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# Iowa Legislative Fiscal Bureau

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## School Aid Review

### ISSUE

An informational document about the Iowa School Finance Formula and optional funding sources used by Iowa school districts.

### AFFECTED AGENCIES

The 418 local school districts (399 in FY1994) and 15 area education agencies of Iowa.

### CODE AUTHORITY

Chapters 257, 278, 279, 294, 296, 298, 300, 442, Code of Iowa

### BACKGROUND

The current school finance formula was created between 1970 and 1972. This formula is a student driven financing mechanism that works to equalize the form of revenues from state sources and property taxes. The school finance formula was revised in 1989 in an attempt to equalize per pupil spending, provide an enrollment decline cushion (phantom students), increase property tax relief, and provide for increased local discretion. In 1992, further revisions to the school finance formula included eliminating the advance for increased enrollment, eliminating the enrollment decline cushion (phantom students), and requiring the Governor and Legislature to establish the allowable growth rate (previously established by formula).

### CURRENT SITUATION

In FY 1993, the school finance formula required \$1.178 billion in state aid and \$781.1 million in property taxes for a total budget of \$1.960 billion. This budget was generated based on a student enrollment of 490,394. The special education weightings were 43,217.

For FY 1994, the enrollment figures taken on the third Friday of September have been received by the Department of Education and are being reviewed. Preliminary figures show enrollment growth of 4,960 students. The local school districts will gather special education enrollment figures and submit these to the Department of Education in early December. County officials will provide taxable valuations in mid January to the Department of Management with final review and release of this data in mid to late March. The Department of Management, the Department of Education, and the Legislative Fiscal Bureau have started

to develop estimates of the school aid finance formula noting the different assumptions used for data still to be collected.

### **EXPLANATION OF THE IOWA SCHOOL FINANCE FORMULA**

The Iowa School Finance Formula is a student driven funding mechanism. The basic enrollment of a district is multiplied by a district's regular program cost per pupil. The district's regular program cost per pupil is based on historical spending in a district. The district's regular program cost per pupil shall be at the state cost per pupil (\$3,336 in FY1993) but not to exceed 105% of the state cost per pupil (\$3,503 in FY1993). If a district's regular program cost per pupil exceeds the state cost per pupil by 105% it will be reduced by at least 2% per year if the allowable growth factor is 2% or greater.

The state aid of a district is determined by the foundation level and the amount generated by the uniform property tax levy (\$5.40 per \$1,000 of taxable valuation). The foundation level is 83% of the state cost per pupil (\$2,769 in FY 1993) for the regular program, 79% of the special education cost per pupil (\$2,635 in FY 1993) and 79% of the state cost for area education agencies' special education support per pupil (\$117 in FY 1993). The amount of revenues generated by the uniform property tax levy is subtracted from the foundation portion of a school district's budget and the remainder is funded by state aid. This concept is used to equalize state support to school districts based on a district's taxable valuation. Districts considered property poor receive more state aid than districts considered property wealthy. The remaining portion of the budget (17% if at the state cost per pupil) is funded exclusively by the additional dollar property tax levy.

Special provisions within the Code guarantee a district that its regular program district cost and area education agency special education support will be at least as much as it was the prior year (100% budget guarantee). This provision places the full amount of the guarantee upon property taxes. Prior to FY 1993, the formula had included an enrollment matrix which had generated phantom students which caused the funding for budget declines to be split between state aid and property taxes. The budget guarantee had been scheduled to sunset in FY1993 but this provision has been extended to FY1994. The cost of the guarantee in FY1993 amounted to \$9.4 million and is projected to be \$13.1 million in FY 1994 based on an allowable growth factor of 0%.

The preliminary estimates for FY 1994 reflect increases in state aid of \$17.6 million. This estimate is based on enrollment growing by 4,960 students, allowable growth of 0%, taxable valuation remaining constant at FY 1993 levels, special education weights being held constant at FY 1993 levels, School Budget Review Committee authorization remaining at FY1993 levels, and an additional 37 districts qualifying for reorganization incentives. The increase in state aid is attributable to enrollment growth (\$14.3 million), new reorganizations (\$3.0 million), and miscellaneous items (\$0.3 million).

The allowable growth factor for FY 1994 and succeeding years shall be established by statute which shall be enacted within 30 days of the submission in the base year of the Governor's budget under section 8.21. Prior to FY1994, the allowable growth factor had been determined by a formula that took into consideration the state's revenue growth and the Gross National Product Implicit Price Deflator. This formula had generated an allowable growth factor for FY1994 of 3.953%. It should be noted that the increase in the allowable growth factor increases the total amount of state aid at a higher percent than allowable growth. This is a result of taxable valuation not growing at the rate of allowable growth (forcing increases in the foundation portion of the budget to be funded almost entirely by state aid). To highlight this concept, a 0% allowable growth factor for FY1994 would require an increase in state aid of 1.5% simply to fund enrollment growth and new reorganization incentives. Each 1% increase in the allowable growth factor would require

an increase of approximately 1.3% in state aid or a 1% allowable growth factor would require an increase in state aid of 2.8%.

Other funding sources available to school districts on an optional basis in the general education fund area include talented and gifted programs, drop out prevention programs, School Budget Review Committee (SBRC) unique authorizations, and the instructional support levy. The first three programs are initiated by board action, approved by the SBRC, and funded solely by property taxes. The instructional support levy can be initiated by board action for a period of 5 years or by voter approval (50% majority) for 10 years. The instructional support levy may raise up to 10% of a district's regular program district cost. The instructional support levy is funded by property taxes, state aid, and income surtaxes. In FY1993, the instructional support levy was used by 188 districts and generated total funding of \$59.1 million. The split in funding was property taxes (\$29.5 million), state aid (\$14.8 million), and income surtaxes (\$14.8 million). **The state aid amount for the instructional support levy was limited to \$14.8 million for FY1993 and succeeding years.** If new districts initiate the instructional support levy in FY1994 the state aid portion will be prorated to all districts participating in the levy.

Another optional funding source available to districts in the general education fund area is the cash reserve levy. This levy may be implemented by board action and is an unlimited levy. In FY1993, this levy was used to raise \$34.0 million. This levy is used to manage cash flow, replace state aid cuts, and fund special education deficit balances. This levy does not increase the spending authority of a district except that the interest income on these balances is considered miscellaneous income.

### **OPTIONAL FUNDING SOURCES (NON GENERAL EDUCATION FUND)**

Local school districts have a number of optional funding sources available to them for non general education fund activities. These levies are used for building construction, building maintenance, equipment purchases, and certain operational expenditures (insurance costs, unemployment costs, and tort liability costs).

The debt service levy is used for major building programs. The debt service levy is enacted by voter approval and requires a 60% voter approval rate. The levy is obligated towards general obligation bonds. The bonds may not exceed 5% of a district's taxable valuation nor may the bonds be for a period exceeding 20 years. In FY1993, this levy was used by 197 districts and raised \$56.0 million in revenues.

The management levy is a levy that may be enacted by board action and is an unlimited levy. The management levy is used to purchase non health insurance contracts, to pay for early retirement programs, to pay for unemployment costs, and to pay for tort liability claims. In FY1993, this levy was used by 381 districts and raised revenues of \$35.3 million.

The schoolhouse property tax levy is no longer available to districts but districts that enacted this levy prior to 1989 are allowed to leave it in place until its original authorization expires. This levy was voter authorized. In FY 1993, this levy was used by 179 districts and raised \$28.3 million.

The physical plant and equipment levy may be used to raise up to \$1.00 per \$1,000 of taxable valuation. The first \$0.33 of this levy may be implemented by board action. The remaining \$0.67 requires voter approval of 50% to be implemented. The voter approved portion of this levy may be obligated toward indebtedness. The funding for this levy may come from property taxes or a combination of property taxes and an income surtax. In FY1993, this levy was used by 390 districts and raised revenues of \$26.3 million (\$25.4 million in property taxes and \$0.9 million in income surtaxes).

The enrichment levy is no longer available to districts but if a district enacted this levy prior to 1989 it will continue until its original authorization expires. This levy required voter approval. The levy is funded by property taxes and an income surtax. In FY1993, this levy was used by 18 districts and generated \$1.5 million (\$0.8 million in income surtax and \$0.7 million in property taxes).

The educational and recreation tax requires voter approval of 50% to be enacted. The levy may raise up to \$0.135 per \$1,000 of taxable valuation. Once enacted, this levy remains in place until rescinded by the board or by the voters of the district. In FY1993, this levy was used by 17 districts and raised \$1.1 million. These funds may be used for recreational programs or for community education programs.

The asbestos property tax levy requires voter approval of 50% and may be funded from property taxes and income surtaxes. The levy may be for a period not to exceed 3 years. In FY1993, 2 districts used this levy to raise \$1.0 million (\$0.5 million property taxes and \$0.5 million income surtaxes).

### **SCHOOL FINANCE RECOMMENDATIONS PROPOSED BY THE DEPARTMENT OF EDUCATION**

The Department of Education recommended the following items for FY 1994: 1) an allowable growth factor of 3%, 2) funding increases due to enrollment growth, 3) funding increased special education weights, and 4) funding reorganization incentives for the 37 districts reorganizing starting in FY 1994. The Department of Education estimates these recommendations to increase state aid by \$70.5 million. The department, also, recommends eliminating the cap on state support for the instructional support levy which would require an additional \$0.5 million.

The Legislative Fiscal Bureau has calculated that the department's recommendations for the school finance formula would require additional state aid of \$74.1 million if the department's estimate of \$10.0 million for increased special education weightings is used. The difference in the Legislative Fiscal Bureau's calculations and the department's estimates is \$3.6 million. The Legislative Fiscal Bureau and the department are in the process of trying to reconcile differences in estimates.

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