

FY2009 Budget Briefing

Department of Education



Key Responsibilities

- To advocate for education;
- To facilitate the delivery of statewide educational services; and
- To promote efficient, appropriate, and quality educational opportunities for all persons residing in South Dakota.

Key Personnel

- Dr. Rick Melmer, Secretary
- Darla Mayer, Director, Office of Finance and Management

Department of Education Total

The Governor recommends a total appropriation of \$600,536,318 and 141.0 FTEs for the Department of Education for FY09. This is an increase of \$50,742,792 total funds and an increase of 1.0 FTE. The total funding is comprised of a recommended appropriation of \$24,551,721 from general funds, \$8,756,668 in federal fund expenditure authority, and \$17,434,403 in other fund expenditure authority. The Governor's recommended funding amounts are increases over FY08 of 6.3%, 5.6%, and 360.9%, respectively. The total FTE increase is .07% over FY08.

Item	Actual FY07	Budgeted FY08	Agency Req. FY09	Gov Rec. FY09	Inc/Dec FY09	% Change From FY08
Personal Services	6,779,492	7,355,501	7,402,177	7,671,133	315,632	4.3%
Travel	721,350	748,791	774,490	774,490	25,699	3.4%
Contractual Services	27,554,618	21,231,599	26,023,455	25,114,815	3,883,216	18.3%
Supplies & Materials	819,924	527,840	538,115	538,115	10,275	1.9%
Grants And Subsidies	476,961,279	518,999,975	560,736,899	565,745,635	46,745,660	9.0%
Capital Outlay	2,117,662	929,820	1,732,930	692,130	(237,690)	(25.6%)
Other	138	0	0	0	-	0.0%
Total	514,954,463	549,793,526	597,208,066	600,536,318	50,742,792	9.2%
Funding Types						
General	359,034,620	387,352,265	417,428,694	411,903,986	24,551,721	6.3%
Federal	153,254,156	157,610,618	166,240,692	166,367,286	8,756,668	5.6%
Other	2,665,686	4,830,643	13,538,680	22,265,046	17,434,403	360.9%
Total	514,954,462	549,793,526	597,208,066	600,536,318	50,742,792	9.2%
FTE	139.0	140.0	141.0	141.0	1.0	0.7%

The Governor's recommendation throughout this analysis also includes funding for Performance and Compensation Equity (PACE) movement of 2.5% for those employees who are paid under the job-worth of their pay range, a 2.5% across-the-board increase for all permanent employees, and an increase in the employer paid portion of the state health insurance plan of 4.5%. The recommended amounts for each segment of the compensation package are as follows:

	General Funds	Federal Funds	Other Funds	Total
2.5% PACE Movement	37,657	32,227	383	70,267
2.5% Across-the-Board	86,970	77,194	1,047	165,211
Health Insurance	15,795	17,173	510	33,478
	140,422	126,594	1,940	268,956

Major Expansions and Reductions

Program	Agency Request			Governor's Recommendation		
	State General Fund	All Funds	FTE	State General Fund	All Funds	FTE
State Aid Programs						
A. State Aid to General Education	23,636,777	25,436,777	0.0	27,909,233	29,709,233	0.0
B. State Aid to Special Education	1,425,688	1,425,688	0.0	1,425,688	1,425,688	0.0
C. National Board Cert Teachers	3,000	3,000	0.0	3,000	3,000	0.0
D. Teacher Compensation Assistance Program	-	4,000,000	0.0	-	4,000,000	0.0
E. Technology In Schools	1,997,260	1,657,892	0.0	(6,632,201)	(291,548)	0.0
F. Assessment (NCLB)	(2,044,405)	1,409,196	0.0	(2,044,405)	1,409,196	0.0
Career and Technical Ed						
G. Career and Technical Education	5,384	1,555,384	0.0	5,384	1,555,384	0.0
H. State Aid to Post-secondary Technical Institutes	360,000	360,000	0.0	360,000	360,000	0.0
Education Resources						
I. Ed Resources Division	2,824,019	8,094,272	1.0	1,515,894	8,830,552	1.0
J. Birth to Three Program	1,845,723	1,845,723	0.0	1,845,723	1,845,723	0.0
K. Education Service Agencies	-	1,450,000	0.0	-	1,450,000	0.0
L. General Department Administration	22,983	176,608	0.0	22,983	176,608	0.0
M. Governor's Salary Policy	-	-	0.0	140,422	268,956	0.0
Total	30,076,429	47,414,540	1.0	24,551,721	50,742,792	1.0

- A. The Governor recommends a 2.5% inflationary increase in the per student allocation for **State Aid to General Education** for FY09. The total amount is figured on a declining fall enrollment.
- B. The Governor recommends a 2.5% increase for the formula used to calculate the amount of **State Aid to Special Education**. Each disability level has an amount specified in law and inflated annually by the lesser of the increase in the CPI or 3%.
- C. A smaller component of the Aid to Education formula is the **National Board Certified Teachers**. The funds are to provide grants to teachers when they go through the certification process. The increase is estimated to be \$3,000.
- D. The Governor recommends an increased appropriation of \$4,000,000 from the Education Enhancement Tobacco Tax Fund for the **Teacher Compensation Assistance Program**. This program was approved in a special bill last year and is now being added to the General Appropriations Bill. The program is intended to work with the local school districts to increase teacher pay.

- E. The Department requests, and the Governor recommends, an overall reduction of (\$291,548) for ongoing costs associated with the maintenance of the **K-12 technology** infrastructure at school districts across the state. At the same time, the Governor is requesting that any funding needed over and above ERate revenues (\$2,000,000), CitiBank (\$1,000,974), and an anticipated grant from the Education Assistance Corporation (EAC) (\$219,658); be funded through the state aid formula. The amount for Technology in Schools to be funded through the formula will be \$ 6,680,021. Of this amount, approximately \$4,771,400 would be funded with state dollars and \$1,908,622 would be funded by local property tax dollars.
- F. The Governor is also requesting to move the costs of **Statewide Assessment** driven by the No Child Left Behind (NCLB) Act into the State Aid to Education funding formula. This will cause a decrease in general funds and an increase in other fund authority of \$2,044,405.
- G. Expansion of the Career and Technical Education initiative grants to schools in the amount of \$1,550,000 in other funds (\$1,500,000 from the Education Enhancement Tobacco Tax and \$50,000 from the Great Plains Foundation). Funds were made available last year after the passage of the bill which requires all students to remain in school until the **age of 18**. Also included is an increase of \$5,384 in general funds for consulting contract inflation.
- H. The Governor recommends an increase for State Aid to Postsecondary Technical Education Institutes based upon 2.5% inflation in the per student average. The Department is projecting a decrease in the number of students at the institutes.
- I. Changes in the **Education Resources Division** include increases in travel to complete accreditation reviews (\$7,907) and increases for the Teacher Incentive Fund Federal Grant (\$4,144,844); Title Program Grants (\$3,600,000), and Child and Adult Nutrition Services (CANS) grants (\$918,292). Also included in this division is a request for one after school program FTE (\$59,974 federal funds). For FY09, increased costs for student assessments are estimated to be \$1,432,496.
- J. The **Birth to Three program** has been funded through unused state aid funding and various other means. This year, the Governor is requesting ongoing funding for this early intervention program for infants and toddlers with disabilities. The program provided services to an average of 981 children per month in FY07. (\$1,845,723 general funds)
- K. Education Service Agencies (**ESAs**) were included in a special appropriation for education bill last year and are being funded through the General Bill this year. The funding is \$1,700,000 from the Education Enhancement Tobacco Tax Fund.
- L. Miscellaneous increases and decreases department wide total \$22,983 in general funds and \$176,608 in total funds.
- M. The Governor's recommended salary policy includes \$140,422 from the general fund, \$126,594 from federal funds, and \$1,940 from other funds.

General Administration

For FY09 the Governor recommends total funding of \$6,990,766 for the General Administration program. This funding consists of \$1,618,795 from the general fund, \$5,358,297 in federal fund expenditure authority, \$13,674 in other fund expenditure authority, and 33.5 FTEs. The FY09 funding is \$66,561 more from the general fund and \$181,306 more in federal fund expenditure authority, but the same in other fund expenditure authority and FTEs as the FY08 budget.

General Administration includes the Secretariat and the Office of Finance and Management. The former is the policy-setting head of the department and includes the South Dakota Board of Education, which also sets policy for public education in South Dakota. The Office of Finance and Management is the financial and statistical center for all public education, Kindergarten through postsecondary technical, and has as a major duty administering the State Aid to Education process and formulae. General Administration also includes the Indian Education coordinator and program.

Item	Actual FY07	Budgeted FY08	Agency Req. FY09	Gov Rec. FY09	Inc/Dec FY09	% Change From FY08
Personal Services	1,830,688	1,913,857	1,913,857	1,985,116	71,259	3.7%
Travel	103,060	65,306	71,106	71,106	5,800	8.9%
Contractual Services	538,617	517,290	530,798	530,798	13,508	2.6%
Supplies & Materials	99,157	92,265	96,565	96,565	4,300	4.7%
Grants And Subsidies	2,020,180	4,145,181	4,298,181	4,298,181	153,000	3.7%
Capital Outlay	71,893	9,000	9,000	9,000	-	0.0%
Other	0	0	0	0	-	0.0%
Total	4,663,595	6,742,899	6,919,507	6,990,766	247,867	3.7%
Funding Types						
General	1,448,560	1,552,234	1,575,217	1,618,795	66,561	4.3%
Federal	3,210,942	5,176,991	5,330,616	5,358,297	181,306	3.5%
Other	4,093	13,674	13,674	13,674	-	0.0%
Total	4,663,595	6,742,899	6,919,507	6,990,766	247,867	3.7%
FTE	34.1	33.5	33.5	33.5	-	0.0%

Budget Notes

- Last year the Department was awarded a six-year \$6.9 million grant from the U.S. Department of Education for the “GEAR UP” project. The project will address the low graduation rate of Native American students. The Governor recommends a requested increase in federal fund authority for this program in the amount of \$153,000.
- Travel, contractual services, and supplies requests for the Indian Coordinator total \$7,225 in general funds and \$625 in federal funds.
- The Governor’s Salary Policy includes \$43,578 in general funds and \$27,681 in federal funds.
- Board member travel increase of \$2,000, inflation increases in contractual services totaling \$12,758, and an increase of \$1,000 complete the remaining general fund budget request.

Selected Performance Indicators

	FY07			FY08			FY09
	Original Estimate	Actual	Difference Over (Under) Estm.	Estimate	Revised Estimate	Change in Estimate	Estimate
Scholarship Programs Administered	3	3	0	3	3	0	3
Scholarships Awarded	97	97	0	101	96	(5)	97
Scholarship Dollars Awarded	\$140,000	\$145,500	\$5,500	\$147,000	\$143,000	(\$4,000)	\$147,500
School Districts - Public	168	168	0	167	165	(2)	163
Schools - Public	680	703	23	702	701	(1)	690
Certified Staff - Public	8900	9121	221	8,875	9150	275	9,150
K-12 Fall Enrollment-Public	119,700	120,278	578	119,500	120,100	600	120,000
K-12 Fall Enrollment-Nonpublic	17,200	16,554	(646)	16,400	16,350	(50)	16,250
Accredited Private Schools *	80		(80)	72		(72)	
Indian Education:							
Gear Up Participants - High School		178			250		300
Gear UP Participants - Middle Sch		900			1,800		1,800
Dakota Step (Native American):							
Math % Proficient or Advanced		46%			48%		50%
Reading % Proficient of Advanced		61%			63%		65%

* The private accredited school totals do not include cooperatives, multi-districts, adjustment training centers, and correctional facilities.

The Department of Education did not report Other Fund Revenues in the Governor’s Budget Book. The following table summarizes information reported by the Department of Legislative Audit. The funding below is appropriated in the General Appropriations Act through the Other Fund Spending Authority.

Revenues as reported by the Department of Legislative Audit

	FY2004 Fund Balance	FY2005 Fund Balance	FY2006 Fund Balance	FY2007 Fund Balance
Instructional TV Fund	1,958	1,958	-	-
Postsecondary Technical Credentialing Fund	24,800	26,320	28,425	30,645
State Insitute Fund	404,156	448,733	524,399	555,575
Prof Teachers Practices and Standards Commission Fund	26,345	31,836	5,657	2,101
Other (milk refund, CITIBank, e-Rate, etc.)	7,432,085	9,124,681	7,906,832	3,919,781
State Library Fund	47,862	235,259	204,291	170,533
Voc Ed Facilities Fund	1,500,000	1,500,000	1,500,000	1,500,000
Total	9,437,205	11,368,786	10,169,604	6,178,636

*These figures are reported on a cash basis. Money could have been obligated in one fiscal year, but not reported as "expended" until the following year.

State Aid to Education (Excluding Postsecondary Technical)

State Aid to Education traditionally consists of a number of individual programs which are appropriated as line items in the General Appropriation Act, while there may be a change in the list of items from one year to the next. The following items compose the Governor's State Aid to K-12 Education recommended appropriations for FY09: State Aid to General Education, State Aid to Special Education, Alternative Education Program, National Board Certified Teachers, Teacher Compensation Assistance Program, Technology in Schools, and Student Assessment. State Aid to Postsecondary Technical Education, though it goes to four local school districts, is not included in this table.

For information purposes, the following table shows State Aid to K-12 Education only:

Item	Actual FY07	Budgeted FY08	Agency Req. FY09	Gov Rec. FY09	Inc/Dec FY09	% Change From FY08
Personal Services	0	0	0	0	-	0.0%
Travel	5,244	0	0	0	-	0.0%
Contractual Services	7,453,326	7,815,201	8,228,879	7,320,239	(494,962)	(6.3%)
Supplies & Materials	1,277	525	0	0	(525)	(100.0%)
Grants And Subsidies	322,904,931	354,506,029	385,817,468	390,089,924	35,583,895	10.0%
Capital Outlay	1,831,144	816,475	1,615,240	574,440	(242,035)	(29.6%)
Other	0	0	0	0	-	0.0%
Total	332,195,922	363,138,230	395,661,587	397,984,603	34,846,373	9.6%
Funding Types						
General	328,738,055	359,578,230	386,640,955	382,283,950	22,705,720	6.3%
Federal	1,061,652	0	0	0	-	0.0%
Other	2,396,216	3,560,000	9,020,632	15,700,653	12,140,653	341.0%
Total	332,195,923	363,138,230	395,661,587	397,984,603	34,846,373	9.6%
FTE	0.0	0.0	0.0	0.0	-	0.0%

The following pages depict the individual components of State Aid to Education.

State Aid to General Education

The Governor's recommended appropriation for State Aid to General Education for K-12 includes an increase of \$29,709,233 over FY08. This recommended appropriation is \$336,613,578 from the general fund and \$1,800,000 from other funds (Education Enhancement Tobacco Tax Funds).

Item	Actual FY07	Budgeted FY08	Agency Req. FY09	Gov Rec. FY09	Inc/Dec FY09	% Change From FY08
Grants And Subsidies	278,534,807	308,704,345	334,141,122	338,413,578	29,709,233	9.6%
Total	278,534,807	308,704,345	334,141,122	338,413,578	29,709,233	9.6%
Funding Types						
General	278,534,807	308,704,345	332,341,122	336,613,578	27,909,233	9.0%
Federal	0	0	0	0	-	0.0%
Other	0	0	1,800,000	1,800,000	1,800,000	0.0%
Total	278,534,807	308,704,345	334,141,122	338,413,578	29,709,233	9.6%

Budget Notes

- The Governor's recommended appropriation for State Aid to General Education shown above is based upon an inflationary increase in the Per Student Allocation (PSA) of 2.5% raising it from \$4,528.80 to \$4,642.02. This is an increase in PSA of \$113.22.
- The Governor's recommendation also uses a figure of 122,087 for estimated fall enrollment. This is a decline of 31 from the 122,118 used in the FY08 calculation.
- The department calculates each school district's fall enrollment according to SDCL 13-13-10.1(2A) and multiplies that by PSA to determine the Statewide Local Need. The district's property tax revenues are its Local Effort. Statewide Local Need minus Local Effort equals State Aid to that district.
 - Local Need = Fall Enrollment times PSA
 - State Aid = Local Need minus Local Effort
 - Total State Aid = the sum of all districts' State Aid
- The Legislature adjusts statutory, mandatory property tax levies to maintain a proportional state/local balance from year to year reflecting increases in state appropriations and growth in local property values.
- Because the State Aid Formula is driven by fall enrollment and calculated such that a district's State Aid is the difference between Local Need and Local Effort, not all districts receive the same amount of State Aid per student. Another difference is due to the small school adjustment, which is given to approximately 120 of the 168 school districts. Differing amounts of State Aid per student to the various districts, therefore, ultimately result in differing adjusted PSA.

# Of School Districts	Adjusted Average Daily Membership	Per Student Allocation
49	200 or less	\$5,570
81	201 to 600	\$5,570 - \$4,641
41	601 or more	\$4,642

- Also included in the State Aid to General Education formula this year is the portion of the Technology In Schools program that was formerly funded from the general fund. That amount is estimated to be \$6,680,021.
- Another new component to the formula is NCLB assessment costs. They were also funded from the general fund and now will be rolled into the formula. The estimated costs of the assessments are \$2,044,405. \$1,055,150 will be from the state general fund and \$989,355 will be funded from local property tax dollars.
- 7-Year State Aid to General Education Funding History:

Fiscal Year	AADM	PSA	Total State Need	State Aid Expenditure	State Aid as % of Total State Need
FY 2003	128,931	3,889.19	501,437,156	264,852,086	52.8%
FY 2004	128,189	3,948.00	506,090,172	273,683,236	54.1%
FY 2005	126,809	4,086.56	518,212,587	280,720,707	54.2%
FY 2006	126,099	4,237.72	534,372,254	280,022,412	52.4%
FY 2007	124,297	4,364.85	542,537,760	278,534,807	51.3%
Fall Enrollment					
FY 2008	122,118	4,528.80	553,047,998	308,704,345 **	55.8%
FY 2009*	122,087	4,642.02	595,388,868 ***	338,413,578	56.8%

* Governor's Recommended Budget for FY 2009.

** FY 2008 Budgeted Amount

***FY 2009 Total State Need includes Small School Adjustments (\$18,503,340); Growing Enrollment (\$1,430,806); Technology in Schools (\$6,680,021); and Student Assessment (\$2,044,405)

Additions to the State Aid Formula – Total State Need

Technology In Schools

Total Cost	\$9,900,653	
Amount to be funded through Formula	6,680,021	
State General Funds	4,772,400	71.4%
Local Effort	1,908,622	28.6%

Student Assessment

Total Cost	\$5,314,867	
Amount to be funded through Formula	2,044,405	
State General Funds	1,055,051	51.6%
Local Effort	989,254	48.4%

Total Additions to Formula

Total Amount Added	\$8,676,606	
State General Funds	5,827,451	67.1%
Local Effort (Savings to State General Fund)	2,897,867	32.9%

	FY07		Difference Over (Under) Estm.	FY08			FY09
	Original Estimate	Actual		Original Estimate	Revised Estimate	Change in Estimate	Estimate
State Aid K-12 Fall Enrollment		121,260		121,100		122,087	
State Aid Payment K-12 Fall Enr.		NA		122,118		121,995	
Per Student Allocation		\$4,364.85		\$4,528.80		\$4,642.02	
Special Ed Students by State Payment Disability Level/Payment Amount							
Level 1, Mild Disability		13,345/\$3,712	12,184/\$3,823	13,345/\$3,823	1,161	13,828/\$3,911	
Level 2, Mental Retardation, Emotional disorder		2,380/\$8,696	2,300/\$8,957	2,412/\$8,957	112	2,429/\$9,163	
Level 3, Hearing, Vision, Orthopedic Impair, Deafness, Tramatic Brain Injury		435/\$13,217	430/\$13,614	411/\$13,614	(19)	409/\$13,927	
Level 4, Autism		504/\$12,609	520/\$12,987	566/\$12,987	46	644/\$13,286	
Level 5, Multiple Disability		360/\$16,686	400/\$17,187	370/\$17,186	(30)	399/\$17,581	
Level 6, Prolonged Assistance		299/\$8,533	300/\$8,789	275/\$8,789	(25)	263/\$8,991	
Classroom Connections Laptop Proj.							
Total Schools Participating		20	45	41	(4)	61	
Students		5,542	14,046	10,500	(3,546)	15,500	

State Aid to Special Education

A total appropriation of \$45,127,372 from the general fund is the Governor's recommendation for State Aid to Special Education for FY09. This amount represents an increase of 3.3% over the appropriation for FY08.

Item	Actual FY07	Budgeted FY08	Agency Req. FY09	Gov Rec. FY09	Inc/Dec FY09	% Change From FY08
Grants And Subsidies	42,710,509	43,701,684	45,127,372	45,127,372	1,425,688	3.3%
Total	42,710,509	43,701,684	45,127,372	45,127,372	1,425,688	3.3%
Funding Types						
General	42,710,509	43,701,684	45,127,372	45,127,372	1,425,688	3.3%
Federal	0	0	0	0	-	0.0%
Other	0	0	0	0	-	0.0%
Total	42,710,509	43,701,684	45,127,372	45,127,372	1,425,688	3.3%

Budget Notes

- The State of South Dakota uses a formula to calculate the amount of state aid to special education distributed to a school district each year. Local need for special education is calculated using a formula based upon a child count and six disability levels. Each disability level has a specific allocation amount specified in law and inflated annually by 3% or the consumer price index, whichever is lower. A portion of the money going into the formula is funded by the general fund, and a portion is funded by local property taxes. The local need is compared to the local tax effort calculated using the required levy as specified in law in order to determine the amount of state aid to special education for each school district.
- The Governor's recommendation reflects SDCL 13-37-16.2, which mandates that local levies for special education be adjusted when valuations grow faster than local need.
- The special education formula does not reflect an adjustment for small schools, but it does take into account Child Count statistics, which include private school students and those in home schools.
- The disability brackets' per student allocations are being increased the same 2.5% rate for inflation as State Aid to General Education.
- The FY09 State Aid to Special Education Estimate was determined as follows:

Estimated Costs

Base Formula	\$ 42,058,241
Extraordinary Cost Fund Need	4,839,674
Total Estimated Costs for FY09	46,897,915

Available Funds

Base FY08 Appropriation	43,701,684
Projected Carryover from FY07	1,770,543
Total Available Funds	45,472,227

FY09 Increase Needed	\$ 1,425,688
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Alternative Education Program

For FY09 the Governor recommends an appropriation of \$450,000 from the general fund, the same amount as FY08 and previous years, for State Aid to Alternative Education. This program provides funding for alternative education sites or schools that work with the Department of Labor to provide public education in an alternative setting to traditional high school.

Item	Actual FY07	Budgeted FY08	Agency Req. FY09	Gov Rec. FY09	Inc/Dec FY09	% Change From FY08
Grants And Subsidies	450,000	450,000	450,000	450,000	-	0.0%
Total	450,000	450,000	450,000	450,000	-	0.0%
Funding Types						
General	450,000	450,000	450,000	450,000	-	0.0%
Federal	0	0	0	0	-	0.0%
Other	0	0	0	0	-	0.0%
Total	450,000	450,000	450,000	450,000	-	0.0%

National Board Certified Teachers

The Governor recommends an increase of \$3,000 from the general fund for State Aid to National Board Certified Teachers. This program provides stipends and reimburses fees associated with teachers taking national examinations for certification in their fields.

Item	Actual FY07	Budgeted FY08	Agency Req. FY09	Gov Rec. FY09	Inc/Dec FY09	% Change From FY08
Grants And Subsidies	79,474	90,000	93,000	93,000	3,000	3.3%
Total	79,474	90,000	93,000	93,000	3,000	3.3%
Funding Types						
General	79,474	90,000	93,000	93,000	3,000	3.3%
Federal	0	0	0	0	-	0.0%
Other	0	0	0	0	-	0.0%
Total	79,474	90,000	93,000	93,000	3,000	3.3%

Budget Note

➤ The Department is projecting 68 participants in FY09.

Year in Program	Teachers Eligible	State Cost
8	6	\$6,000
7	2	\$2,000
6	3	\$3,000
5	12	\$12,000
4	8	\$8,000
3	17	\$17,000
2	10	\$10,000
1	10	\$35,000
Total	68	\$93,000

Teacher Compensation Assistance Program

The Governor recommends that \$4,000,000 originally authorized in HB1171 last year be appropriated through the General Bill in FY09. This program, part of the Governor's "2010-E Initiative," will provide incentives to local school districts to improve salaries. The Governor recommends this as an on-going program funded through Education Enhancement Tobacco Tax funds.

Item	Actual FY07	Budgeted FY08	Agency Req. FY09	Gov Rec. FY09	Inc/Dec FY09	% Change From FY08
Grants And Subsidies	0	0	0	4,000,000	4,000,000	0.0%
Total	-	-	-	4,000,000	4,000,000	0.0%
Funding Types						
General	0	0	0	4,000,000	4,000,000	0.0%
Federal	0	0	0	0	-	0.0%
Other	0	0	0	0	-	0.0%
Total	-	-	-	4,000,000	4,000,000	0.0%

Budget Notes

- The teacher compensation assistance program was created in HB1171 during the 2007 legislative session. The bill provided funds to school districts for the purpose of assisting school districts with teacher compensation. The funds are allocated to the local school district based on fall enrollment. To qualify, the school district is required to submit specific goals and plans and how they will use the funding to reach those goals.
- The department reports that the most common uses are for technology training, meeting standards in specific subjects, and teacher bonuses in hard-to-fill areas.
- The local school district must supply one 1/5 from local funds. That amounted to approximately \$8.25/student for a total of \$41.25/student.
- In FY08, 13 districts did not apply. The other 155 districts were awarded funding through the TCAP program. The total amount awarded was \$3,875,944.

Technology in Schools

Funding for the Technology in Schools program, as recommended by the Governor for FY09, totals \$9,900,653 which is a 2.9% decrease in total funds and a 100% decrease in general funds over FY08. This program provides state funding to support the Dakota Digital Network, email, internet access to student databases for school districts, and distance education in South Dakota.

Item	Actual FY07	Budgeted FY08	Agency Req. FY09	Gov Rec. FY09	Inc/Dec FY09	% Change From FY08
Personal Services	0	0	0	0	-	0.0%
Travel	5,244	0	0	0	-	0.0%
Contractual Services	7,453,326	7,815,201	8,228,879	7,320,239	(494,962)	(6.3%)
Supplies & Materials	1,277	525	0	0	(525)	(100.0%)
Grants And Subsidies	1,130,141	1,560,000	2,005,974	2,005,974	445,974	28.6%
Capital Outlay	1,831,144	816,475	1,615,240	574,440	(242,035)	(29.6%)
Other	0	0	0	0	-	0.0%
Total	10,421,132	10,192,201	11,850,093	9,900,653	(291,548)	(2.9%)
Funding Types						
General	6,963,265	6,632,201	8,629,461	0	(6,632,201)	(100.0%)
Federal	1,061,652	0	0	0	-	0.0%
Other	2,396,216	3,560,000	3,220,632	9,900,653	6,340,653	178.1%
Total	10,421,133	10,192,201	11,850,093	9,900,653	(291,548)	(2.9%)
FTE	0.0	0.0	0.0	0.0	-	0.0%

Budget Notes

- The Governor's recommended appropriation for FY09 is based upon use of e-Rate revenue and a Citibank donation. The e-Rate program was established by Congress and the Federal Communications Commission to provide discounts and reimbursements of costs so schools and libraries in all communities can reap the benefits of affordable telecommunications and internet access. The estimated e-Rate revenue for FY09 is \$2,000,000, which remains unchanged from FY08. The funding from the Citibank donation will decrease by \$559,026 (approx. \$300,000 remaining) for classroom connections. Another \$219,658 will be from an anticipated grant from the Education Assistance Corporation.
- The Department is requesting a decrease of \$291,548 in total funds for ongoing costs associated with the maintenance of the K-12 technology infrastructure at school districts across the state.
- The Governor is proposing to move \$6,632,201 of the total \$9,900,653 program cost from the general fund to the State Aid Formula and split the costs with the property tax payers in each school district. By distributing these costs in the formula, local tax levies are reduced slightly less than they otherwise would be. The approximate amount of savings to the general fund is \$1,908,622.

Career and Technical Education

The Governor recommends total funding of \$7,753,534 and 11.5 FTEs for the Office of Career and Technical Education for FY09. This includes a recommended increase in appropriation from the general fund of \$19,552, an increased appropriation of \$7,148 in federal fund expenditure authority, and an increase of \$1,550,000 in other fund expenditure authority. This program coordinates and approves secondary career and technical education programs throughout the state and distributes State Aid to Postsecondary Technical Institutes, which is detailed in the following section.

Item	Actual FY07	Budgeted FY08	Agency Req. FY09	Gov Rec. FY09	Inc/Dec FY09	% Change From FY08
Personal Services	589,129	571,874	571,874	593,190	21,316	3.7%
Travel	67,539	56,780	56,780	56,780	-	0.0%
Contractual Services	675,884	592,983	598,367	598,367	5,384	0.9%
Supplies & Materials	37,302	49,414	49,414	49,414	-	0.0%
Grants And Subsidies	3,437,814	4,902,783	6,452,783	6,452,783	1,550,000	31.6%
Capital Outlay	3,065	3,000	3,000	3,000	-	0.0%
Other	390	0	0	0	-	0.0%
Total	4,811,123	6,176,834	7,732,218	7,753,534	1,576,700	25.5%
Funding Types						
General	529,923	561,852	567,236	581,404	19,552	3.5%
Federal	4,206,556	5,460,630	5,460,630	5,467,778	7,148	0.1%
Other	74,644	154,352	1,704,352	1,704,352	1,550,000	1004.2%
Total	4,811,123	6,176,834	7,732,218	7,753,534	1,576,700	25.5%
FTE	11.3	11.5	11.5	11.5	-	0.0%

Budget Notes

- The Department requests additional other fund expenditure authority for a \$50,000 grant received from the Great Plains Education Foundation. The grant is for High Schools That Work Initiative and Assessment. The program is a school improvement model that engages states, school leaders and teachers in partnerships with students, parents, and community to improve the way high school students are prepared for work and higher education.
- The Department also requests \$1,500,000 from the Education Enhancement Tobacco Tax Fund for grants to secondary career and technical education programs provided for in HB1171. The funding was proposed after the legislature passed a bill to require all students to stay in high school until they reach the age of 18.
- Inflationary increases are requested for consulting contracts in the amount of \$5,384 in general funds.
- The Governor's Salary Policy is as follows: \$14,168 general funds and \$7,148 federal funds.

Selected Performance Indicators

	FY07			FY08			FY09
	Original Estimate	Actual	Difference Over (Under) Estm.	Original Estimate	Revised Estimate	Change in Estimate	Estimate
Secondary Schools and Postsecondary Institutions:							
School Districts with Programs	130	160	30	150	165	15	163
Approved Secondary Programs	350	364	14	385	380	(5)	392
Approved Postsecondary Programs	110	120	10	119	125	6	130
Technical Assistance Visitations	168	190	22	195	220	25	255
Minority Participation:							
American Indian	2,200	2,022	(178)	2,183	2,100	(83)	2,100
Black	260	244	(16)	305	275	(30)	275
Oriental	200	254	54	245	250	5	250
Spanish	320	367	47	382	380	(2)	380
Custer Youth Correctional Center		130			150		150
Postsecondary Institutions:							
Lake Area Technical Inst.		1,101			1,114		1,138
Mitchell Technical Inst.		769			778		795
Southeast Technical Inst.		1,834			1,855		1,894
Western Dakota Technical Inst.		901			912		930
Total PSI Full-Time Equiv. Students		4,604			4,659		4,757

Postsecondary Vocational Education

For State Aid to Postsecondary Vocational Education for FY09 the Governor recommends an appropriation of \$19,487,140 from the general fund, an increase of \$360,000 over FY08 or 1.9%. This appropriation is distributed to the four postsecondary technical institutes based upon tuition received by each institute, with a portion set aside for specific purposes.

Item	Actual FY07	Budgeted FY08	Agency Req. FY09	Gov Rec. FY09	Inc/Dec FY09	% Change From FY08
Contractual Services	824,000	824,000	824,000	824,000	-	0.0%
Grants And Subsidies	17,252,536	18,303,140	18,663,140	18,663,140	360,000	2.0%
Total	18,076,536	19,127,140	19,487,140	19,487,140	360,000	1.9%
Funding Types						
General	18,076,536	19,127,140	19,487,140	19,487,140	360,000	1.9%
Federal	0	0	0	0	-	0.0%
Other	0	0	0	0	-	0.0%
Total	18,076,536	19,127,140	19,487,140	19,487,140	360,000	1.9%

Budget Notes

- The Governor's recommended increase in appropriation of \$360,000 from the general fund is for maintenance and repair. This amount was previously appropriated through special appropriations. The Governor proposes to build it into the General Bill. There is no increase on a per student basis. The following calculation was provided by the department:



Postsecondary Institutes (PSI)

	<u>FY08</u>	<u>FY09</u>	<u>Difference</u>
Budgeted Student FTE	4,876	4,757	-119
Average Funding Per FTE	\$3,754	\$3,848	\$93.90
PSI Distribution	\$18,303,140	\$18,303,140	\$0
Annual Bond Payment	\$824,000	\$824,000	
M&R Set Aside		\$360,000	
Total State Funds for PSI	\$19,127,140	\$19,487,140	\$360,000
Allocated Through Formula	\$16,858,140	\$16,803,140	-\$55,000
Set Asides			
Bonding	\$824,000	\$824,000	\$0
Customized Training Coordinator	\$400,000	\$400,000	\$0
Day Care	\$200,000	\$200,000	\$0
New Programs	\$75,000	\$100,000	\$25,000
Maintenance & Repair	\$500,000	\$860,000	\$360,000
Other Adult Farm Management	\$70,000	\$0	-\$70,000
Other Tech Prep 50/50	\$200,000	\$300,000	\$100,000
Total Set Asides	\$2,269,000	\$2,684,000	\$415,000
Total Postsecondary	\$19,127,140	\$19,487,140	\$360,000

Education Resources

The Governor recommends for FY09 an overall increase of \$12,209,053 for the Education Resources program. Of that dollar amount, the Governor recommends an increase of \$1,357,905 from the general fund, \$8,807,398 in federal fund expenditure authority, and \$2,043,750 in other fund expenditure authority. This brings the total funding and staffing for the program to \$162,426,821 and 63.5 FTEs. This program provides general and fiscal support and coordination of all public elementary and secondary schools in the state, distributes money from federal and other sources, and administers a number of activities from child/school nutrition to statewide, standardized testing.

Item	Actual FY07	Budgeted FY08	Agency Req. FY09	Gov Rec. FY09	Inc/Dec FY09	% Change From FY08
Personal Services	3,070,609	3,494,358	3,541,034	3,664,616	170,258	4.9%
Travel	482,318	546,205	566,104	566,104	19,899	3.6%
Contractual Services	14,697,636	9,348,209	12,007,495	12,007,495	2,659,286	28.4%
Supplies & Materials	286,587	235,386	241,886	241,886	6,500	2.8%
Grants And Subsidies	130,440,367	136,575,765	145,188,250	145,924,530	9,348,765	6.8%
Capital Outlay	25,890	17,845	22,190	22,190	4,345	24.3%
Other	0	0	0	0	-	0.0%
Total	149,003,407	150,217,768	161,566,959	162,426,821	12,209,053	8.1%
Funding Types						
General	6,927,893	3,757,143	6,382,480	5,115,048	1,357,905	36.1%
Federal	141,960,739	145,544,091	154,270,540	154,351,489	8,807,398	6.1%
Other	114,775	916,534	913,939	2,960,284	2,043,750	223.0%
Total	149,003,407	150,217,768	161,566,959	162,426,821	12,209,053	8.1%
FTE	59.7	62.5	63.5	63.5	1.0	1.6%

Budget Notes

- The Governor is requesting to move the costs of **Statewide Assessment**, which are not covered by federal funds, into the State Aid to Education funding formula. This will cause a decrease of \$635,209 in general funds and an increase in other fund authority of \$2,044,405. Approximately \$989,254 in assessment expenses will be shifted from the State General Fund to local property tax payers.
- The department requests \$1,409,196 other fund expenditure authority for an increase in technical costs of the state's accountability system, which is being driven by the No Child Left Behind (NCLB) Act. The amount is included in the first bulleted item.
- The department requests \$23,300 other fund expenditure authority to test all 8th grade students in technology literacy as required by the **NCLB**. This amount is also included in the first bulleted item.
- The Office of Accreditation and Teacher Quality requests an inflationary increase of \$7,907 in the travel budget. The staff spends approximately 80 days on-site doing **accreditation visits**.
- Miscellaneous changes (decrease of \$239 in general funds; increase of \$1,139 in federal funds; and a decrease of \$2,595 in other funds)

- The **Teacher Incentive Fund grant** was awarded to the department to implement and sustain a performance based model of compensation for principals and teachers in high-need schools. It is a five-year, \$20.8M grant award. In FY09, the second year of the grant, \$2,984,750 will be passed through to school districts, and \$1,155,158 will be used to support the grant through a contract.
- The Office of Educational Services and Support is requesting a new FTE for the 21st Century program. The FTE is federally funded - \$46,676 in salaries/benefits and \$13,298 in operating expenses for a total of \$59,974. The FTE is necessary because the federal Head Start program will now require the state to dedicate an entire position to Head Start. Therefore, other duties now performed by the Head Start position will move to the new position. In addition, the Department must monitor 21st Century (after school program) sub-grantees and currently has one position to monitor over 60 across the state. The new position will be responsible for those duties.
- The Governor is requesting an increase of \$1,845,723 in state general funds to maintain the **Birth to Three program**. The program is an early intervention program for infants and toddlers with disabilities. The program has historically been funded with federal funds (IDEA Part C), and more recently through unused State Aid to Education money. The program provided services to an average of 981 children per month in FY07.
- Additional federal fund spending authority is recommended for the Child and Adult Nutrition grants (\$918,292) and various Title programs (\$3,600,000) to reflect increased rates of reimbursements.
- The office is requesting \$8,451 in federal funds for inflationary increases in travel.
- Additional funding is needed for miscellaneous inflationary increases in contractual services, supplies and capital assets. (\$8,730 general funds; \$2,200 federal funds)
- An increase is recommended for the Child and Adult Nutrition office due to anticipated costs of public safety reviews. (\$67,000 general funds)
- The Governor's Salary Policy is as follows: \$40,693 general funds; \$80,949 federal funds; and \$1,940 in other funds.

Revenues

	FY07			FY08			FY09
	Original Estimate	Actual	Difference Over (Under) Estm.	Original Estimate	Current Estimate	Change in Estimate	Estimate
Teacher Certificates	120,000	145,000	25,000	145,000	145,000	0	145,000

Selected Performance Indicators

	FY07			FY08			FY09
	Original Estimate	Actual	Difference Over (Under) Estm.	Original Estimate	Revised Estimate	Change in Estimate	Estimate
<i>Office of Curriculum, Technology Assessment</i>							
Video-Based Classes Offered							
Over Digital Dakota Net (DDN)	167	154	(13)	180	175	(5)	190
Students Participating DDN Class	2,761	1,848	(913)	2,100	2,000	(100)	2,500
Prof. Dev. Offerings via DDN	675	64	(611)	115	100	(15)	110
Ed. "Events" Offered via DDN **	475	557	82	520	600	80	620
<i>Office of Accreditation & Teacher Quality</i>							
School Districts - Public	160	168	8	167	165	(2)	163
Schools - Public	690	703	13	702	701	(1)	695
Certified Staff - Public	9,900	9,121	(779)	9,000	9,150	150	9,150
Accredited Private & Tribal	80	68	(12)	72	68	(4)	68
Children Excused from Attendance	2,200	2,800	600	2,800	2,800	0	2,800
Certificates in Effect	26,000	21,847	(4,153)	22,000	21,947	(53)	22,000
Certificates Suspended/Revoked	7/6	4/1/1		6/5	4/1/1		36,982
Approved Teacher Ed. Insitutions	12	11	(1)	11	11	0	11
<i>Office of Educational Services and Support:</i>							
<i>CANS Performance Indicators:</i>							
Agencies	360	360	0	360	357	(3)	355
Number of Meals (millions)	25	29.6	5	30	29.6	0	30
Food Distribution							
Lbs of Food (Millions)	6.6	5.5	(1)	7	5.5	(1)	6
Value of Food (Millions)	\$6.1	\$4.7	(\$1.4)	\$6.4	\$4.8	(\$1.6)	\$5.0
<i>Federal Programs:</i>							
Title I, Part A							
Programs/Districts/Number		159/352/30,778		158/337/28,207	159/352/30,780		159/352/30,780
Homeless Programs							
Programs/Districts/Number		2/2/900		2/2/1,000	2/2/950		2/2/1000
Migrant Program							
Programs/Districts/Number	800	9/9/754	0	600	8/8/700		8/8/700
Neglected/Delinquent Programs	24	25	4	24	25	1	25
Title V Grants	167	167	0	167	164	(3)	164
Title III Eng. Language Acquisition	27	10	(17)	10	9	(1)	9
Title I Part B Even Start:							
Adults/Children	245/348	107/158		10/150	85/145		85/145
Parents as Teachers Educators	62	29	(33)	35	29	(6)	29
Children Enrolled in Special Ed:							
Ages 6-21/3-5/B-2	15,150	15140	(10)	14,900	15150	250	15,160
Ages 3-5	2703	2684	(19)	2,750	2690	(60)	1,695
Ages Birth-2	830	1005	175	950	1100	150	1,150
Total Children with Disabilities	17,853	17,825	(28)	17,650	18,000	350	18,200
Birth to 3 Connections, Children Served		1,784	1,784		1,855	1,855	1,929
Public Schools Monitored	36	37	1	38	45	7	50
Nonpublic Facilities & State							
Institutions Reviewed	5	6	1	6	6	0	6
Districts Receiving IDEA, VI-B	167	164	(3)	167	162	(5)	162

➤ **Education Service Agencies**

Education Service Agencies were created by the Legislature in 2004. For FY09, the Governor recommends an increase of \$1,450,000 entirely in other fund expenditure authority. The department contracts with the seven education service agencies to support local public schools, allocate federal money for specific federal mandates, and support curriculum and professional development activities.

Item	Actual	Budgeted	Agency Req.	Gov Rec.	Inc/Dec	% Change
	FY07	FY08	FY09	FY09	FY09	From FY08
Travel	318	0	0	0	-	0.0%
Contractual Services	2,175,145	500,000	2,200,000	2,200,000	1,700,000	340.0%
Grants and Subsidies	0	250,000	0	0	(250,000)	(100.0%)
Total	2,175,463	750,000	2,200,000	2,200,000	1,450,000	193.3%
Funding Types						
General	500,000	500,000	500,000	500,000	-	0.0%
Federal	1,675,463	250,000	0	0	(250,000)	(100.0%)
Other	0	0	1,700,000	1,700,000	1,700,000	0.0%
Total	2,175,463	750,000	2,200,000	2,200,000	1,450,000	193.3%
FTE	0.0	0.0	0.0	0.0	-	0.0%

- HB1171 provided \$1,700,000 in Education Enhancement Tobacco Tax fund dollars to this program. The Governor recommends it be put in the budget and receive on-going funding.
- The Department requests a decrease in federal fund spending authority since no federal funds are available for this program.

Selected Performance Indicators

	FY07			FY08			FY09
	Original Estimate	Actual	Difference Over (Under) Estm.	Original Estimate	Revised Estimate	Change in Estimate	Estimate
Total ESA professional dev.							
participants (single dist.) events	9,800	17,308	7,508	15,000	17,500	2,500	18,000
participants (regional) events	5,000	9,658	4,658	10,500	9,700	(800)	10,100
Percent satisfaction with ESA							
support services	80%	88%	8%	85%	90%	5%	90%
development opportunities	85%	83%	-2%	85%	85%	0%	85%

State Library

For FY09, the Governor recommends for the State Library funding of \$2,317,649 from the general fund, \$1,189,722 in federal fund expenditure authority, and \$186,083 in other fund expenditure authority.

Item	Actual FY07	Budgeted FY08	Agency Req. FY09	Gov Rec. FY09	Inc/Dec FY09	% Change From FY08
Personal Services	1,289,065	1,375,412	1,375,412	1,428,211	52,799	3.8%
Travel	62,869	80,500	80,500	80,500	-	0.0%
Contractual Services	1,190,010	1,633,916	1,633,916	1,633,916	-	0.0%
Supplies & Materials	395,601	150,250	150,250	150,250	-	0.0%
Grants And Subsidies	105,450	317,077	317,077	317,077	-	0.0%
Capital Outlay	185,670	83,500	83,500	83,500	-	0.0%
Other	8	0	0	0	-	0.0%
Total	3,228,673	3,640,655	3,640,655	3,693,454	52,799	1.5%
Funding Types						
General	2,013,653	2,275,666	2,275,666	2,317,649	41,983	1.8%
Federal	1,138,803	1,178,906	1,178,906	1,189,722	10,816	0.9%
Other	76,218	186,083	186,083	186,083	-	0.0%
Total	3,228,674	3,640,655	3,640,655	3,693,454	52,799	1.5%
FTE	34.0	32.5	32.5	32.5	-	0.0%

Budget Notes

- In FY08 the Governor reorganized the State Library. The library's role, programs and services were redefined based on the needs of its primary users including libraries of all types across the state, state government employees, elected officials, and citizens who are blind, visually impaired or who have physical disabilities. Some of the State Library's collections were redistributed and were to be accessible to the public either through a local library or the South Dakota Library Network.
- A new state librarian was hired in December 2007. The following is from the press release announcing his arrival:

“Siebersma’s background includes nearly 20 years of experience as a director of public libraries and library systems. Recently, he served as the director of the Lakeland Library Cooperative, a 41-member public library consortium in West Michigan. His background includes experience planning and directing major technology related projects. He also spent several years working in the private sector for library vendors. Siebersma has a master of arts in librarianship from the University of Denver and a bachelor of arts from Morningside College in Sioux City, Ia.”
- The Governor's Salary Policy is as follows: \$41,983 general funds and \$10,816 federal funds.

Selected Performance Indicators

	Original Estimate	Actual	Difference Over (Under) Estm.	Original Estimate	Revised Estimate	Change in Estimate	Estimate
SDLN Full Member	61	68	7	64	68	4	68
SDLN Remote Member Libraries	150	141	(9)	355	144	(211)	147
Bibliographic Records on SDLN	4,650,000	4,373,081	(276,919)	4,750,000	4,395,906	(354,094)	4,418,648
Group Training Opportunities Provided	150	70	(80)	85	70	(15)	70
Attendance at Workshops	3500	1428	(2,072)	3,000	900	(2,100)	1,500
On-Site Visits: Public, Institutional, Sch.	200	17	(183)	300	30	(270)	160
Libraries' Administrative Questions Answered	2000	836	(1,164)	2,500	900	(1,600)	1,650
Total Requests Received	60,000	51,782	(8,218)	60,000	25,500	(34,500)	27,000
Requests from State Employees	4,000	3,060	(940)	6,000	4,600	(1,400)	5,600
Items Loaned	100,000	46,230	(53,770)	50,000	23,000	(27,000)	23,500
Patrons Using Public Terminals	9,500	5,174	(4,326)	4,000	3,800	(200)	3,800
Electronic Views (SIRS)		126,181	126,181	50,000	132,490	82,490	139,114
Electronic Views (ProQuest Statewide)	630,000	598,148	(31,852)	640,000	628,055	(11,945)	659,458
Electronic Views (E-Books Statewide)	28,000	54,027	26,027	32,000	56,728	24,728	59,564
State Library Web Page Users' Views	1,400,000	1,059,473	(340,527)	1,400,000	1,200,000	(200,000)	1,059,473
Interlibrary Network Borrows	80,000	75,361	(4,639)	60,000	76,361	16,361	77,361
State Publications Items Distributed	20,000	12,642	(7,358)	13,000	12,400	(600)	12,000
Braille and Talking Book Library:							
Users	5,560	5,526	(34)	5,977	5,794	(183)	6,147
Circulation of Library Materials	123,525	112,638	(10,887)	119,972	116,017	(3,955)	119,497
Volunteer Hours	965	368	(597)	450	400	(50)	418
Talking Books from Library of Congress	19,715	13,600	(6,115)	19,500	16,000	(3,500)	16,000
Educational Material Titles	1,112	1,354	242	1,410	1,381	(29)	1,408
Total Collection Volumes	186,780	182,788	(3,992)	197,464	98,394	(99,070)	106,100
Total Collection Titles	46,380	48,262	1,882	47,028	50,250	3,222	52,250
Summer Reading Program Participants	69	55	(14)	50	58	8	62

Other Departmental Issues

A. Budget Transfers (FY07 and FY08 Year To Date)

FY07		
\$4,100,000	One-time Transfer	01/09/2007 approved by BFM
The Department of Education transferred \$4.1M in general funds from State Aid to the Office of Curriculum, Technology, and Assessment (\$1,528,060), the Birth to Three Program (\$800,000), and Technology in Schools (\$1,771,940). The department said the funds would be used to cover shortfalls in the areas of assessment, technology in schools, and in the Birth-to-Three program. Funds were available due to expenditures for state aid coming in lower than expected.		

\$2,780,697 and 1.2 FTE	One-time Transfer	6/25/2007 approved by BFM
The Department of Education transferred \$611,045 in general funds from State Aid and \$305,000 in general funds from the State Library to General Administration, Career and Technical Education, and Education Resources. Transferred \$500,000 in federal fund expenditure authority from General Administration to Education Resources. Transferred \$1,364,652 in other fund expenditure authority to federal fund expenditure authority in Technology in Schools and Education Services Agencies. The department reported that the funds were used to cover personal services shortfalls within the affected divisions, to allow for expenditure of Homeland Security funding received for network security for Technology in Schools, and to cover funding shortfalls associated with No Child Left Behind assessment requirements. Funds were available due to some expenditures coming in lower than anticipated.		

FY08		
\$620,848 and 2.0 FTE	Base Transfer	06/12/2007 approved by BFM
The Department of Education transferred \$75,000 in general funds from General Administration to Education Services and \$10,000 in general funds within Career and Technical Education. Transferred \$70,000 in federal fund expenditure authority within Career and Technical Education. The department reported that the funds were transferred due to the move of the web development duties from Education Services to General Administration and to fund a shortfall in salaries in Career and Technical Education due to limited federal grants for administrative expenses.		

B. Audit Findings

Finding No. 080002006004:

The Department of Social Services (DSS) moved \$1,100,000 from the State General Fund to a special revenue fund at the Department of Education (DOE) without proper authorization. The transactions were not recorded in accordance with generally accepted accounting principles.

Analysis:

During FY2006, the DSS and the DOE processed two documents moving \$1,100,000 from the State General Fund into the DOE's 'Other' special revenue fund. The DSS recorded this as a grant expenditure while the DOE recorded it as grant revenue. This transaction is not in accordance with generally accepted accounting principles.

To be properly recorded in accordance with general accepted accounting principles, the transactions should have been processed as transfers in and transfers out of the corresponding funds. This would have required, per SDCL 4-8A-8, approval from the special committee created under 4-8A-2 (commonly referred to as the Interim Appropriations Committee). This approval was never requested by either the DSS or the DOE.

Once the money was transferred to the DOE's 'Other' special revenue fund, the DOE moved \$905,485.60 in expenditures out of their federal fund and \$194,514.40 in expenditures out of their State General Fund and recorded the expenditures in the 'Other' special revenue fund in order to utilize the money in FY2006.

As a result, \$1,100,000 in State General Fund appropriation at DSS was not reverted at June 30, 2006 and was not available for appropriation by the Legislature.

RECOMMENDATIONS:

4. We recommend the Department establish controls to ensure transactions are recorded in accordance with generally accepted accounting principles.
5. We recommend the Department request budget transfer approval as required by state law.

Auditee's Corrective Action Plan - Department of Social Services:

Thank you for the opportunity to respond to Financial Statement Audit Finding 080002006004. We do not concur that funds were moved without proper authorization. The transaction was classified and reported as a reciprocal inter-fund activity by recording expenditures and revenues in accordance with generally accepted accounting principles.

The finding notes the Codification of Governmental Accounting and Financial Reporting Standards, section 1800.102 which speaks to non-reciprocal inter-fund activity. Our transaction with the Department of Education (DOE) resulted in a purchase of services through the Department of Education's (DOE) Birth to 3 Program as the transaction with DOE provided speech therapy, audiology, physical therapy, and occupational therapy for children age 0-3 for a population served by both DSS and DOE. Therefore, we recorded the transaction as a reciprocal inter-fund activity as identified in 1800.102, a. (2).

Inter-fund services provided and used- Sales and purchases of goods and services between funds for a price approximating their external exchange value. Inter-fund services provided and used should be reported as revenues in seller funds and expenditures or expenses in purchases funds.

Because a good or service was provided in return, the transfer of funds via SDCL 4-8A-8 would not apply.

In response to your recommendations:

1. The transaction was reciprocal with the intent to record it in accordance with generally accepted accounting principles.
2. Since the transaction was reciprocal, budgetary approval is not necessary.

Auditee's Corrective Action Plan - Department of Education:

Thank you for the opportunity to review and comment on the audit findings and recommendations associated with your audit of the Department of Education as part of the State of South Dakota's single audit for the fiscal year ended June 30, 2006.

The information below will serve as the Department of Education's response to finding number 080002006004, which reads as follows:

The Department of Social Services (DSS) moved \$1,100,000 from the State General Fund to a special revenue fund at the Department of Education (DOE) without proper authorization. The transactions were not recorded in accordance with generally accepted accounting principles.

The Department of Education does not concur with this audit finding. In fiscal year 2006, the Department of Education and the Department of Social Services entered into an interagency agreement. The purpose of the agreement was to provide services through the Department of Education's Birth to Three Connections program to children age birth to three who were identified as being disabled or developmentally delayed. Services provided with the funding were primarily medical services including physical, speech and occupational therapy.

Though the finding refers to the Codification of Governmental Accounting and Financial Reporting Standards, section 1800.102 which discusses non-reciprocal interfund activity, the transaction discussed was not a non-reciprocal transaction. The Department of Social Services received a benefit in the form of early intervention services for children currently served or likely to be served by the Department of Social Services' programs. Therefore, the transaction was recorded as a reciprocal inter-fund activity as identified in the Codification of Governmental Accounting and Financial Reporting Standards, section 1800.102, a. (2):

Inter-fund services provided and used- Sales and purchases of goods and services between funds for a price approximating their external exchange value. Inter-fund services provided and used should be reported as revenues in seller funds and expenditures or expenses in purchases funds.

Because services were provided in return, SDCL 4-8A-8 does not apply to this transaction.

Therefore, in response to your recommendations:

1. The transaction was reciprocal and recorded in accordance with generally accepted accounting principles.
2. Since the transaction was reciprocal, the transfer of funds between agencies did not occur and approval from the interim committee was not necessary.

Auditor's Comments on Corrective Action Plans:

We stand by our finding that the transaction addressed in this finding should have been treated as a transfer subject to approval by the Interim Appropriations Committee and provide the following additional comments regarding the agencies' responses:

1. The DOE's response identified that DOE and DSS entered into an interagency agreement in fiscal year 2006. The agreement was entered into (signed) on July 6, 2006 which was in fiscal year 2007. Also, the period of services to be provided under the agreement were from July 1, 2005 to June 30, 2006 which was prior to the date the agreement was signed. The interagency agreement language included the following:
 - DSS agrees to grant to DOE funds to support the Early Intervention Program for Infants and Toddlers with Disabilities, also known as the Birth to Three Connections Program.
 - Funds available under this grant will be used to provide direct services to children participating in the Birth to Three Connections Program.
 - A total of \$1,100,000 is granted to the DOE for services provided from July 1, 2005 to June 30, 2006.
2. The DOE and DSS contended in their response that the transaction discussed was a reciprocal inter-fund transaction and was properly recorded under GASB codification section 1800.102a(2). Section 1800.102a(2) identifies that reciprocal interfund activity includes interfund services provided and used in which sales and purchases of goods and services between funds for a price approximating their external exchange value.

We believe the following points support our conclusion that this was a nonexchange transaction and therefore the agencies' interpretation of the transaction is incorrect.

As identified in the interagency agreement, DSS was granting \$1.1 million to DOE to support the Birth to Three Connections Program. A grant is a form of voluntary nonexchange transaction. As identified in our comment, GASB section 1800.102 states that nonreciprocal interfund activity is the internal counterpart to nonexchange transactions. The DOE and DSS coding on their documents also support their interagency agreement language of the transaction being a grant. The DSS recorded the \$1.1 million as a grant expenditure in the State General Fund and DOE recorded the \$1.1 million coming into their "Other" special revenue fund as administering program revenue.

Section 1800.102a(2) states ". . . sales and purchases of goods and services between funds for a price approximating their external exchange value (emphasis added)." The interagency agreement does not specify a rate per service unit or the number of units to be provided. As such, the DOE could have provided as little as two hours of service to two children for the \$1.1 million. This would not approximate the sales and purchases of goods and services at external exchange value.

The expenditures that DOE moved from its federal fund and the State General Fund to its "Other" special revenue fund to effectively spend the \$1.1 million provided by DSS were previously paid by DOE primarily as Consultative Specialist grant disbursements to school districts and other providers of the services. The DOE was not a provider of the service to the birth to three children.

C. General Fund Reversions

FY2003 - \$33,088

FY2004 - \$510,439

FY2005 - \$182,077 (\$4,581,878 was transferred out of State Aid to General Education)

FY2006 - \$2,867,470 (all from State Aid)

FY2007 - \$129 (\$4,304,153 was transferred out of State Aid to General Education)

D. Letters of Intent

None

E. Committee Questions

- Provide a report detailing the school districts' general fund reserve balances at the lowest point, the highest point, and a twelve-month average.
- Provide a list of any money that has been diverted from the Educational Service Agencies formula and the reason the money was diverted.
- Provide an update on the regional ESAs.
- Explain why the Headstart FTE couldn't have been transferred from the existing FTE? Why do you need a full FTE when an existing FTE was already doing part of that work?