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

\[
\text{District Cost Per Pupil} \times \text{Weighted Enrollment} = \text{District's Basic Budget}
\]

- Step 2: Determine state aid vs. property tax

  - Additional Levy
  - State Aid
  - Uniform Levy
    - $5.40 Per $1000 Valuation
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

(Line 31 = Legal Limit on General Fund Spending)

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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 District Cost Per Pupil | $245 |

- 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
  
  \[
  \text{District Cost Per Pupil} \times \text{Weighted Enrollment} = \text{District's Basic Budget}
  \]

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

  - **Uniform Levy:** $5.40 Per $1000 Valuation
  - **Additional Levy:**
  - **State Aid:**
  - **Foundation Level**
Foundation Formula

Foundation Level

FY 2015:
87.5% of State Cost ($6,366)
= $5,570 Per Pupil
Foundation Formula

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<td>Uniform Levy $5.40</td>
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FY 2015 State Cost Per Pupil Amounts

Key

- Additional Levy
- Uniform Levy
- State Aid

AEA Sp. Ed. Support
= $280

AEA Media Services
= $52

AEA Ed. Support
= $58

Teacher Salary Supplement
= $29

Prof. Dev. Supplement
= $3

Regular Program
= $6,366

Special Ed. Instruction
= $6,366

Teacher Salary Supplement
= $549

Prof. Dev. Supplement
= $62

Early Intervention Supplement
= $68
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
- DCPP 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

Additional Levy $796-$750

State Aid

Uniform Tax Levy 5.40/1000

$46 state aid
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

Fiscal Year


$3,406
$6,366

0.0% 0.5% 1.0% 1.5% 2.0% 2.5% 3.0% 3.5% 4.0% 4.5% 5.0% 5.5% 6.0% 6.5% 7.0%

$0 $1,000 $2,000 $3,000 $4,000 $5,000 $6,000 $7,000

State Percent of Growth Rate
SCPP
# State Percent of Growth History

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Percent of Growth</th>
<th>Session Enacted</th>
<th>Bill #</th>
<th>Date Enacted</th>
<th>Meets Requirements under 257.8 and 8.21</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2015</td>
<td>4.0%</td>
<td>2013</td>
<td>HF 215</td>
<td>6/3/2013</td>
<td>No</td>
</tr>
<tr>
<td>FY 2014</td>
<td>2.0%</td>
<td>2013</td>
<td>HF 215</td>
<td>6/3/2013</td>
<td>No</td>
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<tr>
<td>FY 2013</td>
<td>2.0%</td>
<td>2011</td>
<td>SF 533</td>
<td>7/27/2011</td>
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<tr>
<td>FY 2012</td>
<td>0.0%</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>No</td>
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<tr>
<td>FY 2011</td>
<td>2.0%</td>
<td>2009</td>
<td>SF 218</td>
<td>2/27/2009</td>
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<td>2008</td>
<td>HF 2140</td>
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<td>2007</td>
<td>SF 109</td>
<td>2/22/2007</td>
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<tr>
<td>FY 2008</td>
<td>4.0%</td>
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<td>HF 2095</td>
<td>6/1/2006</td>
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<tr>
<td>FY 2007</td>
<td>4.0%</td>
<td>2005</td>
<td>SF 36</td>
<td>2/2/2005</td>
<td>Yes</td>
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<tr>
<td>FY 2006</td>
<td>4.0%</td>
<td>2004</td>
<td>SF 2298</td>
<td>5/17/2004</td>
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<tr>
<td>FY 2005</td>
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<td>2003</td>
<td>SF 211</td>
<td>3/3/2003</td>
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<td>FY 2004</td>
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<td>SF 2328</td>
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<td>FY 2003*</td>
<td>1.0%</td>
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<td>SF 2315</td>
<td>3/28/2002</td>
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<td>SF 2082</td>
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<td>1998</td>
<td>SF 2094</td>
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</table>

*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 DCPP Amounts

<table>
<thead>
<tr>
<th>District Cost Per Pupil</th>
<th>Districts Below</th>
<th>Districts Above</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SCPP</td>
<td>SCPP</td>
</tr>
<tr>
<td>Regular Program</td>
<td>$ 6,366</td>
<td>$ 6,366</td>
</tr>
<tr>
<td></td>
<td>$ 6,541</td>
<td>$ 175</td>
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<tr>
<td>Teacher Salary Supplement</td>
<td>$ 549</td>
<td>$ 468</td>
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<tr>
<td></td>
<td>$ 882</td>
<td>$ 414</td>
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<tr>
<td>Professional Dev. Supp.</td>
<td>$ 62</td>
<td>$ 36</td>
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<tr>
<td></td>
<td>$ 111</td>
<td>$ 75</td>
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<tr>
<td>Early Intervention</td>
<td>$ 68</td>
<td>$ 40</td>
</tr>
<tr>
<td></td>
<td>$ 112</td>
<td>$ 72</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>District Cost Per Pupil</th>
<th>Districts Below</th>
<th>Districts Above</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SCPP</td>
<td>SCPP</td>
</tr>
<tr>
<td>AEA Special Ed. Support</td>
<td>$ 280</td>
<td>$ 272</td>
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<tr>
<td></td>
<td>$ 294</td>
<td>$ 22</td>
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<tr>
<td>AEA Media Services</td>
<td>$ 52</td>
<td>$ 52</td>
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<tr>
<td></td>
<td>$ 52</td>
<td>$ 0.54</td>
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<td>AEA Ed Support</td>
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<td>$ 57</td>
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<td></td>
<td>$ 59</td>
<td>$ 2.30</td>
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<tr>
<td>AEA Teacher Salary Supp.</td>
<td>$ 29</td>
<td>$ 22</td>
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<td>$ 36</td>
<td>$ 14</td>
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<tr>
<td>AEA Professional Dev. Supp.</td>
<td>$ 3.35</td>
<td>$ 2.83</td>
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<tr>
<td></td>
<td>$ 4.15</td>
<td>$ 1.32</td>
</tr>
</tbody>
</table>

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 - NCES

- 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.

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.

Formulas 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?