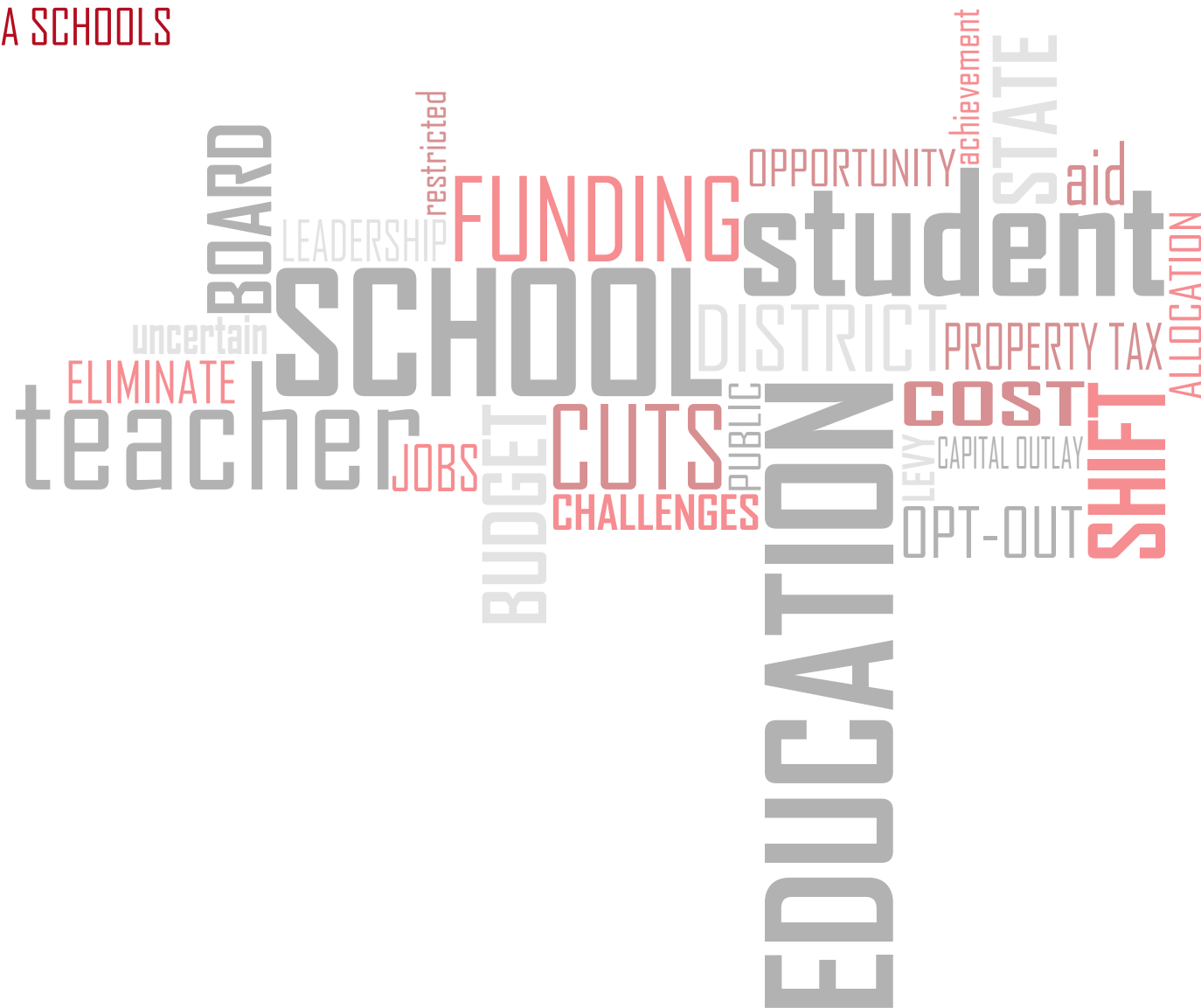


COSTLY CUTS

A SURVEY OF SOUTH DAKOTA SCHOOLS

NOVEMBER 2011



COSTLYCUTS

ABOUT ASBSD

OUR VISION

South Dakota students are positioned to individually excel and responsibly contribute in the 21st Century. School board members are engaged local leaders who embrace their role in providing responsive, transformative education systems that maximize South Dakota's investment in public education.

OUR MISSION

ASBSD advances public education by empowering local school board leaders and advocating for a thriving public education system.

OUR CONTACT INFORMATION

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OUR BOARD OF DIRECTORS

ASBSD is governed by local school board members. The 18-member ASBSD Board of Directors, elected by local school board members, provides association leadership and direction.

EXECUTIVE COMMITTEE

Neil Putnam, President
Bev Banks, Vice-President
Pamela Haukaas, 2nd Vice President
Susan Humiston, Past President
Dr. Wade Pogany, Executive Director

CENTRAL REGION

Pamela Haukaas, Colome
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COSTLYCUTS

ABOUT THE SURVEY

Associated School Boards of South Dakota distributed an online school finance survey to all public school districts on Aug. 4, 2011. Because school leaders were asked to provide data reflecting the district's final adopted budget for the 2011-12 school year, the finance survey remained open through the end of October.

RESPONSE RATES

ASBSD collected completed survey data from 113 public schools, which represents 74 percent of the state's 152 school districts. The districts who completed the survey serve approximately 85 percent of the state's student population.

METHODOLOGY

For consistency purposes, only completed surveys were used to establish aggregate totals. Data was examined by ASBSD staff and verified for accuracy. Statewide totals reflect tabulations of school finance data submitted by school districts.

FACT BOXES

In addition to survey information, this publication includes several fact boxes explaining key school finance concepts. Data presented in the fact boxes was collected from various outside sources, and not directly from schools that participated in the survey.

PARTICIPATING SCHOOLS

ASBSD thanks all public school leaders for their response to the school finance survey. Surveys from the following districts were used to determine statewide totals:

Aberdeen, Agar-Blunt-Onida, Alcester-Hudson, Andes Central, Arlington, Armour, Avon, Baltic, Belle Fourche, Bennett County, Beresford, Big Stone City, Bison, Bon Homme, Brandon Valley, Bridgewater-Emery, Brookings, Burke, Canton, Castlewood, Centerville, Chamberlain, Clark, Colman-Egan, Colome Consolidated, Cosica, Custer, Dell Rapids, Deuel, Doland, Douglas, Deubrook Area, Edgemont, Elk Point-Jefferson, Elkton, Eureka, Faith, Faulkton Area, Flandreau, Freeman, Garretson, Gayville-Volin, Gettysburg, Grant-Deuel, Gregory, Henry, Highmore-Harrold, Hill City, Hitchcock-Tulare, Hot Springs, Howard, Huron, Ipswich, Irene-Wakonda, Iroquois, Jones County, Kadoka Area, Kimball, Lake Preston, Langford Area, Lead-Deadwood, Lemmon, Lennox, Leola, Marion, McCook Central, McIntosh, Meade, Menno, Milbank, Mitchell, Mobridge-Pollock, Montrose, Mount Vernon, New Underwood, Newell, Northwestern Area, Oelrichs, Oldham-Ramona, Parker, Parkston, Pierre, Platte-Geddes, Rapid City, Redfield, Rosholt, Sanborn Central, Selby Area, Shannon County, Sioux Falls, Sioux Valley, Smee, South Central, Spearfish, Stanley County, Stickney, Timber Lake, Tripp-Delmont, Tri-Valley, Vermillion, Wagner, Wall, Warner, Watertown, Waverly, Webster Area, Wessington Springs, West Central, White Lake, White River, Wilmot, Wolsey-Wessington, Yankton

PARTNER ORGANIZATIONS

ASBSD extends our gratitude to the South Dakota Education Association and the South Dakota Budget and Policy Project for their assistance with the survey project.

COSTLY CUTS

EXECUTIVE SUMMARY

SHRINKING BUDGETS, COST SHIFTS AND JOB LOSSES... HAPPENING NOW IN A SCHOOL DISTRICT NEAR YOU.

What happens when education funding is cut? Will student achievement fall? Will school districts be able to recruit the next generation of teachers? Will there be long-term damage to our state economy?

For South Dakotans concerned about recent education funding cuts, there are more questions than answers. But here's what we know right now: Reductions in state aid to education have triggered steep school budget cuts, cost-shifting and job losses.

Costly Cuts: A Survey of South Dakota School Districts offers a comprehensive first look at how our public education system has responded to the latest and largest cut to public school funding. *Costly Cuts* is intended to both inform and educate. Data is presented as state-wide totals, and survey results are accompanied by factual explanations of key school finance concepts.

What does the data mean? South Dakotans are free to form their own opinions, but our analysis leads to three broad conclusions.

1. SCHOOL DISTRICTS ARE DOING THEIR JOB

School boards are doing what is necessary to maintain the quality of education in their communities. Tough decisions were made, cuts were enacted and jobs were eliminated. At the same time, education leaders teamed with their communities to protect vital programming and fill remaining budget gaps.

2. PROPERTY TAXPAYERS ARE COMING TO THE RESCUE

State aid cuts are having a cost-shifting effect. Reductions in state support were partially offset through an increased reliance on local property tax revenue. Thanks to the support of property taxpayers, school boards delayed more dramatic cuts.

3. SIGNIFICANT CHALLENGES REMAIN

State education funding is no longer predictable, and the resulting uncertainty is causing school districts to turn to short-term financial fixes. When temporary solutions are no longer an option, school boards will be challenged to bridge yet another funding cliff.

FACTBOX

K-12 CUTS

THREE THINGS YOU SHOULD KNOW ABOUT RECENT STATE AID CUTS

1. RECENT CUTS CREATED A \$52 MILLION BUDGET HOLE

In South Dakota, a school district's general fund revenue – the money schools must use to pay operating expenses – heavily depends upon the state aid funding formula. School districts receive a set dollar amount, called the per-student allocation, for each child enrolled in school.

In 2011, lawmakers enacted an 8.6 percent reduction in the per-student allocation. The \$415.48 cut in per-student funding translates to a \$52 million ongoing cut to unrestricted general fund revenue.

2. RECENT CUTS CAME WITH SOME SHORT-TERM HELP

For the current budget year, schools are receiving \$97 in one-time, per-student funding in addition to state aid formula revenue. Lawmakers also removed limitations on general fund balances and gave school boards temporary permission to use some locally-generated capital outlay revenue to pay certain operating costs.

3. RECENT CUTS SHIFTED COSTS TO LOCAL TAXPAYERS

All school districts are guaranteed a fixed amount of revenue through the state aid formula, which is funded by both state and local taxes. During the 2011 Legislative Session, lawmakers increased the property taxpayers' contribution and, as a result, 46.2 percent of formula funding is now provided by local taxpayers, up from 43.9 percent.

SCHOOL DISTRICT REVENUE

Ever wonder why a school district can afford to build a building, but can't afford to hire more staff or increase teacher salaries? The answer is: Schools must follow the law. Some district revenue is restricted by federal and state law, and school boards simply can't use the funds to pay teachers or hire staff. To grasp the challenges posted by recent education funding cuts, it's important to first understand that state aid formula revenue accounts for 82 percent of a district's discretionary revenue.

34 %

Of school district revenue can't be used to pay routine operational expenses.

NON-GENERAL FUND REVENUE



RESTRICTED REVENUE

Includes the capital outlay, pension and special education funds.

66 %

Of school district revenue flows into the general fund, where it can be used to hire teachers and pay for other daily operational expenses.

GENERAL FUND REVENUE



UNRESTRICTED GENERAL FUND REVENUE

This revenue is unrestricted; it's the portion of the general fund that school boards use to balance their operational budget.

82%

STATE AID FORMULA REVENUE

State aid, the largest source of unrestricted revenue, dictates how much school boards can spend on staff, programs and services.



RESTRICTED REVENUE:

This revenue has state or federal strings attached, and school boards must use it for its legally defined purpose.



UNRESTRICTED REVENUE:

This revenue isn't locked-down by state or federal law, and it is appropriated at the discretion of the school board.

SOURCE: SOUTH DAKOTA DEPARTMENT OF EDUCATION | STATISTICAL DIGEST | 2010-11 REVENUES, ALL FUNDS

COSTLY CUTS

SCHOOL BUDGETS

IN RESPONSE TO STATE AID CUTS, SCHOOL BOARDS ARE CUTTING BUDGETS AND DIPPING INTO THEIR RESERVE ACCOUNTS

To determine the impact recent K-12 cuts have had on school district budgets, education leaders were asked to detail how their general fund budgets changed for the 2011-12 school year.

Totals represent aggregate statewide change in planned general fund spending. Final expenditure data will be available following the 2011-12 school year.

SURVEY QUESTIONS



List the total dollar amount difference between your FY11 and FY12 general fund budgets. If your general fund budget went down, please enter the figure as a negative number.



List the total percentage change between your FY11 and FY12 general fund budgets. If your general fund budget went down, please enter the percentage as a negative number.



If your district used general fund balance to help balance your FY12 budget, please list the amount used in the space provided below.



Please list any other revenue source used to balance the budget for FY12 (provide description below).

SURVEY RESPONSES

GENERAL FUND BUDGET CUTS | \$

Statewide, school districts have enacted general fund budget cuts totaling \$38.3 million for school year 2011-12.

-\$38.3
MILLION CUT

GENERAL FUND BUDGET CUTS | %

On average, school district general fund budgets decreased 5.8 percent for the 2011-12 school year.

-5.8%
CUT

PLANNED GENERAL FUND BALANCE SPENDING | \$

Statewide, school districts plan to reduce general fund balance levels by \$25.6 million for the 2011-12 school year.

\$25.6
MILLION

OTHER PLANNED ONE-TIME GENERAL FUND SPENDING | \$

Statewide, school districts plan to spend \$14.3 million in other one-time revenue. This category includes revenue from sources that are not typically available to all schools.

\$14.3
MILLION

FACTBOX

FUND BALANCES

THREE THINGS YOU SHOULD KNOW ABOUT SCHOOL FUND BALANCES

1. FUND BALANCES AREN'T RAINY-DAY FUNDS

Most people maintain at least two financial accounts – a checking account, to pay monthly bills, and a savings account, to set money aside for emergencies. When someone examines your financial records, it's easy to tell the difference between the two accounts because bank statements clearly display a balance for each.

For schools, it's not so simple. School districts have to use one account – the general fund – to balance cash flow and long-term financial needs of a district. When the public wants to examine a school's financial records, it can be confusing because there isn't a line item on a statement that clearly labels the district's checking and savings accounts. Instead, the two balances are com-

bined and reported as the district's general fund balance.

2. FUND BALANCES ARE BEING MANAGED RESPONSIBLY

A general fund balance reflects the district's unique financial circumstances and challenges. District size, enrollment projections, property valuations and the instability of state aid formula funding are just some of the factors that can dictate the fund balance level a district needs.

3. FUND BALANCE LEVELS HAVE DECREASED

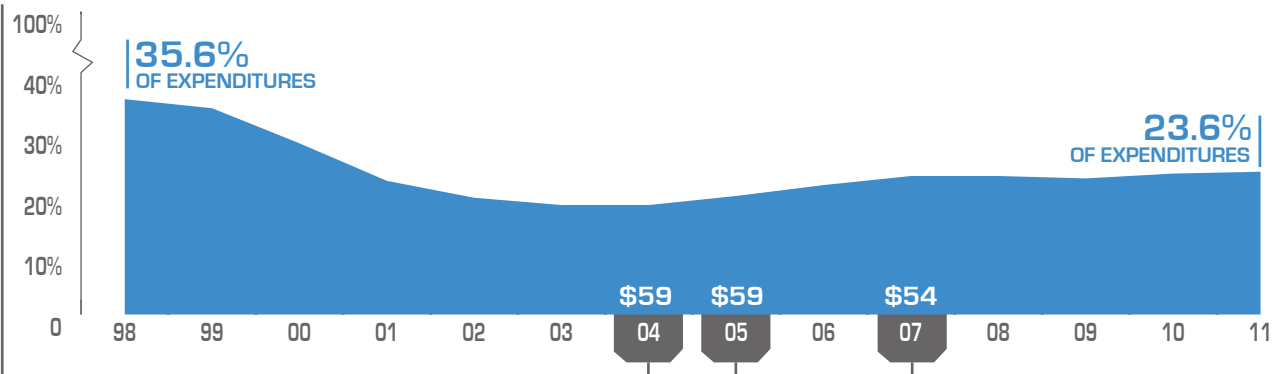
Since the current funding formula was implemented in 1998, statewide fund balance levels have dropped from 35.6 percent to 23.6 percent of total general fund expenditures.

SCHOOL DISTRICT GENERAL FUND BALANCE LEVELS | 1998-2011

Over time, school district general fund balance levels have dropped significantly. When state K-12 funding is stable, fund balances generally decline because school districts can appropriately plan for the future.

DATA POINTS, FUND BALANCE AS A PERCENT OF EXPENDITURES

1998	1999	2000	2001	2002	2003	2004
35.6	34.1	28.3	22.1	19.3	18.1	18.1
2005	2006	2007	2008	2009	2010	2011
19.6	21.4	22.9	22.9	22.5	23.3	23.6



SOURCE: SOUTH DAKOTA DEPARTMENT OF EDUCATION | EXPENDITURES AND YEAR-END BALANCES, 98-11

ONE-TIME PER-STUDENT FUNDING

School districts received one-time per-student funding in 2004, 2005 and 2007.

COSTLY CUTS

COST SHIFTS

IN RESPONSE TO STATE AID CUTS, A GREATER SHARE OF K-12 EDUCATION COSTS ARE BEING SHIFTED TO LOCAL PROPERTY TAXPAYERS

The legislature has established several discretionary local tax levies that schools use to raise revenue. Each levy has a unique, legally defined purpose and maximum tax rate. For the purposes of this survey, districts were asked to what extent they are relying on revenue from two local option levies – capital outlay and pension fund – to close budget gaps.

CAPITAL OUTLAY SHIFTS

Historically, capital outlay revenue has been reserved primarily for the purchase and maintenance of buildings, land and equipment. In response to the weakening economy, legislators relaxed rules that dictate how districts may use revenue generated through the capital outlay levy, giving schools the option to use a percentage of capital outlay revenue to pay for some insurance, energy

and transportation expenses that had, until recently, been paid through the school district's general fund.

PENSION FUND SHIFTS

The pension fund levy allows school districts to raise revenue to fund staff retirement benefits. Schools have always had the option to use the levy, but in response to recent cuts to education funding, some districts are using the taxation authority for the first time.

OPT-OUT SHIFTS

A third category of cost shift - property tax opt-outs - can be documented without collecting data through the school district survey. Information on recently attempted and enacted opt-outs is presented separately, in the fact box on page six.

SURVEY QUESTIONS



If your district used capital outlay flexibility to help balance the districts budget, please list the amount.



If your district used the pension fund levy for the first time, please list the amount of new pension fund revenue.

SURVEY RESPONSES

CAPITAL OUTLAY FLEXIBILITY | \$

Statewide, school districts plan to use \$15.9 million in capital outlay revenue to supplement and balance their general fund budgets.

\$15.9
MILLION SHIFTED

NEW PENSION FUND REVENUE | \$

Statewide, school districts will collect \$2.4 million in new revenue by utilizing the pension fund levy.

\$2.4
MILLION SHIFTED

FACTBOX

OPT-OUTS

THREE THINGS YOU SHOULD KNOW ABOUT PROPERTY TAX OPT-OUTS

OPT-OUTS 2011-12 | SUMMARY AND TOTALS

OPT-OUTS ATTEMPTED

18 \$17,700,000

OPT-OUTS APPROVED

15 \$11,540,000

REAUTHORIZED

1 100,000

EXPANDED

7 \$6,000,000

NEW

7 \$1,600,000

2011-12 OPT OUTS | \$

New and expanded opt-outs total \$7.6 million.

\$7.6

MILLION SHIFTED

SUCCESSFUL SCHOOL DISTRICT OPT-OUTS EFFECTIVE FOR SCHOOL YEAR 2011-12

DISTRICT	AMOUNT	DURATION	PREVIOUS
Andes Central	\$300,000	10 years	New
Corsica	\$150,000	5 years	\$100,000
Elk Mountain	\$100,000	3 years	\$55,000
Estelline	\$350,000	5 years	\$145,000
Florence	\$90,000	5 years	New
Gettysburg	\$300,000	5 years	New
Grant-Deuel	\$100,000	10 years	\$100,000
Iroquois	\$750,000	5 years	\$450,000

DISTRICT	AMOUNT	DURATION	PREVIOUS
Parker	\$150,000	3 years	New
Sanborn Central	\$250,000	7 years	New
Sioux Falls	\$7,500,000	10 years	2,700,000
South Central	\$200,000	10 years	New
Tripp-Delmont	\$300,000	7 years	\$225,000
Wagner	\$300,000	10 years	New
Willow Lake	\$700,000	5 years	\$200,000

SOURCE: ASBSD RECORDS, VERIFIED WITH THE SOUTH DAKOTA DEPARTMENT OF REVENUE

2. OPT-OUTS ARE COMMON

Though originally intended to allow school boards the flexibility to expand educational offerings, school district opt-outs have become a life line for financially challenged public schools. For taxes payable in 2011 – the year before the \$52 million cut was enacted – 60 school districts collected \$17.5 million through property tax opt-outs.

3. OPT-OUTS ARE ON THE RISE

Following recent state aid cuts, more South Dakota school districts are turning to opt-outs as a way to maintain education quality. Since the cuts were proposed, 15 South Dakota school districts were approved to collect \$11.5 million in additional general fund revenue.

FINDING THE SHIFT

To document the cost-shift related to recent state aid cuts, data on newly authorized opt-outs is teamed with opt-out revenue collected in the previous year. In most cases, districts were seeking **new** or **expanded** opt-out authority.

COSTLY CUTS

JOB LOSSES

IN RESPONSE TO STATE AID CUTS, SCHOOL BOARDS ELIMINATED STAFF AND SOUTH DAKOTANS LOST THEIR JOBS.

To document the impact state aid cuts have had on school staffing levels, districts were asked to report the number of full-time-equivalent [FTE] staff positions eliminated for the 2011-12 school year. Public schools were also asked to report staff cuts by position type.

The number of South Dakotans no longer employed by the state's public schools may be greater than the number of full-time positions eliminated. For example, if two part-time employees lose their job, the loss is documented as one full-time position eliminated.

SURVEY QUESTIONS

Q List the number full-time-equivalent [FTE] administrative, certified and classified positions eliminated for the 2011-12 school year.

Q List the total number of full-time equivalent [FTE] positions eliminated for the 2011-12 school year.

SURVEY RESPONSES

CUTS TO ADMINISTRATIVE STAFF FTE Administrative staff provide district and school-level leadership. This category includes positions such as principals, curriculum directors and special education directors.	-27.8 FTE LOST
CUTS TO CERTIFIED STAFF FTE Certified staff are non-administrative school employees that are legally required to hold professional certification, including classroom teachers.	-265.8 FTE LOST
CUTS TO CLASSIFIED STAFF FTE Classified staff are school employees in positions that aren't legally required to carry professional certification, including teaching aides, clerical staff and custodians.	-171.2 FTE LOST
TOTAL SCHOOL DISTRICT STAFF CUTS FTE Statewide, school districts eliminated the equivalent of 464.8 full-time jobs. Of that total, 222.4 were eliminated through attrition.	-464.8 TOTAL FTE LOST

FACTBOX

STAFF CUTS

THREE THINGS YOU SHOULD KNOW ABOUT CUTS TO SCHOOL STAFF

FINDING THE LINK BETWEEN STATE AID AND STAFFING

Local school boards decide how many employees to hire and how those individuals are compensated, but their decisions are dictated by the amount of state aid formula revenue available.

A historical look at changes in the per-student allocation and average teacher salary shows a clear trend: When school boards are provided with increased revenue, the money goes to teachers.

1. SCHOOL BOARDS INVEST IN PERSONNEL

Employing quality education leaders, teachers and support staff makes the most positive impact on student learning, and that's exactly where South Dakota school boards invest their limited resources.

The average South Dakota school district spends 82 cents of every general fund dollar on staff salaries and benefits. Remaining general funds are devoted largely to the fixed costs – the services, supplies and utilities essential to education delivery.

2. STATE AID CUTS MEAN STAFF CUTS

How much school boards can invest in the classroom depends on our state's investment in education. In general, schools must use general fund revenue to hire and pay school staff. Since general fund spending is largely determined by the revenue districts receive through the state

aid formula, staffing and salary decisions are dependent upon per-student funding.

To illustrate the link between per-student funding and personnel decisions, consider this: Over time, the annual increase in the per-student allocation is equal to the annual increase in average teacher salaries.

3. STAFF CUTS LIMIT STUDENT OPPORTUNITIES

To bring budgets into balance, school boards must cut staff. Eliminating positions is the toughest decision a school board makes because education leaders know staff cuts typically limit student opportunities.

When class sizes increase, students receive less one-on-one instruction. When budgets are tight, electives, programs and services are squeezed or eliminated and, unfortunately, students have fewer options to explore on their path toward college and career-readiness.

PER-STUDENT FUNDING AND AVERAGE TEACHER SALARY | 1998 - 2010

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
PER-STUDENT ALLOCATION	\$3,440	\$3,541	\$3,605	\$3,666	\$3,776	\$3,889	\$3,968	\$4,087	\$4,238	\$4,365	\$4,529	\$4,642	\$4,805
% CHANGE		2.9%	1.8%	1.7%	3.0%	3.0%	2.0%	3.0%	3.7%	3.0%	3.8%	2.5%	3.5%
AVERAGE TEACHER SALARY	\$27,839	\$28,386	\$29,072	\$30,265	\$31,383	\$32,414	\$33,236	\$34,039	\$34,039	\$35,378	\$36,697	\$37,917	\$38,836
% CHANGE		2.0%	2.4%	4.1%	3.7%	3.3%	2.5%	2.4%	1.9%	2.0%	3.7%	3.3%	2.4%

SOURCE: SOUTH DAKOTA DEPARTMENT OF EDUCATION
STATEWIDE LONGITUDINAL DATA PROFILES | 1998-2010

AVERAGE YEARLY PERCENT CHANGE IN THE PER-STUDENT ALLOCATION - 1998 TO 2010	2.8%
AVERAGE YEARLY PERCENT CHANGE IN THE AVERAGE TEACHER SALARY - 1998 TO 2010	2.8%

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