FINAL REPORT
SCHOOL FINANCE STUDY COMMITTEE

TABLE OF CONTENTS



AVAILABILITY OF MINUTES AND SUMMARIES OF PUBLIC HEARINGS

Copies of the minutes of the meetings and of the summaries of the public hearings of the School Finance Study Committee are available from the Legislative Service Bureau.

# FINAL REPORT

## SCHOOL FINANCE STUDY COMMITTEE

March, 1989

BACKGROUND INFORMATION

House File 499 directed the Legislative Council to appoint a working committee consisting of members of the House and Senate Committees on Education and Committees on Ways and Means and members who represent the Department of Education, education interest groups, and other organizations and associations interested in school finance to conduct a comprehensive study of school finance. The legislation stated that the recommendations of the Study Committee should be made to the General Assembly meeting in 1989. Chapter 442 of the Code, the chapter that contains the state school foundation formula, is repealed effective July 1, 1991.

The Legislative Council established a School Finance Study Committee, named members, and authorized two days of meetings to begin the task.

Members named to the School Finance Study Committee are:

Senator Larry Murphy, Oelwein, Co-chairperson
Representative Arthur Ollie, Clinton, Co-chairperson
Senator Joy Corning, Cedar Falls
Senator Bill Dieleman, Pella
Senator Richard Drake, Muscatine (Replaced Senator Edgar H. Holden during the 1988 interim)
Senator Wally E. Horn, Cedar Rapids
Senator James Riordan, Waukee
Senator Ray Taylor, Steamboat Rock
Representative Kay Chapman, Cedar Rapids
Representative Horace Daggett, Kent
Representative Ruhl Maulsby, Rockwell City
Representative Tom H. Miller, Cherokee
Representative David Tabor, Baldwin
Representative Philip Wise, Keokuk
Mr. Donald Byers, Newton
Ms. Mary Ellen Chamberlin, Davenport
Mr. Lowell Dauenbaugh, Des Moines
Mr. Don Gunderson, Dike
Mr. Bill Knapp II, West Des Moines

Ms. Patsy Partridge, Keokuk
Ms. Rita Venner, Breda
Dr. William Lepley, Director,
Department of Education (Ex Officio)

Prior to the commencement of Study Committee activities, several members of the Study Committee who are Commissioners for the State of Iowa in the Education Commission of the States, an organization formed by an interstate compact to help state education policymakers to improve the quality of education at all levels, met with Mr. Kent McGuire, Director of the School Finance Division of the Education Commission of the States, at the Education Commission of the States Annual Meeting held in July 1987, in Denver to discuss the Iowa Study. These members were Co-chairpersons Murphy and Ollie and Senator Corning and Representative Daggett.

Mr. McGuire indicated that the Education Commission of the States would be interested in assisting the Iowa General Assembly during the preliminary phases of its study by analyzing information, conducting interviews, assisting in developing a request for proposal to be sent to potential consultants, and helping to analyze bids on the proposal. At this meeting he indicated that he would attend the Study Committee's first meeting to discuss school finance issues and possible approaches to the study of a school finance formula.

## AUGUST 20-21 MEETING

The Study Committee met on August 20 and 21, 1987. Mr. Kent McGuire was present as well as Mr. John Myers, Senior Program Director for Education of the National Conference of State Legislatures. The National Conference of State Legislatures is a nonpartisan organization of the fifty states that provides services to state legislatures.

The Study Committee heard presentations by Dr. Leland Tack, Administrator of the Division of Planning, Evaluation, and Information Services of the Department of Education; Mr. Phil Dunshee, Director of Governmental Affairs, Iowa Association of School Boards; and Mr. Lowell Dauenbaugh, School Finance Specialist, Iowa State Education Association, outlining the conditions that led to the enactment of the state school foundation formula in 1971, the kinds of legislative changes that have occurred to the formula over the years, and provisions of the formula as it exists during the present school year.

Mr. Brad Hudson, Budget Analyst for the Department of Management, discussed the impact of declining property values on state school foundation aid. He commented that an additional $15.6 million in state aid under the formula will be needed in the 1988-89 school year because of a four percent decline in the assessed valuation of taxable property in this state. Mr. Hudson also explained school district property tax levies that are in addition to the school aid formula moneys and presented information concerning the homestead tax credit, the agricultural land tax credit, and veterans' tax credit.

Legislative staff reviewed prior legislative and executive branch studies of the school foundation formula. Mr. McGuire reviewed the manner in which other states have conducted studies of their school finance formulas and noted that studies of school finance are always complex and involve many variables.

Mr. Myers and Mr. McGuire described three basic variations of school finance formulas and discussed the formulas of several different states. These are: (1) A foundation program in which state aid equals the difference between the dollars raised locally through a mandated tax and the dollars specified as the foundation level. The spending above the foundation level generally is provided from local sources. (2) Percentage equalizing in which state aid equals a percent of local school expenditures in inverse proportion to the districts' wealth. (3) Guaranteed tax yield in which the state guarantees a tax yield for the district up to a maximum levy.

There was also discussion that some states have a multitiered school finance system which uses more than one kind of formula.

The Committee unanimously adopted a motion that requested approval from the Legislative Council for the expenditure of not exceeding $140,000 from moneys appropriated in section 2.12 of the Code for a study of Iowa's school finance formula. The Education Commission of the States, with assistance from the National Conference of State Legislatures, agreed to conduct the first phase of the study by gathering information about the school finance plan, reviewing previous studies of the school finance plan, summarizing those studies, and analyzing the perceptions of school personnel and representatives of interest groups about the school finance plan. The Education Commission of the States would also identify issues that need to be considered and help to write a request for proposal for an outside consultant to actually perform the study of the school finance plan.

The Committee divided into two separate groups to discuss concerns about Iowa's system of financing schools and to raise specific issues and questions that members would like to see addressed. These comments were used by the Education Commission of the States to formulate the questions it used during its conversations with school personnel and representatives from business and the committees.

## LEGISLATIVE COUNCIL APPROVAL OF COMMITTEE REQUESTS

On September 2, 1987, the Legislative Council approved a request from the School Finance Study Committee for the following:

1. The Study Committee may enter into a contract with the Education Commission of the States to conduct the first phase of the school finance study at a cost of not exceeding $40,000 to be paid from moneys appropriated in section 2.12 of the Code.

2. The Study Committee may meet for five additional days between December 1987 and June 1988 to hear testimony, approve the awarding of one or more contracts for an outside consultant to conduct the study, and hear progress reports from the consultant.

3. The Study Committee may employ an independent consultant under a Request for Proposal to conduct the study at a cost of not exceeding $100,000 with specific approval of the contract to be made by the Legislative Council after bids have been received and reviewed.

## CONTRACT WITH EDUCATION COMMISSION OF THE STATES

A contract was executed between the School Finance Study Committee and the Education Commission of the States, with subcontracts between Education Commission of the States and the National Conference of State Legislatures and between the Education Commission of the States and Augenblick, Van de Water and Associates, to complete the first phase of the study. A copy of the scope of work for this phase is attached to this report.

## DECEMBER 17 MEETING

Interest groups were invited to provide their views about the school foundation plan at the December 17, 1987, meeting. The hearing was held at the State Capitol in Des Moines. A list of the individuals who made presentations and the organizations they represented is attached to this final report.

JANUARY 26, 1988 - STUDY RESULTS

At the January 26, 1988, meeting, Mr. McGuire presented the results of the study that was conducted pursuant to the contract by the Education Commission of the States and the National Conference of State Legislatures. Copies of Mr. McGuire's report are on file in the Legislative Service Bureau.

Mr. McGuire states in his report that an analysis of the discussion and comments of Committee members at the August 20-21 meeting disclosed the following themes of interest of Committee members:

1. The need to simplify Iowa's current formula.
2. The desire to maintain a balance between state and local revenues for funding schools and provide a stable funding source.
3. The desire to maintain a balance between state and local control of schools.

Representatives from the Education Commission of the States (ECS) and the National Conference of State Legislatures (NCSL) visited twenty school districts varying in enrollment from 135 to 30,861 students, located throughout the state geographically, and possessing varying costs per pupil, tax rates, and percentages of "phantom students". In addition, these individuals also visited either in person or by telephone with representatives from various organizations and associations interested in school finance either for education reasons or for taxation reasons. The purpose of these visits was to obtain a general sense of the education issues of concern to educators and policymakers.

The report concludes with a listing of issues that the ECS and NCSL believe should become the focus of the school finance study. They are:

1. Enrollment decline including the relationship between school district size, educational program, and costs.
2. Relative tax burdens associated with financing schools i.e. who pays and who should pay.
3. Incentives for sharing and district cooperation.
4. More information about the impacts of the current system.

Mr. McGuire developed a scope of work consisting of a series of questions that involve conducting studies in each of the four areas. He presented this scope of work to the Committee and suggested that rather than employing a single out-of-state consultant to complete the work, the studies for each area might be conducted by Iowa experts, noting that using this procedure the Committee could receive more for the money expended and proceed with the studies more quickly. He also suggested that the Committee might wish to consider enlisting two or three individuals from outside the state to serve in an advisory or review capacity.

## JANUARY 28 MEETING - COMMITTEE ACTIONS

At the January 26 meeting, the Committee voted to approve the scope of work suggested by Mr. McGuire with changes outlined by Committee members; to continue using Mr. McGuire as a consultant to the Committee; to use Iowa experts to conduct the research to perform the studies required in the scope of work; to use a national panel of experts to provide general oversight to the work of the Iowa researchers, to advise the Committee on substantial issues relating to the study, and to suggest a range of policy alternatives in school finance for Committee consideration; and to ask Mr. McGuire and others to suggest the names of Iowa individuals who might perform the required studies and out-of-state experts to serve on the national panel.

A list of names of proposed in-state researchers and national panel members was developed and subsequently approved by the Committee members.

## LEGISLATIVE COUNCIL ACTION

At its next meeting the Legislative Council gave final approval to the request of the School Finance Study Committee to expend not exceeding $100,000 from moneys appropriated in section 2.12 of the Code for completion of the scope of work by four Iowa researchers and for payment of expenses for a national panel of experts.

## IOWA RESEARCHERS

Dr. George Chambers, Professor of Educational Administration, University of Iowa, studied the effects of the school finance formula on school personnel, on the use of phantom students to compensate districts for losses in enrollment, and the effects of sharing agreements on the budgets and expenditures of school districts.

Dr. Mark Edelman, Associate Professor of Economics, Iowa State University, reviewed the literature concerning declining enrollment in school districts, economy of scale as it pertains to the operation of schools and school districts, and approaches used in state school finance systems to provide support in light of declining enrollment or economies of scale.

Dr. Thomas Pogue, Professor of Economics, University of Iowa, reviewed the literature relating to fiscal capacity indicators, identified alternative approaches used by states to measure fiscal capacity, defined fiscal capacity and its variations in school districts in Iowa, analyzed variations in property wealth, and studied the property tax credit system and the impact of property taxes related to income characteristics of individuals.

Dr. Lee Tack, Administrator of the Division of Research, Evaluation and Information Services of the Department of Education, studied historical changes in enrollment levels among school districts and characteristics of districts with similar enrollment changes; changes in expenditure categories, personnel, and program offerings of school districts as enrollment levels have changed; and the relationship between changes in enrollment and pupil performance as well as the relationship between enrollment levels and per pupil operating expenditures, programs, and performance; changes in revenues available to school districts; and changes in the relationships between revenues and expenditures.

## NATIONAL PANEL

The National Panel members approved by the Committee are as follows:

- Dr. John Augenblick, Consultant,
  Augenblick, Van de Water and Associates, Denver, Colorado
- Dr. Steven Gold, Director of Fiscal Studies,
  National Conference of State Legislatures, Denver, Colorado
- Mr. Paul Nachtigal, Mid Continent Regional Education
  Laboratory, Denver, Colorado

The panel members' tasks were to serve as advisors to the researchers and work with them as they completed their studies and to develop alternatives for the Committee to consider based upon information from other states and the research that was completed.

## APRIL 21, 1988 MEETING

At the April 21 Committee meeting, the Iowa researchers and the members of the National Panel each addressed the Committee and answered questions about their roles.

It was noted that Mr. McGuire would continue to serve as a consultant to the Committee and Ms. Terri Johnson of the Legislative Fiscal Bureau would serve the function of coordinator of the study.

The Committee decided to hold public hearings throughout the state in early September.

JUNE 24, 1988 MEETING

Preliminary reports were received from the Iowa researchers at the June 24, 1988, Committee meeting. Copies of summaries of these reports are attached to this final report.

In addition, Dr. Willis Goudy, Professor of Sociology, Iowa State University, discussed Iowa's general population trends. He stated that Iowa experienced a gradual increase in population from 1900 to 1980, but from 1980 to 1987 the population has declined about 2.7%. The year 1987 saw the lowest rate of births ever recorded, 13.2 per 1,000 births while the death rate has remained fairly constant. There has been a population shift from rural to urban and the farm population has been declining since 1940.

Dr. Goudy predicts a slight increase in population as the state enters the twenty-first century. The Committee concluded that although the massive school enrollment decline may have been arrested, with the migration of families from rural to urban centers, some school districts will continue to experience declining enrollment.

Mr. David Swenson from the Center for Policy Studies, the University of Iowa, discussed social issues influencing school finance reform. Mr. Swenson reported that real worker earnings have declined nationwide and since 1979 this trend has been evident in Iowa. Since 1979 Iowa has experienced a greater incidence of poverty. In addition, Iowa's share of national income is declining. Mr. Swenson believes that state and local governments will have to provide more services with relatively less revenue and resources may have to be targeted to specific programs.

The Committee came to the following conclusions at the close of the meeting:

1. The School Finance Study Committee believes that there will be various levels of population decline with pockets of the state that will experience population increases. This phenomena indicates that the Committee needs to incorporate flexibility into the formula to reflect a flattening of population growth with a possibility of decline.

2. Since real worker earnings are declining, the Committee may consider addressing the issue of property tax relief.

3. The Committee agreed to keep in mind a mid range of population projections rather than using projections that predict either great population growth or decline.

JULY 14, 1988 MEETING

At its July 14, 1988, meeting, Mr. David Swenson from the Center for Policy Studies at the University of Iowa again addressed the Committee. This time he focused on state demographic and economic changes in Iowa and their influences on income in the region. Mr. Swenson commented that Iowa has recovered from the recent economic downtown more slowly than the rest of the nation. He cited the number of households receiving food stamps as an indicator of earning loss and noted that number doubled between 1979 and 1984. The counties with smaller populations have suffered the greatest percentage of population losses and have also suffered the greatest percent of retail sales losses.

Mr. Bill Smith, representing the Iowa Tax Reform Action Coalition, discussed property tax credits and offsets. He stated that state funding assists certain individuals who meet eligibility requirements to pay their property taxes as follows:

1. Homestead Credit for homeowners - $33.5 million.

2. Agricultural land tax credit - $43.5 million.

3. Elderly tax credit for low income elderly persons - $10 million.

In addition state money equal to $97 million pays for "offsets" which include payments for livestock credits, moneys and credits tax replacement, inventory tax replacement, and personal property tax replacement.

The Committee discussed issues relating to state versus local responsibility for funding education, mix of revenue sources, options for school districts at the local level, and equalizing issues, and developed a series of principles upon which it tentatively agreed to build its school finance plan. A copy of the principles adopted at the meeting is attached to this report.

## AUGUST 4, 1988 MEETING

At the August 4, 1988, meeting Ms. Sue Schroeder, Consultant for Homeless Children and Youth, of the Division of Instructional Services of the Department of Education, presented the preliminary results of a study on homeless children in Iowa conducted by Drake University. The study assumes that there are 14,665 homeless persons in Iowa. She summarized the Department of Education's solutions to this problem that include: equal treatment for all children, inclusion of fees and supplies in the school aid formula, and having the General Assembly put the best interest of children first so that impediments to educating homeless children are removed.

The Committee then discussed issues relating to the cost of educational standards, inclusion of the educational excellence funds within the formula, inclusion of transportation costs and special needs in the formula, calculation of enrollment, use of incentives, equalization of educational costs, and state versus local funding and developed a second series of principles upon which it tentatively agreed to build its school finance plan. Decisions in some areas were delayed until after the report of the national panel was received. A copy of principles adopted at the meeting is attached to this report.

## PUBLIC HEARINGS

Five public hearings were held in various locations throughout the state during the first week in September. Members were assigned to one of the public hearings and were invited to attend more than one hearing if possible. Attendance at each of the five hearings varied from approximately 80 individuals to about 120 individuals. There were eighteen presenters at Creston and approximately twenty-four presenters at each of the other four hearings.

The public hearings were held on the following dates at the listed locations:

<u>September 6</u>

Green Valley Area Education Agency
Creston, Iowa

Lakeland Area Education Agency
Cylinder, Iowa

September 7

Heartland Area Education Agency
Johnston, Iowa

September 8

Great River Area Education Agency
Burlington, Iowa

Clinton Community College
Clinton, Iowa

Representatives from several associations made presentations at most or all of the public hearings. These included:

Area Education Agencies
Iowa Association of Realtors
Iowans for Arts Education
Partners in Vocational Education
League of Women Voters of Iowa
Vocational Home Economics;
Patterns for Progress
United Property Taxpayers of Iowa
Farm Bureau Federation

In addition, school board members, superintendents, teachers, rural school representatives, farmers, parents, rural property taxpayers and others were present and made presentations at each hearing. Most presenters mentioned that while they may want a different means of collecting and/or distributing the funds available for education purposes, they did not want to reduce the present funding level but rather advocated continuing or increasing the present funding level.

Copies of the Minutes from each of the public hearings are available from the Legislative Service Bureau.

NATIONAL PANEL ACTIONS

The four researchers completed preliminary drafts of their reports on September 30, 1988, and these reports were dispatched to the members of the National Panel for their use in developing their recommendations for the Committee. Copies of these reports were distributed to Committee members and on file in the Legislative Service Bureau.

The National Panel members reviewed the reports and developed preliminary conclusions based upon these reports which they distributed to the other Panel members.

Dr. Steven Gold concluded:

1. Data showing Iowa's heavy reliance on the property tax is skewed because, in Iowa, cities and counties place a heavier reliance on the property tax than do similar governments in other states while Iowa's reliance on property tax by school districts is only slightly greater than the United States in general.

2. Iowa's reliance on the property tax is to be expected since its per capita property tax base is much higher than the national average.

3. If income were included along with assessed valuation as a measure of fiscal capacity, state aid would be redistributed in favor of school districts with a relatively high ratio of property to income and, statewide, property taxes themselves would not be reduced.

4. If income were included in the formula, equally situated taxpayers would no longer pay the same taxes, resulting in horizontal inequity (i.e. high-income households in low-income school districts would pay lower taxes than high-income households in average income districts).

5. Consideration should be given to the use of property tax ciruit breakers to target property tax relief to taxpayers with high property taxes relative to their income. It could be extended to farmers.

Dr. John Augenblick concluded:

1. In Iowa there has been a dramatic decline in school enrollments over the past 20 years.

2. Districts with sustained declining enrollments over long periods of time face higher per pupil costs than districts with stable enrollments.

3. Over a reasonable period of time, districts can save most of the cost of serving pupils no longer enrolled by reducing staff, trimming overhead, and reconfiguring space.

4. The state can create a budget adjustment factor that reflects the actual pattern of a district's enrollment decline based upon the magnitude and timing of the decline. This factor can be determined on the basis of a matrix with the percent of decline as one axis and the years since the decline occurred as the other axis.

Mr. Paul Nachtigal concluded:

1. The majority of Iowa's school districts are rural and relatively small and these rural small school districts will continue to be a part of Iowa's future.

2. Although there is little difference in spending per student in districts ranging in size from 500 students to 5,000 students, the costs of providing an educational program for districts below 500 are higher.

3. A budget adjustment formula could be used to provide additional funding for districts below 500 enrollment with the percentage budget adjustment increasing as the district size decreases.

4. The sharing of programs between school districts currently provided by law is increasing each year in terms of both the number of school districts participating and the number of dollars generated under the sharing agreements.

5. The sharing option may be expanded to include sharing via technology.

6. There are several options that may be considered to reduce the use of sharing. These include targeting the program to specific kinds of smaller districts, limiting sharing agreements to grades 7 through 12, limiting the program to districts that qualify for either or both the size adjustment and declining enrollment adjustment, and phasing out the program over time.

7. The sharing program could continue as it currently exists or be eliminated.

NATIONAL PANEL REPORT

As the members of the National Panel began developing their final recommendations they used the following principles in developing their report to the Committee:

1. The panel relied on the research performed by the Iowa researchers where possible and appropriate.

2. The Panel was not bound by politics in developing its recommendations.

3. The recommendations relating to school finance are mechanisms to allocate resources and not mechanisms affecting school district organization.

4. The recommendations are but one source of ideas about how to improve Iowa's school finance system.

Following these general principles, the members of the National Panel met in Denver on three different occasions and considered the impact of declining enrollment and differences in district size and location on costs, local fiscal capacity and fairness to taxpayers, and the overall adequacy and equity of the school finance system. The Panel wrote a report to the Committee listing the following recommendations:

1. The state should continue to help school districts in dealing with the impact of declining enrollment since declining enrollment has an impact both on costs and program. The panel suggested treating the declines on a year-to-year basis rather than permanently and making adjustments on budgets rather than adding pupils. They recommended using a table of cost adjustment factors that relate increases in state aid to the magnitude of a district's enrollment decline and the pattern of the decline over time. Another approach that the panel mentioned is the use of the average of enrollments over a two-or three year-period, but the panel believes that method is less precise.

2. The state should consider making the school finance system more sensitive to measurable differences in the scale of operation (enrollment levels) by providing additional state aid for size-related cost differentials. The panel recommended the use of a separate formula to provide additional funding for those districts below 500 in enrollment since the research they reviewed had indicated that per pupil costs are higher in those districts. The approach could be modified to include sparsity as a criterion for receipt of the small district size aid. The panel mentioned alternative approaches such as grouping districts of similar sizes and providing adjustments based on average costs for each category or using a classroom unit approach rather than a pupil approach.

3. Absent other modifications, the state should not include income with assessed valuation as a measure of fiscal capacity in the formula. The panel believed that use of income in the measure of fiscal capacity would not reduce property taxes but would redistribute state aid and would create additional horizontal inequity. An alternative the panel mentioned is obtaining local revenue from a local income tax rather than from the local property tax. However, the panel believes it is more appropriate to tax income at the state level.

4. The state should consider increasing the role of income by making the value of property tax credits conditional upon the

income of the taxpayer. The panel recommended the use of circuit breakers for property taxpayers i.e. providing state aid to property taxpayers whose income to property tax ratio is high.

5. The state should consider reducing the role of property tax and increasing state aid if additional property tax relief is necessary.

6. The state should consider focusing and targeting the receipt of incentive funds for sharing. The panel suggested several alternatives such as focusing the sharing funds on the higher grades, linking them more directly with certain educational priorities, or linking them with eligibility for scale or sparsity adjustments.

7. The state should consider providing separate financial assistance for the costs of transportation incurred by school districts. However, the panel indicated that more reliable data about transportation costs is needed before it can be determined how best to fund transportation costs and before it can be determined whether instructional programs are impacted negatively by transportation expenditures.

8. The state should consider providing equalization aid to assist school districts with their future capital outlay and debt service obligations. The panel commented that more information about the needs is necessary, but it appears that there is disparity among districts in the tax rates for capital outlay and debt service.

9. The state should restructure the foundation program to establish per pupil guarantees that more nearly reflect the actual costs of operation and tax effort. The panel noted the variation in property tax rates among districts because the portion of districts' expenditures above the foundation level is entirely locally funded and because of the fact that expenditure levels were determined in the early 1970's. The panel proposed a system that provides for variations in spending levels and guarantees so that every district could generate the same revenues with equal tax effort. A district could increase its spending level, increase its property tax rate, and would receive additional state aid.

The Panel mentioned several other factors that the Committee may wish to consider that the Panel itself did not address. These include whether the different phases of the educational excellence program should be included in the formula, the cost of the new educational standards, role of property tax levies outside the formula, and the relationship between state and local control.

## NOVEMBER 21-22, 1988 MEETING

At its November 21-22 meeting, the Committee heard presentations from each of the members of the National Panel on each aspect of the Panel's recommendations and members had an opportunity to ask questions and make comments. Committee members determined that they would like to receive additional information about the costs of the specific proposals of the National Panel and the impacts of the proposals on specific kinds of school districts. The Co-chairpersons were given the authority to determine the kinds of computer simulations that would be prepared for the December meetings. Dr. Augenblick and Mr. McGuire agreed to help Ms. Terri Johnson of the Legislative Fiscal Bureau in devising the specific computer simulations that would be used.

## DECEMBER 12, 1988 MEETING

Information was provided to Committee members at the December 12 meeting that related to the National Panel's proposals for the use of an enrollment adjustment matrix and a size adjustment formula as well as additional information about sharing agreements.

Dr. Augenblick provided a means by which any aspect of a school aid formula could be analyzed. The school districts in Iowa were categorized based upon several different characteristics and the proposed changes were analyzed for each grouping to see if the change affected certain kinds of districts more than others. The analysis grouped districts by the pattern of their enrollment declines, their enrollment sizes, the amount of their regular program cost per pupil excluding transportation, their property wealth per pupil, and their property tax rates.

A declining enrollment matrix was created that reflected the results of the research on the magnitude of enrollment declines and how the districts adjust their costs to compensate for those declines. Dr. Edelman's research indicated that districts can fully compensate for their enrollment declines by the sixth year after a decline occurs so the matrix provides adjustments to the budgets of school districts for enrollment declines for each of five years after the occurrence of the decline. The research also indicated that the ability of a district to adjust its costs depends upon the magnitude of the decline. Dr. Augenblick devised a matrix to provide budget adjustments for school districts based upon their enrollment declines and simulations were produced that compared the differences in the percent of adjustment under the present enrollment formula, a rolling five-year average enrollment, and the matrix budget adjustment. The simulations compared the impact upon each category of districts.

Dr. Augenblick devised a size adjustment formula to provide a percentage increase to the budgets of those school districts enrolling fewer than five hundred pupils. The formula subtracted the district's actual enrollment from five hundred, divided that number by eight hundred, and squared the answer. The computer simulations compared the effects of the size adjustment formula upon the categories of school districts and analyzed the impact of the size adjustment, as well as showing the impact upon each school district.

The use of sharing agreements was also analyzed using the different categories of school districts and information relating to each school district was presented.

Following committee discussion of the information presented, the Committee made the following motions:

1. The Committee recommended that the matrix plan proposed by Dr. Augenblick be adopted as a part of a new school aid plan.

2. The Committee recommends that the Legislative Council direct the Committees on Education of the House and Senate to study the current legislation relating to sharing incentives for school districts and the use of the incentives by school districts and develop a statement of the intent of providing sharing incentives. The Education Committees should determine whether funding of the incentives should be targeted toward specific goals.

3. The Committee recommends that a size adjustment for districts of fewer than 500 pupils be adopted, based upon the work of the National Panel, but the size adjustment should be provided only to districts that enroll fewer than five hundred pupils by necessity. The Department of Education should be directed to develop criteria for the Committees on Education to consider what would distinguish between those districts that are small by necessity and those that are small by choice. Once the General Assembly adopts criteria, an application process should be established for the Department of Education to grant the size adjustment to districts that are small by necessity. (Note: See recommendation from December 22 meeting.)

The Committee members discussed the remaining recommendations of the National Panel and determined that it would be necessary to make decisions in the following areas at its final meeting:

1. The use of a series of proposed spending levels that could be used by school districts in a foundation program that contained the size adjustment and declining enrollment matrix as well.

2. Whether the new formula should provide one or more "hold harmless" provisions so that school districts are not negatively impacted by the new formula.

3. The means by which allowable growth should be determined.

4. How transportation costs should be treated.

5. How the local property tax levies and special property tax levies should be treated.

6. Whether a circuit breaker concept should be recommended to assist taxpayers who have low income and high property tax rates.

7. The extent to which districts should have the authority to spend beyond the funding generated under the formula (local leeway).

8. Issues that would logically be considered by the Committees on Ways and Means of the House and the Senate.

DECEMBER 22, 1988 MEETING

The final meeting of the Committee was held on December 22, 1988. Dr. Augenblick with assistance from Terri Johnson, Legislative Fiscal Bureau, had developed a packet of information analyzing the school finance formula that he had devised to implement the recommendations of the National Panel.

The formula uses a variable foundation cost that provides up to twenty percent variation in the foundation level, a size adjustment for districts below 500 enrollment, a declining enrollment matrix, 10% local leeway funding, and separate funding for transportation costs. The simulation presented as an example for the Committee used the actual budgets and enrollments of school districts for the 1988-1989 school year and provided an average tax levy for regular program costs of $8.17 per thousand dollars of assessed valuation rather than the actual average tax levy for regular program costs of $8.35 per thousand dollars of assessed valuation. It cost approximately $60,000,000 more than the present formula for 1988-1989. Dr. Augenblick explained that the numbers used for each of the features may be increased or decreased based upon the availability of additional moneys when the formula is implemented in the school year beginning July 1, 1991.

First, under the simulation that was distributed, transportation costs and the amounts of adjustment aid for declining enrollment and size that would be granted to the district in later calculations were subtracted from each school district's regular program budget and the result was divided by the district's actual enrollment count to determine the district's adjusted regular program cost per pupil. The adjustments that would later be added to districts' budgets were subtracted from regular program budgets because under the simulation it was assumed that districts would spend the same amount per pupil that they are currently spending. Dr. Augenblick then reviewed the range of these per pupil costs and, for the simulation, selected a base foundation cost of \$2,300. There were only five districts spending less than \$2,300 per pupil and these districts would be required to spend at least \$2,300 per pupil. Dr. Augenblick then provided that districts could choose to spend up to twenty percent more than the base foundation cost of \$2,300, or up to \$2,760 per pupil. There were 31 districts spending more than \$2,760, but these districts could retain their higher per pupil spending level by utilizing the ten percent local leeway. Although under the simulation it was assumed that districts would spend the same amount per pupil that they are currently spending, if the plan were adopted, these districts could actually spend at any level between \$2,300 and the maximum amount of \$2,990 using the \$2,760 maximum foundation cost and the ten percent local leeway.

Under the simulation, the spending level selected between \$2,300 and \$2,760 would be funded by means of a formula in which there is a \$322 per pupil yield for each \$1.00 property tax rate, i.e. the amount of state aid per pupil that a district would receive would equal the difference between \$322 and the revenue generated per pupil for each \$1.00 property tax rate. Therefore, a tax rate of \$7.15 would result in a spending level of \$2,300. The amount of property tax raised and amount of state aid generated would vary among districts. A district that chooses to increase its spending level up to \$2,760 will share the costs above the \$2,300 level with the state in the same ratio based upon the revenue generated by the property tax levy. Dr. Augenblick explained that any amount of yield could be selected for each dollar of property tax and the ratio between the property tax rate and the yield could remain constant at all spending levels or could vary, based upon the spending level selected. The simulation provides for state and local funding for the foundation cost. There is no separate local property tax effort above the 82% foundation level as there is under the present formula.

Under the local leeway provision, a district could choose to spend up to \$2990, which is ten percent above the maximum foundation cost of \$2,760. In the simulation, the local leeway was funded by the property tax.

Dr. Augenblick proposed that school districts not spending at the maximum foundation cost for regular program expenses be allowed to spend at the maximum cost and be allowed to use the difference for discretionary general fund expenditures currently outside the formula and not now equalized.

Under the simulation, a district's base regular program district cost per pupil was determined by multiplying the foundation cost by the district's actual enrollment. The resulting figure, the district's base regular program cost, may be increased by the receipt of additional state aid under the declining enrollment matrix adjustment and/or the size adjustment.

In order to determine whether a school district was eligible to receive an enrollment decline adjustment, the percent of increase or decrease in enrollment for each of the previous five years was calculated using the matrix attached to this report. A district's declining enrollment adjustment is equal to the sum of the adjustments in the matrix for each of the five preceding school years. It is expressed as a percent and that percent is added to one hundred percent and multiplied by the district's base regular program district cost to determine the district's adjusted regular program district cost. The declining enrollment adjustment is entirely state aid.

Under the simulation, all school districts that had actual enrollments of fewer than five hundred students were eligible for a size adjustment. The smaller the school district, the larger the size adjustment the district would receive. The size adjustment formula the consultant selected was:

$${\frac{500 - \text{headcount}}{800}}^{2}$$

The size adjustment is also expressed as a percent and is entirely state aid. It is also added to the district's base regular program district cost.

The consultant commented that the 500 enrollment could be increased or decreased as well as the 800 figure used as the divisor in the formula.

In the simulation, the actual transportation costs were funded using 80% state aid and 20% local funding. The consultant stressed that any funding formula could be developed to pay the transportation costs.

The simulation used a two pronged hold harmless for the school districts. First, a school district could not receive less state aid than it would have under the present formula. Once that hold harmless was calculated, then a school district could not have a higher property tax rate than it would have under the present formula.

The simulation proposed no change in the calculation of the state percent of growth.

Dr. Augenblick stated that the tax rate coefficient of variation in the current formula is 11.58 while this tax rate variation is reduced to 5.45 under the National Panel proposal. He also commented that the correlation between a district's tax rate and its wealth is -.86 under the present formula and is -.37 under the proposed formula and the correlation between a district's tax rate and its spending level is -.18 under the present formula and +.38 under the proposed formula.

Dr. Augenblick presented information for the proposed formula that compares its impact on the categories of school districts based upon the different characteristics devised for the analysis of formulas.

Following Committee discussion of the proposed formula, the Committee made several recommendations:

1. The Committee reaffirmed its recommendation from the previous meeting that recommended adoption of the declining enrollment matrix for determining budget adjustments to school districts that have experienced enrollment declines.

2. The Committee again considered the use of a size adjustment for districts below five hundred pupils and adopted a motion that corresponds to the recommendation adopted on December 12 and directs the Department of Education to develop criteria for determining whether a district is small by necessity or by choice. However, the recommendation on December 22 was not that the size adjustment be adopted, but only that the size adjustment could be considered by the Committees on Education of the House and Senate.

3. The Committee recommended the adoption of state assistance for transportation costs outside the present formula, but the form the state assistance would take should be determined by the Committees on Education of the House and Senate after the Committees have received information from the Department of Education describing the transportation requirements that districts must provide.

4. The members of the Committee proposed various motions relating to the flexible foundation formula presented at the meeting, but none received the required number of votes. (Recommendations required the overall approval of a majority of the membership as well as majorities of both the House and Senate membership.)

The Co-chairpersons proposed that an additional meeting of the Committee be held after the General Assembly convened in order to finish the work of the Committee. It was noted that motions relating to the concepts contained in the foundation formula presented at the meeting had failed to be adopted and the Co-chairpersons asked Dr. Augenblick to list the factors the members might wish to consider if another meeting were held and additional computer simulations were devised. Dr. Augenblick listed the following factors:

1. The spending level and tax rates of districts.
2. Whether variable spending levels should be used.
3. The percent of local leeway that should be allowed.
4. Whether transportation costs should be included in the formula.
5. Whether the adjustment should be applied against the minimum foundation level or against a district's actual spending level.
6. Whether the funding for Phases I, II, and III of the Educational Excellence Program should be included in the formula.
7. How the hold harmless should be applied.
8. How allowable growth should be calculated.
9. Whether a specific income factor should be used in the formula.
10. The overall spending level that should be used.

Committee members were polled as to their response to each of these issues and from their responses Mr. McGuire concluded that simulations devised by Dr. Augenblick should meet the following criteria:

1. Provide property tax relief either through the formula itself or a circuit breaker.

2. Provide additional funding to improve the educational programs of school districts.

3. Use the declining enrollment matrix.

4. Use income as one factor in determining the wealth of school districts.

5. Include the funding from Phase II in the formula.

6. Remove transportation costs from the formula.

The Committee members expressed hope that an additional meeting could be held to complete its work.

## POST DECEMBER 22, 1988

Dr. Augenblick continued to work with Terri Johnson to develop additional computer simulations of the school aid proposal as well as estimates of the cost of implementing a circuit breaker for property tax relief.

## FEBRUARY 16, 1989 MEETING

A final meeting of the School Finance Study Committee members was held on February 16, 1989, with Mr. McGuire and Dr. John Augenblick attending.

Information describing the proposed school finance plan of Governor Terry Branstad was presented by Dr. Lee Tack, Department of Education, and Mr. Brad Hudson, Department of Management.

Mr. McGuire described the results of several computer simulations that were devised after the December 22 meeting. One simulation provided fiscal neutrality for state aid for the National Panel's school finance proposal. He commented that using fewer dollars of state aid results in higher costs for the budget guarantee and also results i;n higher property taxes in some districts.

A second simulation adjusted the property tax rates in the first simulation based upon the relationship between the adjusted gross income per pupil in a school district and the adjusted gross income per pupil in the state. This simulation produced wide variations in the property tax and state aid mix for funding the educational program in school districts.

Dr. Augenblick stated that he and Mr. McGuire had reviewed the property tax burden and income wealth in each of the seven sizes of school districts and had estimated that imposing a circuit breaker which would limit property taxes to three percent of a taxpayer's adjusted gross income would cost approximately $54,000,000. Computer simulations for individual districts were not possible.

Ms. Chamberlin expressed hope that any new school finance formula would provide horizontal equity across districts. She commented that Dr. Tom Pogue's research on fiscal capacity brought new insights into Iowa's tax structure and she asked the members of the General Assembly to study the impact and cost of circuit breakers on Iowa's citizens.

Co-chairpersons Murphy and Ollie thanked Committee members for their participation and expressed the view that research conducted, testimony received, and the comments of the members and conclusions of the Committee will be useful to the General Assembly as it considers legislation for a new school finance formula.

# A P P E N D I X

- Scope of Work for 1st Phase
- List of interest groups presenting on December 17, 1988
- Summaries of preliminary reports of researchers
- Principles of July
- Principles of August
- Declining Enrollment Matrix

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SCOPE OF WORK
IOWA SCHOOL FINANCE PROJECT

A School Finance Study Committee, established by the Legislative Council, has been directed by the Legislative Council to study the strengths and weaknesses of the current system of financing schools and to develop recommendations for a new school finance system.

As a preliminary step in the execution of the study work of the Committee, the Legislative Council, on behalf of the School Finance Study Committee, is contracting with the Education Commission of the States (ECS) to collect additional information about the current school finance statutes and generally about prevailing attitudes of local school districts and interest groups regarding the quality of education in Iowa and the state role in supporting the public schools. ECS has agreed to assist the School Finance Study Committee in developing specifications for a comprehensive study of the state's system of financing public schools.

Pursuant to the contract between the Iowa Legislative Council and ECS, the following tasks will be performed by ECS:

1. Conduct a series of interviews in Iowa school districts to clarify local concerns about the state system of financing public schools. ECS will conduct interviews in between 15 and 20 school districts around the state. Care will be taken to select a group of districts that represent as best as is possible with limited time and resources, the characteristics and operating conditions typical to all school districts in the state (e.g. rural and urban, large and small, various levels of income, etc.). Geography and availability of local school and community leadership will also be taken into consideration in selecting school districts for the interview phase of the project. These interviews will not become the basis for specific recommendations for improvements to the current system of financing schools in Iowa. Rather, the perceptions and insights of school district officials will become part of the information used in shaping the focus of any subsequent studies of school finance conducted by or for the School Finance Study Committee.

2. Engage in discussions with a wide range of business, education, taxpayer, and other interest groups to learn more about the concerns these groups have about school finance in Iowa and to identify their recommendations for improving the state's school finance system. ECS will consult with the School Finance Study Committee in identifying the interest groups to include in these conversations. ECS will visit individually with as many of these groups and organizations as is possible, given financial and geographic considerations. Telephone conversations and written correspondence will be used to solicit input when visits are not feasible. Like the district interviews, the purpose of these discussions is to generate information that will be helpful to the School Finance Study Committee in designing subsequent studies of school finance.

3. Review, through discussions with the Iowa Department of Education, other state agencies and appropriate university personnel, prior analyses of school finance in Iowa and attempt to relate these studies and reviews to the areas of immediate concern to state and local educators and policymakers. The principal

objective is to clarify what these studies do and do not contribute to the current investigation of school finance in Iowa. A related objective is to learn more about the on-going capacities of various agencies and organizations in the state to examine issues deemed important for additional study by the General Assembly.

4. Develop in draft form, a Request for Proposal (RFP) or Requests for Proposals (RFPs), to be used by the School Finance Study Committee in soliciting proposals from consultants who might be selected to conduct detailed analyses of specific aspects of school finance in Iowa.

ECS assistance to the School Finance Study Committee in clarifying issues and developing specifications for a review of school finance in Iowa is to begin in mid-September of 1987 and continue through the end of January, 1988. ECS will review the steps taken in developing the Request for Proposal (RFP) or Requests for Proposals (RFPs) and discuss the content of the RFP or RFPs at the January meeting of the School Finance Study Committee, the exact date of that meeting to be determined later.

The budget for this project and approximate timetable for specific activities is attached as appendix B. The total costs of the four activities identified above is $40,000. The project will be managed by Kent McGuire, Senior Policy Analyst for the Education Commission of the States. ECS will subcontract with the National Conference of State Legislatures (NCSL) and Augenblick, Vanderwater and Associates (AVA) to complete all phases of the project. Descriptions of these organizations and copies of the subcontracts are attached as appendix C.

# PRESENTERS

December 17, 1987
School Finance Study Committee

Jerry Snethen, Iowa Farm Bureau Federation
George Chambers, Professor, Unviersity of Iowa
Ron Dickinson, Area Education Agency VII Administrator,
representing the aea education agencies
Dorothy Meyerhoff, Iowa PTA
Max Miller, Business Manager, Ottumwa Public Schools,
representing the Iowa Association of School Business Officials
Karlene Garn, President-elect, Iowa Educational Media Association
Roger Hudson, Controller, Des Moines Public Schools,
representing the Urban Network
Rich Nutt, Realtor, Sioux City,
representing the Iowa Realtors Association
Sue Atkinson, Parents for Quality Education
Bill Smith, Iowans for Tax Reform Action Coalition
Phil Dunshee, Iowa Association of School Boards
Joe Hellstern, Untied Property Taxpayers of Iowa
Jan Reinicke, Iowa State Education Association
Michael Knapp, President, Iowa Association for the Education of
Young Children
Judy Jeffrey, President, Iowa Talented and Gifted Association
Kenneth Shaw, Superintendent, Nevada Public Schools,
representing the School Administrators of Iowa

Written presentations were received from:

Richard W. Phillips, President, Iowa Taxpayers Association
Mary Etta Lane, Executive Director, Association for Retarded
Citizens of Iowa

School Presenters
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June 24, 1988
Dr. George Chambe

SUMMARY OF REMARKS TO THE
LEGISLATIVE STUDY COMMITTEE

by

University of Iowa Professor of Educational Administration, George A. Chambers, and staff members: William Lynch, Superintendent, H-L-V Community School District and James Behle, Superintendent, West Branch Community School District.

A University of Iowa research team is surveying Iowa school districts regarding sharing programs, phantom students, teacher employment, and the state's recent salary supplement to teachers.

Preliminary findings of research by Lynch and Chambers indicate there is considerable activity between and among Iowa districts in seeking sharing agreements. Sharing educational programs and personnel appears to be providing desperately needed fiscal resources for the operation of smaller schools. "Iowa's sharing plan appears to be evolving into a national model for rural states " U of I Professor, George A. Chambers, said.

To meet the budgetary impact of declining enrollment in Iowa schools, districts are funded for phantom students. Currently, 75 million dollars is distributed throughout the state to meet the enrollment decline problem. Research in this area focuses upon the inequities that have arisen due to the current funding formula and how enrollment decline should be treated in new school finance law. School district size and geographical area are also being considered in regard to phantom students. The effective redistribution of the amount now being spent for phantom students based on actual student count is being pursued by Behle and Chambers, as is how that redistribution would affect school district tax rates.

The opinions of school administrators regarding Phases I and II of the Teacher Salary Supplement is being gathered. Professor Chambers suggested that the findings of the research on phase money and school personnel should be of immeasurable value to the legislature in its effort to develop an improved and new state school finance law.

FCB/6-23-88

June 24, 1988
Dr. Tom Pogue

# SCHOOL DISTRICT FISCAL CAPACITY STUDY

## Summary of Preliminary Report

The first phase of the study, which reviews the literature on the definition and measurement of school district fiscal capacity, is nearing completion. In addition, some of the data needed for empirical work have been assembled, and preliminary analysis of those data is underway. Some of the main points that emerge from previous work in this area are summarized below.

1. Although definitions vary and are often imprecise, the following definition is consistent with most writing on the subject:

> The fiscal capacity of a school district, or any other unit of government, is its ability to finance a *continuing* flow of spending from its own sources. It is the revenue that a district can obtain on a continuing basis from its own sources, including taxes, fees, sale of services, but not borrowed funds.

2. There is a rough consensus about what is meant by fiscal capacity, but still disagreement about how it should be measured. The most widely used and discussed measures are property value, income, and the yield of a representative tax system (RTS).

3. Property value is the measure most widely used in distributing school aid. The main issue raised in the literature is whether property value is an accurate measure of ability to pay.

4. The principal criticism of income as a measure fiscal capacity is that taxes imposed by a school district may be *exported*, which occurs when the burden of a government's taxes falls on the incomes of nonresidents. For example, property taxes levied on the value of land are exported to the extent that land is owned by nonresidents. Thus, while it is true that "all taxes are paid out of income," all of the taxes imposed by a particular government are not necessarily paid out of the incomes of its residents. The ability to export taxes adds to the fiscal capacity of a school district because exported taxes do not reduce the spendable (disposable) incomes of a district's residents.

5. The current consensus is that residents' income must be adjusted for tax exporting if it is to be a useful gauge of fiscal capacity at the school district or any other level of government.

6. Other than per capita income, the measure of fiscal capacity that has received the most attention in the literature is the representative tax system. introduced by the Advisory Commission on Intergovernmental Relations in the early 1960s. With the RTS approach, a district's fiscal capacity would be measured as the revenue it could collect if it applied the *state average* tax rate to the base of each of the taxes that it is allowed to use (sales, personal income, property, etc.).

June 24, 1988
Dr. Mark Edelman

Studies Show School Costs
Related to Size and Decline.

Des Moines, IA. "Thirty-three out of thirty-four studies show that school costs per pupil are related to the size of the school enrollment. Furthermore, other studies show that declining enrollments cause school costs to rise dramatically in the short run," says an ISU economist.

These are two of the major conclusions of the findings contained in three reports presented to the Iowa Legislature's Interim School Finance Study Committee by Dr. Mark A. Edelman, Iowa State University Economist.

Edelman indicated that most of the studies found a U-shaped cost curve, meaning that the medium sized schools are the least expensive per pupil and that both larger and smaller schools have larger expenditures per pupil.

In Iowa, districts with 1000 to 2499 pupils have the lowest expenditures. Edelman reviewed a study completed two years ago that shows school costs by size of district in Iowa. In 1984-85, districts with less than 250 pupils account for 11.9 percent of the districts, 2.1 percent of the pupils and spent $576 more per pupil than the least cost moderate size district group.

On the other hand, eight Iowa districts with over 7,500 pupils account for 1.8 percent of the districts and 25.3 percent of the pupils in the state. In 1984-85, they spend $168 more per pupil than the moderate size school district group.

Other findings reviewed for the committee follow:

- Iowa high school course offerings and pupil/teacher ratios rise as school district size increases. The courses added tend to be vocational electives as the size of the district increases.

- Iowa pupil projections for 1990-91 show that about the same percentage of large and small school districts can expect increases in enrollment. At the same time, one-fourth to a third of both large and small districts can expect pupil declines of greater than 10 percent. This is primarily due to lower birth rates and is based only on the class cohort retention of each school.

- As enrollment declines, all cost categories(instruction, operations, maintenance, administration, transportation) tend to rise more in the short run due to inability to adjust. However, instructional costs are adjusted more than other cost areas over the long run.

- School districts faced with declining enrollments tend to let teachers with less experience go first. As a result, average teacher salaries tend to rise in districts that have adjusted to declining enrollments.

# PRINCIPLES FOR DEVELOPMENT OF A NEW SCHOOL FINANCE PLAN

July 14, 1988

A new school finance plan should include all of the following principles:

1. Funding should come from both state and local sources. There should be some property tax relief.

2. The formula must have both local and state funding components with an equalization factor.

3. The Committee does not favor the imposition of separate school district income taxes.

4. The formula should use a controlled budget of some sort with some local option based upon board action.

5. Consolidation of some of the separate levies currently in existence should occur.

6. The formula should provide districts with a means for adjusting to declining enrollment but should not permanently add students who no longer exist.

7. The formula should recognize problems of school districts that are related to size. An efficiency standard may be applied to each different size category.

8. Further study of the present system of property tax credits and adjustments is needed. The Committee will consider referring the study of the issue to the Committees on Ways and Means.

9. The state aid system should be flexible enough to provide for the unique needs of school districts.

new sfp
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# PRINCIPLES FOR

# DEVELOPMENT OF A NEW

# SCHOOL FINANCE PLAN

## August 4, 1988

A new school finance plan should include all of the following priniciples:

1. The cost of the educational standards that must be implemented by school districts on July 1, 1989 should be included in the formula.

2. Phases I, II, and III of the educational excellence program providing teacher salary increases should be included as a part of a school finance formula, but should be added in such a manner that they are funded completely by state aid. Phase III should remain identifiable within the formula and approval of the school district programs should be determined using a growth factor and the addition of Phase III moneys should not result in property tax increases under the formula.

3. Transportation costs should be separated from the school finance formula. No decisions were made about the manner in which tranportation costs should be funded. The Committee will further study the means by which other areas of special needs should be funded.

4. School districts should count enrollment by using a rolling enrollment average based upon the district's previous three or five years. Declining enrollment cushions should not be permanent.

The Committee discussed the use of incentives to encourage school districts to share programs and services and to encourage reorganization and dissolution, but deferred action until receipt of the reports of the researchers. The Committee also discussed prekindergarten funding and deferred action until it adopts a policy relating to the provision of prekindergarten programs by school districts.

principles,schools
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## DECLINING ENROLLMENT MATRIX

| Amount of One Year Decline | Years Since Decline Occurred: 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Less than 1 percent | 0 | 0 | 0 | 0 | 0 |
| 1 - 2.9 percent | 2 | 2 | 1 | 1 | 0 |
| 3 - 4.9 percent | 4 | 3 | 2 | 2 | 1 |
| 5 - 6.9 percent | 6 | 5 | 4 | 3 | 2 |
| More than 6.9 percent | 8 | 7 | 5 | 4 | 3 |