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# LEGAL UPDATE

Legal Services Division



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## SCHOOL FINANCE FORMULA REVIEW COMMITTEE MEETING — DECEMBER 16, 2024

**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-chairpersons: Senator Ken Rozenboom and Representative Carter F. Nordman

**Overview.** The Legislative Council authorized the School Finance Formula Review Committee meeting for the 2024 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. Ron Robinson, Senior Fiscal Analyst, Fiscal Services Division, Legislative Services Agency, provided an overview of the basic operation of Iowa's current school finance formula for the state's 483,699 students enrolled in 325 school districts, served by nine area education agencies (AEAs). Mr. Parker and Mr. Robinson 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 miscellaneous other sources. Mr. Parker and Mr. Robinson identified the goals of the school aid formula and the methods by which Iowa Code chapter [257](#) seeks to accomplish those goals.

Mr. Parker and Mr. Robinson explained how school aid calculations are performed by adding budget enrollment to additional weightings to reach a district's weighted enrollment. Mr. Parker and Mr. Robinson presented data on the total funding provided based on supplementary weightings, and described the state cost per pupil, which increased to \$7,826, and stated that some school districts have a higher district cost per pupil, which can be made up with property taxes. Mr. Parker and Mr. Robinson explained that the maximum amount that a school district can spend is controlled by its spending authority, not its cash on hand, and that exceeding the maximum spending authority is a violation of law. Ninety-five percent of a district's spending authority comes from the school aid formula. Mr. Parker and Mr. Robinson presented data indicating that most districts have a special education spending deficit.

Mr. Parker and Mr. Robinson indicated that the uniform property tax levy is the first source of funding for all school districts, after which state foundation aid backfills district funding to 88.4% of the state cost per pupil. The additional levy provides the remainder of a district's funding. Mr. Parker and Mr. Robinson discussed the guaranteed 1.0% funding increase per year. Mr. Parker and Mr. Robinson also discussed the transportation equity fund, property tax relief, and the standing unlimited appropriation for education savings accounts.

**Preschool Funding and School District Cost Per Pupil Disparities.** Ms. Emily Piper and Mr. Michael Guanci, Iowa Association of School Boards (IASB) presented regarding proposed changes to the Statewide Voluntary Preschool Program (SWVPP), school district cost per pupil variances, and Dropout Prevention Program (DPP) funding. They presented data showing that providing school districts and nonpublic schools

the option to expand preschool hours of instruction in the SWVPP would lead to an increase of \$7.6 million both the first and second years of implementation, based on data that 78.0% of eligible students would take advantage of the expansion in all school districts and nonpublic schools.

Ms. Piper and Mr. Guanci indicated that 68.5% of school districts have a district cost per pupil equal to the state cost per pupil but that there is a \$140 gap between the state cost per pupil and the highest district cost per pupil. They presented data on the variances in school district cost per pupil categoricals across districts, as well as differences in the teacher salary supplement, which is earmarked only for teachers.

Ms. Piper and Mr. Guanci presented data regarding the impacts of moving to a fee-for-service model for both school districts and nonpublic schools. Ms. Piper and Mr. Guanci also presented data on the variances in DPP funding across school districts.

**State Government Aid and Concurrent Enrollment.** Emily Shields, Community Colleges for Iowa (CCFI), provided an overview of community college funding. Ms. Shields stated that tuition and fees account for the largest source of funding for community colleges, although the gap between funding received from tuition and fees and state funding is narrowing. State sources of funding include state general aid and the Skilled Workforce and Job Creation fund. Ms. Shields stated that the state general aid formula no longer being directly in the Iowa Code has created useful flexibility in the formula. Ms. Shields said that CCFI is seeking a budget increase of \$12 million for the purpose of increasing funding to the least-funded community colleges.

Ms. Shields provided statistics regarding the current operation of community colleges. She stated that community colleges have seen a 3.0% increase in enrollment, significant increases in part-time students and concurrent enrollment, and percentage increase in noncredit students and students remaining in Iowa after graduation. She stated that community colleges have emphasized improving the treatment of noncredit students, which is an expensive area of growth. Ms. Shields also stated that funding from the Workforce Technology and Economic Development Fund has not increased since 2013 and that 90.0% of the funding goes to targeted fields.

Ms. Shields presented data on concurrent enrollment in community colleges, which accounts for 45.0% of enrolled students at community colleges. Rates paid by school districts to community colleges for concurrent enrollment are negotiated by each district and vary based on the location where the service is provided. Ms. Shields recommended adjusting weighting higher for career and technical education, addressing the disincentive for providing concurrent enrollment programs at career academies, and increasing funding for summer programs.

**Concurrent Enrollment.** Ms. Amy Gieseke, Department of Education (DE), presented information regarding concurrent enrollment, which is the delivery of college-level courses through a contractual agreement between districts and community colleges. Concurrent enrollment is the only senior year plus program eligible for supplementary weighted funding. Concurrent enrollment courses must supplement, not supplant, school district offerings and lead to a two-year degree or diploma. School districts are unable to charge students for concurrent enrollment courses.

Ms. Gieseke stated that concurrent enrollment courses receive additional weighting to encourage school districts to participate in concurrent enrollment programs and that weighting depends on the type of course and the location where the course is provided. Ms. Gieseke discussed the supplementary weighted funding formula but indicated that funding is calculated differently for summer courses.

**Open Enrollment.** Ms. Sarah Nickel, DE, presented regarding open enrollment, a school choice program allowing students to enroll in a school outside of the student's district at no cost. As of the 2022-2023 school year, 7.3% of students were participating in open enrollment. For purposes of funding, a student is always counted in the student's school district of residence and the receiving district bills the resident district for certain services. However, the receiving school district is prohibited from billing for certain other services.

**Categorical Funding.** Dr. Kassandra Cline, DE, presented regarding the categorical components of the state aid formula, which are the Teacher Leadership and Compensation Supplement, Professional Development, Early Intervention Childhood, and the Teacher Salary Supplement. The appropriate use of each type of categorical funding is statutorily restricted. The allocation of categorical funding varies per funding category for students utilizing open enrollment.

In addition to the categorical funds that are part of the state aid formula, Dr. Cline discussed other categorical funds, including the SWVPP, Home School Assistance Program, and the Gifted and Talented program. Dr. Cline stated that prior year balances in certain categorical funds may, pursuant to a school board resolution, be transferred to the flexibility account to use for any purpose allowed for the district's general fund.

**Education Savings Account Program.** Dr. Cline provided an update on education savings accounts (ESAs). Funds from an ESA may be used to pay for tuition and fees at Iowa's accredited nonpublic schools and for other statutory allowable educational expenses. In order to utilize an ESA, a student must be an Iowa resident and must attend full-time K-12 programming at an accredited nonpublic school in Iowa. Dr. Cline stated that each family may submit only one application, although each application may include multiple students, and that eligibility is usually automatically determined by examining tax records.

For the first year of the ESA program, ESAs were funded at \$7,635 per participant, the program had an income limit of 300% of the federal poverty level for students who attended a nonpublic school during the previous year, and 16,757 students participated in the program. Dr. Cline stated that ESA funds remain in the state's general fund until an expenditure is approved following a number of checkpoints. Funds remaining after tuition and fees may be used in the closed Marketplace for allowable products and services.

For the second year of the ESA program, ESAs are funded at \$7,826 per participant, the program has an income limit of 400% of the federal poverty level for students who attended a nonpublic school during the previous year, and over 30,000 applications were received. Dr. Cline stated that the funding for the third year of the program will be \$7,826 plus the state supplemental aid increase for fiscal year 2026.

**Committee Discussion and Proposed Committee Recommendations.** The Committee discussion ensued but the Committee did not adopt recommendations. The following five recommendations were proposed but did not receive sufficient support for adoption:

1. Withdrawal of eligibility for ESAs for persons earning above 300% of the federal poverty level.
2. Expansion of SWVPP.
3. Creation of a working group for special education funding and tiers.
4. Creation of a working group to address the needs of students experiencing poverty and to consider additional metrics for identifying poverty.
5. Creation of a working group to address the mental health needs of students.

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