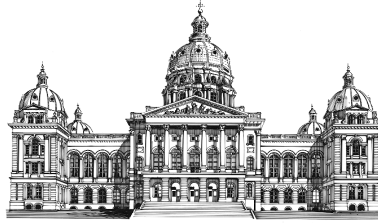

Iowa Legislative Services Agency Fiscal Services



Holly Lyons
(515) 281-5279
FAX 281-8027

State Capitol
Des Moines, IA 50319
September 12, 2008

School Aid Law Changes

ISSUE

This *Issue Review* examines law changes made during the past three Legislative Sessions (2006 through 2008) that directly impact the Iowa school aid formula.

AFFECTED AGENCIES

Local school districts
Area education agencies
Department of Management
Department of Education

CODE AUTHORITY

Chapter 257

BACKGROUND

The General Assembly is required to set an allowable growth rate during each Legislative Session that is used to determine school district budgets. This action has major implications for school district budgets and impacts the entire General Fund appropriation process.

In addition to setting the allowable growth rate, the Legislature may also approve laws that have financial impact on school districts and the State General Fund. Following is a list of legislation that has been enacted since the 2006 Legislative Session:

- Property Tax Adjustment Aid
- Sharing Incentives
- Home School Assistance Program Weight Reduction
- State Categorical Roll-in

- State Sales/Use Tax for School Infrastructure and Property Tax Relief

State aid for preschool programs was approved with the enactment of HF 877 (Statewide Preschool Program Act) during the 2007 Legislative Session. Although funding is formula driven and is tied to the school aid formula allowable growth rate, it not considered part of the school aid foundation formula and not addressed in this *Issue Review*.

RECENT LAW CHANGES

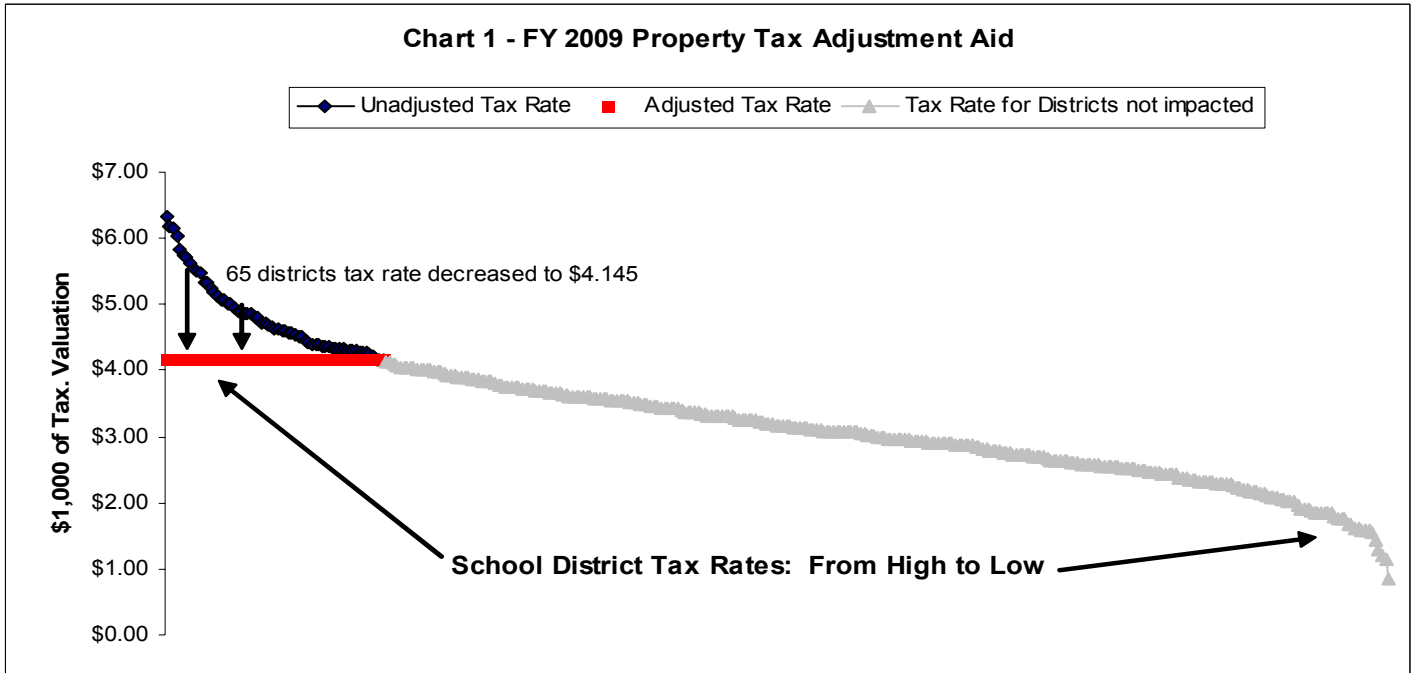
2006 Legislative Session

Property Tax Adjustment Aid

Enactment of HF 2792 (Education Program, Finance and Taxation, and Miscellaneous Appropriations Act) approved during the 2006 Legislative Session included the Property Tax Adjustment Aid legislation. This legislation provided additional State aid to school districts with high property tax rates in comparison with other districts. An appropriation of \$6.0 million was made for FY 2007 and increased by \$6.0 million annually until FY 2010, when it is scheduled to be capped at \$24.0 million annually. **Table 1** displays Property Tax Adjustment Aid information for FY 2007 through estimated FY 2010.

	<u>Appropriation (in Millions)</u>	<u>Number of Districts Receiving Allocation</u>	<u>Percentage of Districts Receiving Allocation</u>	<u>Maximum Adjusted Tax Rate/\$1,000 of Taxable Valuation</u>
FY 2007	\$6.0	29	8.0%	\$4.724
FY 2008	\$12.0	50	13.7%	\$4.445
FY 2009	\$18.0	65	18.0%	\$4.145
Est. FY 2010	\$24.0	83	22.9%	\$3.923

The formula used to lower tax rates is based on the amount of funds appropriated to “buy down” levy rates, starting with the district with the highest rate and lowering rates until the appropriated amount is fully expended. **Chart 1** provides an example of how the formula works based on FY 2009 data. Districts with a tax rate above \$4.145/\$1,000 (adjusted tax rate) will receive a portion of the \$18.0 million appropriation. Districts below the \$4.145/\$1,000 of taxable valuation will not be impacted.



Property Tax Assessment Appeal Repayment

House File 2797 (FY 2007 Standing Appropriations Act) provided that beginning with FY 2008, school districts required to repay property tax as a result of an approved appeal (as decided by judicial action or by the Property Assessment Appeal Board) in a property assessment of \$5.0 million or more would be eligible to be reimbursed the following year through State aid. In FY 2008 the State aid reimbursement totaled \$53,000 and in FY 2009 the amount was \$154,000. The future impact is unknown and will be based on the number of assessment appeals and the accuracy of property assessments.

English-as-a-Second-Language (ESL) Weighting

Students designated as ESL eligible receive an additional weighting of 0.22 through the school aid formula. The number of years a student is eligible to receive an ESL weighting was extended from three to four years with enactment of HF 2792 (Government Operations and Education Programs Act).

Table 2 provides the impact of the increase in eligibility from three to four years for FY 2007 through FY 2009. Impacts displayed for FY 2008 and FY 2009 are estimated. With the increase in ESL weighting eligibility, School Budget Review Committee (SBRC) approval of modified allowable growth for school district ESL costs is anticipated to be reduced. The estimated impact reflects only the impact of the ESL weighting generated through the school aid formula and doesn't factor any changes in SBRC modified allowable growth.

Table 2 - Estimated Impact of Extending ESL Eligibility from 3 to 4 Years						
	<u>Total Impact</u>		<u>State Aid Impact</u>		<u>Property Tax Impact</u>	
FY 2007	\$	3,790,909	\$	3,300,453	\$	490,456
FY 2008		3,856,221		3,357,323		498,898
FY 2009		5,005,199		4,354,648		650,551

2007 Legislative Session

Sharing Incentives

Senate File 447 (School District Sharing Incentives Act) extended and created new supplementary weighting opportunities for school districts meeting certain requirements. These include:

- Extended the uniform levy reduction for school districts that merge or dissolve on or prior to July 1, 2014 (Chapter 257.3(2d), Code of Iowa).
- Extended the supplementary weighting for sharing students and/or teachers in a whole grade sharing agreement through FY 2014. School districts may receive a weighting of 0.10 per student for a maximum of three years (Chapter 257.11(2c), Code of Iowa).
- Eliminated the supplementary weighting for regional academies. Funding for regional academies was to end in FY 2008, however Department of Education administrative rules provided regional academy funding through FY 2009 (Chapter 257.11(5a), Code of Iowa).
- Created supplementary weighting for operational function sharing beginning in FY 2009 and ending in FY 2014. School districts are eligible to receive a total minimum weighting of 10.0 and a total maximum of 40.0 (based on a weighting formula) for each discrete operational function shared. The weighting is to be reduced annually by 20.0% of the original amount. Area Education Agencies (AEAs) are also eligible to receive funding for operational sharing. The minimum amount is \$50,000 and the maximum amount is \$200,000 (Chapter 257.11(6), Code of Iowa).
- Extended the supplementary weighting for districts that reorganized after whole grade sharing through FY 2014. Eligible districts receive an incentive weighting equal to the weighting received in the year prior to its reorganization for three years following the reorganization (Chapter 257.11A, Code of Iowa).

Additionally, SF 588 (FY 2008 Education Appropriations Act) authorizes districts receiving or providing a virtual class over the Iowa Communications Network (ICN) to receive a weighting of 0.05 multiplied by the percentage of time the student attends the virtual class during the class day beginning in FY 2009 (Chapter 257.11(7), Code of Iowa).

Table 3 summarizes information for sharing incentives weighting either newly created or extended for FY 2009. The overall State aid cost of the sharing incentive supplementary weighting is approximately \$4.0 million. The newly created operational function sharing accounted for slightly more than 70.0% of the sharing incentives while the ICN sharing accounted for less than 1.0%. Reorganization sharing incentives had a total supplementary weighting of 71.80 in FY 2009, however districts that received funding for this weighting would have been eligible to receive the weighting without the extension provided in SF 447.

Table 3 - FY 2009 Sharing Incentives Supplementary Weighting

Incentive	Weighting	Total Funding Generated	State Aid Amount	Property Tax Amount	Number of Districts	Percentage of Districts
Whole Grade Sharing	234.00	\$ 1,309,396	\$ 1,135,602	\$ 173,794	30	8.3%
District Operational Function Sharing	540.49	3,022,751	2,622,998	399,753	43	11.9%
AEA Operational Function Sharing*	912.86	220,611	175,268	45,343	2	20.0%
ICN Sharing	6.07	33,756	29,458	4,298	37	10.2%
Total FY 2009 New/Extended Incentives	1,693.42	\$ 4,586,514	\$ 3,963,326	\$ 623,188		
Reorganization**	71.80	\$ 402,075	\$ 348,445	\$ 53,629	8	2.2%
Regional Academies***	45.00	\$ 250,650	\$ 218,385	\$ 32,265	4	1.1%

*Number of Area Education Agencies is used in place of the number of school districts.

**Districts receiving reorganization supplementary weighting in FY 2009 were eligible to receive the weighting prior to enactment of SF 447.

***Department of Education administrative rules extended regional academy supplementary weighting through FY 2009.

2008 Legislative Session

During the 2008 Legislative Session, there were five initiatives approved that impacted the school finance formula. Programs impacted include:

- Home School Assistance Program – funding reduced beginning in FY 2009 in HF 2700 (FY 2009 Standing Appropriations Act).
- Supplementary weighting for district to community college sharing – weighting change beginning in FY 2010 in HF 2679 (FY 2009 Education Appropriations Act).
- Regional academy supplementary weighting – reauthorizes regional academy weighting and increases the previous minimum and maximum weights beginning in FY 2010 (HF 2679).
- Roll-in of State categorical funding into the school aid formula – per pupil funding to begin in FY 2010 (HF 2679).
- State sales/use tax for school infrastructure and property tax relief – provides property tax relief through the school aid formula beginning in FY 2011 in HF 2663 (State Sales/Use Tax for School Infrastructure Act).

Home School Assistance Program (HSAP) Weighting Reduction

The weighting generated by resident students receiving competent private instruction through a school district's HSAP program was reduced from 0.6 to 0.3. The weighting is included in a school district budget enrollment and will reduce the overall State budget enrollment by the equivalent of approximately 1,440 students annually. Additionally, the legislation allows school districts that have expenditures that exceed revenues for the HSAP to apply to the School Budget Review Committee (SBRC) for modified allowable growth to cover the shortfall.

In FY 2009, the reduction in the HSAP weighting was adjusted through an enrollment audit adjustment. This resulted in a decrease of approximately \$7.0 million in State aid and \$1.0 million in local property taxes, but did not impact the school district's budget enrollment for FY 2009 (the reduction was implemented through an enrollment audit adjustment for FY 2009). In FY 2010, the estimated impact will reduce school district budget enrollments effecting State aid, property tax, and potentially the district's budget adjustment and the amount of modified allowable growth requested.

Supplementary Weighting – Community College Courses and Regional Academies

The Senior Year Plus Program was established in HF 2679 (FY 2009 Education Appropriations Act). Included was change in the weighting factor for district-to-community college sharing and a reauthorization and modification of regional academy weighting. The changes in these weightings will impact school district budgets beginning in FY 2010. The estimated fiscal impact of these changes is provided in **Table 4**.

Supplementary weighting for district-to-community college courses is set at 0.48 for all eligible courses. Beginning with the FY 2010 budget year, students that attend an eligible community college career and technical course will receive a weighting of 0.70 and students that attend an eligible community college liberal arts course will receive a weighting of 0.46.¹ The new weightings were calculated by the Department of Education and are expected to be revenue neutral when compared to the weighting used prior to FY 2010.

Regional academy supplementary weighting was reauthorized with a modification in the minimum total weight a district may receive of 15.0 (up from 10.0) and the maximum total weight of 30.0 (up from 15.0). In FY 2009, four districts received regional academy supplementary weighting that totaled 45.0 and resulted in total funding of \$250,000 (including \$218,000 in State aid). The estimate for FY 2010 assumes those four districts receive the weighting at the higher levels for a total regional academy weighting of 75.0 (**Table 4**).

Table 4: District-to-Community College Sharing and Regional Academy Supplementary Weighting

Supplementary Weight	Weighting	Estimated FY 2010 Amounts			Estimated FY 2010 Fiscal Impact		
		Total Funding Generated	State Aid Amount	Property Tax Amount	Total	State Aid	Property Tax
District-to-Community College*	2,528.78	\$ 14,653,726	\$ 12,762,756	\$ 1,890,970	\$ -	\$ -	\$ -
Regional Academy	75.00	\$ 434,730	\$ 378,525	\$ 56,205	\$ 434,730	\$ 378,525	\$ 56,205

*Overall weighting change is estimated to be revenue neutral.

¹ District-to-community college weightings are multiplied by the percentage of time the student attends class in the eligible course.

State Categorical Roll-In

Division V of HF 2679 (FY 2009 Education Appropriations Act) requires that beginning in FY 2010 the following State categorical funding programs to be funded on a per pupil basis through the school aid formula:

- Student Achievement/Teacher Quality (SATQ) Teacher Compensation and Educational Excellence Phase II – funded through the teacher salary supplement.
- SATQ Professional Development – funded through the professional development supplement.
- Early Intervention/Class Size Reduction (EICSR) – funded through the early intervention supplement.

The legislation also requires that the per pupil cost for each supplement to be increased by an allowable growth rate annually beginning in FY 2011 (the General Assembly will be required to set these allowable growth rates during the 2009 Legislative Session). Additionally, school districts and area education agencies (AEAs) are guaranteed the previous year's total supplement amount in each category. The guarantee is based on the previous fiscal year's unadjusted supplement total.² Each supplement (teacher salary, professional development, and early intervention) and the corresponding budget guarantee is funded entirely through State aid and is part of a school district's budget authority.

Table 5 provides estimates for the teacher salary supplement, professional development supplement, and early intervention supplement for FY 2010 and at allowable growth rate examples of 0.0% and 4.0% for FY 2011. An allowable growth rate of 0.0% for all the supplements will yield an increase totaling nearly \$2.0 million compared to the estimated FY 2010 total. The increase is a factor of districts with increasing enrollments and districts that will receive the budget guarantee. At 0.0% allowable growth for all supplements, 242 school districts would receive budget guarantee amounts totaling \$2.6 million in FY 2011. Establishing an allowable growth rate of 4.0% for each of the supplements will result in an estimated increase of nearly \$12.0 million in FY 2011.

	<u>Estimated FY 2010</u>	<u>Estimated FY 2011: Assumes 0.0% Allowable Growth</u>	<u>Estimated FY 2011: Assumes 4.0% Allowable Growth</u>
Teacher Salary Supplement	\$ 237,104,212	\$ 238,790,722	\$ 246,307,649
AEA Teacher Salary Supplement	14,147,483	14,245,116	14,723,999
Total Teacher Salary Supplement	\$ 251,251,695	\$ 253,035,838	\$ 261,031,648
Professional Development Supplement	\$ 26,846,558	\$ 27,034,637	\$ 27,888,585
AEA Professional Development Supplement	1,653,314	1,665,042	1,720,951
Total Professional Development Supplement	\$ 28,499,872	\$ 28,699,679	\$ 29,609,536
Early Intervention Supplement	\$ 29,249,722	\$ 29,453,834	\$ 30,385,142
Total of All Supplements	\$ 309,001,289	\$ 311,189,351	\$ 321,026,326

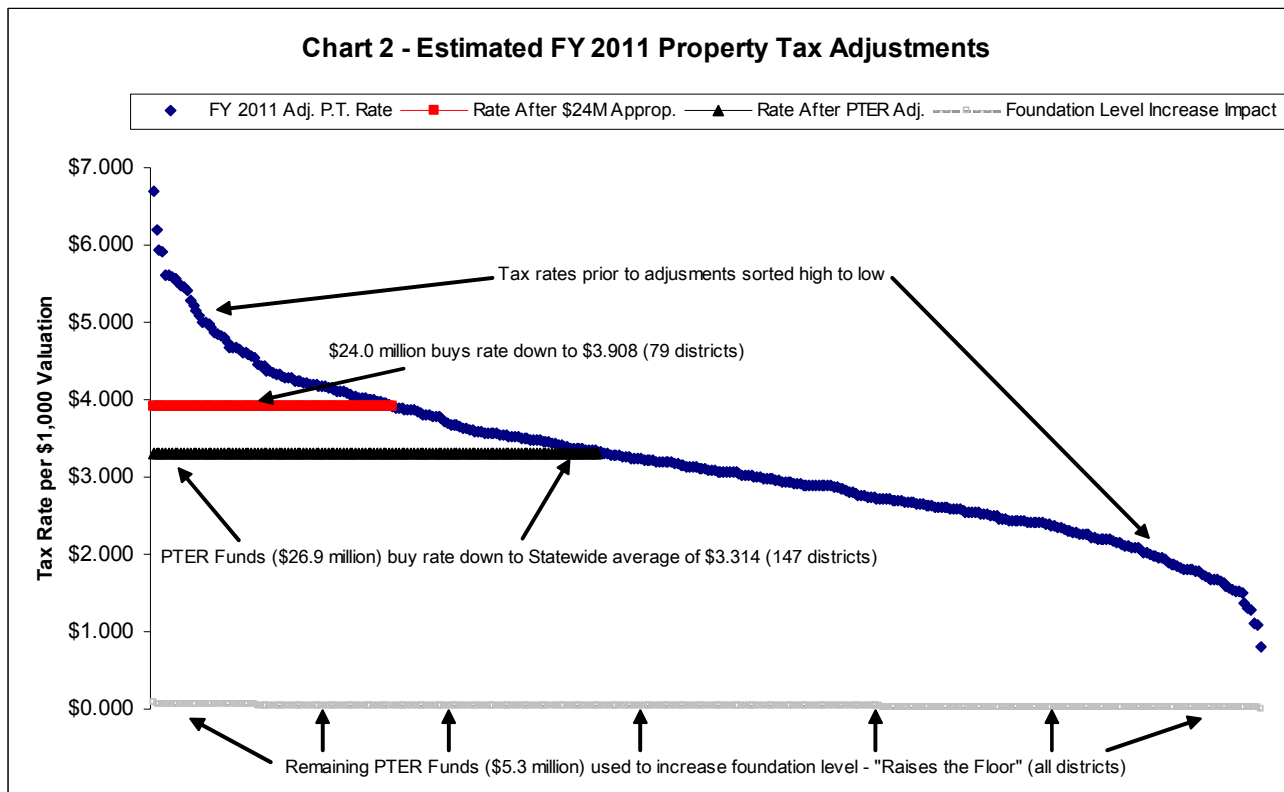
² The unadjusted amount represents the previous year's total prior to any budget guarantee amount.

State Sales/Use Tax for School Infrastructure

With the enactment of HF 2663 (State Sales/Use Tax for School Infrastructure Act), the school infrastructure local option (SILO) sales tax was repealed and replaced with the State sales/use tax increase beginning in FY 2009. School districts will receive funding for school infrastructure purposes as though the SILO was still in place. By FY 2014, each school district will receive the same per pupil amount (currently estimated at \$912 per pupil).

The Act also requires any additional sales/use tax revenues resulting from the 1.0 percentage point increase that remain after the SILO formula funds have been distributed, to be used to fund property tax relief through the school aid formula. Funds generated in FY 2009 for property tax relief will be transferred to the Property Tax Equity and Relief (PTER) Fund and used to reduce property tax rates for eligible districts beginning with the FY 2011 budget year. The PTER funds will first be used to supplement the property tax adjustment aid appropriation of \$24.0 million in FY 2011. These funds will be used to "buy down" the adjusted property tax rate to the Statewide average providing property tax relief to all school districts with a rate above the Statewide average. If there are PTER funds remaining after this first requirement, the remaining funds will be used to increase the regular program foundation level, providing tax relief for all school districts.

Chart 2 provides a graphical example of the impact of the PTER fund in FY 2011. The \$24.0 million appropriation lowers the tax rate to \$3.908/\$1,000 of taxable valuation impacting 79 districts. The current estimate for the PTER fund in FY 2011 is \$32.2 million. Those funds will be used to buy down to the Statewide average rate of \$3.314 impacting an additional 68 districts and costing \$26.9 million. The remaining \$5.3 million will be used to increase the foundation level providing some property tax relief to all 362 school districts. The foundation level increase can be viewed as "raising the floor" and this rate impact is shown by the bottom line on **Chart 2** moving upward from the \$0.0 base line.



BUDGET IMPACT

Attachment A summarizes school aid budget impacts resulting from these statutory changes for FY 2009, estimated FY 2010 and FY 2011.³ In FY 2009, school district budgets increased by \$1.5 million with the property tax decreasing by \$17.8 million and State aid increasing \$19.1 million. Based on current estimates for FY 2010, school district budgets are estimated to increase \$3.5 million, with State aid increasing \$25.7 million and property tax decreasing \$22.4 million. Current estimates for FY 2011 indicate an increase in school district budgets by \$14.9 million with State aid increasing \$70.1 million and property tax decreasing \$55.4 million.

Additional Information

Data presented in this *Issue Review* has been provided at the State level, however data reflected here is available at the school district level on request from the LSA.

STAFF CONTACT: Shawn Snyder (Ext. 17799)

³ Estimates are based on assumptions and are subject to change. Additionally, an allowable growth rate of 4.0% was used when calculating FY 2011 for comparison purposes. The Legislature will set the FY 2011 allowable growth rate during the 2009 Legislative Session.

Attachment A

Budget Impact of School Aid Statutory Changes

New or Extended Initiative	FY 2009			Estimated FY 2010			Estimated FY 2011		
	Total	State Aid	Property Tax	Total	State Aid	Property Tax	Total	State Aid	Property Tax
Property Tax Adjustment Aid	\$ 0	\$ 18,000,000	\$ -18,000,000	\$ 0	\$ 24,000,000	\$ -24,000,000	\$ 0	\$ 24,000,000	\$ -24,000,000
ESL Weight Eligibility Extension ¹	5,005,199	4,354,648	650,551	5,722,222	4,979,313	742,909	6,545,270	5,696,574	848,696
Whole Grade Sharing/Reorg. Suppt. Wght. ²	1,309,398	1,135,605	173,793	1,361,345	1,181,001	180,344	1,415,398	1,228,269	187,129
Operational Function Sharing ³	3,243,362	2,622,998	445,096	3,372,243	2,727,853	461,818	3,506,341	2,837,031	479,434
ICN Sharing ⁴	33,756	29,462	4,294	42,123	36,768	5,355	52,567	45,884	6,683
District-to-Community College Suppt. Wght. ⁵	N.A.	N.A.	N.A.	0	0	0	0	0	0
HSAP Weight Reduction ⁶	-8,051,250	-7,017,467	-1,033,783	-7,467,778	-7,586,977	119,199	-9,098,328	-8,307,740	-790,588
Regional Academies ⁷	N.A.	N.A.	N.A.	434,730	378,525	56,205	452,055	393,675	58,380
Teacher Salary Supplement	N.A.	N.A.	N.A.	0	0	0	9,779,953	9,779,953	0
Professional Development Supplement	N.A.	N.A.	N.A.	0	0	0	1,109,664	1,109,664	0
Early Intervention Supplement ⁸	N.A.	N.A.	N.A.	0	0	0	1,135,420	1,135,420	0
Property Tax Equity and Relief Fund ⁹	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	0	32,158,754	-32,158,754
Total School Aid Impact	\$ 1,540,465	\$ 19,125,246	\$ -17,760,049	\$ 3,464,885	\$ 25,716,483	\$ -22,434,170	\$ 14,898,340	\$ 70,077,484	\$ -55,369,020

Notes:

N.A. = not applicable.

- English-as-a-Second-Language (ESL) weighting was extended from 3 to 4 years of eligibility. Estimates assume approximately 25.0% of the weighting includes students in their fourth year of eligibility. Estimates for FY 2010 and FY 2011 assume an increase of 10.0% over the previous year's ESL weight. Estimates do not factor in any reduction in SBRC modified allowable.
- Whole grade sharing supplementary weighting estimates for FY 2010 and FY 2011 assume no change from the FY 2009 total.
- Estimates for operational function sharing supplementary weights are based on the FY 2009 totals for school districts and AEAs and are held at the FY 2009 levels for FY 2010 and FY 2011.
- Estimates for ICN supplementary weightings are based on the FY 2009 total and increased annually by 20.0%.
- The change in the district-to-community college supplementary weighting is estimated to be revenue neutral.
- Home School Assistance Program (HSAP) estimates for FY 2010 are based on the FY 2009 HSAP weighting reduction and assumes no growth. In FY 2010 there will be an impact on property tax due to the reduction in enrollment that will increase the FY 2010 budget guarantee. Estimates do not include the potential SBRC modified allowable growth due to the HSAP weight reduction.
- Regional academy supplementary weighting was reauthorized with modifications in the weighting beginning in FY 2010. Estimates are based on usage of the weight in FY 2009 and adjusted reflect an increase in the minimum and maximum weighting allowed.
- The teacher salary supplement, early intervention supplement, and the professional development supplement estimates for FY 2011 are based on an allowable growth rate of 4.0% for each supplement.
- The estimated property tax equity and relief fund amount for FY 2011 is based on a variety of assumptions and is subject to change.