

School Finance Formula - Property Tax Relief

The Iowa school finance formula provides funding to school districts and Area Education Agencies (AEAs) through a mix of State General Fund dollars and local property taxes. In FY 2009, the school finance formula generated \$3.386 billion for school districts, as follows:

- K-12 State aid accounted for \$2.207 billion (65.2%).
- The uniform levy (\$617.7 million) and additional levy (\$561.0 million) property taxes accounted for \$1.179 billion (34.8%).

Brief History of School Finance in Iowa

Up until the 1960's, school districts were funded through local property tax. The current school finance formula was created between 1970 and 1972. The basic features included:

- Requirement of a uniform levy
- Establishment of a State foundation base
- Establishment of a maximum on each budget
- Provision of a minimum amount of State aid
- Budgets based on the number of students enrolled

The school finance formula was revised in 1989. The revision included:

- Equalization of per pupil spending
- Increased property tax relief
- Provision for increased local discretion

After some revisions in the following years, the new finance formula was put in place beginning with the 1992-1993 school year (FY 1993).

Initially, the Regular Program Foundation level was set at 83.0%, and the Special Education Foundation level

and the AEA Special Education Support Foundation level were set at 79.0%. The Regular Program Foundation Level was increased to 87.5% beginning in FY 1997. The Special Education Foundation Level was increased to 87.5% beginning in FY 2000.

Foundation Levels – Simplified Example

The foundation level establishes a per pupil base that determines the State aid and property tax funding mix. For instance, in FY 2009, the State cost per pupil (the minimum per pupil a school district may receive) is \$5,546. The current Regular Program Foundation Level is 87.5%. This means that the first 87.5% of the State cost per pupil is funded through the uniform levy and State aid. The additional 12.5% (and any district cost per pupil above the State cost per pupil) is funded locally through the additional levy. The computation is as follows:

- $\$5,546 \times 87.5\% = \$4,853$ – Funded through State aid and uniform levy.
- $\$5,546 - \$4,853 = \$1,293$ - Funded locally through the additional levy.

Similar calculations are made to determine the per pupil amounts of the Special Education Foundation Level and the AEA Special Education Support Foundation Level.

Property Tax Relief through the School Finance Formula

Adjustments made to the foundation level percentage will not impact school district budgets, but will change the State aid and property tax amounts that generate the overall school district budgets. Property tax relief can be attained in multiple ways, but the simplest examples include:

- Increasing the foundation level percentage. This will increase the

amount of State aid and reduce the amount of additional levy on a per pupil basis. The additional levy rate adjustments will vary among school districts.

- Reducing the uniform levy rate (currently at \$5.40/\$1,000 of taxable valuation). This will increase the amount of State aid to replace the loss of uniform levy due to the reduced rate. The same uniform levy rate reduction would be made to all school districts.

Adjustments made in the opposite direction of the examples above, (lowering the foundation level or increasing the uniform levy rate) will result in less State aid and more local property taxes to school districts, but will not change the overall school district budget.

Current Situation

As noted earlier, the Regular Program Foundation Level was increased from 83.0% to 87.5% beginning in FY 1997. This foundation level change applied to FY 2009 represents \$122.4 million in property tax relief.

The Special Education Support Foundation level was increased from 79.0% to 87.5% beginning in FY 2000. That foundation level change applied to FY 2009 represents \$32.2 million in property tax relief.

Property tax adjustment aid for eligible school districts was initially implemented in FY 1992 with \$19.6 million of State aid. The formula has a very gradual phase-out with an undetermined completion and is based on taxable valuation growth for each

(over)

More Information

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district. School districts with higher valuation changes experience a property tax adjustment aid decrease in the same proportion as the taxable valuation growth. Districts with no growth or decreases in taxable valuation will not experience a reduction from the previous year’s property tax adjustment aid amount. In FY 2009, 304 school districts received a total of \$11.9 million in this aid.

In 2006, adjusted additional property tax levy aid was approved. The legislation provided a standing appropriation (\$6.0 million in FY 2007, \$12.0 million in FY 2008, \$18.0 million in FY 2009, and \$24.0 million each following fiscal year) that was targeted towards school districts that had the highest adjusted additional property tax levy rates (based solely on the 12.5% additional levy). The aid is used to “buy-down” the levy rate for each district. In FY 2009, 65 school districts (18.0%) received the aid.

Beginning in FY 2011, remaining sales/use tax for school infrastructure in the Secure an Advanced Vision for Education (SAVE) Fund will be used to fund additional property tax relief through the school finance formula. These funds will be in addition to the adjusted additional property tax levy aid. School districts with an adjusted additional property tax levy rate above the statewide average will receive a “buy-down” to that average (starting at the highest rate and moving downward). If that goal is achieved and there are funds remaining, those funds will be used to increase the foundation level for that fiscal year. Current estimates indicate that 147 school districts will receive “buy-downs” to the statewide average rate and there will be an additional \$5.3 million remaining to increase the foundation level in FY 2011. All districts will receive property tax relief from a foundation level increase.

Property Tax Relief Options and Fiscal Impacts

The following provides some property tax relief options through the school finance formula and the corresponding fiscal impact. Estimates presented are based on FY 2010 School Finance Formula assumptions as of October 2008 and are subject to change based on updated data.

Foundation Level Increase:

Increasing the foundation level one percentage point to 88.5%.

- The estimated impact would result in an overall State aid increase and corresponding property tax reduction of \$32.3 million (\$28.3 million for the regular program foundation level and \$4.3 million for the special education foundation level).
- All school districts would receive property tax relief, however property tax rates will vary among the districts.

Uniform Levy Rate Reduction:

Reducing the uniform levy from \$5.40/\$1,000 of taxable valuation to \$4.90/\$1,000 of taxable valuation.

- The estimated impact would result in an overall State aid increase and corresponding property tax reduction of \$59.9 million.
- All school districts would have a \$0.50/\$1,000 of taxable valuation levy rate reduction.

Expand the Buy-Down of the

Adjusted Additional Levy: The formula for the allocation of this aid provides property tax relief to school districts using an iteration process that targets districts with the highest tax rates and moves downward based on the State aid amount. In FY 2010, \$24.0 million has been appropriated to buy-down the adjusted additional levy rate and current estimates indicate that 83 school districts (22.9%) will receive the aid. Adding additional funding for this will provide property tax relief to more districts.

- Fully funding the buy-down has the same effect as increasing the foundation level to 100.0% and would cost an estimated \$377.4 million.
- If fully funded, all school districts would receive property tax relief, although the property tax rates would vary among school districts.
- If not fully funded, this top-down approach will fund districts with the highest rates first and then move down until funds are exhausted.

Replace Property Tax Dollars with

Income Surtax Dollars: School districts can currently supplant property tax dollars with income surtax dollars for the Instructional Support Program and the Educational Improvement Program (within the district’s General Fund) and the Voter Approved Physical Plant and Equipment Levy (VPPEL). The current combined income surtax rate cannot exceed 20.0% (including an Emergency Medical Services income surtax). Based on FY 2009 data, four school districts are at the maximum of 20.0% while 65 school districts do not use the income surtax. Income surtax replaced \$76.4 million in property tax for district General Fund purposes and \$10.2 million for the VPPEL.

Adding the additional levy as a property tax that can be replaced with the income surtax could reduce property taxes within districts.

- Maintaining the maximum income surtax rate of 20.0%, an additional \$389.2 million could be generated for property tax relief if all districts implemented the income surtax at 20.0%.
- Increasing the maximum income surtax rate by 1.0% percentage point to 21.0% could generate an additional \$23.8 million for property tax relief.

These options are not inclusive and represent only a few alternatives to providing property tax relief through the school finance formula. For estimated impacts of other alternatives or variations of the presented alternatives, please contact the LSA.

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Estimated FY 2010 School Finance Formula Property Tax Relief Options

Property Tax Relief Option	Property Tax Relief Amount	Source for Replacement Funding	Number of Districts Impacted
Increase Foundation Level	\$32.0 million for each 1.0% increase	State General Fund	All - although rate impacts will vary
Uniform Levy Rate Reduction	\$60.0 million for each \$0.50 rate reduction	State General Fund	All - rate reduced by \$0.50 statewide
Expansion of Levy Buy-Down	Will vary - maximum of \$377.4 million	State General Fund	Depends on funding level - funds from a top-down approach
Replace with Income Surtax	Will vary - maximum of \$389.2 million	Local Income Surtax	Will vary - based on local discretion