



**HF 136** – School Supplemental State Aid, Regular and Categorical Reform (LSB2206HV)  
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Fiscal Note Version – New

## **Description**

[House File 136](#) has three provisions with a fiscal impact:

- 1.11% State percent of growth rate to be applied to the State cost per pupil for FY 2018.
- 1.11% State percent of growth rate to be applied to each of the State categorical cost per pupil amounts for FY 2018.
- Provides additional property tax relief based on the per pupil increase that results from the establishment of the State percent of growth in FY 2018. The bill requires the additional levy portion of the FY 2018 State cost per pupil amount to be frozen at \$750 per pupil, regardless of the per pupil increase for FY 2018. Without enactment of this provision, the increase in the FY 2018 State cost per pupil due to the State percent of growth will include a per pupil property tax increase equivalent to 1/8th (12.5%) of the total per pupil increase.

## **Background**

**State Cost Per Pupil.** The school aid formula provides funding to school districts and Area Education Agencies (AEAs) through a mix of State aid and property tax. In general, funding is generated on a per pupil basis with the per pupil amounts providing an overall budget limitation (or spending authority). There are five FY 2017 State cost per pupil funding levels that will be increased by a 1.11% State percent of growth for FY 2018. The following table provides the supplemental State aid amounts (also referred to as per pupil growth amounts) and State cost per pupil amounts for FY 2018 based on a 1.11% growth rate. The supplemental State aid amounts will be applied to all corresponding district and AEA cost per pupil amounts.

<b>FY 2018 State Cost Per Pupil Calculations</b>				
<b>Regular School Aid Per Pupil</b>	<b>FY 2017 State Cost Per Pupil</b>	<b>FY 2018 State Percent of Growth</b>	<b>Supplemental State Aid</b>	<b>FY 2018 State Cost Per Pupil</b>
Regular Program	\$ 6,591	1.11%	\$ 73	\$ 6,664
Special Education Program	6,591	1.11%	73	6,664
AEA Special Education Support	289.39	1.11%	3.21	292.60
AEA Media Services	53.95	1.11%	0.60	54.55
AEA Educational Services	59.54	1.11%	0.66	60.20

In addition to the State percent of growth and supplemental State aid for FY 2018, enrollments, weightings, and taxable valuations within each school district have an impact on the amount of total school aid funding, including the amount of State aid and local property tax required to generate the total funding amount.

**State Categorical Supplements.** The State categorical supplements are funded entirely through State aid and generate funds for each school district and area education agency (AEA) through the school aid formula on a per pupil basis. The FY 2017 State cost per pupil funding levels for the teacher salary supplement (district and AEA), professional development supplement (district and AEA), and early intervention supplement (district only) will be increased by a 1.11% State percent of growth for FY 2018. Additionally, FY 2018 will be the final year that the teacher leadership supplement (TLS) for the Teacher Leadership and Compensation (TLC) System will be rolled into the school aid formula, the end of a three-year process. In FY 2018, TLC will be fully implemented into the school aid formula, and all school districts will receive the categorical supplement. The following table provides the per pupil growth amounts and State cost per pupil amounts for FY 2018 based on HF 136.

<b>FY 2018 State Categorical Funds Per Pupil Calculations</b>				
<b>State Categorical Supplements</b>	<b>FY 2017 State Cost Per Pupil</b>	<b>FY 2018 State Percent of Growth</b>	<b>Supplemental State Aid</b>	<b>FY 2018 State Cost Per Pupil</b>
Teacher Salary - Districts	\$ 569.08	1.11%	\$ 6.32	\$ 575.40
Professional Development - Districts	64.50	1.11%	0.72	65.22
Early Intervention	70.21	1.11%	0.78	70.99
Teacher Leadership	320.34	1.11%	3.56	323.90
Teacher Salary - AEs	29.78	1.11%	0.33	30.11
Professional Development - AEs	3.47	1.11%	0.04	3.51

Additionally, there is a budget guarantee provision for each of the State categorical supplements, which provides each district and AEA with a minimum of the previous fiscal year's level of funding (net of the previous year's budget guarantee amount). This provision for the State categorical supplements is funded entirely through State aid.

<b>FY 2018 State Categorical Funds Budget Adjustments</b>				
<b>(Statewide Totals in Millions)</b>				
<b>State Categorical Supplements</b>	<b>FY 2017 State Cost</b>	<b>FY 2018 State Percent of Growth</b>	<b>Budget Adjustment (State Aid)</b>	<b>FY 2018 State Cost</b>
Teacher Salary - Districts	\$ 274.89	1.11%	\$ 1.07	\$ 279.40
Professional Development - Districts	31.15	1.11%	0.12	31.66
Early Intervention	33.91	1.11%	0.12	34.47
Teacher Leadership	103.42	1.11%	0.58	157.41
Teacher Salary - AEs	15.47	1.11%	0.05	15.75
Professional Development - AEs	1.81	1.11%	0.01	0.00

**Property Tax Relief Payment (PTRP).** Enactment of [HF 215](#) (2013 Education Reform Act) included the creation of the property tax replacement payment (PTRP) provision to replace local property tax amounts with State aid. The provision froze the additional levy portion of the State cost per pupil at \$750; based on the State percent of growth enacted during the intervening

fiscal years, this provision created \$15 per pupil in property tax relief in FY 2014 and up to \$74 per pupil in FY 2017. The continual growth is a result of this provision requiring that the per-pupil property tax relief of previous fiscal years to carry forward in future fiscal years. Enactment of HF 136 will maintain a freeze of the additional levy portion of the State cost per pupil at \$750 in FY 2018. The per pupil property tax relief amount will be based on the State percent of growth enacted for FY 2018. The following table provides detail regarding the State cost per pupil funding levels as provided by a 1.11% growth rate for FY 2018 in HF 136.

<b>FY 2018 Property Tax Repayment Calculation</b>			
	<u>FY 2017</u>	<u>Increase Due to Supplemental State Aid Rate</u>	<u>FY 2018</u>
State Cost Per Pupil	\$6,591	\$73	\$6,664
87.5% Foundation Level	824	9	833
PTRP Amount	74	9	83
Fixed Additional Levy Portion of the State Cost Per Pupil	750	0	750

### **Assumptions**

Estimates are based on Department of Education enrollment projections for FY 2018 and 4.23% growth in property valuation.

Assumptions include:

- Estimates are based on October 2016 certified enrollments and supplementary weightings for FY 2018 that were approved by the School Budget Review Committee (SBRC) in December 2016.
- A statewide taxable valuation growth rate of 4.23% for FY 2018 was previously agreed upon by the Legislative Services Agency (LSA), Department of Management, and Department of Education. Based on this assumption, the statewide total for the uniform levy is estimated to account for \$36.0 million of the school foundation property tax change in FY 2018 (including the uniform levy portion of the commercial/industrial rollback replacement payment). The estimated increase in the uniform levy amount is not impacted by the establishment of the State percent of growth rate. The table below shows a 4.35% increase in the uniform levy due to changes in the uniform levy rates for school districts undergoing the process of reorganization.
- Property tax adjustment aid amounts are based on the statewide taxable valuation growth factor applied to each school district's FY 2017 taxable valuation amount.
- Other legislation may have an impact on the amount of State aid and property tax generated though the school aid formula. The fiscal impact in the table on the following page includes only the provisions in this bill.
- State aid includes funding from the State General Fund and other funds appropriated or deposited in the Property Tax Equity and Relief (PTER) Fund that is used to provide additional property tax relief through the school aid formula.
- Establishing an FY 2018 State percent of growth will also impact the amount of funding generated for the Statewide Voluntary Preschool Program. Funding for the Program is provided with State General Fund dollars and is included in the overall State aid total.
- Districts eligible for the 101.0% budget adjustment will approve use of that provision.
- Beginning in FY 2018, the additional \$18.75 million state aid reduction to AEAs implemented in FY 2017 will be restored.

## **Fiscal Impact**

The following table provides the estimated fiscal impact of the three provisions of HF 136, State Supplemental Aid, State categorical rate, and PTRP implementation. This includes:

- Restoration of the \$18.75 million reduction in State aid to the AEs. Under current law, the reduction will total \$7.5 million (a statutory reduction implemented annually).
- \$46.7 million in property tax replacement payment (PTRP) funding, an increase of \$5.3 million compared to FY 2017 and an increase of \$9 per student.
- \$520.5 million for the State categorical supplements for school districts and AEs, an increase of \$59.9 million (12.9%). This includes:
  - \$295.2 million for the teacher salary supplement.
  - \$33.5 million for the professional development supplement.
  - \$34.5 million for the early intervention supplement.
  - \$157.4 million for the teacher leadership supplement.
- \$78.1 million for preschool formula funding, an increase of \$1.7 million compared to FY 2017. The preschool formula funding is included in the State aid amount, but is not included in the combined district cost total.
- \$23.6 million in budget adjustment funding, an increase of \$13.2 million compared to FY 2017. The budget guarantee adjustment is calculated at the school district level so that school districts receive 101.0% of their previous year's funding. The budget guarantee adjustment is funded entirely through property taxes.
- The total property tax funds generated through the school aid formula are estimated to be \$1.477 billion, an increase of \$55.4 million over FY 2017.
- The total State aid from the General Fund (reflecting the total school aid funding level for school districts and AEs generated through the school aid formula) is estimated be \$3.199 billion, an increase of \$108.9 million (3.5%) compared to FY 2017.

Any legislative action affecting FY 2018 school aid provisions will have an impact on school aid amounts. Additionally, any variations in the assumptions noted may result in significant changes in the FY 2018 estimates provided in the following table.

**Legislative Services Agency: FY 2018 School Aid Estimates (Statewide Totals in Millions)**

**State Supplemental Aid Rate**

1.11%

**State Cost Per Pupil**

\$6,664

**Total Increase**

\$73.00

<b>Program Funding:</b>	<b>FY 2017</b>	<b>Est. FY 2018</b>	<b>Est. Change</b>	<b>% Change</b>
Regular Program District Cost	\$ 3,197.43	\$ 3,244.09	\$ 46.66	1.46%
Regular Program Budget Adjustment	10.43	23.64	13.21	126.64%
Supplementary Weighting (District)	88.83	91.45	2.63	2.96%
Special Education Instruction (District)	414.55	430.28	15.73	3.79%
Teacher Salary Supplement (District)	274.89	279.40	4.51	1.64%
Professional Development Supplement (District)	31.15	31.66	0.51	1.64%
Early Intervention Supplement (District)	33.91	34.47	0.56	1.64%
Teacher Leadership Supplement (District)	103.42	157.41	53.99	52.20%
<i>AEA Special Ed Support District Cost</i>	158.24	160.96	2.72	1.72%
<i>AEA Special Ed Support Adjustment</i>	1.38	1.51	0.13	9.48%
<i>AEA Media Services</i>	27.91	28.31	0.40	1.44%
<i>AEA Ed Services</i>	30.85	31.29	0.44	1.43%
<i>AEA Sharing</i>	0.03	0.00	-0.03	-100.00%
<i>AEA Teacher Salary Supplement</i>	15.47	15.75	0.28	1.81%
<i>AEA Professional Development Supplement</i>	1.81	1.85	0.03	1.85%
<i>AEA Statewide State Aid Reduction</i>	-26.25	-7.50	18.75	71.43%
Dropout and Dropout Prevention	113.74	115.36	1.62	1.42%
<b>Combined District Cost</b>	<b>\$ 4,477.30</b>	<b>\$ 4,639.94</b>	<b>\$ 162.64</b>	<b>3.63%</b>
Statewide Voluntary Preschool Program	\$ 76.38	\$ 78.05	1.67	2.19%

<b>State Aid:</b>	<b>FY 2017</b>	<b>Est. FY 2018</b>	<b>Est. Change</b>	<b>% Change</b>
Regular Program	\$ 1,940.80	\$ 1,946.54	5.74	0.30%
Supplementary Weighting	77.38	79.68	2.30	2.97%
Special Education Weighting	361.39	375.14	13.75	3.81%
State Categorical (AEA and District)	460.68	520.53	59.85	12.99%
<i>AEA Special Education Support Services</i>	125.08	126.93	1.85	1.48%
<i>AEA Statewide State Aid Reduction</i>	-26.25	-7.50	18.75	71.43%
Property Tax Adjustment Aid (1992)	8.78	8.41	-0.37	-4.23%
Property Tax Replacement Payment (PTRP)*	41.41	46.74	5.34	12.89%
Adj. Additional Property Tax - General Fund	24.00	24.00	-	0.00%
Statewide Voluntary Preschool Program	76.38	78.05	1.67	2.19%
<b>State Aid from General Fund</b>	<b>\$ 3,089.63</b>	<b>\$ 3,198.53</b>	<b>\$ 108.90</b>	<b>3.52%</b>
Excess from SAVE Fund	9.50	9.50	-	0.00%
<b>Total State Aid (Includes Non-General Fund)</b>	<b>\$ 3,099.11</b>	<b>\$ 3,208.06</b>	<b>\$ 108.95</b>	<b>3.52%</b>

<b>Local Property Tax:</b>				
Uniform Levy Amount	\$ 827.82	\$ 863.83	\$ 36.01	4.35%
Additional Levy	593.47	612.83	19.35	3.26%
<b>Total Levy to Fund Combined District Cost</b>	<b>\$ 1,421.30</b>	<b>\$ 1,476.66</b>	<b>\$ 55.36</b>	<b>3.90%</b>
Comm/Ind - Uniform Levy Replacement	19.66	18.52	-1.14	-5.82%
Comm/Ind - Additional Levy Replacement	14.53	14.95	0.42	2.90%

<b>Miscellaneous Information:</b>				
Budget Enrollment	483,450.90	485,147.30	1,696.40	0.35%
Number of Districts with Budget Adjustment	110	179	69	62.73%
Percent of Districts with Budget Adjustment	33%	54%		
Property Tax Relief Payment Per Student	\$ 74.00	\$ 83.00	\$ 9.00	12.16%
AEA Funding	\$ 209.40	\$ 232.17	\$ 22.77	10.87%

**Notes:**

Totals may not sum due to rounding.

**Sources**

Iowa Department of Education, Certified Enrollment and Enrollment Projections File  
Iowa Department of Management, School Aid File  
Iowa Department of Revenue  
LSA Analysis and Calculations

/s/ Holly M. Lyons

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February 2, 2017

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The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

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