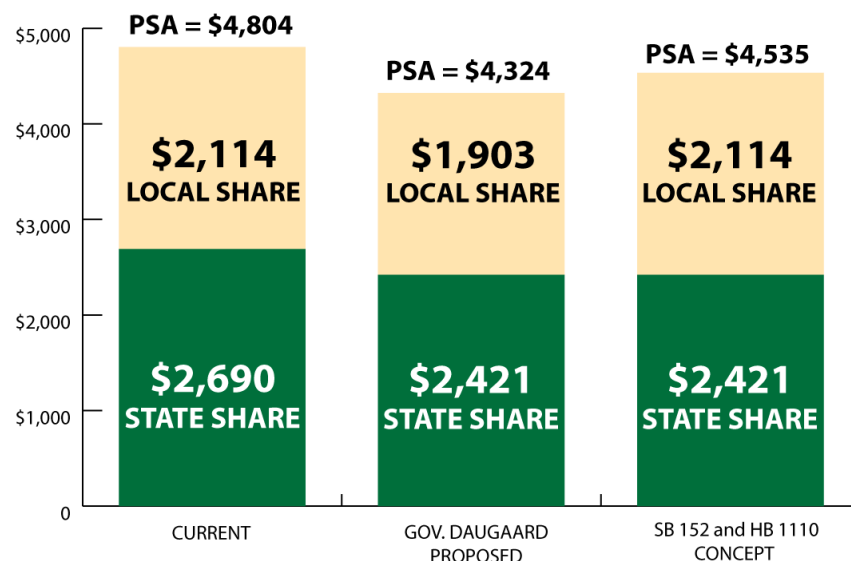
Legislators have introduced several pieces of legislation designed to reduce the governor's proposed 10 percent cut to K-12 schools. Those pieces of legislation are outlined below.

MAINTAINING PROPERTY TAXES: SB 152 and HB 1110

Both SB 152 and HB 1110 are intended to reduce the 10 percent proposed cut to approximately 5.6 percent. According to sponsors of the legislation, the bills will likely end up in conference committee as lawmakers work out the changes necessary to accomplish the intent of the legislation. At this point, the bills should be looked at conceptually, rather than examining the actual language. Using public commentary as a guide, here is what the prime sponsors are trying to accomplish:

- Reduce the state's responsibility for funding the state aid formula and increase the percentage local property taxpayers contribute to a school district's general fund. Currently, the state on average contributes 56 percent, while locals contribute 44 percent.
- Treat all schools equally, regardless of the district's ability to raise local revenue. That means it would reduce each district's per-student allocation by 5.6 percent.

Sen. Larry Rhoden and Rep. David Lust, the sponsors of the legislation, have acknowledged that the bill must be amended from its current form to accomplish the goal of the legislation. ASBSD believes that the amendments must include a change in the state-local ratio and an adjustment to the per-student allocation that reduces the cut from 10 percent to 5.6 percent – meaning the per-student allocation would be approximately \$4,535. The following chart shows illustrates an estimate of how the bill may work based on the statewide average.



MAINTAINING THE PER-STUDENT ALLOCATION: SB 126

Senate Bill 126 is a separate proposal that is focused on maintaining the current per-student allocation. The bill has several moving parts, which are outlined below.

- The per-student allocation remains stable at \$4804.60 for FY12 and FY13.
- Even though the per-student allocation remains steady, the bill calls for a reduction in the state's share of state aid payments by \$10 million per year (approximately \$80 per-student) in FY12 and FY13.
- The bill creates an "education stabilization fund" and transfers \$20 million from the Education Enhancement Trust Fund to the stabilization fund.
- Beginning in FY14, the \$10 million in state funding that was taken from districts in FY12 and FY13 is paid back to districts over the course of three years using the money deposited in the stabilization fund.
- The bill also prohibits schools from passing opt-outs for FY12 and FY13.

LEGISLATIVE PROPOSALS: LONG-TERM SOLUTIONS

Though lawmakers have yet to put an official plan in motion, discussions on ways to raise revenue have started to gain traction in recent days. With drastic cuts proposed to K-12, Medicaid and other essential services, it appears some elected officials are starting to consider ways to balance the budget by increasing the revenue side of the equation.

Legislators have dismissed several plans to increase the state sales taxes, but some are now talking about using the legislative process to refer a 1 cent sales tax increase to the voters. It's unclear when the vote of the people would take place – lawmakers could place it on the ballot in a special election at any time. It's also unclear how the proposal would be structured, but the measure would be sold as a way to fund our state's obligations to Medicaid and K-12 education. There is also talk about designating a portion of the revenue generated to property tax reduction, which would be implemented through the state aid to education formula.

LEGISLATIVE PROPOSALS: OTHER MEASURES THAT IMPACT K-12 FUNDING

There are a few other measures up for consideration that would impact K-12 funding by providing local schools more flexibility to manage district finances. Those bills are outlined below.

SENATE BILL 200: SB 200 will eliminate the current limits placed on school district general fund reserves and repeal the resulting financial penalties.

HOUSE BILL 1203: HB 1203 allows schools, for two years, to transfer revenue from the capital outlay fund to the general fund to help pay the district's day-to-day operational costs. Schools would only be allowed to transfer an amount equal to any reductions in state aid that result from cuts to the per-student allocation.

SENATE BILL 111: SB 111 extends, for two more years, the capital outlay flexibility granted two years ago. During the 2009 legislative session, lawmakers passed SB 91, which allows schools to use up to 45 percent of the district's capital outlay revenue to pay for certain insurance, energy, utility and transportation costs. The flexibility is set to expire in 2012, but this bill would allow schools to use the mechanism through 2014.