



**LEGISLATIVE  
SERVICES AGENCY**

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# LEGISLATIVE GUIDE

## *Legal Services Division*



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Legislative Guides, prepared in an objective and nonpartisan manner, provide a general survey of a particular area of the law and are intended for use primarily by members of the Iowa General Assembly and their staffs. Legislative Guides are updated periodically to reflect changes in the law. The reader is cautioned against using information contained in a Legislative Guide to draw conclusions as to the legality of a particular behavior or set of circumstances.

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## BASIC IOWA EDUCATION FINANCE

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## I. Introduction to Iowa Education Finance

This Legislative Guide examines public education finance in Iowa by combining discussions of the various components of the finance formula with a series of examples. The Guide is intended to serve as an introduction to public education finance in Iowa, to set out the fundamental principles involved and to provide a starting point for follow-up research in an area of particular interest or relevance.

The sources used for this Legislative Guide are current as of October 2014. Unless otherwise stated, Iowa Code references in this Legislative Guide refer to the 2015 Iowa Code. References to a fiscal year indicate the calendar year in which the fiscal year ends. For example, fiscal year 2015 means the fiscal year beginning July 1, 2014, and ending June 30, 2015.

Financing Iowa's system of primary and secondary public education involves a balance between providing high-quality public education and equitable and adequate funding. The goals of the state school finance formula are to equalize educational opportunity, to provide a good education for all the children of Iowa, to provide property tax relief, to decrease the percentage of school costs paid from property taxes, and to provide reasonable control of school costs.<sup>1</sup>

The present method of incorporating uniform levy, state foundation base percentage, and additional property tax formula components dates back to the early 1970s, but has been subject to ongoing modification based upon the changing needs and circumstances facing school districts in Iowa. The modifications have involved property tax relief, equalized per-pupil expenditures, enrollment fluctuation adjustments, legislative determination of budget growth rather than via formula, enhanced local authority, and an increased state foundation percentage level. Previously, the formula was subject to a sunset provision effective July 1, 2001.<sup>2</sup> The present version of the formula is subject to a periodic legislative review process based on recommendations contained in a legislative interim study committee status report prepared with the assistance of the Departments of Education, Revenue, and Management.<sup>3</sup> The first report was submitted to the General Assembly in January 2005, and the second report was submitted to the General Assembly in January 2010. The third report is due to be submitted to the General Assembly in January 2015. Appendix E of this Guide contains a list of the recommendations contained in the reports from 2005 and 2010. Subsequent reports are to be submitted at least every five years thereafter.

## II. Executive Summary — Iowa Education Finance

Prior to a detailed examination of several of the components of Iowa school finance, an overview of the basic concepts involved in the operation of the formula will be provided.

Iowa's system of public education is financed through a combination of state assistance and local school district funding. The state contributes financial assistance

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<sup>1</sup> Iowa Code §257.31(10).

<sup>2</sup> 1989 Iowa Acts, ch. 135, §135, was subsequently repealed by 2000 Iowa Acts, ch. 1186, §1.

<sup>3</sup> Iowa Code §257.1(4).



## Basic Iowa Education Finance

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under the foundation formula in the form of foundation aid up to a specified percentage of a state cost per pupil calculation. This specified percentage is commonly referred to as the foundation base per pupil percentage. The local school district contributes the bulk of its portion of school financing in the form of property taxes. A foundation property tax, or uniform levy, is the initial amount of local school district assistance. Above this amount, the state contributes foundation aid up to the foundation base per pupil percentage. Funding beyond the amount produced by the uniform levy and state foundation aid that is necessary to cover the school district's costs for a given year takes the form of an additional levy of property tax.

It is the relationship between the uniform levy and the foundation base per pupil percentage which contributes to the equalization of money available between higher taxable property value school districts and lower taxable property value school districts. The higher the amount generated by the uniform levy in a school district, the lower the amount of state foundation aid and vice versa, resulting in a school district with a lower taxable property value receiving a comparatively larger amount of state foundation aid.

Applying the foundation base per pupil percentage, uniform levy, and additional levy to a particular school district requires a district cost per pupil calculation. District cost per pupil is based, in part, on the historical spending per pupil in a school district plus a per-pupil growth amount. This growth figure is called supplemental state aid, and is to be annually determined two years in advance by the General Assembly.<sup>4</sup> Until the enactment of 2013 Iowa Acts, chapter 121, "supplemental state aid" was referred to in Iowa Code as "allowable growth." The district cost per pupil, plus regular program supplemental state aid, is multiplied by a district's enrollment to arrive at the district cost. Enrollment for this purpose is adjusted, or weighted, to accomplish various objectives or provide funding for certain programs, such that the weighted enrollment number arrived at is generally a different number than the actual headcount of students enrolled in the district. The uniform levy, state foundation aid, and additional levy in each district combine to fund the district cost per pupil amount. Figure 1 illustrates these three components.

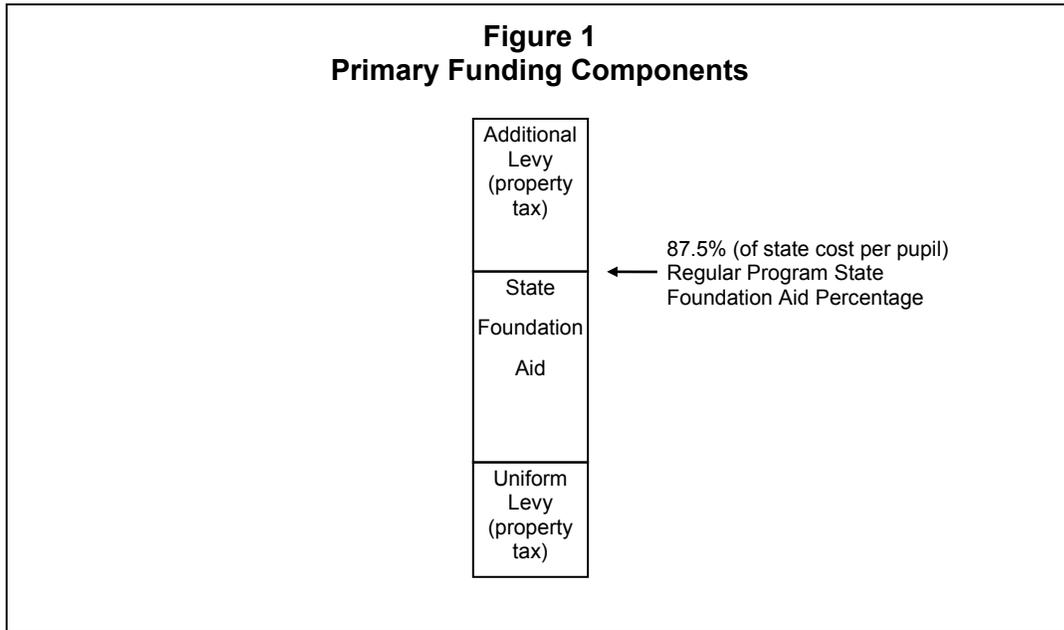
It should also be noted that beginning in fiscal year 2010, categorical funding programs are funded on a per-pupil basis, and beginning in fiscal year 2011, the per-pupil cost for these programs will be increased by a categorical state percent of growth rate as set by the General Assembly.<sup>5</sup>

For a separate explanation of the supplemental state aid aspects of education finance, consult "Legal Background Briefing: Education Finance — Supplemental State Aid Programs." The publication may be accessed from the Iowa General Assembly Internet site at <https://www.legis.iowa.gov/publications/legalPubs>.

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<sup>4</sup> Iowa Code §257.8(1),(2). The determination of supplemental state aid has varied for certain school budget years. For example, during the 2010 Legislative Session, the General Assembly delayed setting the regular program state percent of growth and the categorical state percent of growth for the school budget year beginning July 1, 2011, until 30 days after submission of the Governor's budget for the fiscal year beginning July 1, 2011; 2010 Iowa Acts, ch. 1002; 2010 Iowa Acts, ch. 1003.

<sup>5</sup> 2008 Iowa Acts, ch. 1181, §§87-109.



The school finance formula not only determines the state foundation aid a district receives, but also serves as a budget limitation device. A school district's minimum district cost per pupil will, by law, not be lower than the state cost per pupil amount, and its maximum district cost per pupil cannot exceed 105 percent of the state cost per pupil.

Beyond the general scheme set out above, a number of provisions for additional moneys exist to take into account the particular problems, challenges, or special needs of a school district. Examples include School Budget Review Committee (SBRC) assistance, additional property tax levies for specified purposes, minimum budget guarantees, school district income surtaxes, school fees, and a state sales and use tax for school infrastructure purposes that began in fiscal year 2009.

The remainder of this Guide is divided into three parts: the components of combined district cost, the three primary sources of revenue generation, and an appendix listing additional sources of revenue.

### III. Determining the Financial Needs of a School District

The first step in an analysis of education finance in Iowa involves an examination of the factors comprising a school district's budget needs and spending authority in a given budget year. These include enrollment and state and district cost per pupil calculations.

#### A. Enrollment

The education finance formula in Iowa is pupil-driven. The number of pupils enrolled in a district forms the basis for calculating a total district cost. While the number of pupils enrolled may seem obvious, a distinction is drawn between the actual number of pupils enrolled in a district — the headcount — and a weighted headcount adjusted by law to reflect the increased costs associated with providing services to special education students or to facilitate the funding of additional programs and services. In addition, the headcount used in the formula is from the previous school year.

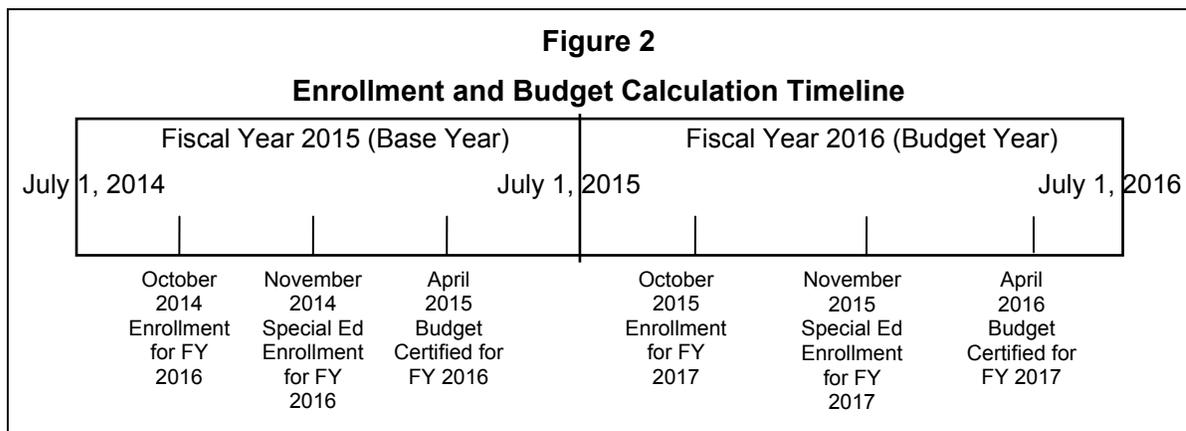


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## 1. Enrollment Calculation

The starting point in determining enrollment is calculating the actual number of pupils enrolled in a school district on October 1 annually, or the first Monday in October if October 1 falls on a Saturday or Sunday in a given year.<sup>6</sup> The enrollment count in a particular year impacts the next school year’s district cost calculations. Accordingly, the actual enrollment used in calculating a school district’s budget is the enrollment count taken during the preceding October. Pupils moving out of a district prior to that date, or those entering after that date, will generally not qualify as enrolled for budget calculation purposes for the next following school year (commencing July 1 and ending the following June 30).

School districts operate on a fiscal-year basis which coincides with the budget year — from July 1 through June 30 annually.<sup>7</sup> A particular year, e.g., July 1, 2015, to June 30, 2016, can be referred to synonymously as the fiscal year, school year, or budget year. A school district’s budget for a school year is calculated and certified prior to the beginning of that school year and it is based on the budget of the prior year. Therefore, the year in which the calculations are completed and the budget is certified is called the base year.<sup>8</sup> The budget year is the school year beginning during the year in which a budget is certified.<sup>9</sup> Figure 2 contains a timeline of enrollment and budget calculation dates.



Example: The actual number of students enrolled on October 1, 2014, in District A was 4,500 and in District B was 450. A major manufacturing plant in District A relocated to District B in April 2014, opening for business November 1. Three hundred fifty students relocated with their families from District A to District B so that family members may continue employment at the relocated plant, with the result that on November 1, 2014, the actual number of students in District A had fallen to 4,150, while the actual number of students in District B had risen to 800.

<sup>6</sup> Iowa Code §257.6(1).

<sup>7</sup> Iowa Code §24.2(3).

<sup>8</sup> Iowa Code §§257.2(1), 257.6(2).

<sup>9</sup> Iowa Code §§257.2(3), 257.6(4).



What is the actual enrollment count used in each district for fiscal (budget) year 2016 budget calculation purposes? The October 2014 actual enrollment will be used, despite a significant subsequent decrease in District A and increase in District B and despite the fact that the count impacts future, rather than current, school district budgets.

The use of enrollment figures from the preceding school year for the current school year's budget presents a problem for school districts experiencing enrollment increases because the district has an immediate funding need to cover the education costs of the additional pupils.

Until the early 1990s, Iowa's system included a provision that allowed those districts whose actual enrollment increased from one school year to the next to receive additional funds (called an advance) during the same year in which the students enrolled (one year in advance of when they would otherwise have been included in the enrollment calculation).<sup>10</sup> The advance payment was all state aid for that year and an adjustment was made to state foundation aid and property tax levels the year following the advance to compensate for the advance.

Legislation enacted in 1999 provided on-time funding for a one-year period. For the school budget year beginning July 1, 1999, school districts could submit a request to SBRC for on-time funding for new students. If approved, the funding was in an amount of up to the product of the state cost per pupil for the budget year multiplied by the enrollment increase (actual enrollment minus budget enrollment) for the budget year. The legislation made an appropriation of up to \$4 million to the Department of Education for on-time funding, with proration in the event the appropriation was insufficient to fully fund all requests received by SBRC.<sup>11</sup>

The mechanism for providing on-time funding was changed during the 2000 Legislative Session. For the school budget year beginning July 1, 2000, a school district with an actual enrollment for the budget year greater than its budget enrollment for the budget year was eligible to receive an on-time funding budget adjustment in the form of a modified allowable growth (now referred to as a modified supplemental amount) equal to 50 percent of the difference between the actual and budget enrollment amounts, multiplied by district cost per pupil.<sup>12</sup> For the school budget year beginning July 1, 2001, and succeeding budget years, the budget adjustment was increased to 100 percent of the difference between the actual and budget enrollment amounts, multiplied by district cost per pupil.<sup>13</sup> In order to receive the on-time funding budget adjustment, a school district board of directors must adopt a resolution and notify SBRC annually but not before November 1.<sup>14</sup>

In addition to concerns relating to the timing of the enrollment count, Iowa Code section 257.6 contains seven classifications of pupils who may be considered actually

<sup>10</sup> 1992 Iowa Acts, ch. 1230, §§12, 14 (repealing funding advance provision).

<sup>11</sup> 2009 Iowa Code Supplement §257.13; 1999 Iowa Acts, ch. 2, §§2, 4.

<sup>12</sup> 2000 Iowa Acts, ch. 1055, §§1, 3 (striking and replacing Iowa Code §257.13).

<sup>13</sup> Iowa Code §257.13(1).

<sup>14</sup> Iowa Code §257.13(2).



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enrolled for purposes of the enrollment count. Most common is a resident pupil who is enrolled in public schools within the district in grades kindergarten through twelve. Other classifications involve situations where a student may be attending a community college while of high school age, attending classes on a shared or part-time basis, or finishing the last two years of high school in the district after having relocated the student's residence elsewhere. Each of these other classifications may involve weighting the student to count less than one depending on the classification involved.<sup>15</sup>

### 2. Weighted Enrollment

In certain circumstances, a student may be counted at a value greater than one student if enrolled in a specified program. There are two primary forms of weighted enrollment: special education weighting and supplementary weighting.

**a. Special Education Weighting.** Special education students are weighted at a value greater than one to reflect the increased expense involved in providing a special education curriculum.<sup>16</sup> A special education enrollment headcount similar to the actual enrollment headcount is conducted, with the distinction that the special education headcount takes place by November 1 annually.<sup>17</sup> Iowa Code section 256B.9 contains three categories of special education students. The three categories are based upon the severity of the pupils' disabilities and the educational programs required. Weightings for each category are established by SBRC and are based upon the recommendation of the director of the Department of Education.<sup>18</sup> The weightings may be increased or decreased by SBRC by no more than two-tenths of the weighting assigned to pupils in a regular curriculum.<sup>19</sup> The total special education weightings in effect for the budget year 2013-2014 are 1.72, 2.21, and 3.74, which includes one point per student plus the special education weightings of 0.72, 1.21, and 2.74.

Example: District A's special education actual enrollment for the budget year 2014-2015 taken on November 1, 2013, was 750. Of this number, 400 fell into the 1.72 weighting category, 200 in the 2.21 category, and 150 in the 3.74 category. The weighted enrollment for the 750 special education students totals 1,691. This is an effective increase of 941 pupils, and raises the district's actual enrollment of 4,500 to a weighted enrollment of 5,441.

**b. Supplementary Weighting.** A second type of weighted enrollment provides additional weighting for students enrolled in specified programs, for school districts sharing resources and personnel, for students enrolled in a limited English proficiency student program,<sup>20</sup> and for other specified purposes. Iowa Code section 257.11 authorizes supplementary weighting for shared programs or teachers and for pupils attending classes in another school district, attending classes at a community college, attending classes taught by a teacher jointly employed by two or more school districts,

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<sup>15</sup> Iowa Code §257.6(1)(a).

<sup>16</sup> Iowa Code §256B.9(1).

<sup>17</sup> Iowa Code §257.6(3).

<sup>18</sup> Iowa Code §256B.9(4).

<sup>19</sup> Iowa Code §256B.9(4).

<sup>20</sup> Iowa Code §280.4.



or attending classes taught by a teacher who is employed by another school district. Specified criteria must be met for classes offered in district-to-community college sharing and concurrent enrollment programs to ensure that the classes and the coursework are community college-level in nature.<sup>21</sup>

Students qualifying as limited English proficient may receive supplementary weighting for up to five years.<sup>22</sup> The objective behind granting supplementary weighting differs from that of special education. Special education weighting is intended to compensate for increased expenses. The goal of supplementary weighting is to cover increased costs and encourage school districts to offer or share programs and extend services deemed necessary or desirable which might otherwise not be provided.

Some additional examples of supplementary weighting are:

**(1) At-risk Programs and Alternative Schools.** School districts also receive specified levels of supplementary weighting for at-risk programs and for alternative schools. The amount of supplementary weighting to be received for at-risk programs and alternative schools is determined partially upon the percentage of pupils enrolled in grades one through six eligible for free and reduced price meals in a school district, and partially upon the budget enrollment of the school district. Amounts received as supplementary weighting for at-risk pupils are to be utilized by a school district to develop or maintain at-risk pupils programs, which may include alternative school programs.<sup>23</sup>

**(2) Whole Grade Sharing.** School districts that execute a whole grade sharing agreement and adopt a resolution to study the effect of undergoing a reorganization or dissolution to take effect on or before July 1, 2019, to weight one-tenth of a percentage of a student's day during which the student attends classes in another district, is taught by a teacher jointly employed, or attends classes taught by a teacher employed by another district. The supplementary weighting is available for a total of three years.<sup>24</sup>

**(3) Reorganized School Districts.** Supplementary weighting funding is available for three years for a reorganized school district in an amount equal to the funding that was received in the year preceding the reorganization. For the purposes of receiving this supplementary weighting, a reorganized school district, is a district where the dissolution or reorganization takes effect during the period of July 1, 2007, through July 1, 2019.<sup>25</sup>

**(4) Shared Functions.** Under Iowa Code section 257.11, subsection 5, a district that shares with a political subdivision one or more operational functions of a curriculum director or school counselor, or one or more operational functions in the areas of superintendent management, business management, human resources, transportation, or operation and maintenance for at least 20 percent of the school year

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<sup>21</sup> Iowa Code §257.11(3)(b)(1)-(7).

<sup>22</sup> Iowa Code §280.4(3).

<sup>23</sup> Iowa Code §257.11(4)(a).

<sup>24</sup> Iowa Code §257.11(2)(c).

<sup>25</sup> Iowa Code §257.11A(1),(2).



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shall be assigned a supplementary weighting for each shared operational function. A school district that shares an operational function in the area of superintendent management shall be assigned a supplementary weighting of eight pupils for the function. A school district that shares an operational function in the area of business management, human resources, transportation, or operation and maintenance shall be assigned a supplementary weighting of five pupils for the function. A school district that shares the operational functions of a curriculum director or a school counselor shall be assigned a supplementary weighting of three pupils for the function. The additional weighting is assigned for each discrete operational function shared. Supplementary weighting for shared operational functions is available to a school district for a maximum of five years during the period commencing with the budget year beginning July 1, 2014, through the budget year beginning July 1, 2019. The maximum amount of additional weighting for which a school district shall be eligible in a budget year is 21 additional pupils. Supplementary weighting is also available to an area education agency for the sharing of such operational functions for a maximum of five years during the same period of budget years. The minimum amount of additional funding for which an area education agency is eligible in a budget year is \$30,000, and the maximum amount of additional funding for which an area education agency shall be eligible is \$200,000.

### **B. State Cost Per Pupil and Regular Supplemental State Aid**

Once a weighted enrollment figure is calculated, the next step is the calculation of state cost per pupil and district cost per pupil. They are conceptually similar and involve the same basic calculations but contribute differently to the operation of the formula. The state cost per pupil calculation is not directly used in the calculation of a district's per-pupil cost, but rather indirectly contributes to funding by establishing values for the annual regular program supplemental state aid and state foundation aid figures.

The state cost per pupil calculation is straightforward, consisting of the previous (base) year's state cost per pupil dollar figure increased by the regular supplemental state aid dollar figure for the budget year.<sup>26</sup> Regular program supplemental state aid refers to an amount by which state cost per pupil and district cost per pupil will increase from one budget year to the next.<sup>27</sup> The state percent of growth figure is set annually by the General Assembly.<sup>28</sup> This determination for a budget year is required to be made within 30 days following the submission of the Governor's budget in the year preceding the base year.<sup>29</sup> The state percent of growth is applied to the previous year's state cost per pupil to arrive at the supplemental state aid per pupil dollar amount. Adding the supplemental state aid per pupil dollar amount to the previous state cost per pupil amount results in a new state cost per pupil amount. This calculation is illustrated in Figure 3.

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<sup>26</sup> Iowa Code §257.9(2).

<sup>27</sup> Iowa Code §257.2(12).

<sup>28</sup> The General Assembly has in certain years delayed the establishment of the state percent of growth or notwithstanding the statutory requirements for enactment. See, e.g., 2010 Iowa Acts, ch. 1002 (delaying the establishment of the state percent of growth); 2010 Iowa Acts, ch. 1003 (delaying the establishment of the categorical state percent of growth); 2013 Iowa Acts, ch. 121, §4, 7 (establishing state percents of growth and notwithstanding enactment requirements).

<sup>29</sup> Iowa Code §257.8(1).



**Figure 3  
State Cost Per Pupil and Regular Supplemental State Aid Determinations**

|  |   |                                 |   |   |
|--|---|---------------------------------|---|---|
| Previous Year's<br>State Cost Per<br>Pupil | x | State Percent<br>of Growth Rate | = | Regular<br>Supplemental<br>State Aid<br>Per Pupil |
|--|---|---------------------------------|---|---|

|  |   |   |   |   |
|--|---|---|---|---|
| Previous Year's<br>State Cost Per<br>Pupil | + | Regular<br>Supplemental<br>State Aid<br>Per Pupil | = | Newly Deter-<br>mined State<br>Cost Per Pupil |
|--|---|---|---|---|

Example: The state cost per pupil for the budget year 2013-2014 was \$6,121. The state percent of growth set by the General Assembly for the budget year 2014-2015 is 4 percent. The regular program supplemental state aid per pupil for the budget year 2014-2015 equals \$245, which is obtained by taking 4 percent of \$6,121. When the regular program supplemental state aid of \$245 is added to the previous year's state cost per pupil, \$6,121, the resulting state cost per pupil for the budget year 2014-2015 is \$6,366.

### C. District Cost Per Pupil

As previously stated, state cost per pupil and district cost per pupil contribute differently to the operation of the formula. The state cost per pupil is used to calculate regular program supplemental state aid per pupil and is the figure to which the state foundation percentage is applied in the calculation of state foundation aid (discussed in a subsequent section). District cost per pupil, on the other hand, reflects the cost per pupil of the individual school district and is the figure used by the school district to determine the amount it is authorized to spend.

District cost per pupil for each school district is calculated in essentially the same manner as state cost per pupil.<sup>30</sup> The regular program supplemental state aid per pupil amount determined using the state cost per pupil calculation is added to a district's previous year's district cost per pupil, as illustrated in Figure 4.

<sup>30</sup> Iowa Code §257.10(2).



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**Figure 4  
District Cost Per Pupil Determination**

|   |   |   |   |  |
|---|---|---|---|--|
| Previous Year's<br>District Cost Per<br>Pupil | + | Regular Program Supplemental<br>State Aid Per Pupil Amount for the<br>Budget Year<br>(Determined Under the State Cost<br>Per Pupil Calculation) | = | Newly Determined<br>District Cost Per<br>Pupil |
|---|---|---|---|--|

Example: District A's district cost per pupil for the budget year 2013-2014 was \$6,200. The budget year 2014-2015 district cost per pupil equals \$6,445, calculated by adding the regular program supplemental state aid per pupil amount of \$245 for the budget year 2014-2015 to the previous year's district cost per pupil.

To recap, the regular program district cost for a school district is equal to the regular program district cost per pupil multiplied by the enrollment in the district, and represents its basic funding authorization. Whereas state cost per pupil applies on a statewide basis, district cost per pupil will vary from one school district to another.

## D. Categorical Supplemental State Aid

Many of the categorical programs listed below were previously funded through separate line-item appropriations on an annual basis.<sup>31</sup> Beginning in fiscal year 2009-2010, the funding method was changed to instead utilize per-pupil supplements that can receive percentage increases, similar to the regular program supplemental state aid changes. There are four categorical supplements for school districts and two categorical supplements for area education agencies (AEAs). The categorical state percent of growth is set annually in statute by the General Assembly and the rate can be different for each supplement.<sup>32</sup> As with the regular program state percent of growth, Iowa law requires the categorical state percent of growth rates to be determined by the General Assembly each year within 30 days following the submission of the Governor's budget in the year preceding the base year. The determination is made for the school budget year which begins two years after the beginning date of the fiscal year in which the growth rate is enacted.<sup>33</sup> For example, the state categorical percent of growth enacted in February 2015 applies to fiscal year 2016-2017.

The categorical supplemental state aid amount is applied in a manner similar to that for regular program supplemental state aid. A state cost per pupil has been identified for each of the categorical supplements and a categorical supplemental state aid amount is determined by applying the percentage rate set by law. The supplemental state aid amount for each supplement is added to the categorical district cost per pupil for the supplement to determine a new categorical district cost per pupil amount. Each district has its own categorical district cost per pupil for each supplement.

<sup>31</sup> A categorical funding program, known as the teacher leadership supplement, was enacted in 2013 for the budget year 2014-2015.

<sup>32</sup> Iowa Code §257.8(2).

<sup>33</sup> Iowa Code §257.8(2).



Example: District A has a per pupil teacher salary supplement amount of \$517 for budget year 2013-2014. The categorical state percent of growth for budget year 2014-2015 is 4 percent. Accordingly, the teacher salary supplement supplemental state aid amount for budget year 2014-2015 will be \$21. District A's per pupil teacher salary supplement for the budget year 2014-2015 will be \$538, which is the sum of the supplemental state aid amount of \$21 and the base year per pupil amount of \$517.

## **E. Minimum and Maximum Limitations and Budget Guarantee**

Minimum and maximum amount limitations apply to the district cost per pupil. A school district's minimum district cost per pupil for a budget year is the state cost per pupil for that budget year. At the other end of the spectrum, a school district with a district cost per pupil exceeding 105 percent of the state cost per pupil for a budget year in which the state percent of growth is set at more than 2 percent is generally subject to a reduction to 105 percent of the state cost per pupil.<sup>34</sup> However, if the difference between the regular program district cost per pupil for the budget year and the regular program state cost per pupil for the budget year is greater than an amount equal to 2 percent of the regular program state cost per pupil for the base year, the regular program district cost per pupil for the budget year shall be reduced by the amount equal to 2 percent multiplied by the regular program state cost per pupil for the base year.

In instances where a school district has experienced a decline in enrollment, a school district's budget may be increased or adjusted in the next fiscal year to a guaranteed level of the district's current district cost authorization. For several years, the budget guarantee provided for up to 100 percent of the previous year's district cost authorization. Legislation enacted during the 2001 Legislative Session modified implementation of the budget guarantee and phased out the previous method over a period of 10 years.<sup>35</sup> Starting with the budget year 2013-2014, a district is eligible for a budget adjustment in an amount equal to the difference between the regular program district cost for the budget year and 101 percent of the regular program district cost for the base year.<sup>36</sup>

## **F. Combined District Cost**

The combined district cost represents the total funding authorization a school district is allowed to receive under the foundation formula. Combined district cost is defined in Iowa Code section 257.10, to be the sum of all of the following:

- (a) The regular program district cost per pupil multiplied by the weighted enrollment.
- (b) The special education support services district cost.
- (c) The total teacher salary supplement district cost.
- (d) The total professional development supplement district cost.
- (e) The total early intervention supplement district cost.
- (f) The total teacher leadership supplement district cost.

<sup>34</sup> Iowa Code §257.10(2)(b).

<sup>35</sup> 2001 Iowa Acts, ch. 126, §§9-11.

<sup>36</sup> Iowa Code §257.14(3)(a)(10).



## Basic Iowa Education Finance

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(g) The sum of the additional district cost allocated to the district to fund media services and educational services provided through the area education agency, the area education agency total teacher salary supplement district cost, and the area education agency total professional development supplement district cost.<sup>37</sup> The three primary components of the combined district cost are the following:

### 1. Regular Program Budget

The regular program budget for a school district is determined by multiplying the regular program district cost per pupil by the district's weighted enrollment (including supplementary and special education weightings), and by applying the budget guarantee provision, if applicable.

### 2. Area Education Agency Costs

Area education agencies are located throughout the state and are organized to provide support in the areas of special education, media, and general education-related services. Funding for these services is included in the formula on a per-pupil basis.<sup>38</sup> One aspect of area education agency services — special education support services — entails a separate set of state cost per pupil, district cost per pupil, and supplemental state aid calculations. While the area education agency costs are included in the state foundation formula, the special education support services funding differs somewhat from the so-called “regular” program cost. This topic is addressed in Part IV of this Legislative Guide.

### 3. Modified Supplemental State Aid

The SBRC is authorized by statute to grant, upon request by a district citing unusual circumstances, either permanent or one-time amounts of funding, which is also called a modified supplemental amount or supplemental aid, to provide money in addition to or in excess of amounts received under the formula.<sup>39</sup> Appendix B contains additional information regarding the existence and authority of SBRC.

## IV. Sources of Funding and State Financial Assistance

The state foundation formula calculates both spending authority and how that spending authority is funded. This involves consideration of three primary funding components: the uniform levy, state foundation aid, and the additional levy.

### A. Uniform Levy

The first funding component, the foundation property tax levy, commonly referred to as the uniform levy, could be regarded as the bottom block in a building block schematic of formula funding sources (see Figure 5). The uniform levy is assessed on all taxable real property located in each school district within the state at a uniform rate of \$5.40 per \$1,000 of assessed valuation.<sup>40</sup> Tax-exempt property in the state is not subject to the levy.

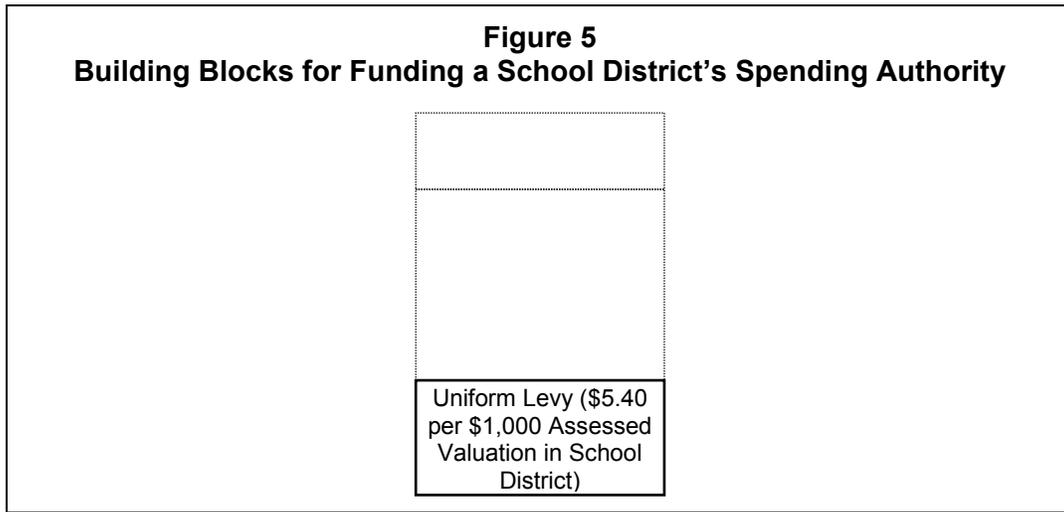
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<sup>37</sup> Iowa Code §257.10(8).

<sup>38</sup> Iowa Code §§257.1(2), 257.35.

<sup>39</sup> Iowa Code §257.31.

<sup>40</sup> Iowa Code §257.3.

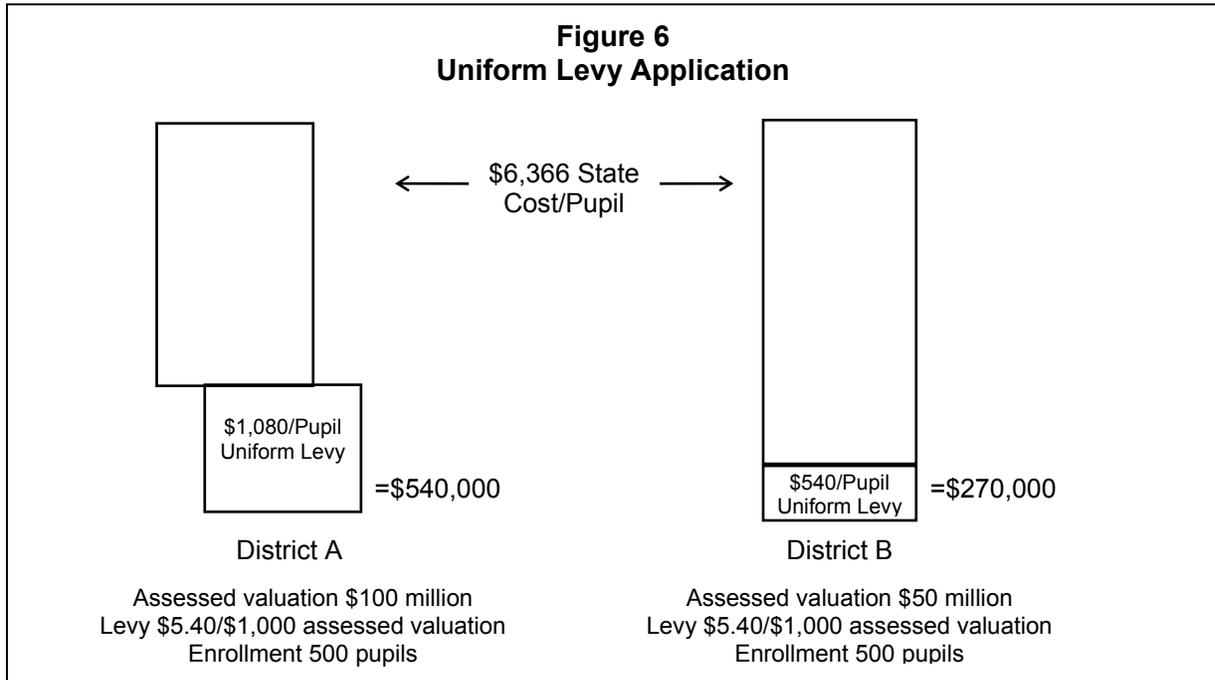


The resulting amount of property tax revenue from the uniform levy may vary significantly depending upon the assessed valuation of taxable property in a particular school district. Higher assessed value property will result in a higher amount of property tax collected, even though the rate of tax, \$5.40 per \$1,000, remains constant. The number of pupils enrolled in a district is key in determining the impact of the amount raised. A high assessed value district with relatively high enrollment will experience a dilution of revenue per child in comparison to a district raising the same amount with relatively fewer pupils enrolled.

Example: District A has a total assessed value of property of \$100 million and an enrollment of 500 pupils. District B has a total assessed value of property of \$50 million and an enrollment of 500 pupils. The uniform levy rate of \$5.40 per \$1,000 is applied to each, generating \$540,000 in District A and \$270,000 in District B. Although the rate of tax was the same, the total amount raised, and thus the amount raised per pupil, differs substantially. See Figure 6.



## Basic Iowa Education Finance



This illustrates one of the inherent consequences of relying largely on property taxes for education funding. Such a system results in proportionately higher rates of taxation in lower property tax valuation districts and relatively lower rates in higher property tax valuation districts. Districts least capable of affording them were placed in the position of paying higher property taxes to finance their programs of education or doing without programs that higher-valuation districts could afford. One of the reasons the current education finance formula was conceived was to address these inequities.

In certain instances specified school districts may be eligible for a reduced uniform levy tax rate. A lower uniform levy option is authorized in the event that a school district with fewer than 600 pupils in the year preceding a reorganization or dissolution entered into a reorganization agreement or dissolution agreement which would take effect during the period of July 1, 2007, through July 1, 2019.<sup>41</sup> The uniform levy is gradually increased in succeeding years from an initially reduced rate of \$4.40 the first year, to \$4.90 the second year, to \$5.15 the third year, and finally back up to the flat rate of \$5.40 for the fourth year and each year thereafter. The reduced uniform tax levy rate is also available for a school district with a certified enrollment of 600 pupils or greater that has entered into a reorganization agreement or dissolution agreement with one or more school districts with a certified enrollment of fewer than 600 pupils, but the amount of foundation property tax reduction cannot exceed the highest reduction amount received by any school district with a certified enrollment of fewer than 600 pupils. This reduced uniform levy rate, combined with the supplementary weighting available for school districts undergoing a reorganization agreement or dissolution agreement, as previously discussed, serves as an incentive for smaller-sized school districts to consolidate.

<sup>41</sup> Iowa Code §257.3(2).



## B. Foundation Level

State foundation aid represents the second funding component, and “middle block,” in the funding source schematic. Through this commitment of state funds derived from the General Fund of the State and from sources other than school district property taxes, the formula seeks to address the funding inequities that are inherent in a property tax-reliant system.

In order to understand how state foundation aid operates to equalize per-pupil expenditures, it is necessary to revisit the concept of state cost per pupil. As previously discussed, the state cost per pupil calculation consists of the previous year’s state cost per pupil increased by the regular program supplemental state aid amount. This new state cost per pupil is the figure to which the state foundation percentage is applied when calculating state foundation aid.

According to the formula, funding per pupil is equalized at 87.5 percent of the state cost per pupil. This means that the state will provide state foundation aid equal to 87.5 percent of the state cost per pupil, less whatever amount a school district raises from the uniform property tax levy.<sup>42</sup> The larger the amount of funding that a higher property tax valuation district can generate in the form of property tax dollars through the uniform levy, the lower the amount of state foundation aid necessary to reach the 87.5 percent level. Correspondingly, a lower property tax valuation district contributing proportionately fewer funding dollars raised from imposition of the same uniform levy will require a larger amount of state foundation aid to reach the 87.5 percent level. This is the reason the state foundation formula can be viewed as equalizing per-pupil expenditures between school districts — the same level of funding is ultimately achieved, but the source of funding differs depending upon the assessed property tax valuations of a particular school district. It should be noted that the foundation percentage was increased to the 87.5 percent level beginning with the budget year 1996-1997.<sup>43</sup> The prior percentage level in effect for several years was 83 percent.<sup>44</sup>

Example: Continuing the previous example, application of the uniform levy raised \$540,000 in District A and \$270,000 in District B. If a state cost per pupil of \$6,366 and enrollments of 500 students in each district are assumed, District B appears at a significant disadvantage. How can funding be equalized between the two districts? Because the formula provides for funding of up to 87.5 percent of the state cost per pupil, which translates into a maximum state foundation aid payment of \$2,785,125 for the 500 students (if no school property taxes were generated). District A will receive \$2,245,125 in state financial assistance (the maximum state foundation aid amount arrived at using the state cost figure, \$2,785,125, minus the uniform levy amount, \$540,000), and District B will receive \$2,515,125 (the maximum state aid amount, \$2,785,125, minus the uniform levy amount, \$270,000). District B receives more state aid because it generated less revenue through the uniform levy. This result is illustrated in Figure 7.

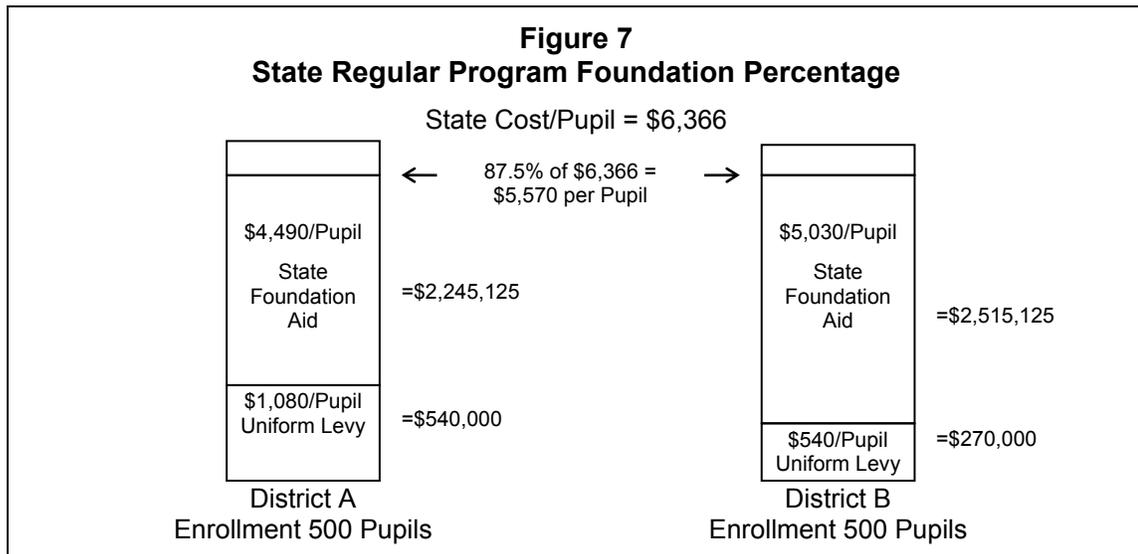
<sup>42</sup> Iowa Code §257.1(2).

<sup>43</sup>1996 Iowa Acts, ch. 1197, §§5, 6.

<sup>44</sup>1995 Iowa Code Supplement §257.1.



# Basic Iowa Education Finance



Prior to the 1999 Legislative Session an important distinction was drawn between so-called “regular program” foundation aid, as outlined above, and special education foundation aid. For special education purposes, the state foundation aid percentage equaled 79 percent, instead of the regular program level of 87.5 percent. The same state cost per pupil was utilized for each, but the lower percentage of 79 percent was applied against the additional weighted enrollment due to special education. For the school budget year beginning July 1, 1999, and succeeding budget years, the regular foundation aid per pupil, for the portion of weighted enrollment that is additional enrollment because of special education has been increased to the 87.5 percent level.<sup>45</sup> The 79 percent foundation aid percentage remains applicable to special education support services costs administered through an AEA.<sup>46</sup> These costs were mentioned in the Guide section on combined district cost and involve a separate state and district cost calculation to which the percentage is applied.

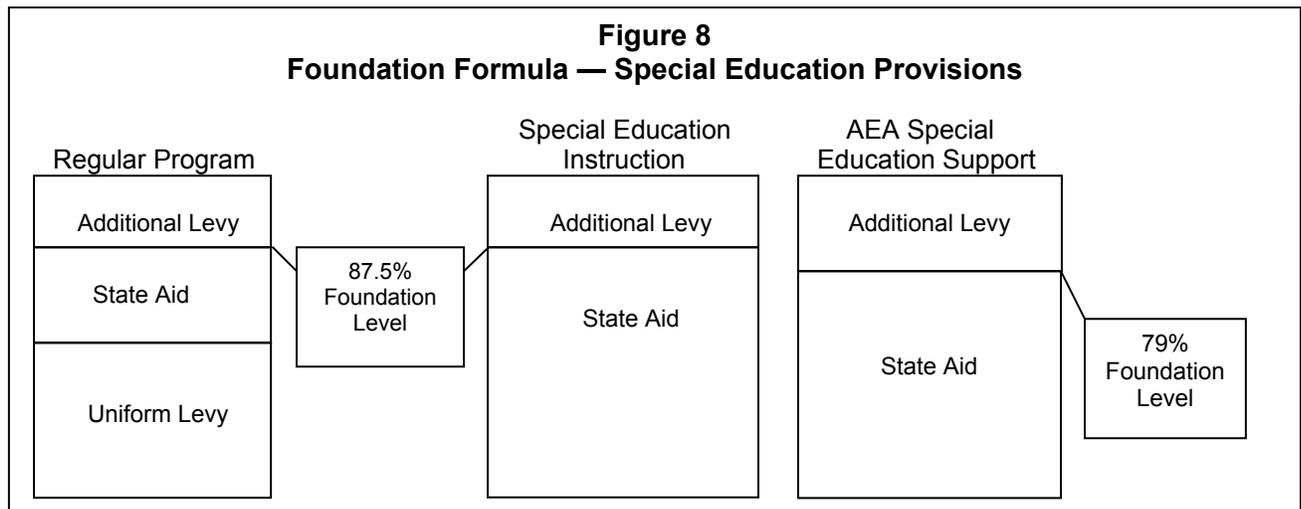
Note that with respect to AEA funding, media and education support services are funded entirely through property taxes and do not receive any state foundation aid, whereas special education support services costs are funded at the 79 percent level with state foundation aid moneys.<sup>47</sup> Further, special education support services funding is calculated without application of the uniform levy, which is different from calculation of the regular program district funding. See Figure 8. For more detailed information about AEA funding, consult the Legislative Guide on Area Education Agencies. The publication may be accessed via the Internet from the Iowa General Assembly Internet site at

<https://www.legis.iowa.gov/publications/legalPubs>.

<sup>45</sup> Iowa Code §257.1(2); see also 1999 Iowa Acts, ch. 178, §1, 10.

<sup>46</sup> Iowa Code §257.1(2); see also 1999 Iowa Acts, ch. 178, §1, 10.

<sup>47</sup> Iowa Code §§257.1, 257.4.



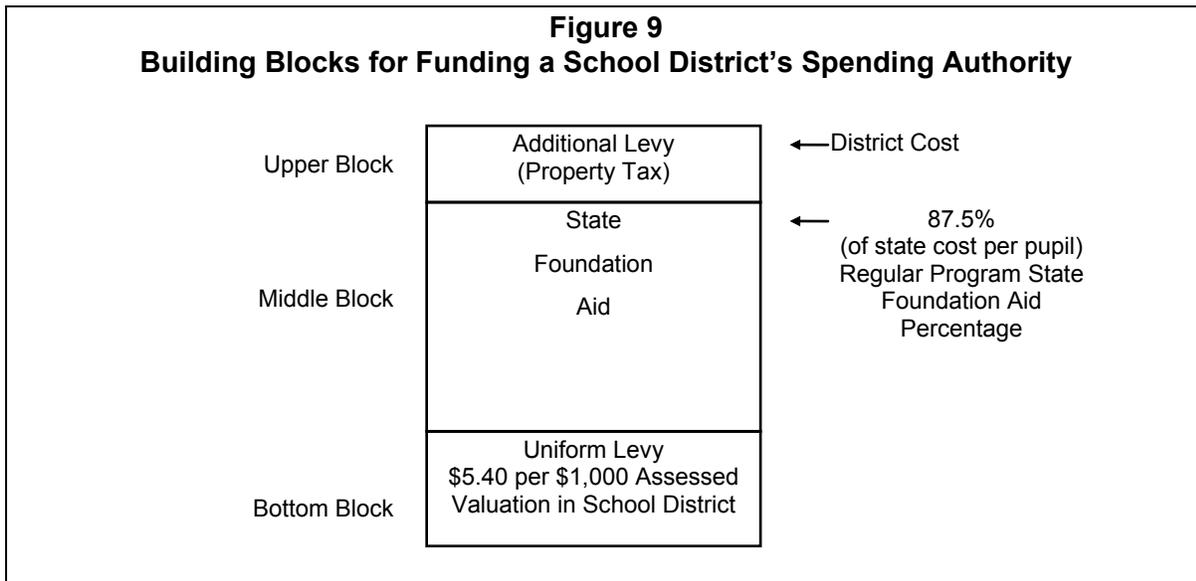
### C. Additional Levy

The third funding component, and upper block, is the additional school district property tax levy. The additional levy is the primary form of spending authorization above and beyond funds received from the uniform levy and state foundation aid necessary to fully fund a school district’s combined district cost.<sup>48</sup> As opposed to the uniform levy rate of \$5.40 per \$1,000 of assessed valuation, the additional levy rate will vary depending upon the amount needed to be raised by a particular district to fully fund combined district cost. The impact of the additional levy will generally be more keenly felt in a district with lower assessed property valuations, i.e., a proportionately higher property tax rate will be necessary given the valuation levels involved. Conversely, a district with higher assessed property valuations will require a relatively low additional property tax rate to fully fund district cost. Figure 9 illustrates the additional levy as the upper block for funding a school district’s spending authority.

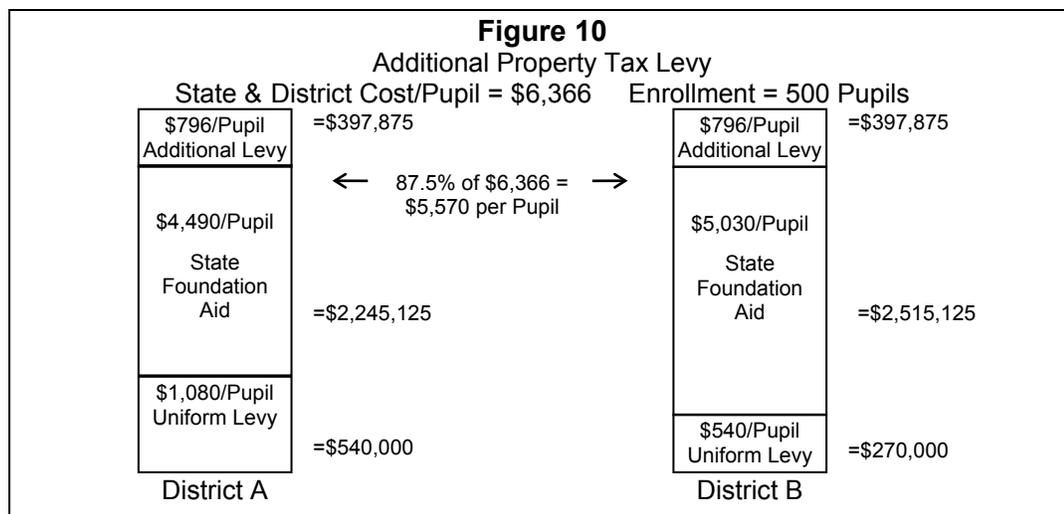
<sup>48</sup> Iowa Code §257.4. For demonstration purposes, only the computation of the additional levy as it relates to the regular program district costs is considered.



# Basic Iowa Education Finance



Example: In the previous two examples, the uniform levy raises \$540,000 in District A and \$270,000 in District B. The state foundation aid amounts total \$2,245,125 and \$2,515,125, respectively, for the two districts. Enrollment in each district was assumed, for hypothetical purposes, to equal 500 students. Assuming a district cost for each equal to the state cost per pupil for the budget year of \$6,366 multiplied by 500, or \$3,183,000, what are the additional levy amounts? The additional levy would be the amount of property tax which would raise enough revenue to equal the difference between the district cost amount and the amount of revenue raised by the uniform levy and received by the district in state foundation aid. In each case, this would total \$397,875. This result is illustrated in Figure 10. While, based on our assumptions, the additional property tax amounts are equal, District B, with a lower assessed property value, would require a higher rate of tax to raise the necessary funds.



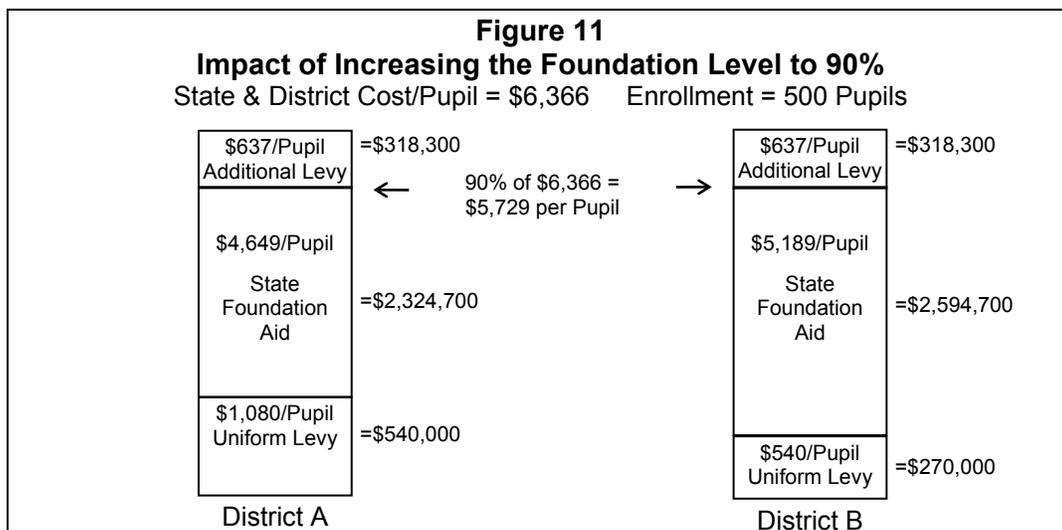
# Basic Iowa Education Finance



In an effort to address potential inequities in property taxation rates experienced by districts with relatively low assessed property tax valuations, legislation enacted during the 2006 Legislative Session provides for the payment of property tax levy adjustment aid to school districts in an amount corresponding to the difference between an adjusted additional property tax rate for the district and a statewide maximum rate, as determined annually by the Department of Management.<sup>49</sup> The statewide maximum rate is calculated taking into account amounts appropriated from the property tax equity relief fund, which consists primarily of specified state sales tax revenue and a statutory appropriation of \$24 million annually.<sup>50</sup>

The uniform levy, state foundation aid, and additional levy combine to fund a school district's district cost. Having examined the impact of high versus low assessed valuations of property on these parameters, another valuable insight concerns how fluctuations in one of the components affect the other two.

Example: Previous examples have depicted a foundation aid percentage of 87.5 percent. What would be the impact of an increase to 90 percent? The uniform levy amounts would remain the same, and 90 percent of the state cost per pupil figure of \$6,366 equals \$5,729 per pupil. District A's uniform levy yielded \$540,000, and District B's yielded \$270,000. State foundation aid would accordingly be the difference – \$2,864,500 (\$5,729 per pupil multiplied by 500 pupils) minus \$540,000 equals \$2,324,500 for District A. For District B, a similar calculation results in state foundation aid of \$2,594,500. See Figure 11. Note that this hypothetical increase to 90 percent of the state cost per pupil figure of \$6,366 results in the same amount of additional state foundation aid per pupil to both districts (\$159 to each). Note also that the amount of revenue to be raised from the additional levy amount decreases from \$397,875 to \$318,300, lessening the overall property tax impact on both districts.



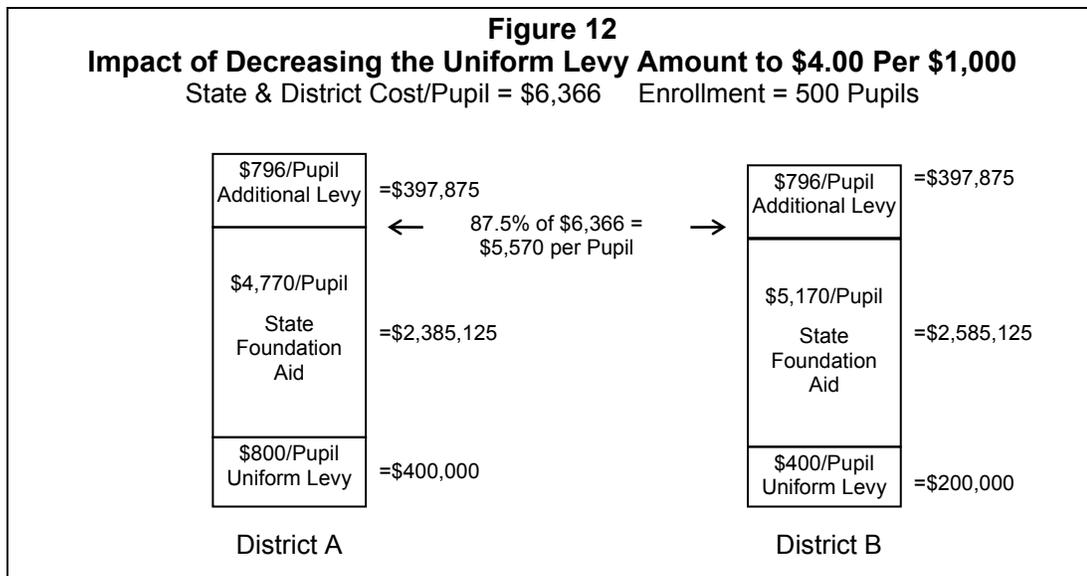
<sup>49</sup> Iowa Code §257.15(2)-(4).

<sup>50</sup> Iowa Code §§257.4(1)(b), 257.15(4)(a), 257.16(1), 257.16A.



# Basic Iowa Education Finance

Example: Instead of a change in the foundation aid percentage, what would be the impact on District A and District B of a decrease in the uniform levy rate? Assume a decrease in the uniform levy rate to \$4.00 per \$1,000 assessed valuation, with the foundation level remaining at 87.5 percent. District A, with an assessed value of \$100 million, would yield \$400,000 from the levy. District B, with an assessed value of \$50 million, would yield \$200,000. The result would be an increased level of state foundation aid, despite the fact that the foundation aid percentage remained unchanged. However, the amount of the increase in state foundation aid is different. Remember, state foundation aid is the difference between the foundation aid percentage of the state cost per pupil and the amount raised by the uniform levy. See Figure 12.



## D. Additional Aspects of Spending Authority

The above discussion has focused on the regular program district cost component of the combined district cost, which is the amount of a school district's spending authorization funded through the foundation formula by imposition of the uniform and additional school district property tax levies and receipt of state foundation aid. There are, however, two additional elements of spending authority.

### 1. Miscellaneous Income

Miscellaneous income is a catch-all category in the sense that it includes any income received by a school district other than through the uniform levy, state foundation aid, the additional levy, or property tax replacement payments.<sup>51</sup> In other words, it is income received that is not included in the combined district cost authorization for raising local property taxes and receiving state foundation aid. Examples include investment interest, student services fees, federal school aid, and moneys received through the instructional support program.

<sup>51</sup> Iowa Code §257.2(8).



## 2. Unspent Balance

An unspent balance consists of spending authority carried over from a prior year or funds received which were unspent in a prior year.<sup>52</sup> An unspent balance thus equals the difference between a school district's total spending authority and amounts actually expended in a school year.

## V. Appendices

### A. Additional Sources of School District Revenue

While the state foundation aid program is the primary revenue source for school districts, other sources of revenue also exist. Other property tax levies, income surtaxes,<sup>53</sup> combination levies, and a state sales and use tax, are authorized by statute. In general, the authorizations are specific as to purpose and scope, and some require voter, in addition to school board, approval. A detailed discussion of these revenue sources is beyond the scope of this Guide. However, the following is a brief description of several revenue sources:

#### 1. Statewide Preschool Program

During the 2007 Legislative Session, a statewide voluntary preschool program for four-year-old children was created to be implemented through the school districts.<sup>54</sup> The program is administered at the state level by the State Board of Education and the Department of Education.

An approved school district must provide at least 10 hours per week of instruction delivered in accordance with the skills and knowledge included in the learning standards adopted for the program. To be eligible for the program, a child must be a resident of the state and be at least age four on or before September 15 of the school year.

Funding for the program is provided by the state based upon a preschool foundation aid formula that uses elements of the school foundation aid formula and is paid as part of state aid. A school district may use specified existing local revenue sources to the extent the expenditures are permitted within the uses of that funding source. Unless otherwise provided by law, the department may use a portion of the annual appropriation, not to exceed 5 percent, to fund administrative staff for the program.

Except for the initial year that a school district participates in the program, the state funding each year is based on the previous school year's enrollment of children by October 1. The state funding for the initial year is 60 percent of that enrollment multiplied by the state cost per pupil. For budget years following the initial year, a participating district's preschool foundation aid is the product of the regular program state cost per pupil for the budget year multiplied by the school district's preschool

<sup>52</sup> Unspent balances are included within a district's spending authority. Iowa Code §257.7(1).

<sup>53</sup> The cumulative total of percents of income surtax collected for school district purposes and for an emergency medical services district located within the school district shall not exceed 20 percent. Iowa Code §298.14.

<sup>54</sup> Iowa Code ch. 256C.



## Basic Iowa Education Finance

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budget enrollment. A district's preschool budget enrollment is equal to 50 percent of the actual enrollment of eligible students in the preschool programming provided by a school district approved to participate in the preschool program on October 1 of the base year.

### **2. Instructional Support Program**

The instructional support program allows school districts to increase their budgets by up to 10 percent of the regular program district cost, funded either exclusively through property taxes or in combination with an income surtax.<sup>55</sup> The method of funding is determined by the school board, and the funds generated may be utilized for any school district general fund purpose. A majority of school districts have some form of instructional support program. It may be established by the school board for a five-year duration without voter approval (although subject to reverse referendum), or for a maximum of 10 years with voter approval. Limited state aid matching a portion of the amount raised locally is provided but is frozen, or capped, at the level appropriated for the budget year which commenced on July 1, 1992.<sup>56</sup> In certain years, the appropriation has been eliminated by the General Assembly.<sup>57</sup>

### **3. Educational Improvement Program**

The educational improvement property tax levy may be utilized in a district that has approved participation in the instructional support program if the district has a regular program district cost per pupil exceeding 110 percent of the regular program state cost per pupil. Income surtaxes are authorized to fund the educational improvement program in combination with the property tax levy. This program will remain in place until the board acts to remove it or a referendum is held to remove it. A majority vote of the electorate is required to approve participation in the program. No school districts can currently add this program as of budget year 2008 due to the requirement that the district cost per pupil be 10 percent higher than the state cost per pupil — a situation not occurring for school districts.<sup>58</sup>

### **4. Dropout Programs**

The spending authorization for returning dropouts and dropout prevention programs is funded on the basis of one-fourth or more from the district cost of the school district and up to three-fourths through establishment of a modified supplemental amount by SBRC. Programs may be geared either to dropout prevention or to lowering dropout rates or for programs designed for former dropouts returning to the school system.<sup>59</sup>

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<sup>55</sup> Iowa Code §257.19.

<sup>56</sup> Iowa Code §257.20(2).

<sup>57</sup> See e.g., 2013 Iowa Acts, ch. 140, §2.

<sup>58</sup> Iowa Code §257.29; see also Iowa Code §257.10(2).

<sup>59</sup> Iowa Code §257.41. Additional dropout prevention budget limitations were enacted in 2012, effective for the budget year 2013/2014. See Iowa Code §257.41(3).



## 5. Management Levy

The management levy is a levy deposited in the district management levy fund to pay costs incurred for unemployment, early retirement, liability, health and medical insurance coverage, self-insurance, and tort judgments against the district.<sup>60</sup> The board of directors of a school district may certify this levy, which does not require approval of the electorate.

## 6. Physical Plant and Equipment Levy

Directed toward major building repair and improvement, equipment or technology acquisition, and energy or transportation-related equipment or expenditures, this property tax levy has a maximum limit of \$1.67 per \$1,000 of assessed valuation. This amount is allocated on a 33 cents per \$1,000 of assessed valuation basis with board approval, and with voter approval required for the remaining portion.<sup>61</sup>

Revenue from the regular and voter-approved physical plant and equipment levies may not be expended by the school district for district employee salaries or travel expenses, supplies, printing costs or media services, or for any other purposes not expressly authorized in Iowa Code section 298.3.

## 7. Public Education and Recreational (Playground) Levy

The board of directors may authorize, or eligible electors in the district may petition for, a property tax levy of up to 13.5 cents per \$1,000 of assessed valuation to be directed toward the purchase of playgrounds and recreational facilities on public school property within the district and for the costs of community education. Voter approval is required. Once enacted the levy remains in place until rescinded by either the board or the voters.<sup>62</sup>

## 8. Cash Reserve Levy

School districts may levy property taxes to hold in reserve for cash flow purposes. As opposed to the other levies, this does not have the effect of increasing spending authority.<sup>63</sup> The cash reserve can be utilized if state foundation aid is reduced — such as for across-the-board cuts.<sup>64</sup> The size of the cash reserve levy is limited, and a school district may be required by the SBRC to further limit the levy if the district's unexpended fund balance is excessive.<sup>65</sup>

## 9. Emergency Fund — Levy

A school corporation may levy a tax for an emergency fund at a rate not to exceed 27 cents per \$1,000 of assessed value of taxable property of the school corporation. A school corporation may transfer money from the emergency fund to any other school

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<sup>60</sup> Iowa Code §298.4.

<sup>61</sup> Iowa Code §298.2.

<sup>62</sup> Iowa Code ch. 300.

<sup>63</sup> Iowa Code §298.10.

<sup>64</sup> Iowa Code §257.34.

<sup>65</sup> Iowa Code §298.10(2),(3).



## Basic Iowa Education Finance

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fund in order to meet deficiencies, but must first receive approval from the state appeal board and, in some circumstances, from the SBRC.<sup>66</sup>

### 10. Bonds

Bonds for debt service retirement may be issued by a school board with the approval of 60 percent of the electorate.<sup>67</sup> The 60 percent requirement to approve a bond issue exceeds the simple majority required for voter-approved finance programs such as the instructional support program and the physical plant and equipment levy.

### 11. State Sales and Use Tax for School Infrastructure

Legislation enacted in 1998 established an additional source of school district revenue directed specifically toward school infrastructure needs and derived from sales tax rather than property tax or an income surtax. That legislation repealed the local option sales tax for school infrastructure and replaced the funding with a 1.0 percentage point state sales and use tax increase beginning in fiscal year 2009.<sup>68</sup> For a period of time, school districts receive funding for school infrastructure purposes as though the local option sales tax funding were still in place. However, by fiscal year 2015, each school district will receive the same amount per pupil.

Prior to the distribution of the per pupil amounts to the school districts, 2.1 percent of the moneys available in the fiscal year are designated for property tax relief. The funds designated for property tax relief are transferred to the Property Tax Equity and Relief (PTER) Fund and used to reduce property tax rates for the eligible districts.<sup>69</sup> The PTER funds will first be used to supplement the property tax adjustment aid appropriation of \$24 million in Iowa Code section 257.15 (see discussion of this aid in the portion of this Guide relating to “Additional Levy”). These funds are used to lower the adjusted property tax rate to the statewide average providing property tax relief to all school districts that have an additional levy rate above the statewide average.<sup>70</sup> If there are PTER funds remaining after this first requirement, the remaining funds will be used to increase the regular program foundation level, providing property tax relief for all school districts.<sup>71</sup>

The statewide school infrastructure funding program is repealed on December 31, 2029.

## B. School Budget Review Committee

The SBRC is a six-member committee functioning within the Department of Education and comprised of appointed members knowledgeable in Iowa school finance. One member, the director of the Department of Education, is an ex officio,

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<sup>66</sup> Iowa Code §24.6.

<sup>67</sup> Iowa Code §298.18.

<sup>68</sup> Iowa Code chs. 423E and 423F; 2008 Iowa Acts, ch. 1134.

<sup>69</sup> Iowa Code §§423F.2(3), 257.16A.

<sup>70</sup> Iowa Code §257.15(4)(a).

<sup>71</sup> Iowa Code §257.15(4)(b).



nonvoting member. The functions of SBRC constitute a budgeting and tax oversight process through which school districts with unique or unusual circumstances can apply for assistance and be subject to fiscal review. The SBRC has a broad grant of authority, pursuant to Iowa Code section 257.31, to review and make recommendations concerning any matter potentially impacting school district accounting and budgeting aspects. The SBRC has general authority to review school districts' budgets and request school officials to appear before SBRC or provide SBRC with specific information.<sup>72</sup> Financial assistance to school districts may occur either in the form of a grant of supplemental aid out of funds appropriated to the Department of Education for use by SBRC, or through the granting of modified supplemental amounts. Modified supplemental amounts in this context consist of authorizing the levy of additional property taxes, which constitutes an increase in district, rather than state, cost. Specific SBRC assistance to school districts may take several forms. Examples include:

## 1. Unique or Unusual Situations

School districts may receive SBRC supplemental aid or the granting of a modified supplemental amount if faced with but not limited to the following unique or unusual situations:<sup>73</sup>

- a. Any unusual increase or decline in enrollment.
- b. Unusual natural disasters.
- c. Unusual initial staffing problems.
- d. The closing of a nonpublic school, wholly or in part, or the opening or closing of a pilot charter school.
- e. Substantial reduction in miscellaneous income due to circumstances beyond the control of the school district.
- f. Unusual necessity for additional funds to permit continuance of a course or program which provides substantial benefit to pupils.
- g. Unusual need for a new course or program which will provide substantial benefit to pupils, if the school district establishes the need and the amount of necessary increased cost.
- h. Unusual need of additional funds for special education or compensatory education programs.
- i. Year-round or substantially year-round attendance programs which apply toward graduation requirements, including but not limited to trimester or four-quarter programs. Enrollment in such programs must be adjusted to reflect equivalency to normal school year attendance.
- j. Unusual need to continue providing a program or other special assistance to non-English-speaking pupils after the expiration of the five-year period specified in Iowa Code section 280.4.

<sup>72</sup> Iowa Code §257.31(3),(11).

<sup>73</sup> Iowa Code §257.31(5).



## Basic Iowa Education Finance

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- k. Circumstances caused by unusual demographic characteristics.
- l. Any unique problems of school districts.
- m. Addition of one or more teacher librarians, one or more guidance counselors, or one or more school nurses.
- n. Unusual need for additional funds for the costs associated with providing competent private instruction pursuant to Iowa Code chapter 299A.

Financial assistance requests made most frequently relate to the returning dropouts and dropout prevention programs (previously discussed), new or ongoing unique educational programs, enrollment changes due to open enrollment, extraordinary enrollment increases, or the impact of nonpublic school pupil enrollment.

The SBRC is required to review a school district's unexpended fund balance prior to any decision regarding unusual finance circumstances.<sup>74</sup>

### 2. Transportation Assistance

The SBRC is authorized to provide assistance to school districts incurring transportation costs substantially exceeding statewide average transportation costs. The SBRC may grant assistance to a school district if the district's average transportation costs per pupil exceed 150 percent of the state average transportation cost per pupil calculation.<sup>75</sup> State transportation aid is discussed in more detail in Appendix C.

### 3. Special Education Balances and Weighting

The SBRC determines the positive or negative balance of funds raised for special education instruction programs pursuant to the special education weighting plan established in Iowa Code section 256B.9, and is authorized to reallocate positive balances and provide assistance and authorize an increase in supplemental aid for negative balances.<sup>76</sup> The SBRC also reviews the recommendations of the Director of the Department of Education relating to the level of the special education weightings.<sup>77</sup>

### 4. Unexpended Cash Reserves

The SBRC is authorized to review the extent to which school districts levy for cash reserve under Iowa Code section 298.10, and has the power to reduce cash reserve levies and to authorize a school district to expend a reasonable and specific amount of its unexpended cash reserve for specified purposes.<sup>78</sup>

## C. State Transportation Aid

Iowa Code chapter 285 governs the administration of state aid for the transportation of public and nonpublic pupils. References to "state transportation aid" may be somewhat misleading, given that there is not a separate state allocation of funds for transportation

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<sup>74</sup> Iowa Code §257.31(5).

<sup>75</sup> Iowa Code §257.31(17).

<sup>76</sup> Iowa Code §257.31(14).

<sup>77</sup> Iowa Code §257.31(12).

<sup>78</sup> Iowa Code §257.31(7),(15).



distinct from amounts passing to school districts pursuant to the state foundation formula (other than SBRC assistance, as previously discussed). Transportation funding is received by each school district combined with the other state foundation aid received by the district and available for allocation by the local school board as the board deems appropriate for the administration of the school district's transportation needs and expenses.

Transportation services to public and nonpublic pupils take one of three primary forms — direct transport by the school district, parental transport with school district reimbursement, or contracting with a third-party carrier for the furnishing of the school district's transportation needs. The following is a summary of some of the main transportation provisions:

- School boards are required to provide transportation either directly, by contract, or through reimbursement to pupils in grades kindergarten through 12, provided that specified distance-from-school threshold requirements are met, and the pupils will regularly utilize the transportation service.<sup>79</sup>
- Optionally, school boards may provide transportation for pupils who do not meet the mileage eligibility requirements, and may in the board's discretion collect from the transported pupils' parents or guardians the pro rata transportation cost.<sup>80</sup>
- If transportation by bus is either impracticable or unavailable, a parent or guardian may be required to transport a pupil and be reimbursed by the district for transportation expenses at a designated reimbursement rate. A parent or guardian may also be required to transport a pupil to a point up to two miles from the pupil's residence to connect with a transportation vehicle, if road conditions are unsatisfactory, and be reimbursed at a designated rate per mile. Pupils may be required to meet a transportation vehicle on an approved route up to three-fourths of a mile from their residence without reimbursement.<sup>81</sup>
- Provisions are made for the allocation of transportation expenses from a sending to a receiving school, contracting with a common carrier when transportation by school bus is impracticable or unavailable, suspension of transportation services due to inclement weather, measurement of distances in computing mileage from school, transportation of nonresident pupils, and the calculation of pro rata transportation costs.<sup>82</sup>
- Nonpublic school pupils are entitled to transportation on the same basis as public school pupils. If the nonpublic school is located within a public school district, nonpublic pupils will be transported to the nonpublic school designated by the parents or guardians for attendance. If the nonpublic school is located outside public school district of residence, nonpublic school pupils will be transported to a public school or other designated location within the school district or at a location outside the public school district designated by the public school district. At the option of a public school district, transportation may be provided by a school bus operated by the public school

<sup>79</sup> Iowa Code §285.1.

<sup>80</sup> Iowa Code §285.1(1),(12).

<sup>81</sup> Iowa Code §285.1(2)-(4).

<sup>82</sup> Iowa Code §285.1(5)-(12).



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district, by another carrier pursuant to contract, or the cost of the transportation may be reimbursed.<sup>83</sup>

- Iowa Code section 285.2 requires school districts to provide transportation services to nonpublic school pupils when the General Assembly provides funds to the Department of Education for such transportation costs. Some parents or legal guardians who transport nonpublic school pupils may qualify for reimbursement of transportation costs under Iowa Code section 285.3. When an elementary school closes, Iowa Code section 285.4 requires the school board of the closing school to facilitate a transportation agreement with another school district for the transferring pupils, if necessary, or to contract privately to provide transportation for the transferring pupils if the costs would be less expensive than the existing school's bus services.
- The powers and duties of the Department of Education and AEA and local school boards relating to transportation are set forth, as are provisions relating to the inspection of school bus transportation vehicles, the planning of bus routes, and dispute resolution procedures between a school patron and a school board and between school boards.<sup>84</sup>
- While the primary allocation of state aid for transportation is contained within amounts passing to a school district pursuant to the state foundation formula, SBRC can directly provide additional financial assistance for transportation, as previously discussed, if a school district's average transportation cost per pupil exceeds 150 percent of the state average transportation cost per pupil calculation.<sup>85</sup>
- Children attending prekindergarten programs offered or sponsored by the district or nonpublic school and approved by the Departments of Education or Human Services or children participating in preschool in an approved local program under Iowa Code chapter 256C may be provided transportation services. However, transportation services provided to nonpublic school children for preschool programs are not eligible for reimbursement under Iowa Code chapter 285.<sup>86</sup>

### D. Open Enrollment and Postsecondary Enrollment Options

As discussed previously, the determination of a school district's enrollment is fundamental to the operation of the school finance formula. Two specialized forms of enrollment which frequently generate some confusion concern open enrollment and postsecondary enrollment options.

#### 1. Open Enrollment

The concept of open enrollment refers to a situation in which a pupil residing in one school district receives permission to attend a school located in another school district on a full-time basis. Iowa Code section 282.18, subsection 1, paragraph "a," sets forth the following rationale for permitting open enrollment:

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<sup>83</sup> Iowa Code §285.1(14)-(17).

<sup>84</sup> Iowa Code §§285.8-285.13.

<sup>85</sup> Iowa Code §257.31(17).

<sup>86</sup> Iowa Code §285.1(1)(a)(3).



It is the goal of the general assembly to permit a wide range of educational choices for children enrolled in schools in this state and to maximize ability to use those choices. It is therefore the intent that this section be construed broadly to maximize parental choice and access to educational opportunities which are not available to children because of where they live.

An application for open enrollment must be submitted by a parent or guardian to the school district of residence and the receiving school district by March 1 of the year preceding the school year for which open enrollment is sought, for students entering grades one through 12, or by September 1 of the current school year for students entering kindergarten, unless specified procedures for accepting applications after March 1 are met.<sup>87</sup> The board of the receiving district shall enroll the pupil in a school in the receiving district for the following school year unless the receiving district has insufficient classroom space for the pupil. If the request is granted, the board shall transmit a copy of the form to the parent or guardian and the school district of residence within five days after board action, but not later than June 1 of the preceding school year. A denial of a request by the board of a receiving district is not subject to appeal. The board of directors of a school district subject to voluntary diversity or court-ordered desegregation must develop a policy for implementation of open enrollment that contains objective criteria for determining when a request would adversely impact the desegregation order or voluntary diversity plan and include criteria for prioritizing requests that have no adverse impact.<sup>88</sup>

State funding for open enrollment flows from the sending to the receiving district. A pupil participating in open enrollment is counted for enrollment purposes in the pupil's district of residence (the sending district). The sending district then remits to the receiving district the state cost per pupil, and additional amounts, such as supplementary weighting for limited English proficient students, for the preceding school year for the pupil participating in open enrollment.<sup>89</sup> Payments are made on a quarterly basis. If the pupil requires special education pursuant to Iowa Code chapter 256B, a request for open enrollment will be granted only if the receiving district maintains a special education instructional program which is appropriate to meet the pupil's educational needs, and the enrollment of the pupil in the receiving district's program will not cause the size of the special education instructional program to exceed maximum special education class size rules. Funding for a pupil requiring special education is remitted by the sending district to the receiving district in an amount corresponding to the actual costs incurred in providing special education instruction for the pupil.<sup>90</sup>

## 2. Postsecondary Enrollment Options

A second form of enrollment intended to facilitate expanded educational access for high school pupils concerns postsecondary enrollment options. Ninth and tenth

<sup>87</sup> Iowa Code §282.18(2),(4).

<sup>88</sup> Iowa Code §282.18(3).

<sup>89</sup> Iowa Code §282.18(7).

<sup>90</sup> Iowa Code §282.18(8).



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grade pupils who have been identified as gifted and talented, and eleventh and twelfth grade pupils whether or not so identified, may apply to an eligible postsecondary institution to enroll for academic or vocational-technical credit in a nonsectarian course offered at that institution. An application for postsecondary enrollment is conditioned on the unavailability of a comparable course in the pupil's school district or accredited nonpublic school.<sup>91</sup> An "eligible postsecondary institution" refers to an institution of higher learning under the control of the State Board of Regents, a community college established under Iowa Code chapter 260C, or an "accredited private institution" as defined in Iowa Code section 261.9.<sup>92</sup>

In contrast to open enrollment, a pupil receiving credit pursuant to a postsecondary enrollment option remains enrolled in the pupil's school district of residence and participates in coursework outside of the pupil's school district of residence for less than the full school day. High school academic or vocational-technical credit is given upon successful completion of the coursework, in an amount determined by the school district, accredited nonpublic school, or by the State Board of Regents for pupils of the School for the Deaf and the Iowa Braille and Sight Saving School.<sup>93</sup>

Funding for postsecondary enrollment options flows from the sending district to the postsecondary institution in an amount corresponding to the lesser of either the actual and customary costs of tuition, textbooks, materials, and fees directly related to the course taken, or the sum of \$250. Tuition reimbursement must be paid to the postsecondary institution no later than June 30 of each year. A school district receives no additional state funding attributable to pupils participating in postsecondary enrollment. Additionally, if the cost of the coursework exceeds \$250, provision is not made for a supplemental funding source, potentially rendering the pupil responsible for the additional funds incurred. If the pupil participating in postsecondary enrollment was open enrolled, the reimbursement amount is paid by the receiving district.<sup>94</sup>

### E. School Finance Formula Review Committee

#### 1. 2005 Recommendations

In compliance with Iowa Code section 257.1(4), which requires that a legislative interim study committee status report be prepared at five-year intervals, the School Finance Formula Review Committee conducted three meetings during the latter part of 2004. The committee unanimously approved the following recommendations:<sup>95</sup>

- Increase the foundation level to 100 percent over the next seven years — consider tax increment financing (TIF) reform and adjusting the uniform levy.
- Phase out seldom used levies, or require voter approval of them every 10 years.

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<sup>91</sup> Iowa Code §261E.6(3).

<sup>92</sup> Iowa Code §261E.2(4).

<sup>93</sup> Iowa Code §261E.6(4).

<sup>94</sup> Iowa Code §261E.7.

<sup>95</sup> School Finance Formula Review Committee, Final Report, <https://www.legis.iowa.gov/docs/publications/IP/12180.pdf>.



- Require the Department of Management to facilitate a dialogue to resolve TIF issues.
- Provide state funding of up to 50 percent of district costs that exceed the statewide transportation average.
- Remove barriers to partnerships between secondary and postsecondary institutions to increase opportunities for students (including barriers for usage of the Iowa Communications Network), and require school districts to publicize the Postsecondary Enrollment Options Act (Iowa Code chapter 261C).<sup>96</sup>
- Increase the state aid amount paid under the instructional support program over multiple years, eventually building the amount into the school aid formula.

## 2. 2010 Recommendations

In compliance with Iowa Code section 257.1(4), which requires that a legislative interim study committee status report be prepared at five-year intervals, the School Finance Formula Review Committee conducted a meeting in 2009. The committee unanimously approved the following recommendations:<sup>97</sup>

- Conduct an in-depth study regarding the effectiveness of the school finance formula, including all forms of supplementary weighting.
- Recognize that until the state's economic condition improves, Iowa may not be in a position to make any significant changes or improvements to the education finance formula.
- Exercise caution in formulating recommendations without sufficient information underlying them.
- Evaluate the merit of continuing to provide supplementary weighting for a three-year period during which school districts merely consider the possibility of consolidating or merging.
- Take every opportunity for collaboration and maximizing utilization of existing resources, including consortiums and regional academies.
- Recommend that the next school finance interim committee review various financing options for school transportation needs.

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<sup>96</sup> Iowa Code chapter 261C was repealed by 2008 Iowa Acts, ch 1181, §65. See Iowa Code §§261.6, 261E.7.

<sup>97</sup> School Finance Formula Review Committee, Final Report, <https://www.legis.iowa.gov/docs/publications/IP/21672.pdf>.