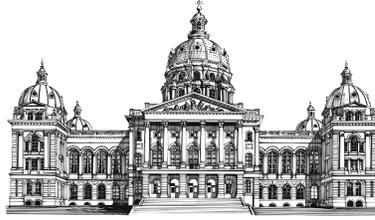

Iowa Legislative Services Agency

Fiscal Services

Dennis Prouty
(515) 281-5279
FAX 281-8451



State Capitol
Des Moines, IA 50319
December 14, 2005

School Property Taxes

ISSUE

This **Issue Review** provides a review of the property taxes used to fund elementary and secondary education and the effect of the foundation level on school property taxes.

AFFECTED AGENCIES

School Districts

CODE AUTHORITY

Sections 257.3 (Uniform Levy), 257.4 (Additional Levy), 257.18-21 (Instructional Support Program), 257.29 (Educational Improvement Program), 257.41 (Returning Dropouts and Dropout Prevention Program), 298.2 (Physical Plant and Equipment Levy), 298.4 (Management Levy), 298.10 (Cash Reserve Levy), 298.18 (Debt Service Levy), 298A.5 (Schoolhouse Levy), 300.2 (Educational and Recreational Playground Levy), Code of Iowa

BACKGROUND

Iowa's elementary and secondary schools are funded primarily with a combination of property taxes and State aid from the State's General Fund, and to a lesser extent from sales tax, income surtax, miscellaneous income (such as, fees, sales, and tuition), direct appropriations, and federal funds. The historic school funding trend has been to shift away from dependence on property taxes to funding from State sources. There are ten property tax levies for school districts, but only the Additional Levy is affected by the Foundation Level within the School Foundation Formula. Following is a description of the various school property taxes. The first five (Uniform, Additional, Instructional Support, Educational Improvement, and Cash Reserve) are combined for collection purposes and typically referred to as the schools' General Fund Levy. (The Amana Library Levy is not listed here, because it affects only the Amana School District.)

- **Uniform Levy** is the first funding element in the School Foundation Formula and is a levy of \$5.40 per \$1,000 valuation on all taxable real property located in the school district. It is "uniform" in that the same rate is charged through out the State. This funding is used for general operations of the school districts.
- **Additional Levy** is the last funding element in the School Foundation Formula and makes up the difference between the funding received from the Uniform levy and the State Foundation Aid and the school district's Foundation budget, that is, the combined district cost. The per \$1,000 taxable valuation levy rate varies from school district to school district. In FY 2006, the average Additional Levy rate is calculated to be \$5.05 per \$1,000 of taxable value, with a high of \$10.63 in the Melcher-Dallas School District and a low of \$1.58 in the LuVerne School District.
- **Instructional Support Program** allows school districts to increase their general operating budgets by up to 10.0% of the regular program district cost. Local funding may come from either property tax alone or a combination of property tax and income surtax. The Program can be established by the school board for up to five years without voter approval (subject to reverse referendum) or for a maximum of ten years with voter approval. There is a standing appropriation of \$14.8 million in State Aid for this Program. In FY 2006, 328 of the 365 school districts participate in the Program and receive \$79.1 million from property taxes, \$57.8 million from income surtaxes, and \$14.4 million from State Aid, for a total of \$151.3 million.
- **Educational Improvement Levy** is available only to school districts that currently have the levy in place. It was implemented, with voter approval, by districts that had a district cost per pupil exceeding 110.0% of the State cost per pupil and had implemented the Instructional Support Program. Funding may come from property tax or a combination of property tax and income surtax. The funding augments the districts' general operating budgets and continues until rescinded by the school board or the electorate of the district. In FY 2006, four districts will receive Educational Improvement funding totaling \$504,000, with \$365,000 coming from property tax and \$139,000 coming from income surtax.
- **Cash Reserve Levy** generates funding that is held in reserve for cash flow purposes and to fund increased spending authority approved as modified allowable growth by the School Budget Review Committee (SBRC). This levy itself does not create spending authority for a school district. It provides a mechanism to make expenditures authorized by the Foundation Formula and SBRC. These funds can also be used to offset reductions in State foundation aid, such as through an across-the-board reduction, or if property tax collections fall below the budgeted amount. In FY 2006, 273 school districts will receive \$97.9 million from property tax for their reserves.
- **Physical Plant and Equipment Levy (PPEL)** may be used for major building repair and improvement, equipment or technology acquisition, and energy or transportation-related equipment or expenditures. The maximum levy is \$1.67 per \$1,000 taxable value with \$0.33 subject to school board approval and \$1.34 requiring voter approval. The voter approved levy may include funding from an income surtax if the revenues will not be used to pay for a lease or rental arrangement. In FY 2006, 335 districts will receive PPEL funding totaling \$108.4 million, with \$99.9 million coming from property tax and \$8.5 million coming from income surtax.
- **Management Levy** is used to pay costs incurred for unemployment; early retirement; liability, health, and medical insurance coverage; self-insurance; tort judgments against the district; and loss of property. This levy is solely property tax and does not have an income surtax option. There is no cap for the Management Levy rate; instead it is restricted by use. It may be certified by the school board and does not require voter approval. In FY 2006, the 362 school districts will receive a total of \$95.8 million from this property tax.
- **Educational and Recreational Playground Levy** is used to purchase playgrounds, equipment, and recreational facilities on public school property and for the costs of community education. The levy may be up to \$0.135 per \$1,000 taxable value, with voter approval, and remains in place until rescinded by the school board or voters. In FY 2006, seventeen school districts will receive \$1.8 million from this property tax.
- **Schoolhouse Levy** was to be used for capital expenditures, including the purchase of grounds, construction, repair and remodeling, roads, and improvements, and for renting facilities. If approved before July 1, 1989, a levy of up to \$0.675 per \$1,000 of taxable value could be imposed with voter approval. Only one school district still received funding from this levy in FY 2005, and that levy expired at the end of the fiscal year. This levy is no longer in use.
- **Debt Service Levy** is used to pay the debt service (interest and principal) on bonds issued by the school board with approval of 60.0% of the electorate. The maximum levy is \$2.70 per \$1,000 taxable value, but the school district electorate can vote on a separate question to raise the maximum to \$4.05 per \$1,000 taxable value. In FY 2006, 227 school districts will receive \$98.0 million from this property tax for debt service on bonds.

In addition to the above levies, school districts may receive property tax revenues to finance up to 75.0% of the Returning Dropouts and Dropout Prevention Program through the allowable growth calculation in the State foundation formula. The other 25.0% is financed through the school districts' general operating funds. School districts also may receive modified allowable growth spending authority funded by property taxes from the Cash Reserve Levy for unusual circumstances creating an unusual need for additional funds, for example, removal of hazardous materials, removal of an underground storage tank, startup costs for opening a new building or addition, converting to a GAAP basis of budgeting, or an unexpected influx of open-enrollment students.

CURRENT SITUATION

A school district's budget is made up of three building blocks – the Uniform Levy, State Foundation Aid, and the Additional Levy. The other school levies are in addition to those within the Foundation Formula. The first step in determining school foundation property taxes and State Foundation Aid is to calculate the school district's general operations budget – primarily the weighted enrollment (budget enrollment headcount plus supplementary and special education weightings) multiplied by the district cost per pupil, plus some adjustments. Area Education Agency funding is included in the formula. Next the amount from the first building block, the Uniform Levy is determined. A levy of \$5.40 per \$1,000 taxable valuation is applied to all taxable property in the school district. Next the State Foundation Aid portion is determined – 87.5% of the State cost per pupil multiplied by the weighted enrollment or 79.0% for AEA special education enrollment. Last, the Additional Levy makes up the remainder, so that the three building blocks add up to the combined district cost.

	Additional Levy (Rate varies by school district)	Combined District Cost
Third Block		
	State Foundation Aid (87.5% of State cost per pupil for regular program and school special education State foundation aid and 79.0% for AEA special education State foundation aid)	Foundation Level
Second Block		
	Uniform Levy (\$5.40 per \$1,000 taxable valuation in the school district)	
First Block		

The variation in school district levy rates is due to the different rates that must be applied by the Additional Levy to raise the funding required for the third block of the State Foundation Formula. Raising the foundation level would increase the amount paid by the State Foundation Aid and reduce the amount paid by the Additional Levy. Even with the foundation level set at 100.0%, the Additional Levy would still be required to fund those items funded solely by the Additional Levy property tax. They are the:

- Amount the District Cost per Pupil and the AEA Special Education Cost per Pupil exceeds the respective State Costs per Pupil.
- Budget Guarantee.
- Area Education Agency Media and Educational Services and the AEA Special Education Adjustment.
- Returning Dropouts and Dropout Prevention Program.
- Portions of the Enrollment Audit Adjustments.

BUDGET IMPACT

Increasing the Foundation Level does not affect the funding for school districts. It does shift the funding from the Additional Levy to State Foundation Aid. The following table shows the FY 2006 funding from State Foundation Aid and school property taxes for current law and for the Foundation Level set to 100.0%.

**FY 2006 School District Funding from Property Taxes
and State Foundation Aid**
(Dollars in Millions)

	Current Foundation Level	100.0% Foundation Level	Difference
Foundation Components			
Uniform Levy	\$ 542.1	\$ 542.1	\$ 0.0
State Foundation Aid	1,963.9	2,334.0	370.0
Additional Levy	507.6	137.5	-370.0
Foundation Subtotal	<u>\$ 3,013.6</u>	<u>\$ 3,013.6</u>	<u>\$ 0.0</u>
Other Levies			
Instructional Support	\$ 79.1	\$ 79.1	\$ 0.0
Educational Improvement	0.4	0.4	0.0
Physical Plant & Equipment	99.9	99.9	0.0
Management	95.8	95.8	0.0
Educational and Recreational			0.0
Playground	1.8	1.8	0.0
Cash Reserve	97.9	97.9	0.0
Debt Service	98.0	98.0	0.0
Other Property Taxes	<u>\$ 472.9</u>	<u>\$ 472.9</u>	<u>\$ 0.0</u>
Income Surtaxes			
Instructional Support	\$ 57.8	\$ 57.8	\$ 0.0
Educational Improvement	0.1	0.1	0.0
Physical Plant & Equipment	8.5	8.5	0.0
Other State Aid			
Instructional Support	14.4	14.4	0.0
Other Funding Subtotal	<u>\$ 80.8</u>	<u>\$ 80.8</u>	<u>\$ 0.0</u>
Total Funding	<u><u>\$ 3,567.3</u></u>	<u><u>\$ 3,567.3</u></u>	<u><u>\$ 0.0</u></u>

Note: This table includes only Foundation Funding and property tax funding for school districts and Area Education Agencies (AEAs). It does not include other appropriated amounts, local miscellaneous income, or federal funds. School districts and AEAs are budgeted to receive an additional \$614.2 million from these other sources.

Raising the Foundation Level to 100.0% would shift \$370.0 million from the Additional Levy to State Foundation Aid. The Additional Levy would still require \$137.5 million in property taxes. At that amount, the Additional Levy would supply 4.0% of the school districts' general operations budget

instead of 16.7%. Foundation property taxes (i.e., the Uniform Levy and Additional Levy) would decrease from \$1,049.6 million to \$679.6 million, or a 35.3% decrease. The total for all school property taxes would decrease from \$1,522.5 million to \$1,152.5 million, or a 24.3% decrease.

STAFF CONTACT: Dwayne Ferguson (Ext. 16561)

School Property Taxes

<http://www.staffweb.legis.state.ia.us/lfb/irview/irview.htm>

LSA/FSD: IRMDF000.Doc/12/14/05/11:30 am