

# F I N A L R E P O R T

## EXCELLENCE IN EDUCATION STUDY COMMITTEE

January, 1986

### APPOINTMENT OF STUDY COMMITTEE

The Excellence in Education Study Committee was appointed by the Legislative Council to recommend legislation relating to school finance that will assure equal educational opportunity throughout Iowa and provide adequate funding for education personnel. The Council appointed twenty-eight members to the Study Committee including twenty members of the General Assembly and eight nonlegislative members. Former governor Robert Fulton and former Lieutenant Governor Arthur Neu were appointed Co-chairpersons of the Study Committee. Members were:

Governor Robert Fulton, Waterloo  
Lieutenant Governor Arthur Neu, Carroll  
Senator Joe Brown, Montezuma  
Senator Milo Colton, Sioux City  
Senator Joy Corning, Cedar Falls  
Senator Arthur Gratias, Nora Springs  
Senator Beverly Hannon, Anamosa  
Senator Wally Horn, Cedar Rapids  
Senator Tom Lind, Waterloo  
Senator Larry Murphy, Oelwein  
Senator Ray Taylor, Steamboat Rock  
Senator Jim Wells, Cedar Rapids  
Representative Richard Groth, Albert City  
Representative Horace Daggett, Lenox (Kent)  
Representative Josephine Gruhn, Spirit Lake  
Representative Ward Handorf, Gladbrook  
Representative Randy Hughes, Creston  
Representative Tom Miller, Cherokee  
Representative Arthur Ollie, Clinton  
Representative Brent Siegrist, Council Bluffs  
Representative David Tabor, Baldwin  
Representative Richard Varn, Solon  
Ms. Ann Bovbjerg, Iowa City  
Dr. Virgil Lagomarcino, Ames  
Ms. JoAnn Reynolds, Dubuque  
Mr. George Richards, Alexander  
Dr. James Rocheleau, Fayette  
Ms. Mary Yelick, Des Moines

### MEETING DAYS

The Study Committee was authorized seven meeting days and held them on September 5, October 2, October 25, November 11, November 18, December 3, and December 10. Attached to this report is a listing of presenters and information distributed at each meeting.

### PRESENT SCHOOL FINANCE FORMULA

The state school finance plan was adopted in 1971 and first used to determine school budgets and funding in the 1972-1973 school year. The basic formula of a uniform property tax of \$5.40 per thousand dollars of assessed valuation levied in each district with state aid making up the difference between the amount the uniform property tax raises on a per pupil basis and a foundation level based upon a state pupil cost and adding an additional property tax levy in each district to raise funds above the foundation level to the district's cost per pupil, has remained unchanged.

The formula sets school district budgets on the basis of the district's enrollment, an allowable growth amount, and the district's cost per pupil. However, over the intervening fourteen year period since 1972-1973, many aspects of the formula have been adjusted and altered to meet changing circumstances and special district needs. Within the past year, some members of the General Assembly and associations interested in education have suggested that the present school aid formula has been patched together for too many years and is in need of a major overhaul.

### IOWA'S RANKINGS

One of the first issues addressed by the Study Committee was an analysis of Iowa's rankings compared to other states in major education areas. The Study Committee determined that in measurements relating to student performance outcomes, Iowa is continuing its leadership, but in measurements relating to expenditures for education and teacher salaries, Iowa has moved downward in the rankings during the last ten years. If Iowa continues to lose ground in these input areas, one must logically conclude that the outcomes of student performance must decline.

The State of Iowa ranks highest in the nation in both ACT and SAT scores and the norms for Iowa for Iowa Tests of Basic Skills and Tests of Educational Development are higher than the national norms. In 1974-1975, Iowa ranked twenty-third among the states in terms of average salaries of public school teachers. By 1984-1985 this ranking had slipped to thirty-first. In 1974-1975 Iowa ranked fifteenth in the nation for current expenditures for elementary and secondary education on a per pupil basis. By 1984-1985 this ranking had declined to twenty-first.

### RESOURCE PERSONS

The Study Committee used several different approaches in its study of school finance in order to familiarize its members with the formula itself and with the current issues and proposals.

Dr. George Chambers, Professor of Educational Administration at the University of Iowa, reviewed the school aid formula and pointed out problem areas that he perceives. These are:

1. Equalized controlled budgets--economy of scale and variation in needs.
2. Property tax variations among districts.
3. Enrollment determination for budgets.
4. Allowable growth determination, impact, and budget ceilings.
5. Foundation support level, fixed uniform levy, and state aid and property taxes.
6. Transportation costs.
7. Teacher salaries--inequities, recruitment, and retention.
8. AEA--pass through moneys and tax levies.
9. Local leeway and incentives for educational excellence.
10. Capital outlay and special levies.
11. Reorganization.

Dr. Lee Tack from the Department of Public Instruction was able to assist the Study Committee on a continuing basis and provided a myriad of computer runs on different aspects of the formula and on related financial issues.

Representatives from education advocacy groups made presentations to the Study Committee outlining their views about school finance. These included the Iowa State Education Association, the Urban Education Network, the Iowa Association of School Boards, the area education agencies, People United for Rural Education, the Iowa Catholic Conference, Iowa Association of Christian Schools, and the Iowa Parent Teacher Association.

In addition, the Study Committee heard presentations outlining the recommendations from the following committees established to study school finance:

1. Ad Hoc Task Force on School Finance established by the State Board of Public Instruction.

2. The Urban Education Network consisting of the representatives from the seven largest enrollment school districts in the state.

3. The Joint Task Force on School Finance of the EAI, IASA, IASB, IASO, and IASBS.

#### UNIT FUNDING

Testimony was presented by Department of Public Instruction personnel that outlined methods other than enrollment for calculating a school district's budget. The Study Committee received information that some state finance plans provide funding to school districts on the basis of the number of classroom units of instruction rather than the number of students. Although there appeared to be merit in this formula, there was insufficient time for the Study Committee to study the implications of such a change. The Study Committee recommends that the General Assembly give consideration to conducting an in-depth study of unit funding and its implications for school district budgets.

#### ADOPTION OF STUDY TECHNIQUE AND PRINCIPLES

As the Study Committee reviewed suggestions that were made and began its deliberations, it agreed that changes made to the current plan should be modifications rather than the adoption of an entirely new plan. In addition to the lack of time, Iowa's economy is depressed and tax revenues are not increasing at a rate that would provide the additional funding necessary to implement a complete revision of the formula. For the 1985-1986 school year, under the school foundation formula \$743 million in state aid was scheduled to be paid. However, with the imposition by the Governor of a 3.85 percent across-the-board budget reduction of all state appropriations, caused by projections of a year-end state budget deficit, state aid was reduced to \$714,779,100.

The Study Committee adopted the following as principles to enable Iowa to maintain and improve its excellent educational system:

1. A school finance plan should be easily understood by the public.
2. A school finance plan should enhance program quality.
3. A school finance plan should ensure program equity.
4. A school finance plan should be sensitive to taxpayer equity.
5. A school finance plan should provide adequate resources to attract and retain qualified personnel.

### ISSUES

The Study Committee discussed the following issues relating to school finance and made recommendations:

1. Expenditures outside the controlled budgets of school districts, including property tax levies, additional allowable growth for specific purposes, and discretionary funding.
2. Methods of determining a district's enrollment count.
3. Use of budget guarantees.
4. Transportation costs and other variable costs of school districts.
5. Use of other revenue sources.
6. Improving teacher salaries.
7. School efficiencies.
8. Research base.
9. Future education effort.

### DISCRETIONARY FUNDING

The Study Committee identified four distinct areas of discretionary funding authority that school districts possess. The first area includes expenditures for property, capital, and equipment that come from the schoolhouse fund. These are:

1. Debt service levy for interest due on lawful bonded indebtedness and on the principal. The levy is limited to \$2.70 per \$1,000 of assessed valuation, unless an election authorizes the levy up to \$4.05 (\$298.18)
2. Site levy. May be levied by board action in an amount up to \$.27 per \$1,000 of assessed valuation. It can be used for purchase or improvement of sites or major building repairs. (\$297.5)
3. Schoolhouse levy. May be levied after majority approval at an election for a 10-year period in an amount up to \$.67 1/2 per \$1,000 of assessed valuation. It can be levied for a variety of purposes relating to schoolhouses and grounds. The levy is approved for up to a 10-year period and districts are authorized to anticipate the revenue collections from this levy. (\$278.1(7))
4. Lease-purchase levy. May be levied after majority approval at an election in an amount up to \$1.35 per \$1,000 of assessed valuation. (\$278.1)

5. Educational and recreational levy. May be levied after majority approval at an election in an amount up to \$.13 1/2 per \$1,000 of assessed valuation. (\$300.2)

The second area includes property tax levies now provided by law and placed in the general fund for specific purposes. These include the following:

1. Revenue from an unemployment compensation levy for paying unemployment compensation costs. There is no limit on the amount of the levy and it can be levied by board action. (\$96.31)

2. Revenue from a tort levy to pay a judgment or settlement. There is no limit on the amount of the levy and it can be levied by board action. (\$613A.10)

3. Revenue from a library use levy for contracting with a free public library. The levy is limited to \$.06 3/4 per \$1,000 of assessed valuation and can be levied by board action. (\$298.7)

4. Revenue from a levy for the employer contributions to the Iowa Public Employees' Retirement System. There is no limit on the amount of the levy, but the Attorney General has ruled that the IPERS levy cannot be used by school boards because of the school foundation plan. (\$97B.9)

The third area includes the district's ability to generate revenue through the formula as additional allowable growth for specific programs. They are funded from property tax revenues and include programs funded partially by the controlled budget of the school district and partially by additional allowable growth which is a property tax levy. Plans for each of the programs must be submitted to the Department of Public Instruction for its approval. The Department sends the approved budget and property tax levy to the State Comptroller who adds the levies for the following programs to the additional allowable growth:

1. Programs for gifted and talented children, limited to funding programs for up to three percent of a district's budget enrollment. (\$\$442.31-442.35)

2. Programs for dropout prevention, limited to funding programs for up to five percent of a district's budget enrollment. (\$\$442.51-442.54)

3. Programs for school improvement, limited to one percent of the district's controlled budget. (Chapter 260A)

The fourth area is the district's ability to generate revenues outside the formula for unspecified purposes. The enrichment levy is now available to school districts after a majority approval by the electorate. Revenues are generated by a combination property tax levy and income surtax.

In addition, school districts may levy a property tax for cash reserve purposes. There is no limit to the levy except for review by the School Budget Review Committee, and it can be levied by board action, but the revenue is not used to increase a district's budget, but to help improve cash flow in the district and to replace funds within a district's budget that it does not receive. (\$298.10)

The Study Committee discussed each levy and determined that combining some of the purposes and levies would allow school boards more flexibility in building their budgets. In addition, the uses for some of the levies were expanded to meet the present needs of school districts. The Study Committee makes the following recommendations:

1. Establish a capital projects and equipment levy with a limit of \$1.00 per thousand dollars of assessed valuation that can be used for the purposes listed for the site levy, the schoolhouse levy, the lease-purchase levy, and the educational and recreational levy. In addition, the funds may be expended for the purchase of school transportation equipment and computers. The levy can be instituted by board action. It was noted that several districts levy for all of these purposes currently for a total of \$1.08. It is not the intent of the Study Committee to reduce the total funding for the listed purposes in these districts.

2. Delete the library use levy.

3. Combine the tort liability levy, the unemployment compensation levy, and the IPERS levy into a single unlimited levy. Clarify that school boards can levy for IPERS. Include chapter 294 pensions.

4. Combine the additional allowable growth for programs for gifted and talented children, dropout prevention, and school improvement into a single additional allowable growth figure with a maximum of nine percent of district cost.

5. Retain the enrichment, cash reserve, and debt service levies as they presently are.

#### ENROLLMENT

The method of determining a school district's enrollment is a major factor in determining the amount the district can spend during a school year. If a district's enrollment remains constant from year to year, its budget can increase commensurate with the state percent of growth, but as the district loses pupils without provision for these enrollment losses, its budget can actually decrease.

For the past ten years the General Assembly has used the philosophy that school districts should be able to protect their

budgets from the actual losses of students that occur. The present method, and the one that has been in use in Iowa since 1980, assumes that 25 percent of the costs of a school district are fixed and cannot be reduced even if enrollments decline. It uses twenty-five percent of the district's enrollment in September 1978 permanently as twenty-five percent of the district's enrollment. It also allows districts to count 75 percent of the students from the previous year or the year before that in order to give the districts time to adjust their budgets and programs to enrollment losses. Those students counted as part of a district's enrollment above the actual number of students have become known as "phantom students." In 1985-1986, there were more than 29,000 phantom students.

After discussing the advantages and disadvantages of using actual enrollment counts and discussing various alternatives to the present method of counting students, the Study Committee did not adopt a specific proposal for counting enrollment, but adopted the following recommendation:

If the General Assembly moves away from adding nonexistent students to a district's enrollment to determine a school district's budget, other characteristics of a school district and its student population that impact upon the financial needs of a district still need to be addressed.

#### BUDGET GUARANTEE

In conjunction with its discussions relating to a determination of enrollment count, the Study Committee debated whether a school district that experiences an enrollment decline should be guaranteed any budget growth from one school year to the next. The present law guarantees at least a two percent budget increase for school districts and provides that increase by adding students to the district's budget enrollment, which adds to the number of phantom students. The lower the percentage used for the state percent of growth in determining budget growth under the formula from one year to the next, the more phantom students added when a district loses actual students. If budget growth were to continue to be guaranteed, suggestions were made that the amount needed to achieve the guarantee be funded from the district level and that the guarantee not be achieved by adding students to enrollment.

The Study Committee recommends that a 102 percent budget guarantee for school districts be retained, but the method of attaining that guarantee be decided by the General Assembly during the 1986 legislative session.

#### TRANSPORTATION COSTS AND OTHER VARIABLE COSTS

For several years there has been an impetus from rural districts to provide some kind of additional assistance to those districts that experience higher than average transportation costs. These costs varied in 1983-1984 from 0.8 percent of the West Burlington School District's operating fund expenditures to 15.1 percent of the Orient-Maxburg School District's operating fund expenditures, and from no cost per pupil in the West Burlington School District to \$312.80 per pupil in the Van Buren School District.

While many members of the Study Committee believe that high expenditures for transportation costs in a district leave fewer dollars in that district for paying for instructional programs, the Study Committee also received information that the Des Moines School District experiences costs because of its large and diverse enrollment that are not a factor in the more rural districts. These include costs related to racial integration of students, programs for non-English speaking students, special projects for disadvantaged students, costs associated with intradistrict mobility of students, crime prevention, school safety, and vocational-technical programs.

Some members of the Study Committee stated that it appeared to be inadvisable to single out some expenditure categories for special assistance while ignoring others and the Study Committee made no recommendations in this area.

As an added source of assistance to the Study Committee, the Legislative Council approved a study of school transportation through the Legislative Extended Assistance Group. Dr. Jim Stoner from the College of Engineering at the University of Iowa signed a contract with LEAG to study the feasibility of coordinating school transportation among school districts and with other public transportation systems. The Report of the study will be available to the House and Senate Committees on Education and the General Assembly by the beginning of the General Assembly.

#### SOURCES OF REVENUE

The school foundation formula is funded using local property tax and state aid that comes from state revenue sources. Because of the depressed Iowa economy and the increasing number of farm mortgage foreclosures, arguments have been offered that ownership of property bears little relation to an ability to pay taxes, and suggestions have been made that some portion of school district expenditures should be paid from income taxes imposed at the school district level. This tax could either be imposed as a percent of net income or as a surtax on the regular state income tax. The income surtax is currently used as one funding source in districts in which the electors have approved the enrichment program.

The Study Committee recommends that a local source of revenue should include the income tax.

### TEACHER SALARIES

The average salary for Iowa teachers is below the average salary paid to teachers in many other states. In 1984-1985, Iowa ranked thirty-first among the states with an average salary for public school teachers of \$20,934. The national average for that year was \$23,582. Iowa's average salary in 1974-1975 was \$10,867 with a national average salary of \$11,647 for a ranking of twenty-third.

In addition to low average salaries, information provided to the Study Committee illustrated that salaries paid to teachers in low enrollment, rural school districts are lower than those paid in larger enrollment school districts. In 1984-1985 the average salary for a beginning teacher in a district of less than 250 students was \$13,351, while the average salary for a beginning teacher in a district of 7,500 or more was \$15,273. After twenty years of teaching, the average salaries of teachers for that year were \$17,500 and \$23,592.

The Study Committee discussed several methods for providing teacher salary improvements including mandatory minimum teacher salaries and targeting additional dollars from either state aid or local district effort for salary improvement.

The Study Committee did not adopt a specific recommendation to improve teacher salaries but recommended that the General Assembly address the issues of increasing all teacher salaries to help retain those individuals presently in the education profession and of increasing the minimum salaries of teachers to attract quality candidates to the teaching profession.

### SCHOOL EFFICIENCIES

The Study Committee finds that there are about 486,000 pupils enrolled in grades kindergarten through twelve in 436 public school districts in this state. The boundaries of most of these districts were established more than twenty years ago when the total number of pupils was nearly 700,000. In 1985-1986 the districts vary in size from 96 pupils to 30,861 with thirty-one percent of the districts enrolling about 7.7% of the students and 1.8% of the districts enrolling about 25% of the students.

The formula that establishes school budgets is based upon a combination of factors that builds in artificial enrollment figures for which the cost per pupil is nearly equal. However, by dividing a district's budget by its actual number of pupils, the cost per pupil varies from \$2,420 to \$3,754, a difference of \$1,344.

Program offerings for high school students in 1984-1985 ranged from a low of 32 units to a high of 203.

Recent information provided by the American College Testing Service of test results for 1984 of present high school seniors indicates that students enrolled in schools in which they have twenty-four or fewer classmates score lower in all categories than students enrolled in larger high school classes. Research shows that ACT test scores are relatively accurate predictors of college academic achievement.

Earlier in this report information was provided to illustrate the teacher salary differential between low enrollment and high enrollment districts.

In the smallest school districts administrators must fill several different administrative and other kinds of positions, often including teaching, while in the larger districts the administrator fills only one kind of position. For instance, in 146 districts the superintendent also serves as a principal of one or more schools.

Considering these differences in educational opportunity and achievement, the Study Committee recommends that the General Assembly enact legislation during the 1986 session to provide for more efficient delivery of educational programs and to improve educational opportunities for students. This legislation should foster equitable educational opportunities for all Iowa students by the restructuring of Iowa's school system. The restructuring could take a number of different forms from reorganization or dissolution of school districts to increased use of sharing of facilities, programs, teachers, and/or administrators. The Study Committee recommends that the General Assembly consider enacting legislation that removes disincentives and provides incentives and penalties that will encourage restructuring and provide a more effective use of limited dollars. The legislation might provide for some or all of the following:

**Removal of disincentives:**

Continue supplemental weighting bonuses for a specified period of time.

Calculate enrollments without reductions due to reorganization for a specified period of time.

Provide early retirement incentives for teachers and administrators.

**Incentives:**

Assist in paying bonded indebtedness costs incurred at least one year prior to the reorganization.

Pay reorganization costs.

Provide funding for increasing administrative efficiencies.

Reduce the uniform levy for a defined period.

Adjust the additional levy for a defined period.

Increase the supplemental weighting for shared programs for sharing entire grades.

Provide funding for sharing extracurricular programs.

Penalties:

Reduce state aid but not spending authority for:

Low enrollments in certain state mandated courses.

Low pupil-teacher ratios.

Operating facilities or equipment at a certain percentage below capacity.

High administrative costs.

High pupil-teacher ratios.

The Study Committee realizes that the existence of natural barriers and sparsity of population are factors that need to be considered by the General Assembly in any action to require restructuring. Exceptions to mandated requirements may be necessary for individual cases.

RESEARCH BASE

The General Assembly needs to be aware of new research and developments in education in order to consider legislation that can improve the educational program offered to students in this state.

The Study Committee recommends that the Department of Public Instruction provide the General Assembly with research findings from the Mid Continent Regional Education Laboratory, the Carnegie Institute for the Advancement of Teaching, their own studies, the FINE Foundation, and other sources to determine what conditions lead to excellence in teacher training, effective teacher-student learning relationships, effective administrative supervision, and renewed parental interest in the student and the school.

FUTURE EDUCATION EFFORT

The Excellence in Education Study Committee recommends that the General Assembly adopt an education program, including education finance, that will insure that Iowa's ranking in major indicators of education quality decline no further and that steady progress over a period of time be made in improving that ranking. These measures of education quality include but are not limited to student achievement scores, financial support for education, teacher compensation and standards.

It if is determined that economic considerations require phased implementation of such a proposal, this Study Committee recommends that local school boards be given authority to take actions that may include, but not be limited to, an action similar to the enrichment program.