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## LEGAL UPDATE

Legal Services Division



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### SCHOOL FINANCE FORMULA REVIEW COMMITTEE MEETING — DECEMBER 13, 2019

**Purpose.** *Legal updates are prepared by the nonpartisan Legal Services Division of the Legislative Services Agency. A legal update is intended to provide legislators, legislative staff, and other persons interested in legislative matters with summaries of recent meetings, court decisions, Attorney General Opinions, regulatory actions, federal actions, and other occurrences of a legal nature that may be pertinent to the General Assembly's consideration of a topic. Although an update may identify issues for consideration by the General Assembly, it should not be interpreted as advocating any particular course of action.*

**Co-chairperson:** Senator Amy Sinclair

**Co-chairperson:** Representative David Kerr

**Overview.** The Legislative Council created the School Formula Finance Review Committee for the 2019 Legislative Interim pursuant to statutory law which requires a review of the school finance formula every five years.

**School Finance Formula Overview.** Mr. John Parker, Department of Management (DOM), and Mr. Michael Guanci, Fiscal Services Division, Legislative Services Agency, provided an overview of the basic operation of Iowa's current school finance formula for the state's 487,652 students enrolled in 327 school districts, served by nine area education agencies (AEAs). Mr. Guanci identified the various sources of school funding including state aid, property taxes, income surtaxes, sales tax revenue from the Secure an Advanced Vision for Education (SAVE) fund, federal funding, and other school district miscellaneous income. Mr. Guanci also identified the primary structural changes to the school finance formula that have occurred since the early 1970s. Mr. Guanci described the intent of the school finance formula as outlined in Iowa Code section 257.31 and the methods by which Iowa Code chapter 257 seeks to accomplish those goals.

Data presented to the committee included the annual state percent of growth between FY 2001 and FY 2020 and the resulting growth in the state cost per pupil and the current differential amounts for district cost per pupil among school districts in the state. Mr. Guanci described how certified enrollment, additional weightings, and weighted enrollment all factor into the calculation of a school district's regular program district cost and identified several other sources of additional school district funding through the various categorical funding supplements, funding for AEAs, and funding for the statewide voluntary preschool program. Mr. Guanci also described how the school finance formula acts not only as a method of calculating the amount of funding for each district but as a method of limiting each school district's spending authority.

Mr. Guanci then demonstrated the way in which the uniform levy, state foundation aid, and the additional levy interrelate within the school finance formula and how individual school district circumstances, such as property valuations, can impact the operation of the formula and result in different property tax levy rates. Mr. Guanci also described how the mix of funding sources for certain programs, such as special education, preschool, categorical supplements, and AEAs, differs as compared to the regular program funding. Additionally, Mr. Guanci identified the state funding sources that reduce certain school districts' additional levy rates as well as the discretionary property tax levies that may be imposed by school districts, such as the cash reserve levy, management fund levy, public education and recreation levy, the physical plant and equipment levy, and the debt service levy.

The committee was provided information regarding the structure and use of the Instructional Support Program, which allows a school district to increase its budget by up to 10 percent or its regular program cost for any general fund purpose through a combination of property taxes, income surtax, and state aid. However, the state aid portion has been unfunded since FY 2012.

**Transportation Equity and District Cost Per Pupil Equity Update.** Mr. Tom Cooley, Department of Education (DE), and Mr. Parker, DOM, provided an update on the implementation of the transportation equity program under Iowa Code section 257.16C, enacted in 2018. Funding under the program is prioritized for those districts with the highest transportation cost per pupil differential, as calculated by DE, using each district's actual transportation costs. The transportation cost data is largely sourced from the Transportation Annual Report, which is compiled by DE and includes specific revenues and expenditures, route and non-route mile calculations, the number of students transported, number of weeks transported, and vehicle purchase data. Mr. Cooley identified DE's challenges in utilizing and modifying the existing transportation data sets in order to implement the program.

Mr. Cooley's presentation included data from the initial two years of the program, including the statewide average transportation cost per pupil, the number of districts above the statewide average, the number of districts receiving payments, the percentage of districts over the statewide average that received payments, the maximum payment received, the minimum payment received, and the remaining amount of transportation costs per pupil following application of the payments. The committee was also provided data on the various funds from which transportation expenditures are made by school districts.

Mr. Parker updated the committee on the progress made over the last two fiscal years in narrowing the difference among school districts between those with the highest district cost per pupil and those with a district cost per pupil that is equal to the state cost per pupil. The current maximum difference per pupil is \$165, down from \$175 per pupil when the statutory adjustments started after FY 2018. Mr. Parker provided cost projections for further implementation of state cost per pupil increase.

**Flexibility Accounts and Categorical Fund Balances.** Mr. Cooley, DE, and Ms. Margaret Buckton, Iowa School Finance Information Services (ISFIS), presented information regarding the implementation of school district flexibility accounts, as authorized by statute, and the current status of school district categorical fund balances. Categorical funding is generally understood to be financial support from the state and federal governments that is targeted for particular categories of students, special programs, or special purposes. Legislation in 2017 and 2018 established the authority of school districts to transfer certain unexpended and unobligated categorical funds to a flexibility account to be used in future years for various categorical and general fund purposes. Mr. Cooley outlined the steps needed to be taken by school boards in order to make such transfers and approve expenditures from a flexibility account. The committee was provided data on the frequency, sources, and amounts of funds being transferred and expended. Mr. Cooley and Ms. Buckton both cautioned against the trend found in the expenditure data of using the flexibility account for ongoing expenses like salaries and benefits. Mr. Cooley's presentation also provided five years of data related to the statewide funding and carryforward amounts for homeschool assistance programs, professional development programs, and the statewide voluntary preschool program.

Ms. Buckton noted that a positive ending balance in most categorical funds is a good practice to employ, carryforward balances are to be viewed as one-time funding, and that ISFIS has witnessed a learning curve associated with this new flexibility fund. Ms. Buckton noted the tension between directing resources to an identified need and preserving local control and she provided the committee with research conducted by the American Institutes of Research on the issue of determining how funding is distributed and regulated. Ms. Buckton also examined the state's current methodology of weighted funding for at-risk students and the resulting choices for school districts with high numbers or concentrations of students in poverty, noting specifically the Des Moines Public Schools.

**Operational Sharing Incentives.** Mr. Cooley, DE, Mr. Shawn Snyder, Iowa Association of School Boards (IASB), and Ms. Emily Piper, IASB, provided information on the current supplementary weighting program for shared operational functions that runs through FY 2025. Mr. Cooley described the timeline

for school district requests and data on participation in the program over the past five fiscal years, including the types of positions being shared and data regarding the use of shared positions beyond those for which school districts receive supplementary weighting due to the 21 full-time equivalent pupil maximum. From fall 2014 to fall 2018 the total weightings received by school districts increased from 2,324 to 3,646. The resulting funding generated in FY 2020 has reached \$25,195,458. Mr. Cooley also provided data regarding the usage of shared operational function weighting by AEAs and described how the AEAs' maximum is applied. Data from IASB showed that for FY 2020, 236 districts were sharing at least one position and 91 districts were not sharing any positions.

Mr. Cooley identified administrative challenges in processing requests made by school districts, including discrepancies between information provided by each of the sharing districts and difficulties in verifying positions when sharing with a political subdivision that is not a school district. Mr. Cooley and Mr. Snyder also acknowledged the potential "funding cliff" when moving from shared operational functions to reorganization or if the operational function sharing were to discontinue. Mr. Snyder and Ms. Piper identified several potential options related to continuing shared function incentives, including extension of the applicable time period, expanding allowable positions, implementing phase-out provisions to minimize a "funding cliff," and enacting additional funding provisions for "necessarily small school districts."

**Open Enrollment Trends and Funding.** Mr. Cooley, DE, provided statewide data regarding use of open enrollment in Iowa. The number of students utilizing open enrollment has risen from 30,463 in fall 2015 to 33,591 in fall 2018. During that same period of time the percentage of total enrollment using open enrollment has risen from 6.3 percent to 6.9 percent. Mr. Cooley also provided lists of the school districts with the highest number of students open enrolling into and out of the district.

Mr. Cooley provided an overview of the current amounts of funding that are statutorily required to be paid from the school district of residence to the receiving school district, which currently includes the previous year's state cost per pupil, any per pupil amount of teacher leadership and compensation funding, amounts resulting from a student's supplementary weighting for limited English proficiency, and eligible concurrent enrollment and Project Lead the Way weighting. For special education students, however, the amount paid is equal to the actual cost of the student's program rather than the state cost per pupil. Mr. Cooley noted that the teacher salary supplement, professional development supplement, early intervention supplement, and per pupil SAVE fund revenues are not paid to the receiving district. Mr. Cooley also noted that some of the funding supplement amounts are not uniform across school districts.

Mr. Joel Pedersen, Superintendent, Cardinal Community School District, was joined by Cardinal Community School District teacher Ms. Sabrina Morrison to discuss the challenges posed to the Cardinal Community School District by the current open enrollment system. Cardinal Community School District has the ninth highest number of open-enrolled students among all receiving districts in the state (306.5 for FY 2019). Superintendent Pedersen provided data to the committee regarding the financial impact open enrollment has on high-poverty districts like Cardinal and encouraged the committee to look at allowing more of the per pupil funding to follow the student so that districts like Cardinal could use those funds to remain competitive in compensation paid to teachers. Superintendent Pedersen noted Cardinal Community School District is unable to increase the capacity of schools within the district and the community is resistant to efforts to pass bond referendums to do so.

Ms. Morrison noted the challenges faced in her position as special education instructional coach and that the additional per pupil funding that could accompany open-enrolled students would help in addressing the struggles, trauma, and mental health conditions that many students in the district have.

Mr. Patrick Coen, Superintendent, Burlington Community School District, addressed the committee regarding the challenges being faced by school districts that have large numbers of students leaving through open enrollment. Burlington Community School District lost 613.4 students in FY 2019. Superintendent Coen acknowledged the pervasive poverty problem within his district and noted that any modification to the current open enrollment funding provisions would result in winners and losers. Superintendent Coen described how the current trend of open enrollment is creating pooled areas of poor families that compound the existing problems, including low parental educational attainment and the

inability of those families to utilize open enrollment due to financial burdens and lack of access to services like transportation.

**Concurrent Enrollment Update.** Mr. Cooley, DE, along with Dr. Laurie Wolf, Iowa Association of Community College Trustees, and Mr. Eric St. Clair, DE, provided the committee with an overview of the concurrent enrollment programs operated between school districts and community colleges. The concurrent enrollment program, also known as “dual credit,” promotes rigorous academic and career technical education (CTE) opportunities for high school students. The college courses are offered through contractual agreements between school districts and community colleges. Mr. Cooley provided a summation of the history of the various concurrent enrollment programs and emphasized the goals of supplementing, not supplanting, existing high school courses and providing coursework of the same quality as that offered at community colleges. Dr. Wolf noted that approximately 51,000 students participated in FY 2018, accounting for 423,544 semester hours of credit and 183 associate degrees earned by students before the end of high school senior year. Under the most recent enrollment data available for fall 2018, concurrent enrollment supplementary weighting equivalent to an additional 3,656.71 pupils was generated, resulting in \$25,225,358 generated through the funding formula.

Dr. Wolf outlined the benefits to students, including increasing student motivation and academic confidence, expanding curriculum options for academically advanced and vocational students, and lowering postsecondary education costs for students and families. Such programs also expose students to experiences that increase their critical thinking, collaborative problem solving, behavioral skills, and career navigation skills. Students participating in dual credit programs have been shown to be more likely to enter, persist through, and perform well in college. Dr. Wolf described the supplementary weighting structure for funding concurrent enrollment programs, the general structure of contracts between schools and community colleges, the student eligibility criteria for program participation, course instructor criteria, and community college accreditation standards. Dr. Wolf also updated the committee on the implementation of the most recent changes to the program in 2019, including authorization to utilize concurrent enrollment to meet requirements for science, math, and CTE units, modification of the definition of “full time,” and authorization for nonpublic schools to enter into concurrent enrollment contracts with community colleges.

Mr. St. Clair noted that while the current system is durable and robust, for the first time data is showing a decline in participation. Dr. Wolf and Mr. St. Clair also discussed the reasons certain students are not participating in the program, including distance and transportation issues, scheduling conflicts, lack of qualified faculty, schools not meeting minimum student thresholds for courses, textbook and supply costs, and determinations by counselors that the student is not yet prepared for the coursework.

**At-Risk and Dropout Prevention Programs.** Mr. Cooley, DE, provided statewide data on the amount of funding generated for at-risk and dropout prevention programs, which is a combination of supplementary weighting and modified supplemental amounts. Total statewide expenditures for such programs have risen from \$156,101,626 in FY 2015 to \$186,098,666 in FY 2019. Mr. Cooley also provided expenditure data for both the supplementary weighting funds and the modified supplemental funds, which largely included expenditures on salaries and benefits for educational professional, paraprofessional, and other employees. The data presented also included statewide carryforward amounts for such programs.

Mr. Snyder, IASB, and Ms. Piper, IASB, noted that the free and reduced price lunch weighting accounted for 59 percent of the total at-risk weighting and the budget enrollment factor accounted for the remaining 41 percent. Funding for such programs using the modified supplemental amount is limited to between 2.5 percent and 5 percent of the school district’s regular program amount and is funded through property taxes. Statewide maximum funding capacity for such programs through modified supplemental amounts is approximately \$143.6 million. According to Mr. Snyder, the limitations based on a percentage of the school district’s regular program budget amount creates an inequity. Although not endorsing any specific solution, IASB provided two options to address the inequity. The first option is to both eliminate the percentage limitations that exist below 5 percent, and allow school districts the discretion to utilize the increased capacity. The second option included an increase to the supplementary weighting amounts through the funding formula by a factor of 10 and lowering the percentage limitation rate for all school

districts to 2.5 percent. Mr. Snyder and Ms. Piper noted the possibility of phasing in either of the proposed options.

**Committee Recommendations.** The Committee's recommendations to the General Assembly are as follows:

1. Increase English Language Learner (ELL) Weighting. Currently, students enrolled in an ELL program generate an additional 0.22 student weights through the school aid formula for a maximum of five years. The weight must be increased, and the potential eligibility period lengthened for students who need more time to become English proficient.
2. Accelerate the implementation of per pupil equity between state and district cost per pupil. At the current rate, the inequity will take over 30 years to eliminate. A different approach is needed to shorten the time, while increasing local control and making sure that increased support goes to making a difference in the classroom.
3. School Mental Health Study Committee. Create a study committee of education stakeholders to coordinate the implementation in the schools of recent child mental health legislation and specifically to identify the necessary increases in school personnel and the funding to pay for them.
4. Poverty Weighting Study Committee. As reported by the 2018 Condition of Education Report, 40.5 percent of Iowa students are on Free or Reduced Lunch (FRL), the most widely used measure of student poverty, up from 27 percent in the 2000-2001 school year. Students from low-income households often lack the educational resources and advantages at home that are common in more affluent homes. In order to create more equal educational opportunities, many states add additional dollars to their school funding formula to level up the playing field. Iowa should study the options to do so, too.
5. Recommend that the standing education committee in each chamber consider adding school resource officers to the list of eligible positions for shared operational function weighting.
6. Recommend that the standing education committee in each chamber review the open enrollment policy to determine which funding is transferred with the student when the student open enrolls.

**Proposed Additional Recommendations.** The following three recommendations were proposed but did not receive sufficient support for inclusion with the final recommendations:

1. Adequate Basic School Funding. Per-pupil supplemental state aid for K-12 schools has fallen behind inflation by more than 2.1% over the last three years. In setting SSA for FY 2021, the Legislature must fund schools above the cost of inflation.
2. Increase Preschool Funding. Increase Preschool Funding to ensure universal PreK is a universal option for all Iowa 4-year-olds.
3. Increase Special Education Weighting. Currently, 80 percent of Iowa's school districts are running special education deficits.

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