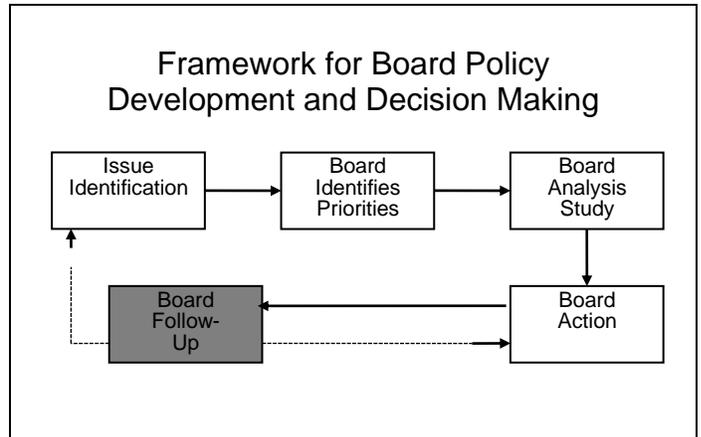


Iowa State Board of Education

Executive Summary

January 22, 2015



Agenda Item: Review of the School Finance Formula Review Committee Meeting

Iowa Goal: All PK-12 students will achieve at a high level.

State Board Role/Authority: The State Board acts in an advocacy role to promote effective education opportunities for all students in Iowa.

Presenter: Jeff Berger
Deputy Director

Attachments: 1

Recommendation: It is recommended that the State Board hear and discuss this information.

Background: The School Finance Formula Review Committee is required to be appointed every five years to conduct regular reviews of the school finance formula and produce a school finance formula status report for submission to the General Assembly. The Review Committee met on December 15, 2014. Jeff Berger presented the attached document and will provide the State Board an overview of the meeting and next steps.

School Finance Overview

December 15, 2014

Jeff Berger
Iowa Department of Education

Lisa Oakley
Iowa Department of Management

John Parker
Legislative Services Agency

Presentation Overview

- ▶ Formula Basics – Oakley
- ▶ Changes over past 5 years - Oakley
- ▶ District Cost Per Pupil – Parker
- ▶ Comparison with Other States – Parker
- ▶ Formula Equity/Inequity – Berger
- ▶ State Aid vs. Property Taxes – Berger
- ▶ Categorical Funding - Berger

FY 2015 Big Picture

- ▶ 338 school districts
- ▶ 9 Area Education Agencies
- ▶ 478,920.9 budget enrollment
- ▶ \$2,873,761,313 state foundation aid
- ▶ \$1,349,340,006 foundation property tax
- ▶ \$2,122,027,702 total property tax
- ▶ \$103,055,261 total income surtax

Formula Goals

Iowa Code 257.31:

- ▶ Equalize educational opportunity
- ▶ Provide good education for all children of Iowa
- ▶ Provide property tax relief
- ▶ Decrease percentage of school costs paid from property taxes
- ▶ Provide reasonable control of school costs

Basics

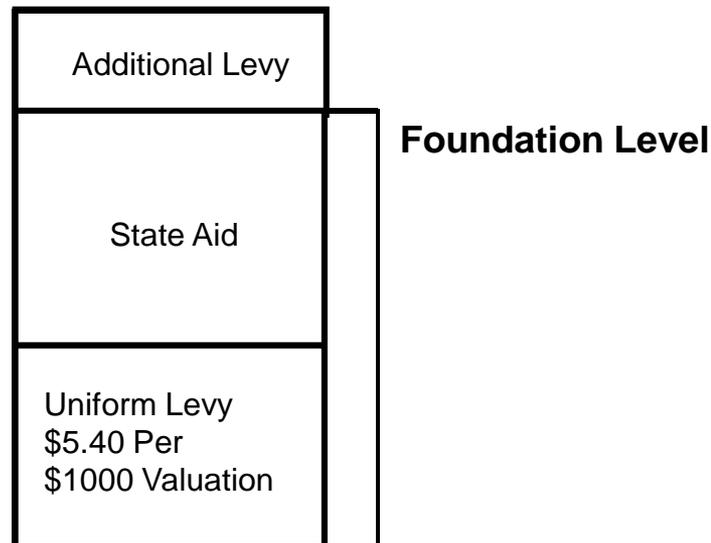
- ▶ Spending limit/ceiling
- ▶ Local school district funding is primarily determined by the number of students and the district's cost per pupil

School Foundation Formula

- ▶ Step 1: Determine spending authority



- ▶ Step 2: Determine state aid vs. property tax



Spending Authority – What is It?

- ▶ Limits school district spending (general fund)
- ▶ Represents legal or statutory maximum
- ▶ Unused spending authority carries forward to next year
- ▶ Negative unspent balance = violation of statutory authority

Unspent Authorized Budget Report

0009		(Line 31 = Legal Limit on General Fund Spending)							
		Actual	Actual	Actual	Actual	Actual	Actual	Estimated	Estimated
		FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15
1	Regular Program District Cost	3,914,606	3,984,652	3,890,648	3,919,422	3,878,070	3,903,707	3,843,281	3,860,991
2	Regular Program Budget Adjustment +	348,365	255,281	241,826	172,738	123,429	59,151	99,463	20,723
3	Supplementary Weighting District Cost +	47,245	75,389	72,452	54,794	154,673	135,817	124,533	116,859
4	Special Ed District Cost +	636,777	671,876	792,825	687,097	633,760	623,811	527,890	484,793
5	Teacher Salary Supplement District Cost +	0	0	347,405	349,759	349,759	348,108	348,108	343,638
6	Prof Dev Supplement District Cost +	0	0	37,179	37,474	37,474	37,338	37,338	36,970
7	Early Intervention Suppl District Cost +	0	0	31,209	31,641	31,641	31,704	31,704	31,903
8	AEA Special Ed Support +	198,871	203,517	204,725	201,394	197,254	197,948	191,129	190,044
9	AEA Special Ed Support Adjustment +	9,712	5,066	3,858	7,189	11,329	10,635	17,454	18,539
10	AEA Media Services +	32,340	33,125	32,449	32,365	32,074	32,364	31,846	32,167
11	AEA Educational Services +	36,219	37,077	36,295	36,192	35,867	36,182	35,594	35,937
12	AEA Sharing District Cost +	0	0	0	0	0	0	0	0
13	AEA Teacher Salary Suppl District Cost +	0	0	34,341	34,341	33,529	25,697	25,568	24,588
14	AEA Prof Dev Suppl District Cost +	0	0	3,944	3,944	3,851	2,950	2,934	2,820
15	Dropout Prevention Allowable Growth +	146,775	149,424	145,899	146,978	145,428	146,389	131,437	94,829
16	SBRC Allowable Growth Other #1 +	0	0	0	0	0	0	0	0
17	SBRC Allowable Growth Other #2 +	0	122,659	77,644	98,056	100,011	76,479	78,013	0
18	Special Ed Deficit Allowable Growth +	43,770	138,463	0	0	89,119	62,381	0	0
19	Special Ed Positive Balance Reduction -	0	0	20,370	0	0	0	0	0
20	AEA Special Ed Positive Balance -	0	0	0	0	0	0	0	0
21	Allowance for Construction Projects +	0	0	0	0	0	0	0	0
22	Unspent Allowance for Construction -	0	0	0	0	0	0	0	0
23	Enrollment Audit Adjustment +	0	-23,755	0	-1,763	0	0	0	-9,409
24	AEA Prorata Reduction -	23,504	18,487	20,475	18,487	50,409	50,409	41,289	41,289
25	Maximum District Cost =	5,391,176	5,634,287	5,911,854	5,793,134	5,806,859	5,680,252	0	0
26	Preschool Foundation Aid +	0	0	0	0	52,947	78,013	82,634	79,575
27	Instructional Support Authority +	377,461	374,166	365,047	355,816	341,048	336,130	337,223	333,866
28	Ed Improvement Authority +	0	0	0	0	0	0	0	0
29	Other Miscellaneous Income +	986,745	1,067,827	673,858	902,543	560,832	544,920	0	0
30	Unspent Auth Budget - Previous Year +	2,112,784	1,973,358	1,965,579	2,030,278	2,047,280	1,883,038	1,607,040	0
31	Maximum Authorized Budget =	8,868,166	9,049,638	8,916,338	9,081,771	8,808,966	8,522,353	0	0
32	Expenditures -	6,894,808	7,084,059	6,886,060	7,034,491	6,925,928	6,915,313	0	0
33	Unspent Authorized Budget =	1,973,358	1,965,579	2,030,278	2,047,280	1,883,038	1,607,040	0	0

	FY 2015	% of Total
Regular Program District Cost	3,059,626,051	68.7%
Regular Program Budget Adjustment	3,171,867	0.1%
Supplementary Weighting District Cost	75,606,605	1.7%
Special Ed District Cost	398,884,393	9.0%
Teacher Salary Supplement District Cost	263,020,527	5.9%
Prof Dev Supplement District Cost	29,809,229	0.7%
Early Intervention Suppl District Cost	32,436,162	0.7%
AEA Funding	225,832,654	5.1%
SBRC Modified Suppl Amt Dropout Prev	80,983,729	1.8%
SBRC Modified Suppl Amt Other	unknown	
Preschool Foundation Aid	69,955,725	1.6%
Instructional Support Authority	211,456,061	4.8%
Ed Improvement Authority	702,943	0.0%
Other Miscellaneous Income	unknown	
Unspent Auth Budget - Previous Year	unknown	
Maximum Authorized Budget	4,451,485,946	

Spending Authority Components

▶ Regular Program Cost =

District Cost per Pupil X Enrollment

- State Percent of Growth – applied to per pupil funding amount (not the overall budget)
- Supplemental State Aid – amount per pupil funding grows

FY 2014 State Cost Per Pupil \$6,121	+	FY 2015 State Percent of Growth 4%	=	FY 2015 Supplemental State Aid Amount \$245
FY 2014 District Cost Per Pupil	+	FY 2015 Supplemental State Aid Amount \$245	=	FY 2015 <u>District</u> Cost Per Pupil

- Enrollment

- Count taken October 1
- October 2014 used to determine FY 2015-16 funding
- Pupils counted for funding purposes where they reside

Spending Authority Components

- ▶ Budget Adjustment – 101% guarantee
 - One year cushion
 - 100% property tax
 - Board resolution required

- ▶ Weighted Enrollment Funding
 - Special Education
 - English Language Learners
 - Operational Function Sharing
 - Others – Sharing, At-Risk, Reorganization

Spending Authority Components

- ▶ State Categorical Supplements – separate state percent of growth and district cost per pupil
 - FY 2010
 - Teacher Salary
 - Professional Development
 - Class Size/Early Intervention
 - FY 2016
 - Teacher Leadership Supplement
 - 39 districts that received FY 2015 grants
 - \$308.82 cost per pupil

Spending Authority Components

- ▶ AEA Program Funding
 - Flows through local district
 - Pupil driven
 - Special Education Support Services
 - Media Services
 - Educational Services
 - Operational Function Sharing
 - Categorical - Teacher Salary and Professional Development
- ▶ Discretionary – General Fund
 - Instructional Support Program
 - 4-Year-Old Preschool Program

Instructional Support

- ▶ Iowa Code 257.18-.27
 - Part of General Fund Budget
 - Optional; Board or Voter approval
 - Funded through property tax and/Income Surtax
 - State funding gone since FY 2012
- ▶ FY 2015: \$211,456,061 Total
 - 97% - 328 of 338 school districts
 - \$91,988,125 Income Surtax
 - \$119,467,936 Property Tax
- ▶ FY 2015: \$80,832,538 unadjusted state aid
- ▶ FY 2016: current law \$14.8 million (FY 1993 level)

Statewide Voluntary Preschool Program for 4-Year Old Children

- ▶ FY 2009
- ▶ 100% state aid
- ▶ 50% of enrollment X state cost per pupil
- ▶ FY 2015:
 - 21,926 formula count
 - \$3183 per enrollment (1/2 of state cost per pupil)
 - \$70 million; 310 districts

Spending Authority Components

- ▶ Spending Authority approved by SBRC
 - Dropout Prevention
 - Ontime Funding, ELL, Open Enrollment Out
 - Other
- ▶ Miscellaneous Income
 - Federal and State Grants
- ▶ Previous year Unspent Authority carried forward

Unspent Authorized Budget

▶ Positive

- Unused total spending authority
- Authority to spend – is not cash
- Use for one-time expenditures; once spent is gone

▶ Negative – over spent

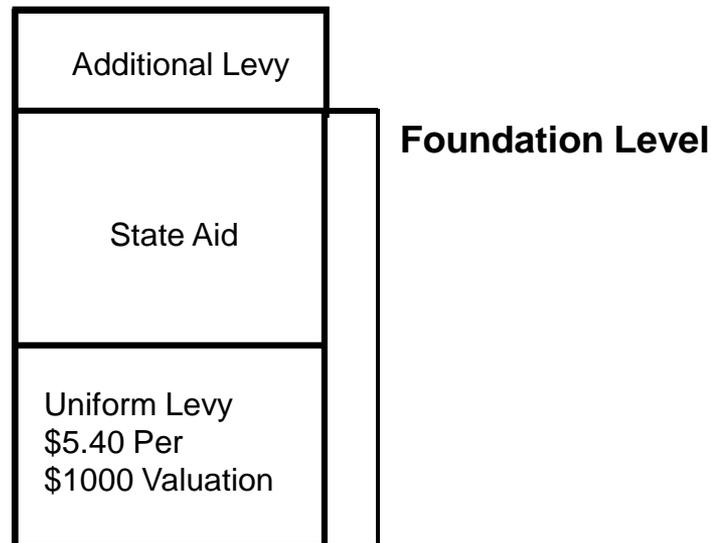
- Report to SBRC
- Corrective action plan – reduce expenditures; reorganization; dissolution; increase Instructional Support Levy if possible

School Foundation Formula

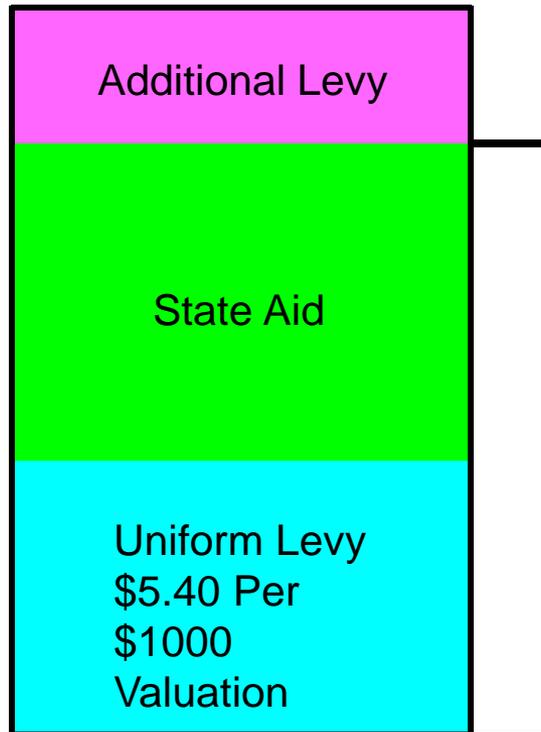
- ▶ Step 1: Determine spending authority



- ▶ Step 2: Determine state aid vs. property tax



Foundation Formula

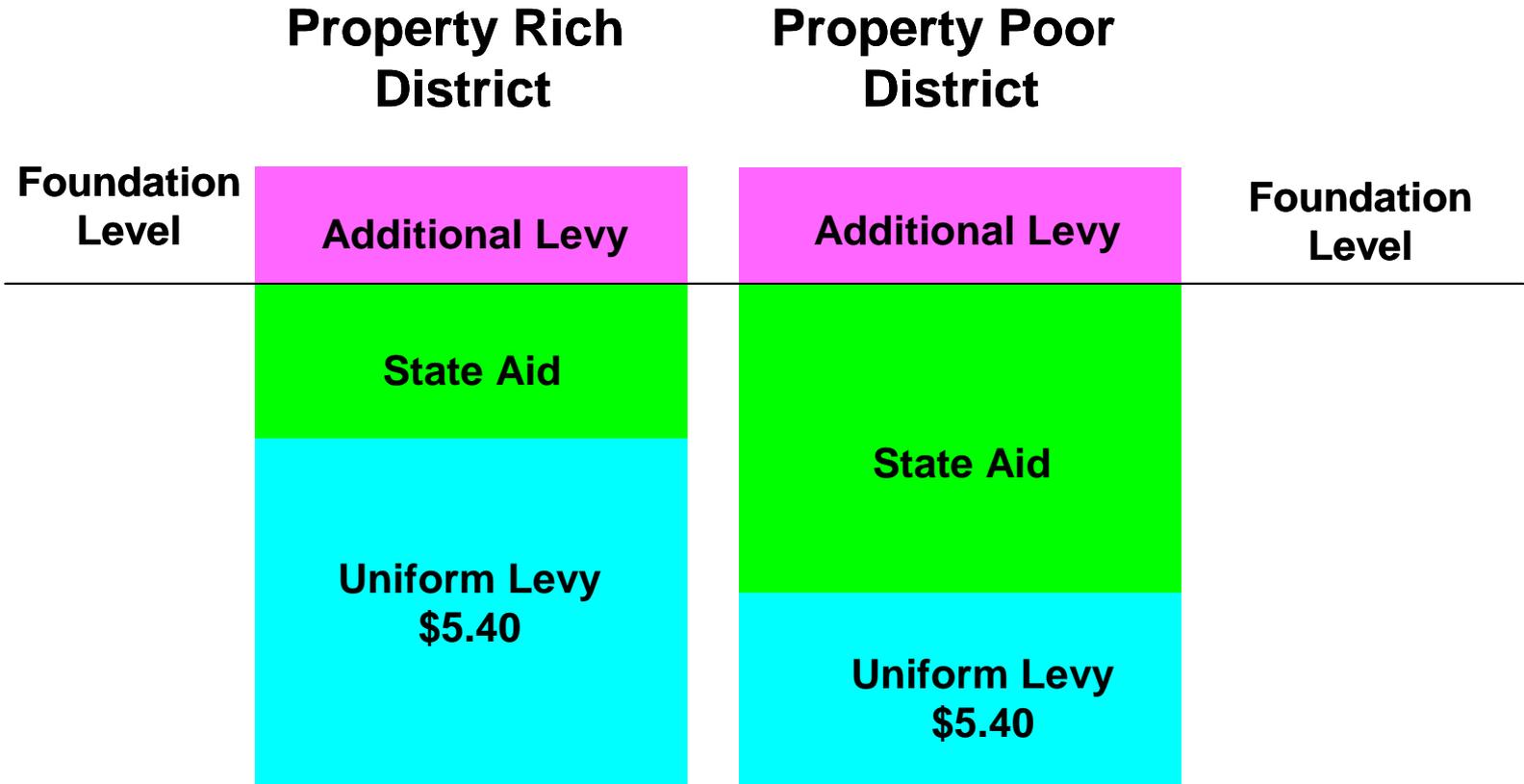


Foundation Level

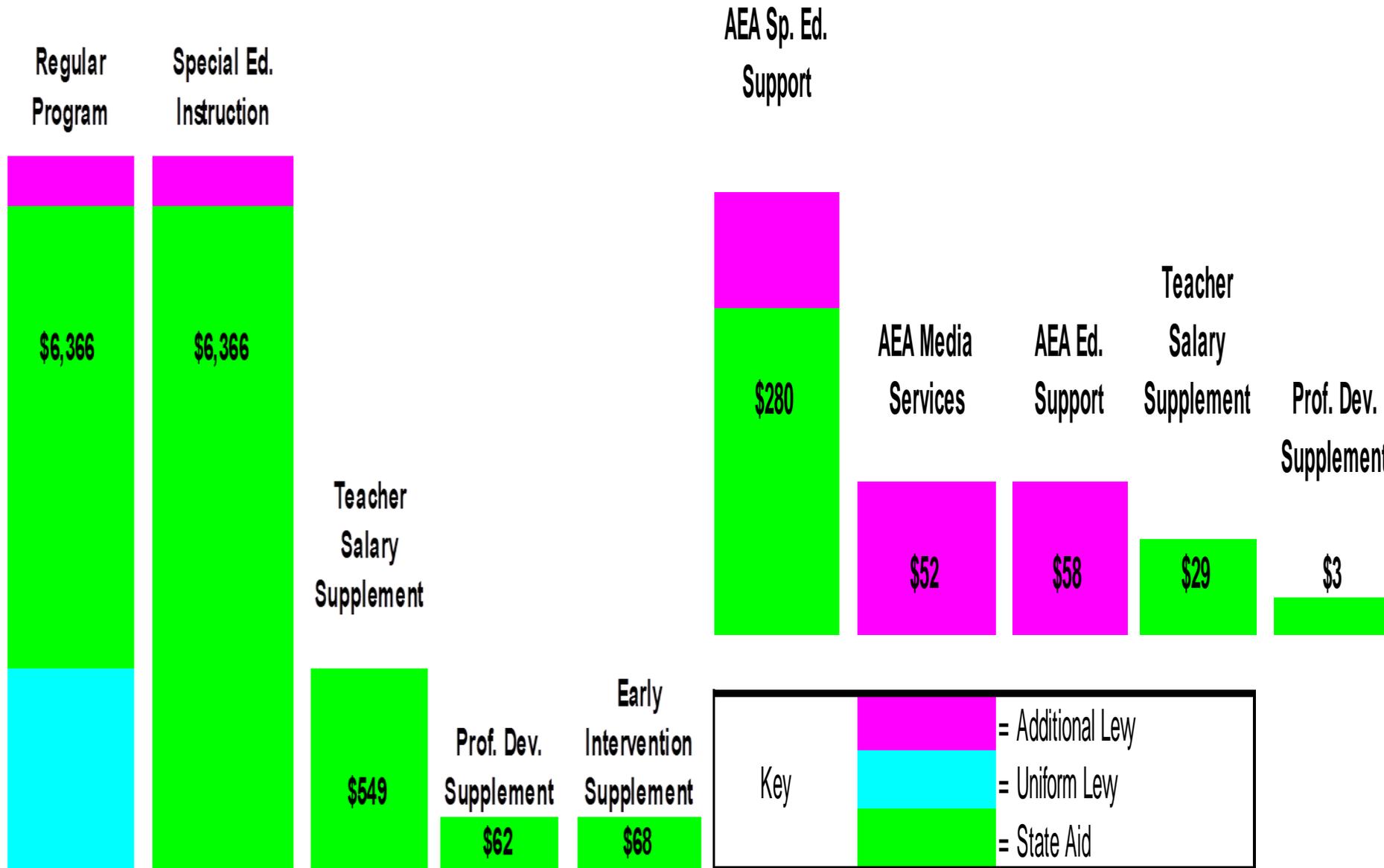
FY 2015:

87.5% of State Cost (\$6,366)
= \$5,570 Per Pupil

Foundation Formula



FY 2015 State Cost Per Pupil Amounts



State Foundation Aid

- ▶ Foundation Percentage
- ▶ Foundation Cost per Pupil X Enrollment = Total Foundation Dollars
 - State Foundation Cost per Pupil X Weighted Enrollment (w/o special ed)
 - Special Education Foundation Cost per Pupil X Special Ed Weight
 - AEA Foundation Cost per Pupil X Weighted Enrollment
 - Supplemental Categorical (TSS, PD, EI, TLS) – 100% state aid
- ▶ Total Foundation Dollars minus Uniform Levy
- ▶ Add 4-Year-Old Preschool State Foundation Aid
- ▶ Equals Unadjusted State Foundation Aid

Property Tax/State Aid Adjustments

- ▶ Receive revenue other than formula state aid and property taxes

- ▶ Utility Replacement Excise Tax
 - Began in FY 2002
 - Gas & Electric companies pay excise tax based on energy delivered
 - Estimate – based on tax rate and G&E valuation
 - Actual – based on energy delivered

- ▶ Commercial/Industrial State Replacement
 - Began in FY 2015
 - C/I property tax relief
 - Property Valuation rollback
 - FY 2015 – 95%
 - FY 2016 and beyond – 90%
 - State is reimbursing local governments for lost property taxes

Additional Levy

Components of Additional Levy:

- ▶ 12.5% of the Regular Program Foundation Level
- ▶ 12.5% of the Special Education Foundation Level
- ▶ 21.0% of the AEA Foundation Level
- ▶ AEA Media and Education Services
- ▶ DCPD above SCPP
- ▶ District and AEA Budget Adjustment
- ▶ Dropout Prevention Program
- ▶ Property Tax Adjustment Aid
- ▶ Adjusted Additional Property Tax Levy Aid
- ▶ Property Tax Replacement Payment
- ▶ Miscellaneous

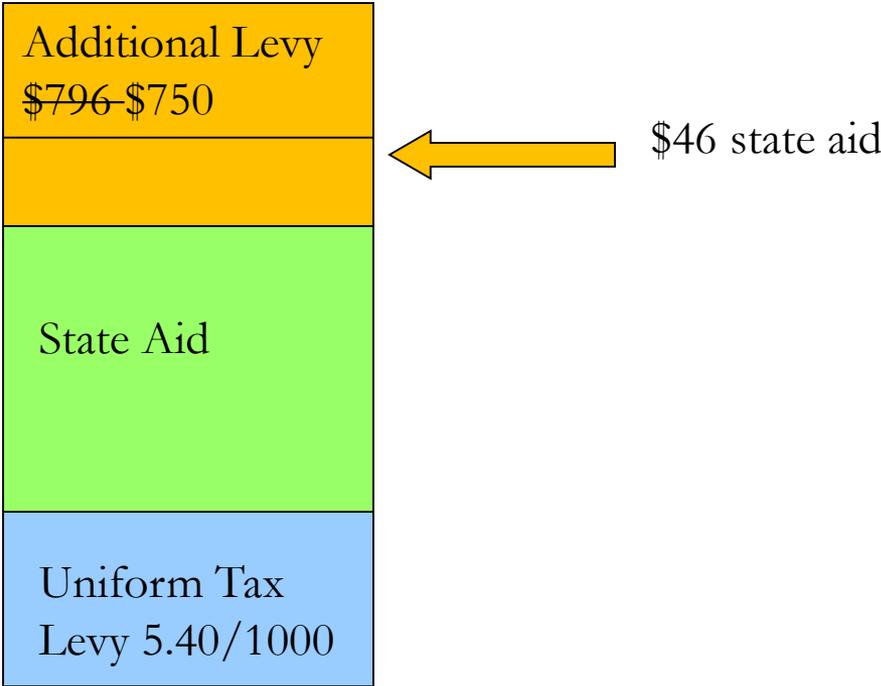
Combined District Cost minus Total Foundation Level

Property Tax Relief in Formula

- ▶ (1) Property Tax Adjustment Aid
 - FY 1992
 - Gradual phase-out as valuations grow
 - FY 2015 - \$9.3m; 288 districts

- ▶ (2) Property Tax Replacement Payment (PTRP)
 - FY 2014
 - Replaces \$15 in FY 2014 and \$46 in FY 2015
 - FY 2015 - \$25.4m; all 338 districts
 - FY 2016 – current law \$46 only continues

Property Tax Replacement Payment - FY 2015



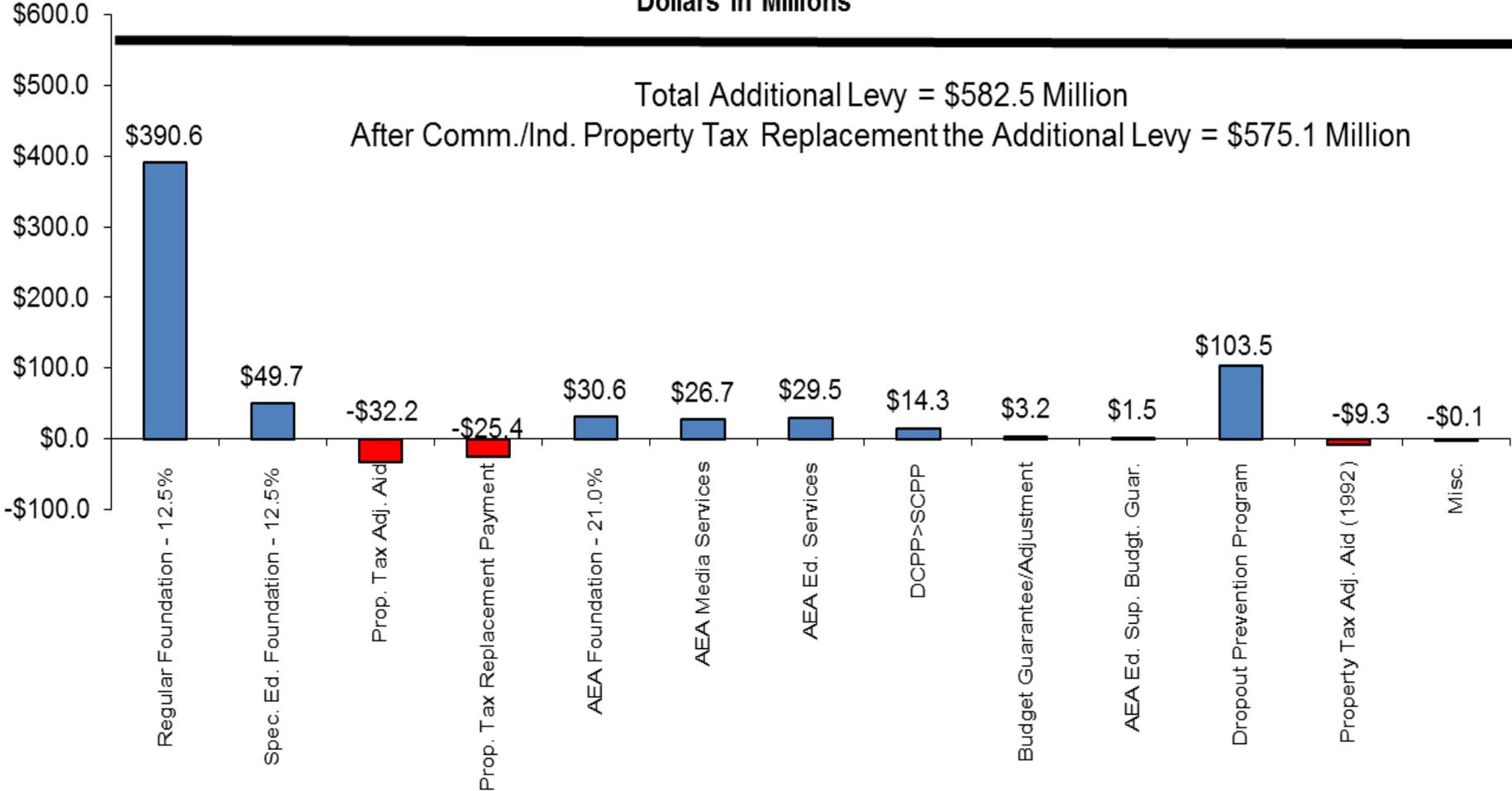
Property Tax Relief in Formula

- ▶ (3) Adjusted Additional Property Tax Levy Aid
 - FY 2007 state GF / FY 2010 PTER
 - Districts with highest adjusted additional levy rate; lowest valuation per pupil
 - FY 2015 rate brought down from \$5.73 to \$3.39
 - FY 2015 - \$32.2m; 68 districts (\$24.0m state GF; \$8.2m PTER)

- ▶ (4) Additional PTER funding
 - FY 2010
 - Increases foundation level for all districts
 - Amount = zero

School Aid Formula FY 2015 Additional Levy Components Dollars in Millions

Total Additional Levy = \$582.5 Million
After Comm./Ind. Property Tax Replacement the Additional Levy = \$575.1 Million



Total may not sum due to rounding.

Cash Reserve

- ▶ Provides “cash” behind spending authority
- ▶ Property taxes levied for:
 - Cash to back unfunded spending authority
 - State aid, property tax shortfall
 - Modified Supplemental Amount (spending authority approved by the SBRC)
 - Included in district’s general fund levy
- ▶ FY 2015 - \$182,986,988; 220 districts
- ▶ Iowa Code limitation = 20% of expenditures minus assigned and unassigned ending fund balance

Income Surtax

- ▶ Used to replace property tax
- ▶ Surtax on individual income tax collections
- ▶ 20% maximum
- ▶ Instructional Support Levy, Voted Physical Plant and Equipment Levy, or Educational Improvement Levy
- ▶ FY 2015 - \$103,055,261; 281 districts

Discretionary – Non General Fund

- ▶ Management Levy
 - Specified use; \$147,221,151; 328 districts

- ▶ Physical Plant and Equipment Levy (PPEL)
 - Board approved \$0.33; \$49,428,480; 328 districts
 - Voter approved \$1.34; \$108,535,282; 244 districts

- ▶ Public Education and Recreation Levy (PERL)
 - Voter approved \$0.135; \$2,390,310; 20 districts

- ▶ Debt Service/Bond Levy
 - 60% voter approval
 - \$2.70 maximum unless voters approved higher (\$4.05)
 - \$162,368,318; 184 districts

Changes Over Past Several Years

- ▶ FY 2010
 - Teacher Salary, Professional Development, Early Intervention Roll-in
 - Property Tax Equity and Relief (PTER) funding for property tax relief
- ▶ FY 2011
 - None
- ▶ FY 2012
 - 4-year-old preschool weight changed from 60% to 50%
- ▶ FY 2013
 - Cash Reserve Levy Limit changed from 25% to 20%
 - Final year of the scale down budget guarantee

Changes Over Past Several Years

▶ FY 2014

- Instructional Support Levy on TIF valuation no longer diverted to city with TIF project
- New limits for Dropout Prevention funding
- Increase in district cost per pupil for FY 2014 and FY 2015 funded with state appropriations; no property tax
- “Allowable growth” term changed to “supplemental state aid”

▶ FY 2015

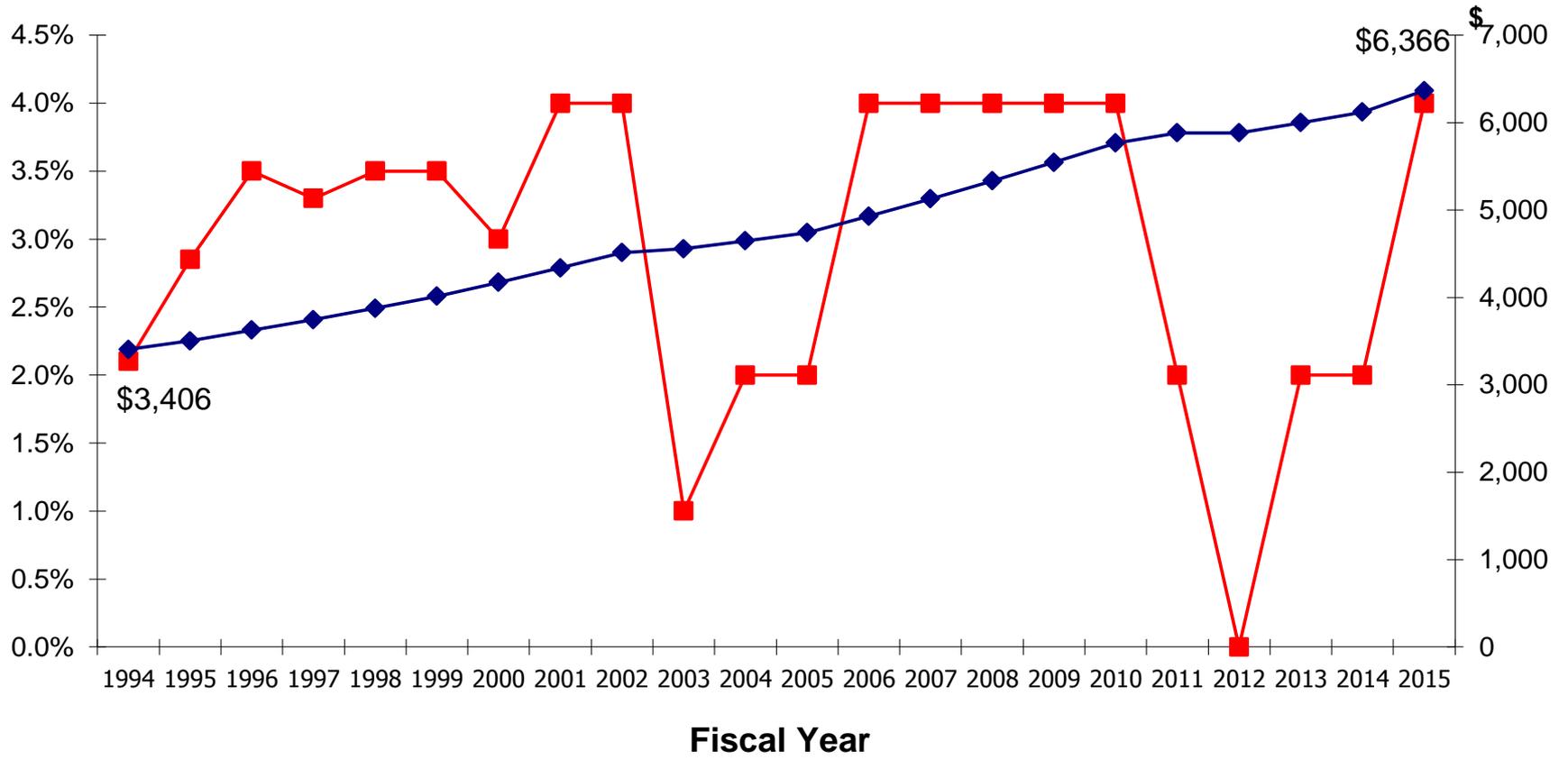
- Commercial/Industrial valuation rollback adjustment
- ELL supplementary weight eligibility increased from 4 to 5 years
- Supplementary weight for operational function sharing changed and extended

Changes Over Past Several Years

- ▶ FY 2016
 - Teacher Leadership Compensation funding roll-in
 - Set amount (2.1%) of school infrastructure sales tax dedicated to PTER fund

State Percent of Growth Rates and State Cost Per Pupil Amounts FY 1994 to FY 2015

■ State Percent of Growth Rate
 ◆ SCPP



State Percent of Growth History

	State Percent of Growth	Session Enacted	Bill #	Date Enacted	Meets Requirements under 257.8 and 8.21
FY 2015	4.0%	2013	HF 215	6/3/2013	No
FY 2014	2.0%	2013	HF 215	6/3/2013	No
FY 2013	2.0%	2011	SF 533	7/27/2011	No
FY 2012	0.0%	N.A.	N.A.	N.A.	No
FY 2011	2.0%	2009	SF 218	2/27/2009	Yes
FY 2010	4.0%	2008	HF 2140	2/12/2008	Yes
FY 2009	4.0%	2007	SF 109	2/22/2007	Yes
FY 2008	4.0%	2006	HF 2095	6/1/2006	No
FY 2007	4.0%	2005	SF 36	2/2/2005	Yes
FY 2006	4.0%	2004	SF 2298	5/17/2004	No
FY 2005	2.0%	2003	SF 211	3/3/2003	No
FY 2004	2.0%	2002	SF 2328	5/9/2002	Yes
FY 2003*	1.0%	2002	SF 2315	3/28/2002	No/Yes *
FY 2002	4.0%	2000	SF 2082	2/9/2000	Yes
FY 2001	4.0%	1999	HF 146	2/4/1999	Yes
FY 2000	3.0%	1998	SF 2094	2/19/1998	Yes

*Note: The State percent of growth for FY 2003 was originally set at 4.0% during the 2001 Session (HF 191 approved on 2/12/2001).

Iowa Code 257.8 - "The state percent of growth for each subsequent budget year shall be established by statute which shall be enacted within thirty days of the submission in the year preceding the base year of the governor's budget under section 8.21."

Iowa Code 8.21 - "Not later than February 1 of each legislative session, the governor shall transmit to the legislature a document to be known as a budget, setting forth the governor's financial program for the ensuing fiscal year and having the character and scope set forth in sections 8.22 through 8.29."

FY 2015 SCPP and DCPD Amounts

	District Cost Per Pupil				Districts Below	Districts Above
	SCPP	Minimum	Maximum	Range	SCPP	SCPP
Regular Program	\$ 6,366	\$ 6,366	\$ 6,541	\$ 175	165	173
Teacher Salary Supplement	\$ 549	\$ 468	\$ 882	\$ 414	98	240
Professional Dev. Supp.	\$ 62	\$ 36	\$ 111	\$ 75	186	152
Early Intervention	\$ 68	\$ 40 *	\$ 112	\$ 72	218	120

*LuVerne Received \$8.21 per pupil, but was not included due to reporting issues.

	District Cost Per Pupil				Districts Below	Districts Above
	SCPP	Minimum	Maximum	Range	SCPP	SCPP
AEA Special Ed. Support	\$ 280	\$ 272	\$ 294	\$ 22	118	220
AEA Media Services	\$ 52	\$ 52	\$ 52	\$ 0.54	185	153
AEA Ed Support	\$ 58	\$ 57	\$ 59	\$ 2.30	139	199
AEA Teacher Salary Supp.	\$ 29	\$ 22	\$ 36	\$ 14	139	199
AEA Professional Dev. Supp.	\$ 3.35	\$ 2.83	\$ 4.15	\$ 1.32	208	130

Note: The Teacher Leadership Compensation in FY 2016 and beyond, all districts in the program will receive the same amount per pupil.

Comparison to Other States - NCEES

- ▶ Expenditures Per Pupil 2010-2011(Constant 2012-13 Dollars)
 - U.S.- \$11,153
 - Iowa - \$10,249
 - Difference - \$904
 - Rank – 28th
- ▶ Expenditures Per Pupil 2010-2011(Unadjusted Dollars)
 - U.S.- \$10,658
 - Iowa - \$9,795
 - Difference - \$863
 - Rank – 28th

▶ Note: Current expenditures include instruction, support services, food services, and enterprise operations. Expenditures for state administration are excluded in all years. Unadjusted (or “current”) dollars have not been adjusted to compensate for inflation. Constant dollars based on the Consumer Price Index (CPI), prepared by the Bureau of Labor Statistics, U.S. Department of Labor, adjusted to a school-year basis. The CPI does not account for differences in inflation rates from state to state.

▶ Source: U.S. Department of Education, National Center for Education Statistics, “National Public Education Financial Survey,” July 2013.

Comparison to Other States - NEA

- ▶ **Estimated Expenditures Per Pupil 2010-2011**
 - U.S.- \$10,770
 - Iowa - \$9,484
 - Difference - \$1,286
 - Rank – 35th
- ▶ **Estimated Expenditures Per Pupil 2013-2012**
 - U.S.- \$11,373
 - Iowa - \$9,761
 - Difference - \$1,612
 - Rank – 35th
- ▶ Note: Current expenditures of elementary and secondary day schools include amounts paid for general control, instructional service, operation, maintenance, fixed charges, and other school services including expenditures for state administration. Current expenditures comprise all governmental contributions to the retirement fund and expenditures for school services, including attendance, health services, transportation, and other school services. This figure does not include payments for capital outlay and interest on school debt or amounts spent for community colleges, community services, summer school, community centers, and services to nonpublic school students.
- ▶ Source: National Education Association , “Rankings of the States 2013 and Estimates of School Statistics 2014”

Formula Equity/Inequity

- ▶ Iowa's School Aid Funding formula is widely known as a very stable, equitable formula
- ▶ Over the years, funding situations like roll-ins, optional levies, and unequal expenses create inequities
- ▶ As with any complex formula, adjustments can cause unintended consequences

Formula Equity/Inequity

- ▶ Examples of situations that have some inequity
 - District Cost per pupil (DCPP)
 - Teacher Salary Supplement, Professional Development, and Early Intervention Supplement DCPP (2010 roll-ins)
 - Transportation Costs
 - Instructional Support Levy (or any other discretionary levy)
 - Supplementary Weightings (At-risk, ELL, Reorg, Operational Sharing)
 - Budget Guarantee

Formula Equity/Inequity

- ▶ Examples of situations that have some inequity
 - Special Education Weightings
 - Drop-out Prevention Modified Supplemental Aid
 - Lack of on-time funding
 - Differential cost of support for various types of students and locations
- ▶ Solutions are typically:
 - Add funds to raise lower limit
 - Reduce funds to bring down upper limit
 - Hybrid
- ▶ There will always be some inequities. Fixing some inequities can create other inequities.

State Aid vs. Property Tax

- ▶ Critical to Iowa's long-time formula stability and equity is the "blended portfolio" concept behind our formula
- ▶ Similar to stocks vs. bonds concept in your own investments
- ▶ When state revenues are stretched, the ability to support with local property taxes is essential to avoiding severe fluctuations in local school revenue
- ▶ In FY09/10, the property tax component of our formula helped Iowa avoid the severe fluctuations in other states (NJ, CO, CA, etc.)

State Aid vs. Property Tax

- ▶ The “correct balance” is always a subject of debate for policy-makers
- ▶ Extremes either way will destabilize what is a functional, equitable formula
- ▶ Modified supplemental state aid is necessary to a degree to avoid slowly creeping on amounts of property taxes (budget deficits filled with property taxes in certain situations)
- ▶ Whatever we do, let’s continue to support this “blended portfolio” concept (Berger’s opinion)

Categorical Funding

- ▶ Categorical funding is funding created for a specific purpose
- ▶ Can be state, federal, local, or other
- ▶ Typically have statute related to uses, separate formula computation, and accounting
- ▶ Dillon's rule applicable and appropriate
 - Why this is an advantage for legislators

Categorical Funding

▶ Pros

- Guide funding to a specific purpose
- Easier to track uses of funds
- Discrete decision-making
- Can establish separate formulas for each fund

▶ Cons

- Complexity of various funding increases risk of errors
- Increased need for management
- May not be necessary (TAG example)
- Creates inequities

Questions?