

SOUTH DAKOTA LEGISLATIVE RESEARCH COUNCIL

FISCAL NOTE, 2019 LEGISLATIVE SESSION

FISCAL NOTE 2019-HB1109A

HB 1109 exclude certain funds from the calculation of local effort in the state aid to education formula.

HB1109 proposes to repeal the equalization of other revenue through the state aid to general education funding formula. Instead of being counted as local effort in the state aid to general education funding formula, these revenues would return to being counted by the school districts outside of the funding formula.

The six other revenues being equalized are 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, and bank franchise tax. Statewide in FY2018, these six sources of other revenue generated \$47,100,628.

FY2019 marks the second year of a 5-year phase in of other revenue equalization through the state aid to general education funding formula. Revenues from the sources mentioned above collected by school districts in FY2017 that exceed 80% of the base amount for each individual school district are counted as local effort for those school districts in the FY2019 funding formula. In FY2020, the amount to be counted outside of the funding formula will step down to 60% of the base amount and any amount collected above that would be equalized. The rate will continue to step down by 20% until all other revenues from the sources mentioned above are counted as local effort in the funding formula.

To account for this additional revenue counted in the formula on a statewide basis, the overhead rate used for the funding formula was increased to 31.67% in FY2019 and is proposed to increase to 33.06% in FY2020.

The equalization of the other revenues also impacts the target state share used when calculating property tax levies for the school district general fund. As more other revenues are brought into the funding formula and the total need becomes larger, the state share as a percentage of the total funding decreases.

The table below shows the amount of other revenue counted in the state aid to general education funding formula and the effect on the overhead rate and the target state share of the formula as the additional revenue has been brought into the formula.

	Other Revenues Counted as Local Effort	Overhead Rate	Target State Share
FY2017	\$ -	31.00%	53.80%
FY2018	\$ 1,081,560	31.04%	60.89%
FY2019	\$ 4,593,200	31.67%	60.47%
FY2020 Budgeted	\$ 13,122,211	33.06%	60.21%

HB1109 repeals the language that allows those other revenues to be counted as local effort in the funding formula but does not change the overhead rate. This means the portion of formula that is currently being funded by other revenues would instead need to be funded from state funds and local property taxes.

Sections 2 and 3 of the bill contain the statutes that discuss the state share of the funding formula. Although the language addressing the changing share due to equalization of the other revenues is repealed, the statute still states that the percentage of the state and local effort be maintained.

At the current target state share of 60.21%, the overall impact of HB1109 would be an increase of \$2,310,987 in general funds and increase of \$2,255,842 in local effort from property taxes, and an overall decrease in the total formula need from the Governor recommended funding of \$8,555,382. The decrease is a result of other revenues anticipated to be brought into the funding formula for FY2020 that would no longer be equalized. This change includes a \$6,354 decrease in the Sparsity formula as the change would decrease the Per Student Equivalent by \$60.21.

	Overhead	Statewide Total	Local Effort	Local Effort	
	Rate	Need	Other	Property Taxes	State Share
FY2019 Budgeted	31.67%	\$ 802,227,956	\$ 4,593,200	\$ 318,603,109	\$ 481,630,457
Gov Rec 2.5%	33.06%	\$ 837,953,316	\$ 13,122,211	\$ 335,395,649	\$ 491,909,259
HB1109	31.67%	\$ 829,397,934	\$ -	\$ 337,651,491	\$ 494,220,246
Change from Gov Rec	-1.39%	\$ (8,555,382)	\$ (13,122,211)	\$ 2,255,842	\$ 2,310,987

	Levies			PSE	Budget By Center	
	Ag	OO	Other		State Aid to General Ed	Sparsity
FY2019 Budgeted	1.512	3.383	7.001	\$ 5,563.52	\$ 467,381,045	\$ 2,011,464
Gov Rec 2.5%	1.473	3.296	6.821	\$ 5,762.81	\$ 477,303,653	\$ 2,038,269
HB1109	1.493	3.340	6.912	\$ 5,702.60	\$ 479,620,994	\$ 2,031,915
Change from Gov Rec	0.020	0.044	0.091	\$ (60.21)	\$ 2,317,341	\$ (6,354)

APPROVED BY: /s/ Jason Hancock DATE: 2/12/2019
 Director, Legislative Research Council