



"INITIATED MEASURE X"

INTRODUCTION

"Initiated Measure X" will have a direct impact on public school funding in South Dakota and the ability of local school boards to continue to provide high-quality educational opportunities for South Dakota's public school students. This issue brief represents the association's duty to educate school leaders and the public about the impact of the law on South Dakota's public education system.

ATTORNEY GENERAL'S EXPLANATION

The initiated measure increases the state general sales and use tax rate from 4% to 5%. The additional tax revenue will be split event between K-12 public education and Medicaid. The education funds will be provided to school districts based on enrollment, to be spent on improving education as school boards determine. The Medicaid funds will be spent only on payments to Medicaid providers and related state expenses.

The additional funds cannot replace or reduce state funding levels set for fiscal year 2012 relating to existing Medicaid and K-12 public education programs, including state aid to education. Currently, state aid is to be adjusted annually by 3 percent or the rate of inflation, whichever is less. Under the measure, this annual adjustment cannot exceed the grown rate in state general fund revenues. Any resulting shortfall in state aid will be made up in subsequent years.ⁱ

"INITIATED MEASURE X" LANGUAGE

"Initiated Measure X" may be submitted to voters in the November 2012 general election. The measure seeks to increase the state sales tax and dedicate the new revenue to K-12 education and Medicaid services. If approved by voters, the measure will take effect January 1, 2013, and schools would receive their distribution in the second half of the 2012-13 school year.

FUNDING SOURCE

"Initiated Measure X" will increase the state sales tax by 1 penny, generating approximately \$175 to \$180 million in annual, ongoing revenue.ⁱⁱ The measure creates a new fund, called the Moving South Dakota Forward Fund, and two sub funds, titled the Moving K-12 Education Forward Fund and the Moving Healthcare Forward Fund. Fifty percent of the revenue resulting from "Initiated Measure X" will be deposited into the Moving K-12 Education Forward sub fund.

DEDICATED REVENUE

Revenue deposited into the Moving K-12 Education Forward sub fund is distributed to the state's public schools on a per-student basis. The estimated \$85 to \$90 million in additional revenue will be delivered to public schools in four quarterly payments. Schools will receive the revenue in addition to current education funding, including funding provided through the state aid to education formula.

SUPPORT FOR LOCAL DECISION-MAKING

“Initiated Measure X” states that revenue distributed from the Moving K-12 Education Forward sub fund is to be used at the sole discretion of local school boards for the purpose of improving public education. The language both recognizes the importance of local decision-making and ensures that funding generated by “Initiated Measure X” will not be redirected by legislative mandate.

PROTECTING THE INVESTMENT

“Initiated Measure X” contains several mechanisms to protect the new investment in the state’s public schools. Revenue raised may not be used in any way, either directly or indirectly, to reduce, supplant or replace appropriations for any state K-12 education program. The measure also states that appropriations made from the Moving K-12 Education Forward sub fund are to be distributed in addition to state aid to education, including any future legally required inflationary increases in per-student education funding.

STATE BUDGET FLEXIBILITY

“Initiated Measure X” grants the state budgetary flexibility during difficult economic times. Currently, state law mandates that per-student funding must increase each year by 3 percent or the rate of inflation, whichever is less – a requirement that exists regardless of growth in state revenue sources. “Initiated Measure X” prevents annual inflationary per-student funding increases from exceeding the growth in state revenue, provided the Legislature restores the lost education funding when the economy recovers.

ISSUES FACING SOUTH DAKOTA SCHOOL BOARDS

RESTORING CUTS TO K-12 EDUCATION

South Dakota’s public schools continued to be challenged by the \$76 million in cuts to K-12 aid and programs that have been enacted since 2009, the start of the economic downturn. In addition to the \$52 million cut in state aid to education that was enacted during the 2011 Legislative Session, school boards across the state have had to shift resources to counter cuts to K-12 programs that provide essential resources and services to the state’s public schools.ⁱⁱⁱ

In response to the cuts, school boards across the state are having difficult conversations about the future of education in their local communities. Many districts have chosen to delay the full impact of the cuts by using temporary mechanisms to defer cuts to basic education programs. However, school leaders realize that the impact of recent cuts cannot be delayed indefinitely. If the funding cuts aren’t restored, there will be many more difficult budget decisions ahead.

IMPACT ON LOCAL PROPERTY TAX PAYERS

With the extreme financial stress placed on school district budgets, more of the responsibility to fund K-12 education is unfortunately falling on the shoulders of local property tax payers. Funding delivered through “Initiated Measure X” is distributed outside of the state aid to education formula and will not trigger a matching local property tax investment.

In addition, the new revenue could empower local school boards to reduce the district’s reliance on capital outlay and opt-out funding, two sources of district revenue that are provided entirely by local property tax payers. For taxes payable in 2011, local school districts collected more than \$17 million in additional property taxes by opting-out of the state’s property tax limitations.^{iv} Since the close of the 2011 Legislative Session, more than \$12 million in additional opt-out requests have either passed or been attempted.^v

HISTORY OF EDUCATION FUNDING IN SOUTH DAKOTA

Education funding in South Dakota has been limited by the state’s available financial resources. Since the implementation of the state aid to education funding formula, the share of the state budget devoted to K-12 state aid has dropped from 39 to 29 percent^{vi} and per-student funding has fallen \$54 million behind inflation.^{vii} As a consequence, South Dakota remains last in the nation in per-student state investment in K-12 education.^{viii} Education and business leaders have supported legislation to make changes to gradually increase the state’s commitment to public schools.

Though the most recent cuts to K-12 education are severe, it's important to remember that schools were facing financial challenges prior to the enactment of \$76 million in cuts to K-12 aid and programs. The introduction of new government mandates combined with inadequate state funding have forced schools into a perpetual cycle of cutbacks, making it more difficult for our state's public schools to deliver on their responsibility to provide a quality education to every South Dakota student.

LIMITATIONS OF INITIATED MEASURES

Laws enacted through South Dakota's initiative process can be changed at any time through legislative action – a fact that causes many to question whether revenue generated by “Initiated Measure X” will be used for purposes approved by voters. However, the measure contains language with clear intent to ensure that the new investment in education is protected and would not be eligible to be used to fund other areas of the state budget.

HISTORY OF BALLOT INITIATIVES

South Dakota voters have endorsed ballot initiatives that claimed to provide public schools with additional financial resources. School leaders from across the state continue to field questions from a public that questions why schools have not been beneficiaries of past ballot initiatives. Given the history of past ballot initiatives, the inclusion of specific provisions to protect the public's investment in K-12 education are necessary to ensure the law is implemented as voters intend.

For example, when voters endorsed the expansion of lottery, they did so with the impression that the proceeds would be used to fund K-12 education. However, the revenue raised did not result in additional money for schools. Instead, it was used to lower school general fund property taxes. Voters also approved the creation of the Education Enhancement Trust Fund, a constitutionally protected trust funded by a tobacco settlement with the federal government. The purpose of the fund was to provide for education enhancement programs, but in reality the fund has become a source of general fund revenue for the state. And, most recently, voters approved an increase in the tax on tobacco products with the understanding that a portion of the revenue would be provided to the state's public schools. However, the revenue generated from that initiative has since been absorbed by the state's general fund.

ⁱ Initiated Measure Attorney General's Statement retrieved September 4, 2011, from:
http://sdsos.gov/content/viewcontent.aspx?cat=elections&pg=elections/upcomingelection_ballotquestionstatus2012.shtm

ⁱⁱ Projection based on FY12 General Fund Revenue estimates, as calculated by the South Dakota Bureau of Finance and Management. Retrieved September 4, 2011, from <http://bfm.sd.gov/econ/Revenueestimates2011.pdf>. South Dakota's sales and use tax, based on a 4 percent tax rate, is expected to generate \$719.6 million, or \$179.9 million for each percentage point in the tax rate.

ⁱⁱⁱ Cuts and freezes enacted since 2009 total approximately \$76.3 million. Line item cuts include: \$600,000 cut to funding for small, rural schools (FY10); \$2.2 million cut due to elimination of Education Service Agencies (FY10,11); \$4.0 million cut due to elimination of the Teacher Compensation Assistance Program (FY10); \$1.5 million cut to career and tech education grants (FY10); \$1.15 million cut to technology, alternative education programs and funding to encourage teachers to obtain national board certification (FY10); Loss in \$7.5 million in state aid due to FY11 per-student funding freeze; Loss of \$7.3 million due to per-student special education funding freeze (FY10, FY11); Loss of \$52 million due to per-student cuts (FY12).

^{iv} Opt-outs payable for 2011 retrieved from the South Dakota Department of Education website on September 4, 2011, from:
<http://www.doe.sd.gov/ofm/documents/OptOutAmt.xls>.

^v Estimate based on ASBSD analysis of opt-out elections initiated since the close of the 2011 Legislative Session. Analysis includes 15 opt-out requests totaling more than \$12 million.

^{vi} Based on an ASBSD analysis of legislative appropriations since 1998. In 1998, \$271.2 million of the state's total \$703.9 million budget was devoted to K-12 state aid. For FY12, \$321.4 million of the state's total \$1.12 billion budget was devoted to K-12 state aid.

^{vii} Based on ASBSD analysis of per-student funding compared to inflation since 1998, as published in *Where We Stand: The Past, Present and Future of Per-Student Funding* (<http://www.asbsd.org/page174.aspx>).

^{viii} Source: U.S. Census Bureau, Public Education Finances 2009, issued May 2011, Table 11, Page 12.