
ISSUE REVIEW

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State School Aid — Historical Context and Trends, 1967-1982

ISSUE

This *Issue Review* provides an overview of the early history of the Iowa school aid formula, beginning with the precursor funding available until the mid-20th century, the creation of the formula in the late 1960s and early 1970s, and a brief review of the considerations taken into account through 1982.

AFFECTED AGENCIES

Iowa Department of Education

Local School Districts

Area Education Agencies

CODE AUTHORITY

Iowa Code chapter [257](#)

BACKGROUND

The premise of widely available public education has a deeply rooted history in the westward expansion of the United States. The Northwest Ordinance of 1787, which established the foundation for the current Midwest, set the stage for strong public schooling when it stated that "...schools and the means of education shall forever be encouraged." The Iowa Territorial General Assembly established a process that made counties responsible for providing schools in 1839, but these schools were often not successful because few families in rural areas were willing or able to send their children away from the home for the majority of the day.¹ Some areas had subscription schools, through which parents worked together to pay for the teacher (if there was one) and any supplies, though these were not common. The Constitution of Iowa states:

Common schools. Section 12. *The Board of Education shall provide for the education of all the youths of the State, through a system of Common Schools and such school shall be organized and kept in each school district at least three months in each year. Any district failing, for two consecutive years, to organize and keep up a school as aforesaid may be deprived of their portion of the school fund.*²

¹ Ruth, Amy, "One Room Schools in Iowa," Iowa State Historical Society *Goldfinch* publication, (1994), available at files.eric.ed.gov/fulltext/ED380380.pdf (last visited December 2017).

² *1857 Constitution of the State of Iowa – Original*, available at www.legis.iowa.gov/perma/030220182478 (last visited December 1, 2017).

In the 1850s, the Iowa General Assembly consulted Horace Mann, a nationally known education reformer, former member of the U.S. House of Representatives, and president of Antioch College in Ohio, to evaluate education in Iowa. Under his recommendation, the General Assembly passed a law in 1858 which made townships the authority for electing school boards. These township-based boards were in turn responsible for maintaining a local school, including levying property taxes to pay for buildings, supplies, and staff.³ This directive led to a proliferation of school districts across the State, with most township school districts building many small schoolhouses in order to ensure that students would not need to walk more than two miles to their closest school building.

High school education in particular was viewed as unnecessary, as the primarily agrarian economy did not have jobs for large numbers of high school graduates.⁴ By the dawn of the 20th century, there were almost 14,000 one-room, or country, schoolhouses in Iowa, serving students primarily through grade 8. Even with the large number of schools available, education was not mandated for students until 1902, making Iowa the last state north of the Mason-Dixon Line to have a compulsory education law, and then it was only required for children between the ages of 7 and 14. The first few years of the compulsory education law were marked by low compliance.⁵

Consolidation. The first efforts to consolidate the smallest schools and districts began in the 1910s when the State offered additional funding to districts able to provide vocational and industrial courses, which only larger consolidated districts had the capacity to house. By 1919, the State had increased the funding for vocational education, coupled with the federal [Smith-Hughes Act](#) of 1917⁶ as well as requiring the closing of districts with fewer than five students in attendance.⁷

This model remained the status quo until the 1950s, when changes to transportation (specifically the rise of the school bus) allowed larger rural community school districts to begin to form. However, many areas continued to resist these larger community districts because of ongoing concerns that students would not receive the individualized attention that they received in the smaller country schools. Through the 1960s, there was a concerted effort by the Directors of the Department of Public Instruction (the forerunner to the Department of Education) to consolidate the smallest rural school districts. This, coupled with changes to State law, led to a drastic decrease in districts from over 4,600 in the first decades of the 20th century to 453 by 1970.⁸ In 1965, the Iowa General Assembly established a requirement that all

³ Ruth, Amy, "One Room Schools in Iowa," Iowa State Historical Society *Goldfinch* publication, (1994), available at <files.eric.ed.gov/fulltext/ED380380.pdf> (last visited December 2017).

⁴ Denny, Robert R. "The History of the Des Moines Public Schools," Bicentennial Reflections, (1976), publication of the Des Moines Public Schools.

⁵ Engelhardt, Carroll, "Compulsory Education in Iowa, 1872-1919," Iowa State Historical Society, *The Annals of Iowa*, 49(1), (1987), available at ir.uiowa.edu/cgi/viewcontent.cgi?article=9217&context=annals-of-iowa (last visited December 2017).

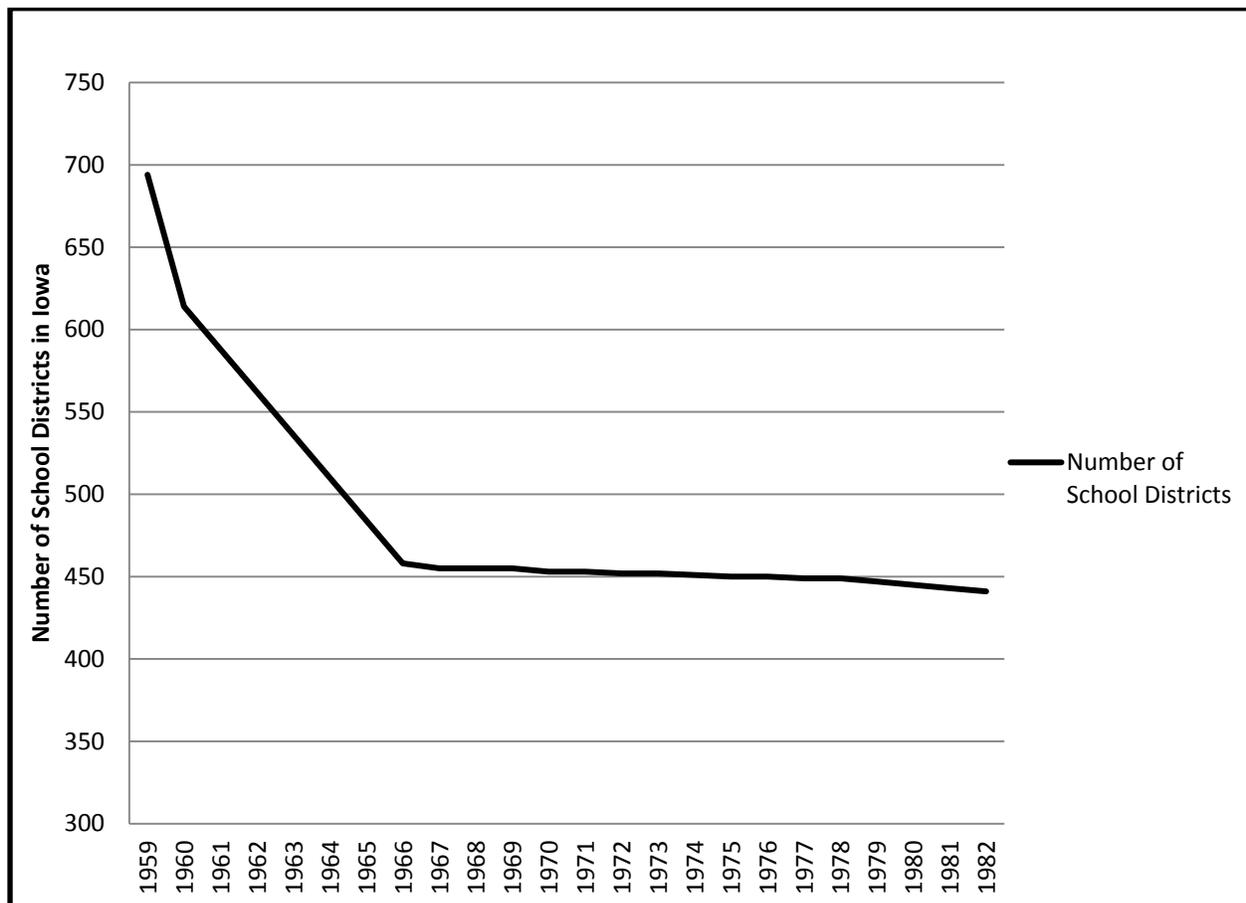
⁶ Denny, Robert R. "The History of the Des Moines Public Schools," Bicentennial Reflections, (1976), publication of the Des Moines Public Schools.

⁷ P.E. McClenehan, Legislative Official Record, (1919-1920), available at www.legis.iowa.gov/docs/publications/REDBK/860886.pdf (last visited December 2017).

⁸ Conversation with Sen. Charles Grassley (2017), recording available at www.legis.iowa.gov/docs/publications/FOA/864352.mp3 (last visited December 2017).

schools must either have or be attached to 12-grade districts.⁹ Through this time period, it was still the responsibility of individual communities to find a way to create, maintain, and pay for a local school outside of the minor amount of funding provided by the State. Property taxes were levied by each individual school district across the State at varying rates with varying revenues, with “Local and federal funds... expected to supplement the state appropriation,”¹⁰ and without checks on those local funds other than those performed by the school board members.

Chart 1
Number of School Districts in Iowa 1959-1982



The precipitous drop in the number of school districts in Iowa began in the early 1900s and continued through the 1950s and 1960s.

Source: Department of Education data

General history of State school aid. For most of the 19th century and the beginning of the 20th century, the State was not concerned with the majority of funding of local schools beyond establishing that townships were responsible for ensuring that the districts functioned. Local

⁹ Iowa Official Record, Iowa General Assembly, Des Moines, 1965-1966, available at www.legis.iowa.gov/docs/publications/REDBK/860909.pdf (last visited December 2017).

¹⁰ Iowa Official Record, Iowa General Assembly, Des Moines, 1965-1966, available at www.legis.iowa.gov/docs/publications/REDBK/860909.pdf (last visited December 2017).

school districts were funded primarily through property taxes, as established by a locally elected school district board. The State had little involvement with how districts levied and spent their funds.

Nationally, by the late 19th century, states contributed about 21.0% of the funding for elementary and secondary education,¹¹ contrasted to today in Iowa, when State funding makes up 68.8% of the local cost of schools. The mid-20th century saw a rapid shift nationally in both State policy and participation in regard to local schools. In Iowa, an early example of this changing statewide involvement occurred in the 1930s when a statewide policy was set to require a salary of \$40 per month for all teachers.

By the elections of the late 1960s, the Iowa General Assembly was inundated with appeals from the public for change in how schools in the State were funded. Concerns over “rapidly rising” property taxes and inequitable funding drew Republicans and Democrats to the cause of finding a new way to fund schools in the State.¹² However, the two parties were at odds about how to raise the funds necessary to pay for such a change.¹³

Outside Pressures. The General Assembly’s attempts to create a school aid funding formula in the 1960s and 1970s that would meet the needs of all interested parties were set amidst the Civil Rights movement and subsequent national attention to equity in public education. The Coleman Report,¹⁴ published in 1966 and over 700 pages long, provides extensive detail about the state of public education in the 1960s. The report was commissioned in the federal Civil Rights Act of 1964¹⁵ to specifically examine the level of equality in opportunities available to students across the country. The completed report was the first wholesale attempt to examine opportunity for students, and it found that minority and rural students were not receiving the same opportunities as white students in more property-wealthy urban centers. Low property valuation in rural areas and high levels of segregation often led to rural and high minority school districts being unable to generate the level of funding that districts with high income and high property valuation were able to generate. The report details the stark divide between rural and urban students in both academic opportunity and student attainment on the backdrop of high-spending versus low-spending districts, with some areas spending two to four times more per student than less wealthy districts in neighboring areas.¹⁶

By the late 1960s, there were also ongoing, and expensive, high-profile education equity cases across the United States, from Texas to Illinois to California. These cases were argued under several different theoretical models; many focused on the premise that due to equal protection

¹¹ Augenblick, J.G., Myers J.L., and Anderson, A.B., “Equity and Adequacy in School Funding,” *The Future of Children: Financing Schools*, 7(3), (1997), available at pdfs.semanticscholar.org/cd41/0d9ef7f4d67fb0f13f7fcf4877a8e02674aa.pdf (last visited November 2017).

¹² Conversation with Sen. Charles Grassley (2017). Recording available at www.legis.iowa.gov/docs/publications/FOA/864352.mp3 (last visited November 2017).

¹³ Coffman, J and Garson, A. “Will Sign New Tax Bill: Ray; Narrow OK for School Aid Plan,” *The Tribune*, June 12, 1971.

¹⁴ Coleman, J.S., and others, “Equality of Education Opportunity,” (1966), available at files.eric.ed.gov/fulltext/ED012275.pdf (last visited November 2017).

¹⁵ Civil Rights Act of 1964, available at www.archives.gov/education/lessons/civil-rights-act (last visited November 2017).

¹⁶ Minorini, P.D. and Sugarman, S.D., “School Finance Litigation in the Name of Educational Equity: Its Evolution, Impact, and Future,” *Equity and Adequacy in Education Finance: Issues and Perspectives*, (1999), available at www.nap.edu/read/6166/chapter/4#35 (last visited November 2017).

clauses within the states' respective constitutions, the state had responsibility to ensure that students have equal access to education. Subsequently, some advocates argued equity would require differentiated funding at the state level and significantly more state funding than had been previously dedicated by states. Through the 1970s, Texas remained embroiled in a funding equity case (*Rodriguez v. San Antonio Independent School District*), as the United States Supreme Court heard arguments about how to define equity in educational funding. Other court cases also reached the federal level, but were then remanded to their originating states to decide how to best meet the needs of students under the new equity mandates.¹⁷

Iowa's funding formula was framed by both the national conversation as well as more local concerns. In 1965, Nebraska instituted a wider income tax, broadly repealing local property taxes and requiring that school districts receive their funding through the state. However, in 1966, business owners successfully pushed a referendum to repeal the income tax; by 1967, Nebraska had no major source of income. Eventually, the state was able to find a compromise and institute an income and sales tax, along with comprehensive school reform. Still, through the 1980s, Nebraska continued to see deep disparities in per pupil spending, with some high-property value districts spending five times as much as other districts.¹⁸

Iowa's Solution. The first passage of statewide equalization funding occurred during the 62nd General Assembly in the 1967 Legislative Session. [House File 686](#) (Property Tax Replacement and Equalization Act) established the basic school tax units and established county auditors' responsibilities for tracking school funding for districts within the county. House File 686 also created the precursor to the \$5.40 uniform levy and presented the initial model through which State aid would be used to reach a specific funding threshold per student. This initial funding model was based on the State reimbursing districts depending on the amount the district was spending on allowable expenditures, including budgetary items such as salaries, transportation costs, and supplies. The Act also created the mechanism of "allowable growth," defined as:

*... the percent of increase in revenue computed on a state wide basis for the sales and use taxes and the individual and corporate income taxes as well as the percent of increase in assessments for property tax for each year of the last three years. The sum of the individual percentages thus obtained shall be divided by six to arrive at the percent of allowable growth. In making such computations the comptroller shall adjust for changes in rates or basis of the income tax of sales and use tax and for statewide changes in assessment practices. He shall thereupon certify the percent of allowable growth per pupil to the several school districts of the state.*¹⁹

This allowable growth mechanism was the forerunner to the State supplemental aid rate that is currently set each year by the General Assembly for the upcoming fiscal year. The "allowable growth" factor has been adjusted several times over the intervening years.

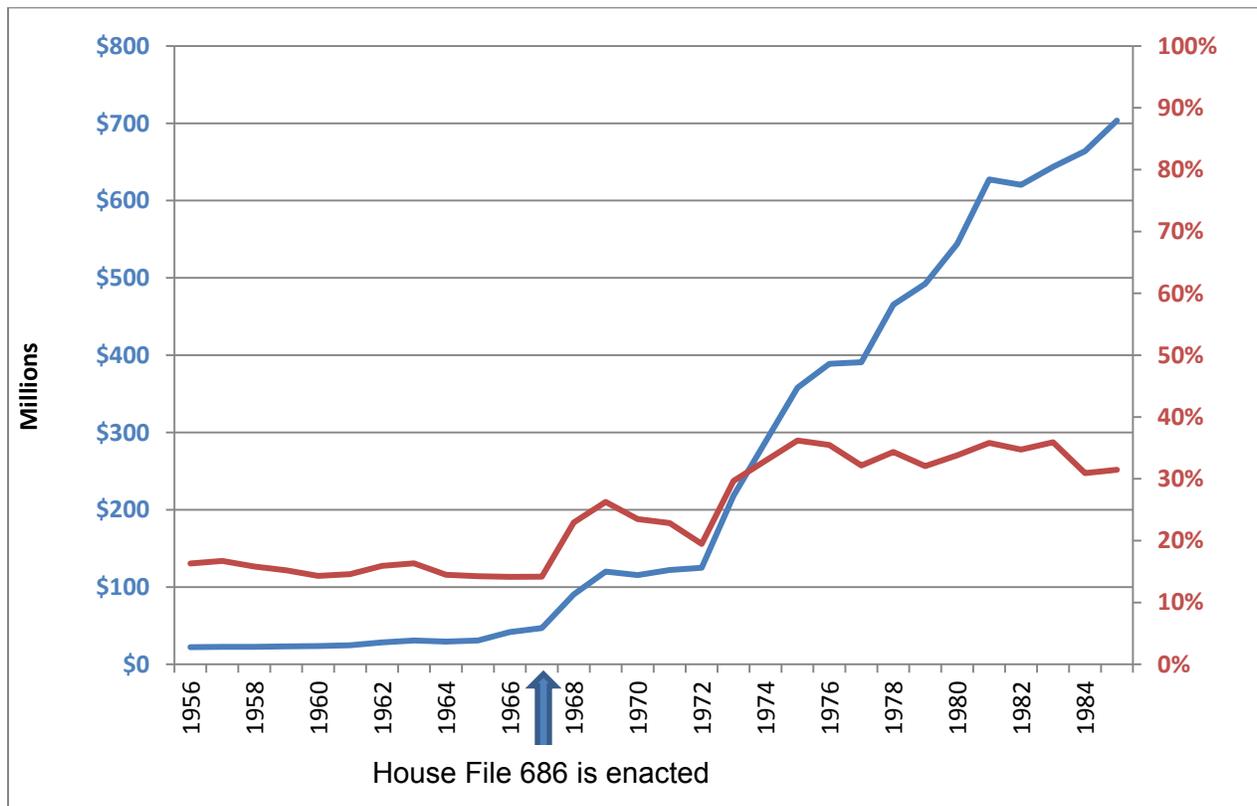
¹⁷ Minorini, P.D. and Sugarman, S.D., "School Finance Litigation in the Name of Educational Equity: Its Evolution, Impact, and Future," *Equity and Adequacy in Education Finance: Issues and Perspectives*, (1999), available at www.nap.edu/read/6166/chapter/4#35 (last visited November 2017).

¹⁸ Bergquist, K.S., Fry, R. O'Hanlon, K., and Grundman, D., *Investing in Our Future: An Overview of Nebraska's Education Funding System*, OpenSky Policy Institute, (2014), available at www.openskypolicy.org/wp-content/uploads/2014/08/Education-Primer_Final.pdf (last visited December 6, 2017).

¹⁹ House File 686, 62nd Iowa General Assembly, 1967 Regular Session.

The Act also established an additional income tax to pay for this school funding. These combined actions resulted in an immediate increase in State aid to schools, with the FY 1968 allocation for State school aid at \$90.6 million, nearly doubling the FY 1967 allocation of \$46.8 million and reducing property taxes across much of the State. Over the following years, State school aid rose quickly, but remained at an average of approximately 30.0% of the State budget over the following 25 years. The following chart shows total State aid and State aid as a percent of the State General Fund from the years before the school aid formula through the 1980s.

Chart 2
State School Aid as a Percent of the Total State General Fund Budget
1956-1984



Sources: Data from historical documents, including Governor’s Budget in Briefs, Legislative budget overviews, and Department of Education budget documents.

Approaching the question of how to best set the model for distributing State funds to schools was a complex and drawn-out process. In 1969, the Ways and Means committees authorized the formation of a joint interim subcommittee to address the concerns over property taxes, school funding, and income taxes. The interim committee met over the course of that summer and fall and presented a report to the Legislative Council in December 1969. The committee found that a district-level income tax would be the most effective residual tax to decrease

property taxes, and fully agreed that limiting school budgets would be the most effective way of limiting taxes as a whole.²⁰

In the summers of 1970 and 1971, the Legislative Council established the “Taxation Study Subcommittee,” which reviewed taxes related to all municipalities, including schools, cities, and 86 counties. This subcommittee conducted a statewide listening tour, holding hearings in Waterloo, Atlantic, Sioux City, Mount Pleasant, Cedar Rapids, Oskaloosa, and Des Moines. The result of this listening tour was a 10-page written report, as well as multiple dissenting opinions.

Recommendations in the report included:

- Controlling maximum spending per student.
- Establishing a foundation grant program through which the State would provide up to a certain amount of funding (80.0%) after the millage (mill) rate was calculated.²¹
- Capping FY 1972 property tax levies at the FY 1971 rate.
- Setting the uniform levy to a 20-mill rate.
- Giving the School Budget Review Committee the authority to review and approve or disapprove excess district spending.
- Encouraging small districts with high per pupil expenditures to reorganize for cost saving.
- Ensuring that individuals paid their income taxes by not allowing them to renew their car licenses until local income taxes were paid.

One of the minority reports, authored by Senator W. Charlene Conklin, cautioned against the speed of the funding shift from property tax to income and sales tax as set out in the majority opinion. Other concerns raised included that the recommended uniform millage rate was not high enough, that there should be a method of ensuring privacy for income tax payers, and disagreement with the reduction in the homestead tax exemption, which had been used to support school funds.

Over the next decade, the General Assembly continued to address the question of school funding, fine tuning the model, including establishing the General Assembly as the arbiter of maximum per pupil spending. This action first occurred during the first session of the 64th General Assembly (1971, [HF 121](#)), as a direct result of recommendations made by the Taxation Study Subcommittee. The Act was seen by many members of the General Assembly as a cost-controlling measure, as the early allowable growth rates had been over 10.0% per annum. The school aid tax plan that was passed late in the 1971 session increased State income tax as well as the corporate tax to pay for the changes in the school aid formula; many legislative leaders at the time had argued for a sales tax increase to pay for part of the proposed changes.²²

Then State Representative Charles Grassley defended the creation of a budget ceiling for school districts, arguing that the originally modeled allowable growth factor created spending

²⁰ Subcommittee on Property Tax Replacement in School Aid Formula Report to Legislative Council, December 17, 1969, available at www.legis.iowa.gov/docs/publications/IP/800971.pdf (last visited December 2017).

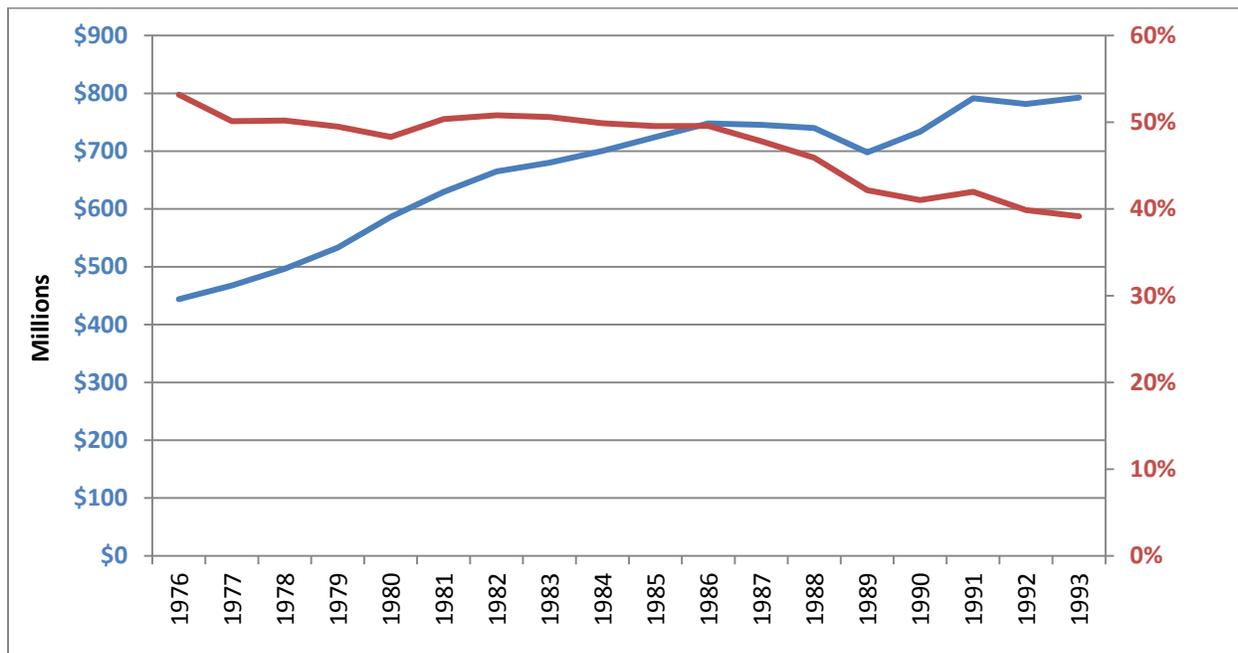
²¹ Mill-rate, or millage rate, was the common terminology for how property taxes were calculated through this time period. The millage rate is represented as \$1 per \$1,000 of taxable valuation. So, a 20-mill rate would mean that property was taxed at a rate of \$20 per \$1,000 of valuation, or 2.0%.

²² Coffman, J. and Garson, A., “Will Sign New Tax Bill: Ray; Narrow OK for School Aid Plan,” *The Tribune*, June 12, 1971.

that was “unrealistically high” and created an undue property tax burden.²³ Over the following years, the use of property tax to fund the schools’ general funds continued to drop as State aid increased.

The following chart shows total levied property taxes for direct school aid and the percent of school budgets that were funded by property taxes from 1976 to 1993. Property tax data is not available on a statewide level before that date.

Chart 3
Change in Property Taxes as Percent of School General Fund Authority
1976-1993



Sources: Data from historical documents, including Governor’s Budget in Briefs, Legislative budget overviews, and Department of Education budget documents.

At various points in the early 1970s, the General Assembly continued to adjust the State aid formula, attempting to ensure that adequate funding was not happening at the cost of increased property taxes. The 64th General Assembly adjusted the per pupil minimum State aid rate as well as setting a maximum property tax rate ([HF 654](#), 1971 Regular Session). Later, the General Assembly provided for greater equalization between districts’ spending by increasing the allowable district cost for districts below the average State cost ([HF 359](#), 65th General Assembly, 1973 Regular Session). The 1974 General Assembly continued to modify the formula as relevant issues arose, including providing for declining enrollment, which primarily affected, and continues to affect, rural schools ([HF 1121](#), 66th General Assembly, 1974 Regular Session). The General Assembly also established additional weighting for students with special needs and created Area Education Agencies to support local districts in providing services to students with special needs ([HF 1163](#), 66th General Assembly 1974, Regular Session), preceding by a full year the federal passage of the Individuals with Disabilities Education Act in ensuring equal education opportunities for students with disabilities.

²³ Weber, H., “School Budget Limits Defended by Grassley,” *Iowa Daily Press Association*, 1971.

Through this process, Iowa ended up with a modified “foundation model”²⁴ for the school aid formula via which the State is responsible for ensuring that districts receive a certain amount of funding between the uniform levy and State funding, currently 87.5% of the State cost per pupil, before additional property taxes are levied. This is similar to many other States with foundation models.²⁵

Other Changes. Pursuant to [HF 2361](#) (67th General Assembly, 1978 Regular Session) a school aid formula joint subcommittee of the Senate and House Education Committees was convened over the summer of 1978 to review data regarding school funding and equity in Iowa. This committee recommended a series of shifts to the school aid formula. In 1979, the General Assembly passed [HF 660](#) (68th General Assembly, 1979 Regular Session), which included the following shifts:

- Redefining budget enrollment and the declining enrollment provisions.
- Establishing allowable growth based on the Consumer Price Index (CPI) for fiscal years 1981 to 1983.
- Adjusting the State cost per pupil by adding individual dollar amounts for the upcoming fiscal years.
- Creating a method for districts to receive additional weightings if students or teachers were shared with another district.

The General Assembly continued to make changes to establish allowable growth, changing the calculation again in 1980 in [HF 2551](#) (68th General Assembly, 1980 Regular Session) to be based on change in State revenue and a gross national product deflator. This Act also permitted the School Budget Review Committee (SBRC) to allow additional budget growth for the purpose of “enrichment” (or Gifted and Talented programming), and established the method for budgeting for special education on a per pupil basis, rather than a total programmatic budget.

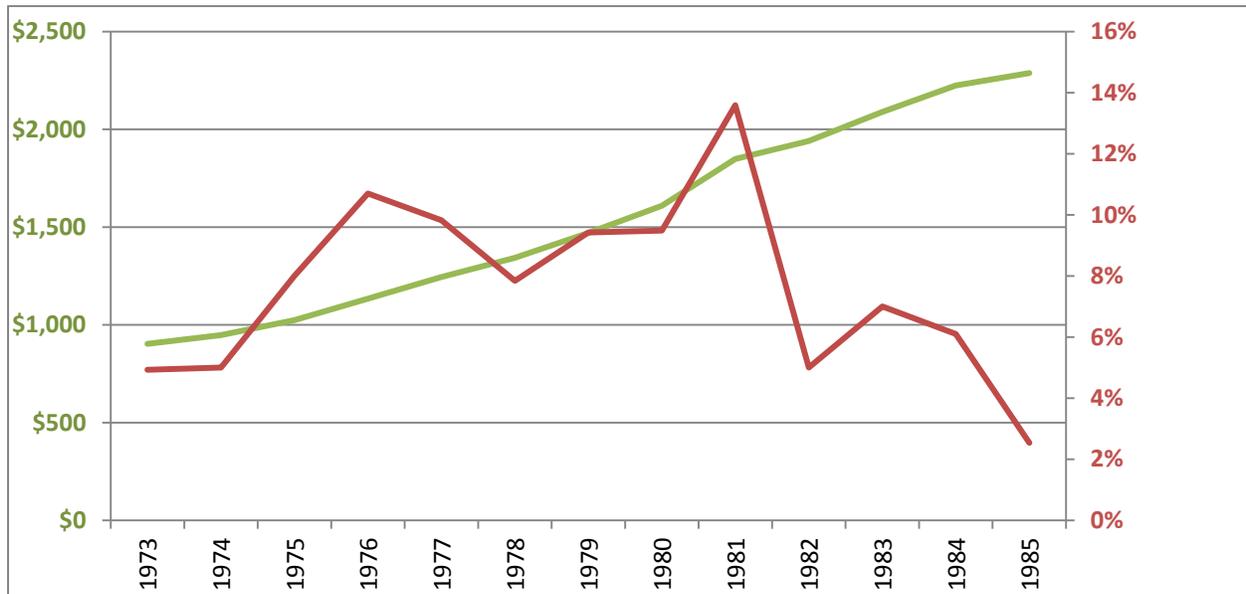
The final change to allowable growth in the early 1980s came in [HF 414](#) (69th General Assembly, 1981 Regular Session), which adjusted the allowable growth rate for FY 1982 and FY 1983 to 5.0% and 7.0%, respectively. This same Act also established a cash reserve levy and created a precursor to the budget adjustment, which allowed districts to maintain 100.0% of the previous year’s funding, even with declining enrollment.

Chart 4 shows the highly variable allowable growth percentage through the first years of the school aid formula and the rising State cost per pupil.

²⁴ Augenblick, J.G., Myers J.L., and Anderson, A.B., “Equity and Adequacy in School Funding,” *The Future of Children: Financing Schools*, 7(3), (1997), available at pdfs.semanticscholar.org/cd41/0d9ef7f4d67fb0f13f7fcf4877a8e02674aa.pdf (last visited November 2017).

²⁵ Email from Michael Griffith, School Finance Strategist, Education Commission of the States (December 7, 2017) (on file with author).

Chart 4
Allowable Growth Rates and State Cost per Pupil 1973-1985



Sources: LSA Historical Documents.

Conclusion. Through its first 25 years, the Iowa school aid formula managed to accomplish its two major goals as set out by the first models in the 1960s: to reduce the property tax burden in relation to school funding and to create equity between school districts’ spending. Though the funding formula in use in the 1970s and early 1980s would change significantly over the following decades, the foundations of the school aid formula in use today were already present:

- Uniform Levy.
- Maximum spending per student set by the State.
- Maximum spending adjusted through the allowable growth function.

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