

WHERE WE STAND

THE PAST, PRESENT AND FUTURE OF PER-STUDENT FUNDING

Associated School Boards of South Dakota

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ABOUT ASBSD

ASBSD is a private, non-profit association representing more than 850 local school board members, the 152 school districts they govern and the students they serve.

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.

MISSION

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

BELIEFS

- Associated School Boards of South Dakota believes:
- All students can learn.
- All students can achieve.
- Learning is a journey that never ends.
- Every student has a right to a holistic high-quality public education.
- Public education is essential for a free, self-governing society.
- Local governance is vital for effective, efficient and innovative public school districts.
- High quality public education is an investment.



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EXPLAINING THE CUTS TO K-12 EDUCATION

In South Dakota, state aid to education is distributed to schools based on a dollar amount written into law, called the per-student allocation.

In the 2011 Legislative Session:

- Lawmakers did not honor a state law requiring a 1.3 percent increase in education funding, depriving schools of a \$62 increase that would have put the per-student allocation at \$4,867.
- Instead, the per-student allocation was cut \$416 per-student for next school year, reducing K-12 funding by \$52 million.
- Legislators also provided \$97 per-student in one-time funding, which isn't guaranteed in future years.



INTRODUCTION

CUTS TO K-12 EDUCATION ARE NOTHING NEW. FOR MORE THAN A DECADE, SCHOOL DISTRICTS HAVE BEEN CAUGHT IN A SEEMINGLY ENDLESS CYCLE OF LOCAL BUDGET CUTS. YET, DESPITE THE SLOW AND STEADY EROSION OF SCHOOL DISTRICT BUDGETS, DEDICATED EDUCATORS AND COMMITTED STUDENTS HAVE RISEN TO THE CHALLENGE WHEN ASKED TO DO MORE WITH LESS.

Even during years in which K-12 education funding inched higher, expectations placed on our public school students continued to rise. Graduation requirements have been increased and become more rigorous. The implementation of assessment and accountability systems now requires schools to perpetually drive achievement levels higher, or face government intervention and financial penalty.

Now, following the passage of a dramatic **\$52 million cut to K-12 education**, public schools are facing a new era of uncertainty defined by unprecedented financial challenges. *Where We Stand: The Past, Present and Future of Per-Student Education Funding in South Dakota* gives context to the \$52 million ongoing cut to our state's public schools. After detailing the history of school funding, this report dives into how the drastic funding reductions will impact future school budgets.

Where We Stand focuses on South Dakota's school finance policies to continue the public discussion surrounding our state's budget priorities. But, ultimately, the intent is much broader. The recent cuts have moved South Dakota's sturdy public schools onto unstable grounds, threatening the foundation of our future. After fully understanding the financial burdens forced upon our public schools, South Dakotans must finally take action to repair our broken school finance system.

South Dakota's public schools will always provide the best possible education with the financial resources available. But the time of do-more-with-less has passed into the era of do-everything-with-little, jeopardizing the promise of public education and denying access to the high-quality education that prepares our children to lead the next generation.



ACTUAL FUNDING VS. INFLATION

FOR SCHOOLS, A DOLLAR DOESN'T GO AS FAR AS IT USED TO. THE DEEP CUTS TO K-12 EDUCATION MEAN SCHOOL DISTRICTS WILL HAVE TO STRUGGLE WITH LESS MONEY NEXT YEAR, BUT IT ALSO MEANS THAT THE AMOUNT OF REVENUE SCHOOLS RECEIVE WILL HAVE LESS PURCHASING POWER THAN WHEN SOUTH DAKOTA'S SCHOOL FUNDING FORMULA WAS FIRST IMPLEMENTED.

THE INFLATION FACTOR

When lawmakers designed our current funding formula, they included a provision intended to automatically increase per-student funding each year. That mechanism, called the index factor, limits yearly increases to a maximum of 3 percent or the rate of inflation, whichever is less.

The inflationary factor lawmakers chose was the Consumer Price Index for Urban Wage Earners and Clerical Workers, known as the CPI-W. [The CPI-W is calculated by measuring rising prices of certain consumer goods.](#)

Education leaders have long been concerned that the CPI-W doesn't accurately reflect the rising cost of providing an education because the index doesn't include items, such as health insurance, that are essential to daily school operations. Though using the CPI-W may not be perfect, at least it recognizes that K-12 funding must increase each year to maintain a district's purchasing power.

THE INFLATION GAP

In the early years of South Dakota's funding formula, per-student funding increases tracked closely with the CPI-W. Starting in 2004, lawmakers appropriated money in addition to the inflationary increases, leaving the per-student allocation approximately \$4.3 million ahead of inflation after the 2010-11 school year.

But that changed dramatically during the 2011 Legislative Session, when significant cuts to K-12 education were implemented. As of next school year, the value of the per-student allocation will be approximately \$54 million less compared to when the formula was implemented because per-student funding has not kept pace with inflation.

The cuts enacted for next school year push school funding back to approximately 2007 levels, but because of the decline in purchasing power, all increases since 1997 have now been negated by recent cuts.

THE SCOPE OF THE CPI-W

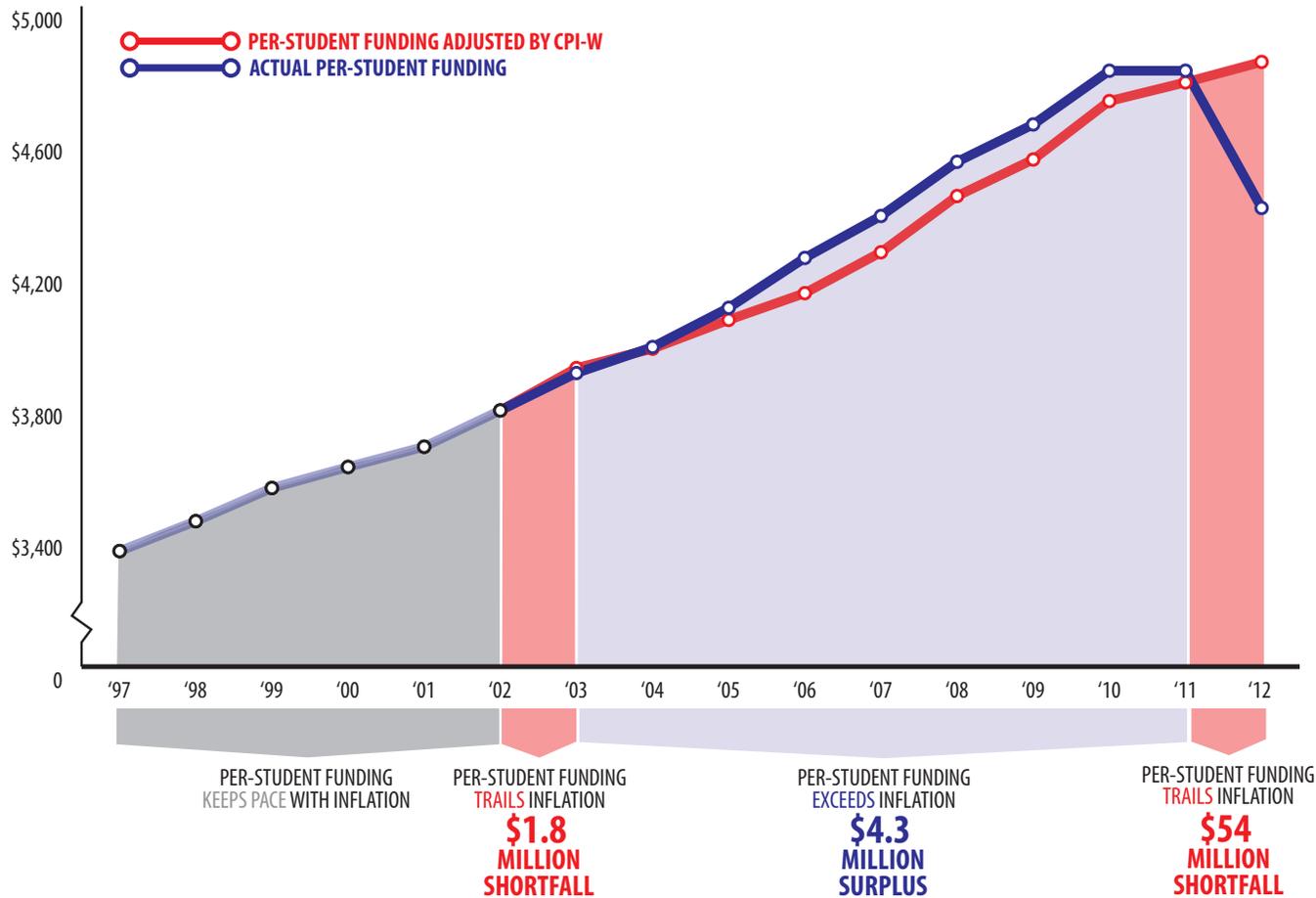
The CPI-W measures prices of things most consumers buy, including:

- food
- housing
- clothing
- transportation
- medical care
- recreation
- communication
- sales taxes
- government fees

While the CPI-W does measure some things schools purchase, more than 80 percent of a school's general fund spending is devoted to hiring quality staff, a cost that isn't measured by the CPI-W. The government does calculate an index that measures the rising cost of employing workers, including a special subset for K-12 education costs. Legislative attempts to use that index in favor of the CPI-W have all failed.



ACTUAL PER-STUDENT FUNDING COMPARED TO INFLATION



DATA NOTES

- Annual CPI-W data was collected from the U.S. Bureau of Labor Statistics.
- Actual per-student funding amounts can be found on the South Dakota Department of Education website.
- Shortfalls were calculated using the latest school district fall enrollment data available from the South Dakota Department of Education.
- Per-student totals exclude one-time money sent to schools that did not become a continuing source of revenue for schools.
- In some years, the CPI-W exceeded 3 percent, triggering the “3 percent or less” maximum included in law.
- In some years, lawmakers appropriated additional per-student funding in excess of the percentage growth in the CPI-W.

DATA POINTS, ACTUAL PER-STUDENT FUNDING COMPARED TO INFLATION, 1997-2012

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
ACTUAL	\$3,350	\$3,440	\$3,541	\$3,605	\$3,667	\$3,776	\$3,889	\$3,968	\$4,087	\$4,238	\$4,365	\$4,529	\$4,642	\$4,805	\$4,805	\$4,389
CPI-W	\$3,350	\$3,440	\$3,541	\$3,605	\$3,667	\$3,776	\$3,904	\$3,963	\$4,050	\$4,131	\$4,255	\$4,425	\$4,536	\$4,712	\$4,769	\$4,831

NOTE: THE CPI-W ROW REPRESENTS ANNUAL PER-STUDENT FUNDING ADJUSTED FOR ACTUAL CPI-W SINCE 1998.

ACTUAL FUNDING VS. ADEQUACY

SOUTH DAKOTA CONTINUES TO IGNORE SCHOOL FINANCE ADEQUACY. SINCE THE IMPLEMENTATION OF THE FUNDING FORMULA, THE STATE CONTINUES TO PROVIDE SCHOOLS WITH FUNDING LEVELS THAT ARE POLITICALLY ESTABLISHED, RATHER THAN FOCUSING ON HOW MUCH SCHOOLS NEED TO ENSURE EVERY STUDENT RECEIVES A HIGH QUALITY EDUCATION.

FUNDING ADEQUACY

In South Dakota, schools are required to ensure that all students are proficient in reading and math. Graduation rates and college assessment tests are also used to determine whether schools are providing a good return on taxpayer investment. No other tax-supported service has to meet similar expectations.

Yet, despite the presence of clear expectations, schools are funded based on revenue available, and not based on the resources necessary to meet expectations.

Education leaders tried to change that in 2006, by funding a study to estimate how much it costs to provide the level of education required by state law. The adequacy study examined expenditures of a select group of 41 successful school districts to establish a base per-student funding estimate needed to ensure all schools could meet state standards. The estimate also included the identification of the resources necessary to educate students with special learning needs, including at-risk and English-learning students.

THE ADEQUACY GAP

With the challenges facing the state budget, the notion of funding schools based on need, rather than simply what was available, has been lost completely.

But the state's political battles don't change the fact that schools still face lofty state-mandated expectations. It also doesn't change the fact that [nearly 25 percent of South Dakota's public school students are struggling in reading and math.](#)

When the research-based adequacy study was released in 2006, the report concluded that South Dakota was \$1,148 per-student short of adequacy, which translated to a gap of more than \$133 million per year.

But, lawmakers largely ignored the report, relying instead on the traditional inflation-driven funding formula. As a result, the inflation-adjusted per-student funding necessary to provide adequate funding has now grown to \$6,299 per-student, which represents a \$233 million shortfall.

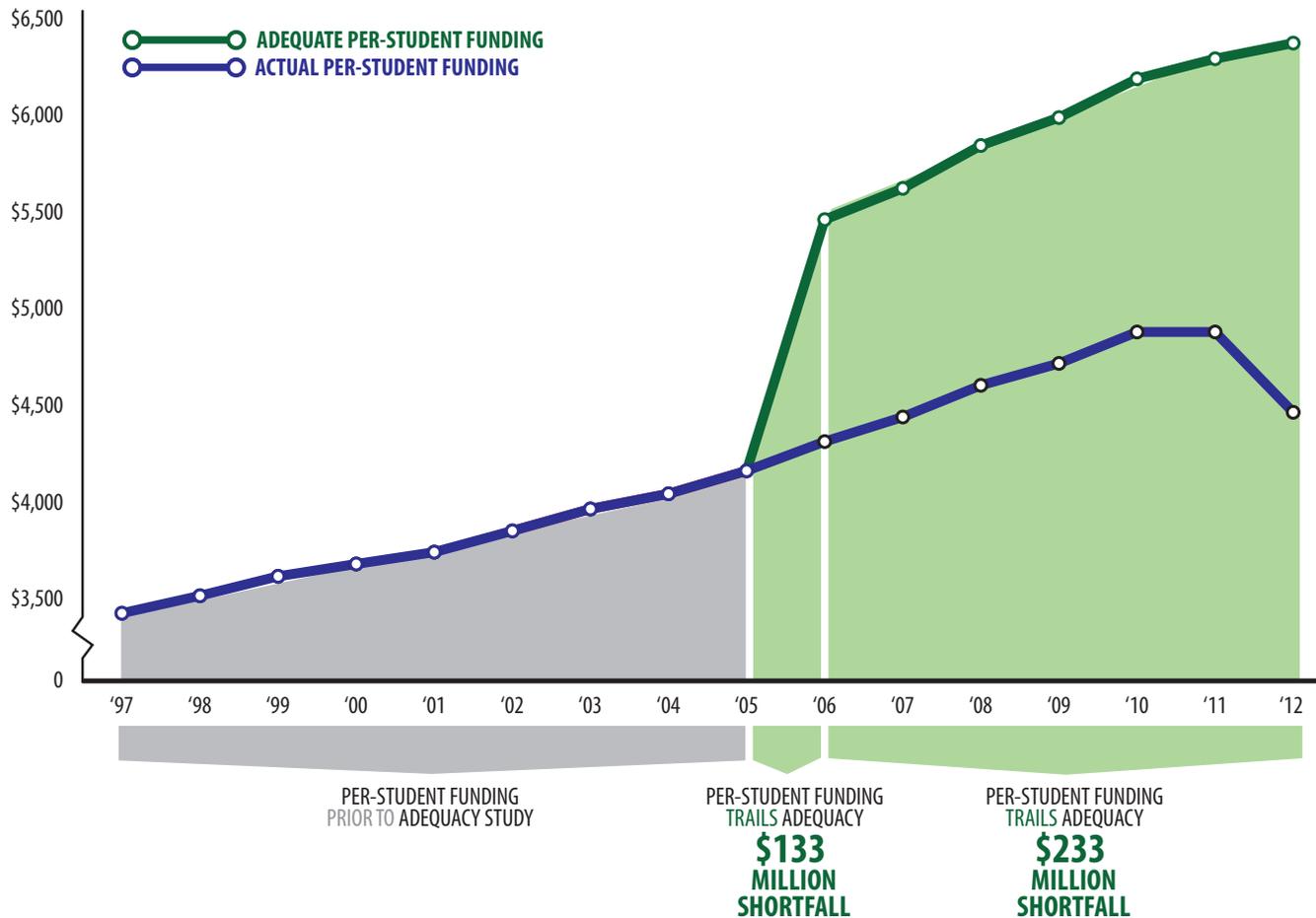
STUDENT PROFICIENCY IN SOUTH DAKOTA

In 2010, 76 percent of South Dakota students tested proficient in both reading and math, meaning they are able to perform at grade-level. Consider the following statistics to better illustrate the number of struggling students in South Dakota.

- There are 15,837 students who aren't meeting expectations in reading, about equal to 377 school bus loads, more than 1,000 classrooms and about equal to the population of Pierre-Fort Pierre.
- There are 15,166 students who aren't meeting expectations in math, equal to about 361 school bus loads, more than 1000 classrooms and equal to the population of Mitchell.



ACTUAL PER-STUDENT FUNDING COMPARED TO ADEQUACY



DATA NOTES

- Annual CPI-W data was collected from the U.S. Bureau of Labor Statistics.
- Adequate per-student numbers were based on the original shortfall identified by the research study, then inflated each year relative to the change in the CPI-W.
- Actual per-student funding amounts can be found on the South Dakota Department of Education website.
- Shortfalls were calculated using the latest school district fall enrollment data available from the South Dakota Department of Education.
- Per-student totals exclude one-time money sent to schools that did not become a continuing source of revenue for schools.

DATA POINTS, ACTUAL PER-STUDENT FUNDING COMPARED TO ADEQUACY

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
ACTUAL	\$3,350	\$3,440	\$3,541	\$3,605	\$3,667	\$3,776	\$3,889	\$3,968	\$4,087	\$4,238	\$4,365	\$4,529	\$4,642	\$4,805	\$4,805	\$4,389
ADEQUATE										\$5,386	\$5,547	\$5,769	\$5,913	\$6,114	\$6,218	\$6,299

NOTE: THE ADEQUACY STUDY WAS NOT COMPLETED UNTIL 2006.

INFLATION GAP 10 YEARS LATER

THE HISTORIC CUTS TO K-12 EDUCATION AREN'T JUST ABOUT IMMEDIATE CUTS. TO JUDGE THE LONG-TERM IMPACT, THE LOSS OF FUTURE REVENUE MUST BE CONSIDERED.

INTO THE FUTURE: THE INFLATION GAP

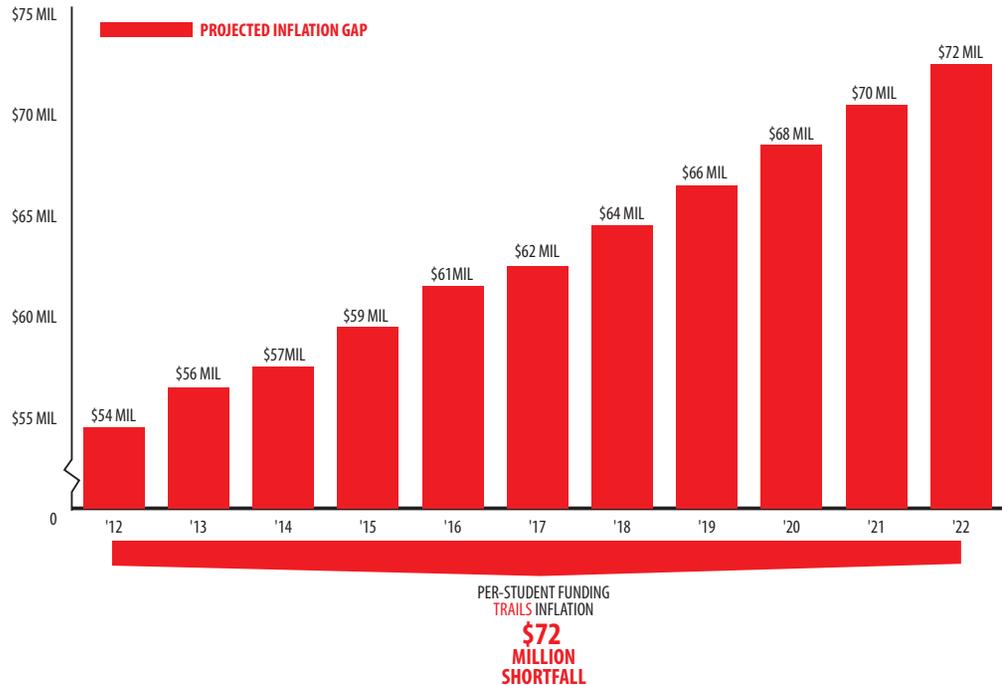
Because of the cuts enacted for the 2011-12 school year, South Dakota schools will have lost the equivalent of \$72 million in purchasing power by 2022, approximately \$18 million higher than the inflation gap that currently exists. If the projection holds, actual per-student funding won't recover to current levels until approximately 2017.

The projections are based on several calculations and assumptions.

First, based on CPI-W growth through February 2011, it is estimated that schools will receive a 1.7 percent increase in fiscal year 2013. For years following 2013, the projections are based on the average growth of the CPI-W over the past 10 years, which was 2.3 percent. Next, the projections assume that lawmakers will follow the state's inflation-based formula to increase education funding each year - something that hasn't happened since the 2009-10 school year.

To accurately reflect future shortfalls, an estimate of future enrollment was also necessary. For most of the past decade, statewide enrollment numbers have fallen. But that trend reversed beginning in 2008, and does not show signs of slowing down. For the purposes of these projections, an average enrollment growth of 0.5 percent was used, which is equal to the average enrollment growth since 2008.

INFLATION GAP, 10-YEAR PROJECTIONS



PROJECTED ACTUAL AND INFLATION-ADJUSTED PER-STUDENT FUNDING, 2012-2022

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
ACTUAL	\$4,389	\$4,665	\$4,567	\$4,672	\$4,780	\$4,890	\$5,002	\$5,117	\$5,235	\$5,355	\$5,479
CPI-W	\$4,831	\$4,914	\$5,027	\$5,143	\$5,261	\$5,382	\$5,506	\$5,633	\$5,762	\$5,895	\$6,030

DATA NOTES

- Fall enrollment counts were collected from the South Dakota Department of Education.
- Annual CPI-W data was collected from the U.S. Bureau of Labor Statistics.
- Yearly gap was calculated by multiplying the difference between projected actual per-student funding and inflation-adjusted per-student funding, then multiplying the number by the year's projected enrollment.

ADEQUACY GAP 10 YEARS LATER

THE COST OF IGNORING FUNDING ADEQUACY WILL RISE IN THE NEXT 10 YEARS. SOUTH DAKOTA MUST FIND A WAY TO BASE SCHOOL FUNDING ON STUDENT NEEDS, NOT ON POLITICAL CALCULATIONS.

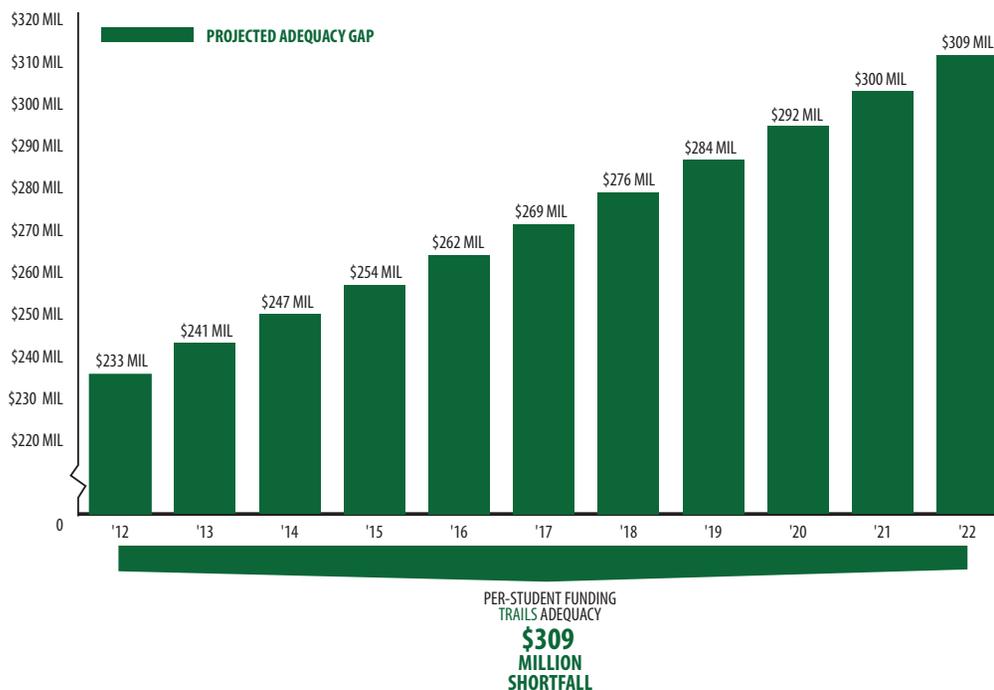
INTO THE FUTURE: THE ADEQUACY GAP

By 2022, the amount of funding required to ensure South Dakota schools can meet state expectations swells to \$309 million, the equivalent of \$2,383 per-student. The size of the gap is attributed both to the historic \$52 million cuts to K-12 education, and the state's failure to embrace school finance adequacy.

During the 2011 Legislative Session, lawmakers often talked of estimates of future funding needs for road and bridge repair, and of the future obligations that will come from the state-federal health care program for low-income, elderly and disabled citizens. The adequacy projections serve a similar role for our state's public school system, showing the amount of funding required to meet expectations into the future.

The projections were made using the same calculations and projections that were used to estimate the future inflation gap, including projections of future inflation and future K-12 enrollment.

ADEQUACY GAP, 10 YEAR PROJECTIONS



PROJECTED ACTUAL AND ADEQUATE PER-STUDENT FUNDING, 2012-2022

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
ACTUAL	\$4,389	\$4,665	\$4,567	\$4,672	\$4,780	\$4,890	\$5,002	\$5,117	\$5,235	\$5,355	\$5,479
ADEQUATE	\$6,299	\$6,407	\$6,554	\$6,705	\$6,859	\$7,017	\$7,178	\$7,344	\$7,512	\$7,685	\$7,862

DATA NOTES

- Fall enrollment counts were collected from the South Dakota Department of Education.
- Annual CPI-W data was collected from the U.S. Bureau of Labor Statistics.
- Yearly gap was calculated by multiplying the difference between projected actual per-student funding and projected adequate per-student funding, then multiplying the number by the year's projected enrollment.



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