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Purpose. Legal Background Briefings provide background information regarding a particular area of law and are updated periodically.

Prepared by:

Richard Nelson

Iowa Legislative Services Agency  
State Capitol  
Des Moines, Iowa 50319  
(515) 242-5822  
richard.nelson@legis.state.ia.us

Updated by:

Amanda Knief

Iowa Legislative Services Agency  
State Capitol  
Des Moines, Iowa 50319  
(515) 281-6048  
amanda.knief@legis.state.ia.us

## Legal Background Briefing on **Education Finance Allowable Growth**

### Overview

Iowa's school finance system is administered through the application of a pupil-driven formula. The amount of funding received through the formula is dependent on a school district's enrollment. One way in which school districts can receive additional funding, for the limited number of districts which are growing in size, is through an increase in the school district's enrollment. Another way, available to all school districts and with a counterpart in relatively few other states, consists of the receipt of an annual inflationary increase, commonly referred to as allowable growth.

Allowable growth is a statutorily determined dollar amount which, when added to specified calculations at the state and district level, impacts the application of the foundation level utilized in determining state aid pursuant to the school finance formula and increases the amount which a school district is authorized to spend per pupil. The establishment of allowable growth is usually one of the early benchmarks in each legislative session, and is intended to provide school districts with advance notice of the applicable increase prior to each district's budget calculation and certification process.

This legal background briefing describes the process for determining allowable growth, provides a historical perspective regarding the development and evolution of the concept, contains a chart illustrating allowable growth amounts over the past several years, and features examples of allowable growth calculations. References in this briefing to the Iowa Code incorporate both the 2007 Iowa Code and 2007 Iowa Code Supplement. If the footnoted item was substantively amended by a 2007 enactment,

a 2007 Iowa Acts citation is included in the footnote.

### Applicable Terminology

**Allowable Growth Amount Per Pupil** – The amount calculated annually by the Department of Management by applying the state percent of growth to the previous year's state cost per pupil.

**District Cost Per Pupil** – An amount corresponding to the district cost per pupil for a school district for the previous year, increased by the applicable state allowable growth amount per pupil, and utilized by the school district to determine the amount it is authorized to spend.

**State Cost Per Pupil** – An amount to which the state percent of growth is applied in determining the allowable growth amount per pupil, and to which the state foundation percentage is applied in determining the amount of state foundation aid per pupil a school district is entitled to receive.

**State Percent Of Growth** – The annually determined percentage figure established by the Legislature.

### Historical Perspective

Prior to 1993, the state percent of growth, as will be subsequently discussed in this briefing, was established by way of a predetermined formula which incorporated both state and national economic indicators. The state percent of growth was based on a combination of actual and estimated state revenues, the Gross National Product, and the Price Deflator (Consumer Price Index), with only state revenues utilized if they were lower than the Gross National Product and the Price Deflator in a given year.<sup>1</sup>

The decision to change to the current method of legislative determination of the state percent of growth may have been at least partially attributable to a perception that the prior formula constituted an "automatic pilot" approach, was overly complex, and could result in delayed receipt of allowable growth increases if projected revenue changes were underestimated. While the change has

enhanced flexibility when determining the percentage to reflect prevailing economic conditions, it has also increased the extent to which it is subject to the uncertainties of the political process.

### Determination

The term "allowable growth" is sometimes subject to misapplication. Technically, as provided in Iowa Code section 257.8, what is determined by the Legislature each year is a state percent of growth figure. Utilizing the state percent of growth, it is the Department of Management that then calculates the allowable growth amount by multiplying the state percent of growth by the previous year's state cost per pupil.<sup>2</sup>

Iowa law provides that the state percent of growth shall be determined by the Legislature each year within 30 days following the submission of the Governor's budget.<sup>3</sup> This generally means the state percent of growth should be arrived at by approximately March 1 annually. In an effort to simplify the process of establishing the state percent of growth, and reduce the likelihood that the applicable legislation becomes mired in debate concerning other education initiatives, the statute also provides that determining the state percent of growth shall be the only subject matter of the bill seeking to establish it.<sup>4</sup> While attempts have been made periodically to circumvent this so-called "only subject" rule through the use of "notwithstanding" language, and while the 30-day deadline has sometimes not been adhered to, in general, a good faith attempt appears to have been made in recent years to pass the legislation in as quick and efficient a manner as possible.

In order to give school districts as much advance notice as possible regarding available funding for budget determination and certification, the state percent of growth has been determined two years in advance since the 1996 Legislative Session. It should be noted, however, that the state percent of growth has been subject to reduction after initial passage and enactment resulting from statewide budget reduction initiatives, such

as the reduction during the 2002 Legislative Session from an initial rate of 4 percent passed during the 2001 Legislative Session down to 1 percent, applicable for fiscal year 2002-2003.<sup>5</sup> Also, the effects of the state percent of growth, i.e., increased state funding per pupil, after the initial enactment of the state percent of growth is subject to reduction by legislative reduction or the Governor's across-the-board cuts.<sup>6</sup>

**State Percent of Growth and Allowable Growth Amounts**

Fiscal Year	State Percent of Growth	Allowable Growth Dollar Amount Per Pupil
1978-79	9.422%	\$127.00
1979-80	9.484%	\$139.00
1980-81	13.592%	\$219.00
1981-82	5.000%	\$92.00
1982-83	7.000%	\$136.00
1983-84	6.103%	\$133.00
1984-85	2.540%	\$59.00
1985-86	5.325%	\$127.00
1986-87	3.843%	\$97.00
1987-88	3.469%	\$91.00
1988-89	3.592%	\$93.00
1989-90	3.534%	\$95.00
1990-91	7.182%	\$200.00
1991-92	4.211%	\$129.00
1992-93	4.151%	\$133.00
1993-94	2.100%	\$70.00
1994-95	2.850%	\$97.00
1995-96	3.50%	\$123.00
1996-97	3.30%	\$120.00
1997-98	3.50%	\$131.00
1998-99	3.50%	\$136.00
1999-00	3.00%	\$158.00*
2000-01	4.00%	\$167.00
2001-02	4.00%	\$174.00
2002-03	1.00%	\$45.00
2003-04	2.00%	\$91.00
2004-05	2.00%	\$93.00
2005-06	4.00%	\$190.00
2006-07	4.00%	\$197.00
2007-08	4.00%	\$205.00
2008-09	4.00%	\$213.00

\*\$120 from allowable growth; \$38 from Talented and Gifted program roll-in

**Application**

Allowable growth has several significant ramifications regarding the operation of the school finance formula, including:

- Once the state percent of growth and allowable growth amounts have been determined, allowable growth is added to the previous year's state cost per pupil to arrive at a new state cost per pupil.<sup>7</sup> The state foundation percentage of 87.5 percent is then applied to the new state cost per pupil figure in determining the amount of state foundation aid available through operation of the school finance formula.<sup>8</sup>
- At the district level, the allowable growth amount is added to the previous year's district cost per pupil in determining a new district cost per pupil level, which in large measure constitutes the amount a school district is authorized to expend.<sup>9</sup>
- Additionally, since the state cost per pupil figure constitutes a statutory minimum district cost per pupil figure for all school districts, the allowable growth amount serves to increase the statutory minimum each year.<sup>10</sup>

The term "allowable growth" is also subject to some potentially confusing modifications regarding application to particular programs or concepts:

- A separate allowable growth amount is calculated in determining area education agency funding for special education support services.<sup>11</sup>
- One-time additions to allowable growth have sometimes occurred in order to incorporate funding for a specified program within the school finance formula which had previously been primarily funded through non-state-aid mechanisms, such as gifted and talented program funding.<sup>12</sup>
- "Modified allowable growth" may be applied to increase funding authority to be derived through property taxes, such as when the School Budget Review

Committee grants assistance to applicant school districts pursuant to Code section 257.31.<sup>13</sup>

**Illustrations and Examples**

The following illustrations, in table form, regarding the calculation of state percent of growth and allowable growth, and examples of sample calculations, have been modified from information contained in the Legislative Guide to Basic Iowa Education Finance, published by the Legislative Services Agency. Similar illustrations are available online at <http://www.legis.state.ia.us/Central/Guides/>. The Guide may be consulted for more detailed information concerning the concepts addressed in this briefing, and other aspects of the operation of the school finance formula.

Example: Assuming that a school district's district cost per pupil for the budget year 2006-2007 was \$5,162, the budget year 2007-2008 district cost per pupil equals \$5,367, calculated by adding the allowable growth per pupil amount of \$205 for the budget year 2007-2008 to the previous year's district cost per pupil.

<b>State Cost Per Pupil and Allowable Growth Determinations</b>			
Previous Year's State Cost Per Pupil	x	State Percent of Growth Rate	= Allowable State Growth Amount Per Pupil
Previous Year's State Cost Per Pupil	+	Allowable State Growth Amount Per Pupil	= Newly Determined State Cost Per Pupil

Example: The state cost per pupil for the budget year 2006-2007 was \$5,128. The state percent of growth set by the Legislature for the budget year 2007-2008 is 4 percent. The allowable growth per pupil for the budget year 2007-2008 equals \$205, which is 4 percent of \$5,128. When the allowable growth of \$205 is added to the previous year's state cost per pupil, \$5,128, the resulting state cost per pupil for the budget year 2007-2008 is \$5,333.

<b>District Cost Per Pupil Determination</b>	
Previous Year's District Cost Per Pupil	+
Allowable Growth Per Pupil Amount for the Budget Year (Determined Under the State Cost Per Pupil Calculation)	=
Newly Determined District Cost Per Pupil	

<sup>1</sup> 1991 Code § 442.7, 1989 Iowa Acts ch. 135, § 8.  
<sup>2</sup> Iowa Code § 257.8(2).  
<sup>3</sup> Iowa Code § 257.8(1).  
<sup>4</sup> Iowa Code § 257.8(1).  
<sup>5</sup> 2002 Iowa Acts ch. 1167, § 1.  
<sup>6</sup> See 2001 Iowa Acts ch. 172, § 3 (item vetoed) and Executive Order No. 24 published in IAB, XXIV, II, November 28, 2001, page 859.  
<sup>7</sup> Iowa Code § 257.9(2).  
<sup>8</sup> Iowa Code § 257.1(2).  
<sup>9</sup> Iowa Code § 257.10(2)(a).  
<sup>10</sup> Iowa Code § 257.10(2)(b).  
<sup>11</sup> Iowa Code § 257.8(2).  
<sup>12</sup> Iowa Code § 257.8(3).  
<sup>13</sup> Iowa Code § 257.31(5).

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