



LEGISLATIVE SERVICES AGENCY

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# LEGISLATIVE GUIDE

## Legal Services Division



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## BASIC IOWA EDUCATION FINANCE

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## I. Introduction to Iowa Education Finance

### A. Purpose of Legislative Guide

This Legislative Guide examines 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 accomplish three primary objectives:

- To serve as an introduction to education finance in Iowa and to set out the fundamental principles involved.
- To provide a starting point for follow-up research in an area of particular interest or relevance.
- To debunk the myth that education finance is a complex web of technical jargon and mathematical formulas best left to experts. While certain aspects of the formula do involve sophisticated concepts and calculations, a basic understanding of the formula and how the various components interrelate is attainable.

The sources used for this Legislative Guide are current as of September 2009. Unless otherwise stated, Code references in this Legislative Guide incorporate both the 2009 Iowa Code and 2009 Iowa Code Supplement. A glossary of some of the most important school financial terms is contained in Appendix G of this Guide. References to a fiscal year indicate the calendar year in which the fiscal year ends. For example, fiscal year 2010 means the fiscal year beginning July 1, 2009, and ending June 30, 2010.

### B. Putting Iowa Education Finance in Perspective

Financing Iowa's system of primary and secondary public education involves a balance between competing interests. On the one hand, providing high-quality public education is a consistent top priority in public opinion surveys, and Iowa's reputation of academic excellence and national ranking at or near the top in test scores is a frequently cited source of state pride. On the other hand, financing this system of high-quality public education in an adequate and equitable fashion is subject to widely differing opinions. While most Iowans agree on high educational standards, affording them is a matter of considerable debate.

Resolving these competing interests in a manner acceptable to the majority of Iowans presents philosophical, technical, and political issues. Philosophically, there is general agreement that the objectives of an effective school finance mechanism are to provide equity, adequacy, local control and accountability, and efficiency.<sup>1</sup> 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>2</sup>

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<sup>1</sup>Augenblick & Myers, Supporting Materials, Education Finance 101, National Conference of State Legislatures School Finance Seminar (Feb. 23, 1996).

<sup>2</sup>Iowa Code § 257.31(10).



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Technically, these identified objectives must be able to be defined and measured.<sup>3</sup> Equity, adequacy, and efficiency vary across, and between, school districts. A formula allocation procedure and the parameters which apply to it must be created and set.<sup>4</sup> This involves considerations such as defining the basic level of support for each pupil and the basic level of state financial assistance, determining "special" categories of pupils, needs, and programs, and measuring local fiscal capacity to contribute in the form of property, income, and sales taxation.<sup>5</sup>

From a political standpoint, determining how much money is available, weighing the impact of alternative approaches to education finance, and controlling spending and taxation can generate a significant volume of legislation each session. While by no means a comprehensive list, representative issues arising during recent legislative sessions have included:

- equalizing spending per pupil,
- adjusting for districts with increasing enrollment,
- maintaining and adapting budget guarantees,
- determining growth in cost per pupil from one year to the next,
- providing equitable funding of transportation costs,
- defining the role and funding of area education agencies,
- minimizing property taxes,
- integrating technology into Iowa schools,
- adjusting special education classification and funding,
- determining at-risk student classification and funding,
- determining foundation level adequacy,
- authorizing permissible school fees,
- addressing school infrastructure concerns,
- teacher compensation,
- tax increment financing and property tax devoted to schools,
- categorical allowable growth.

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<sup>3</sup>Augenblick & Myers, Supporting Materials, Education Finance 101, National Conference of State Legislatures School Finance Seminar (Feb. 23, 1996).

<sup>4</sup>Id.

<sup>5</sup>Id.



Figure 1 provides a list of criteria for determining the extent to which the goals and objectives of a school finance formula may be realized.<sup>6</sup>

**Figure 1**  
**HOW DO YOU KNOW A "GOOD" SCHOOL FINANCE SYSTEM WHEN YOU SEE ONE?**

- 1) The allocation of state aid is sensitive to the needs of school districts.
- 2) The allocation of state aid is sensitive to the wealth of school districts.
- 3) The allocation of state aid is sensitive to the tax effort made by school districts.
- 4) The variation in spending among school districts can be explained primarily by differences in their needs and tax effort.
- 5) School districts have a reasonable amount of flexibility to determine how much they want to spend (not unlimited flexibility) and all districts have the same opportunity to generate revenues at the levels they select.
- 6) School districts have reasonable flexibility to spend funds.
- 7) All types of expenditures are considered by the school finance system, including operating, capital/debt, and personnel benefits.
- 8) State aid that is not sensitive to wealth or need (for example, incentive funds or hold harmless funds) is limited.
- 9) Taxpayers are treated equitably: Property is assessed uniformly; low-income taxpayers are relieved of some of the obligation to pay property taxes; and the burden of paying for schools is shared equitably among homeowners and businesses.
- 10) The state has established a procedure to define and measure equity and periodically assesses how equitable the school finance system is.

The philosophical, technical, and political considerations in Figure 1 continue to impact Iowa's education finance system. The present method of incorporating uniform levy, state foundation percentage level, 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. The present version of the formula is subject to a periodic legislative review process. Legislation enacted during the 2000 Legislative Session provides for legislative review 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>7</sup> The first report was submitted to the General Assembly in January 2005;<sup>8</sup> Appendix F of this Guide contains a list of the recommendations contained in the report. Subsequent reports are to be submitted at least

<sup>6</sup>Id.

<sup>7</sup>2000 Iowa Acts ch. 1186, § 2.

<sup>8</sup>Iowa Code § 257.1(4).



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every five years thereafter.<sup>9</sup> Previously, the formula was subject to a sunset provision effective July 1, 2001.<sup>10</sup>

### II. Executive Summary — Iowa Education Finance in a Nutshell

Prior to a detailed examination of each component 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 under the foundation formula up to a specified percentage of a state cost per pupil calculation. This specified percentage is referred to as the state foundation aid percentage. The local school district contributes the bulk of its portion of school financing in the form of property taxes. A flat property tax levy, called the "uniform levy," is the floor level of local school district assistance, imposed upon taxable real property located within the district. Above this amount, the state contributes aid up to the foundation aid percentage. Funding beyond the foundation level 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 state foundation aid percentage which contributes to the equalization of money available between higher taxable property value districts and lower taxable property value districts. The higher the amount generated by the uniform levy in a district, the lower the level of state foundation aid and vice versa, resulting in a lower taxable property value district receiving a comparatively larger amount of state foundation aid.

Applying the state foundation aid percentage, uniform levy, and additional levy to a particular school district involves a district cost per pupil calculation. District cost per pupil is based on the historical spending per pupil in a school district plus a per pupil growth amount. This growth figure is called "allowable growth," and in recent years has been annually determined two years in advance by the Legislature. For a more complete explanation of allowable growth, consult "Legal Background Briefing: Education Finance Allowable Growth." The publication may be accessed via the Internet from the Iowa General Assembly Website at <http://www.legis.state.ia.us/Central/Guides>. The district cost per pupil, plus allowable growth, 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 2 illustrates these three components.

It should also be noted that beginning in fiscal year 2010, certain categorical funding programs have been changed to a per pupil basis funding, and beginning in fiscal year 2011, the per pupil cost for these programs will be increased by a categorical allowable growth rate as set by the Legislature during the 2009 Legislative Session.<sup>11</sup> For a more

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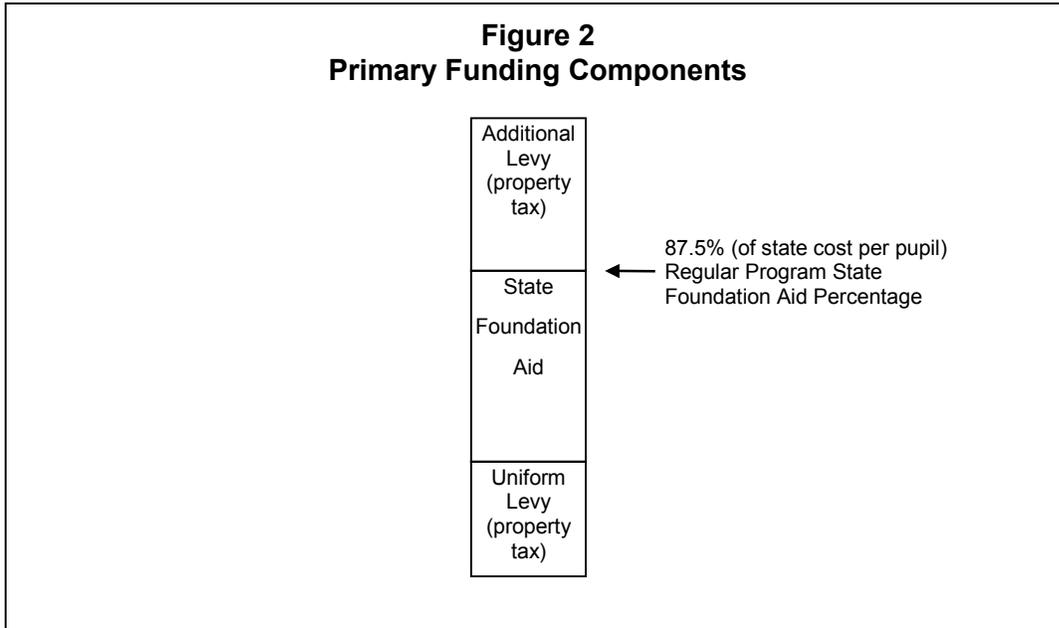
<sup>9</sup>Iowa Code § 257.1(4). A legislative interim committee is scheduled to meet in Fall 2009 to discuss the school finance formula and will submit a report to the General Assembly in January 2010.

<sup>10</sup>1989 Iowa Acts ch. 135, § 135, was subsequently repealed by 2000 Iowa Acts ch. 1186, §1.

<sup>11</sup>2008 Iowa Acts ch. 1181, §§ 87-109.



complete explanation of the categorical allowable growth, consult "Legal Background Briefing: Education Finance — Categorical Allowable Growth." The publication may be accessed via the Internet from the Iowa General Assembly Website at <http://www.legis.state.ia.us/Central/Guides>.



The school finance formula not only determines the state foundation aid a district receives, but also serves as a budget limitation device. A district's minimum district cost per pupil will 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 given 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.

This executive summary presents a simplified version of the basic structure of education finance in Iowa. The remainder of this Guide is divided into three primary sections: the components of combined district cost, the three primary sources of revenue generation, and an appendix listing additional sources of revenue, funding needs and approaches, and a glossary of terms. Prior to reading the next two sections of this Guide, a review of Appendix G — Glossary of Terms might be of assistance.

### 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 year. These include enrollment and state and district cost per pupil calculations.



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## A. Enrollment

The education finance formula is pupil-driven. The number of pupils enrolled in a district forms the basis for calculating 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 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 is from the previous school year.

### 1. Headcount

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>12</sup> This date is important.

The enrollment counted in a particular year impacts the next school year's district cost calculations. 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). It should be noted that the applicable terminology can be confusing. 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>13</sup> During the calculation and certification process, that next following school year is called the "budget" year.<sup>14</sup> School districts operate on a "fiscal year" basis which coincides with the budget year — from July 1 through June 30 annually.<sup>15</sup> A particular year, e.g. July 1, 2009, to June 30, 2010, can be referred to synonymously as the fiscal year, school year, or budget year. Figure 3 contains a timeline of headcount and budget calculation dates.

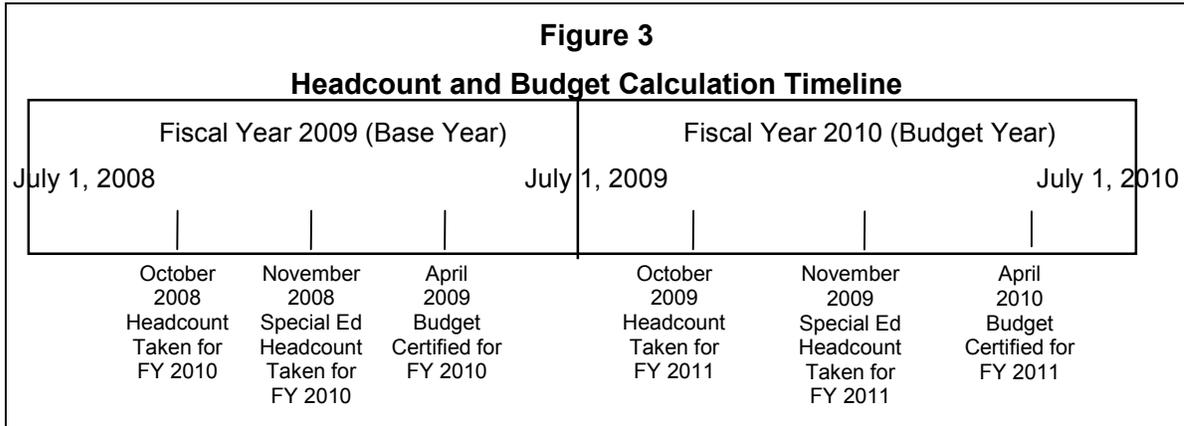
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<sup>12</sup>Iowa Code § 257.6(1).

<sup>13</sup>Iowa Code §§ 257.2(2), 257.6(2).

<sup>14</sup>Iowa Code §§ 257.2(4), 257.6(4).

<sup>15</sup>Iowa Code § 24.2(3).



Example: The actual headcount of students enrolled on October 1, 2008, 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 2008, 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, 2008, the headcount in District A had fallen to 4,150, while the headcount in District B had risen to 800.

What is the actual enrollment count used in each district for fiscal (budget) year 2010 budget calculation purposes? The October 2008 headcounts 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.

For what budget period will the headcounts be applicable? The October 2008 headcount will be used for budget calculation purposes for the 2009-2010 school year. Note that the budget for the 2008-2009 school year is not directly impacted by the relocation, having been determined by the headcounts taken in the previous year, i.e., the 2007-2008 school year.

The fact that enrollment figures from the preceding school year are utilized for the current school year's budget presents a problem for school districts experiencing enrollment increases. While the district has an immediate funding need to cover the education costs of the additional pupils, as discussed above, funding is based on the previous year's enrollment figures.

This dilemma triggered legislation designed to advance funds to districts when the district's current enrollment exceeded the enrollment used in certifying the budget. Until the early 1990s, Iowa's system included a provision that allowed those districts whose headcount 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>16</sup> The advance payment was all state aid for that year and an adjustment

<sup>16</sup>1992 Iowa Acts ch. 1230, §§ 12, 14.



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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>17</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 equal to 50 percent of the difference between the actual and budget enrollment amounts, multiplied by district cost per pupil.<sup>18</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. 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>19</sup> The concept of allowable growth is addressed in a subsequent section of this Guide.

Code Section 257.6 contains seven classifications of pupils who may be considered "actually enrolled." Most commonly encountered would be a student living within the school district on a full-time basis and either attending classes in that district or another district through open enrollment. (Open enrollment is discussed in Appendix E of this Guide.) 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; these classifications may involve weighting the student to count less than one depending on the classification involved.<sup>20</sup>

### 2. Weighted Enrollment

For formula purposes, 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

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<sup>17</sup>1999 Iowa Acts ch. 2, §§ 2, 4.

<sup>18</sup>2000 Iowa Acts ch. 1055, §§ 1,3.

<sup>19</sup>Iowa Code § 257.13(2).

<sup>20</sup>Iowa Code § 257.6(1).



special education curriculum.<sup>21</sup> A special education headcount similar to the actual enrollment headcount is conducted, with the distinction that the special education headcount takes place by November 1 annually.<sup>22</sup> 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>23</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>24</sup> The total special education weightings in effect for the budget year 2009-2010 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 actual special education headcount for the budget year 2009-2010 taken on November 1, 2008, 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 (headcount) 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 a program involving the sharing of one or more classes or teachers between districts or between a district and a community college, for students enrolled in a non-English-speaking student program, and for other specified purposes. With regard to class or teacher sharing, the additional weighting is prorated to correspond to the proportion of the day a student spends in the shared arrangement.<sup>25</sup> Students qualifying as limited English proficient may receive supplementary weighting for up to four years.<sup>26</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.

Code Section 257.11 authorizes supplementary weighting for shared programs or teachers for pupils attending classes in another school district, attending classes in a community college, attending classes taught by a teacher jointly employed by two or more school districts, or attending classes taught by a teacher who is employed by another school district. Until enactment of legislation in the 2000 Legislative Session, the Code did not specify what constituted "attending classes in a community college," and clarification of this provision was sought in the wake of a variety of differing approaches having been taken by school districts relying on supplementary weighting

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<sup>21</sup>Iowa Code § 256B.9(1).

<sup>22</sup>Iowa Code § 257.6(3).

<sup>23</sup>Iowa Code § 256B.9(4).

<sup>24</sup>Iowa Code § 256B.9(4).

<sup>25</sup>Iowa Code § 257.11(2).

<sup>26</sup>Iowa Code § 280.4(3).



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in the course of providing high school and alternative high school programs. The clarification was also sought in response to an Attorney General Opinion issued in 1998<sup>27</sup> and the subsequent adoption of administrative rules that restricted supplementary weighting for programs between a school district and a community college to those meeting specified criteria designed to demonstrate that the courses are "community college level" in nature. The legislation enacted in the 2000 Legislative Session codified provisions corresponding to the administrative rules, establishing criteria that courses must be community college-level in nature. The legislation also provided that school districts will receive specified levels of supplementary weighting for at-risk programs and for alternative schools.<sup>28</sup>

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>29</sup>

During the 2007 Legislative Session, there were changes made to the incentives for school district reorganization and shared operational functions between school districts and political subdivisions.<sup>30</sup> The legislation allowed 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, 2014, 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>31</sup>

The legislation enacted in 2007 also provided that supplementary weighting funding is available for three years for a reorganized school district that is equal to the funding that was received in the year preceding the reorganization. A reorganized school district, for the purposes of receiving this supplementary weighting, is a district where the dissolution or reorganization takes effect during the period of July 1, 2007, through July 1, 2014.<sup>32</sup>

The 2007 legislation offered financial and operational support to school districts that reorganize or consolidate. A supplementary weighting of two-hundredths per pupil will be given to a district that shares with a political subdivision one or more of its administrative management, business management, human resources, transportation, or operational and maintenance functions for at least 20 percent of the year. The supplementary weighting is available for five years, with a minimum equivalent

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<sup>27</sup>Op. Iowa Att'y Gen. 98-7-2(L).

<sup>28</sup>Iowa Code § 257.11(3).

<sup>29</sup>Iowa Code § 257.11(4).

<sup>30</sup>2007 Iowa Acts ch. 130.

<sup>31</sup>Iowa Code § 257.11(2)(c).

<sup>32</sup>Iowa Code § 257.11A.



weighting of 10 pupils and a maximum equivalent of 40 pupils. Supplementary weighting of \$50,000-\$200,000 for the expense of the shared operational functions is available to area education agencies (AEAs) for a maximum of five years beginning July 1, 2008.<sup>33</sup> The original supplementary weighting amount is incrementally reduced by 20 percent for each subsequent year the supplementary weighting is provided. The Department of Management sets an annual weighting for each AEA to generate the approved operational sharing expense using the AEA's special education cost per pupil amount and foundation level. In order to be considered for more than one year of supplementary weighting the district or AEA must submit annual reports.<sup>34</sup>

During the 2008 Legislative Session, legislation passed that reauthorized regional academies as established in Code Section 257.11, subsection 5, paragraph "b," without a funding end date.<sup>35</sup> A school district that establishes a regional academy is eligible to assign its resident pupils attending classes at the academy a weighting of one-tenth of the percentage of the pupil's school day during which the pupil attends classes at the regional academy.<sup>36</sup>

Why is a district's enrollment of such fundamental importance? A school district's spending authority is determined by the number of students enrolled, and an increase in the number of students is the primary mechanism under the basic formula, along with allowable growth (discussed below), for receiving additional funds.

## B. State Cost Per Pupil and Allowable Growth

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 allowable growth 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 annual allowable growth dollar figure.<sup>37</sup> Allowable growth refers to an amount of state cost per pupil and district cost per pupil which will increase from one budget year to the next.<sup>38</sup> The state percent of growth figure is set annually by the Legislature.<sup>39</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

<sup>33</sup>Iowa Code § 257.11(6).

<sup>34</sup>Iowa Code § 257.11(6).

<sup>35</sup>Iowa Code § 257.11(2)(d).

<sup>36</sup>Iowa Code § 257.11(5).

<sup>37</sup>Iowa Code § 257.9(2).

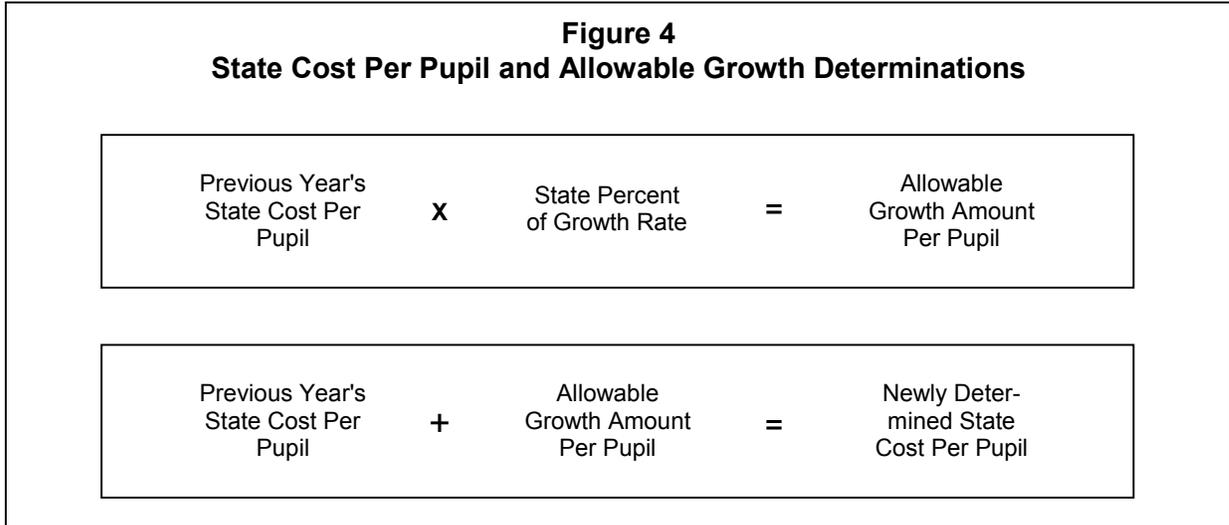
<sup>38</sup>Iowa Code § 257.2(1).

<sup>39</sup>An exception was made by the 1996 General Assembly in establishing the state percent of growth for two budget years, those beginning July 1, 1997, and July 1, 1998 (1996 Iowa Acts ch. 1001). Legislative determination replaced a statutory formula as part of state budget reform enacted in 1992 (1992 Iowa Acts ch. 1227, §§ 15, 33). The state percent of growth was established for the budget year beginning July 1, 2005, at 4 percent (2004 Iowa Acts ch. 1175, §§ 234, 287), for the budget year beginning July 1, 2006, at 4 percent (2005 Iowa Acts ch. 1), for the budget year beginning July 1, 2007, at 4 percent (2006 Iowa Acts ch. 1154), for the budget year beginning July 1, 2008, at 4 percent (2007 Iowa Acts ch. 3), and for the budget year beginning July 1, 2009, at 4 percent (2008 Iowa Acts ch. 1002).



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preceding the base year.<sup>40</sup> The state percent of growth is applied to the previous year's state cost per pupil to arrive at the allowable growth per pupil dollar amount. Adding the allowable growth 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 4.



Example: The state cost per pupil for the budget year 2008-2009 was \$5,546. The state percent of growth set by the Legislature for the budget year 2009-2010 is 4 percent. The allowable growth per pupil for the budget year 2009-2010 equals \$222, which is obtained by taking 4 percent of \$5,546. When the allowable growth of \$222 is added to the previous year's state cost per pupil, \$5,546, the resulting state cost per pupil for the budget year 2009-2010 is \$5,768.

### 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 allowable growth 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>41</sup> The allowable growth 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 5.

<sup>40</sup>Iowa Code § 257.8(1).

<sup>41</sup>Iowa Code § 257.10(2)(a).



**Figure 5  
District Cost Per Pupil Determination**

Previous Year's District Cost Per Pupil	+	Allowable Growth Per Pupil Amount for the Budget Year (Determined Under the State Cost Per Pupil Calculation)	=	Newly Determined District Cost Per Pupil
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Example: District A's district cost per pupil for the budget year 2008-2009 was \$5,704. The budget year 2009-2010 district cost per pupil equals \$5,926, calculated by adding the allowable growth per pupil amount of \$222 for the budget year 2009-2010 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. 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 year is the state cost per pupil for that 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 subject to a reduction.<sup>42</sup> The reduction generally equals 2 percent of the previous year's state cost per pupil, if the current year's state percent of growth percentage is greater than 2 percent.

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.<sup>43</sup> The legislation provided for the continuation of the 100 percent budget guarantee for the school budget years beginning July 1, 2001, 2002, and 2003. This enabled a school district to maintain 100 percent of the previous year's budget, adjusted to include the amount of the budget adjustment the district received in the previous year. Starting with the school budget year beginning July 1, 2004, school districts are no longer eligible for the 100 percent "adjusted" guarantee, but are eligible for a 101 percent guarantee without the adjustment for inclusion of the previous year's guarantee. The legislation provided for an optional 10-year phaseout of the 100 percent adjusted guarantee for school districts which would lose money based on the change to a 101 percent non-adjusted guarantee. For the school budget year beginning July 1, 2004, a school district would be able to receive a guarantee of 90 percent of the difference between the guarantee level calculated for the school district for the school budget year beginning July 1, 2003,

<sup>42</sup>Iowa Code § 257.10(2)(b).

<sup>43</sup>2001 Iowa Acts ch. 126, §§ 9-11.



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and the amount calculated for the current year if the guarantee were calculated to include the "adjustment" language. The amount of this option decreases by 10 percentage points annually, until by July 1, 2013, all school districts will receive a budget guarantee based on 101 percent, without the adjustment for the previous year's guarantee.<sup>44</sup>

### E. Combined District Cost

The combined district cost represents the total funding authorization a school district is allowed to receive under the foundation formula. Three primary elements are included in the combined district cost funding authorization: the regular program budget, area education agency costs, and modified allowable growth.<sup>45</sup>

#### 1. Regular Program Budget

The regular program budget for a school district is determined by multiplying the 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, 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>46</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 allowable growth 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 Allowable Growth

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 modified allowable growth, to provide money in addition to or in excess of amounts received under the formula.<sup>47</sup> Neither form of modified allowable growth impacts state foundation aid — funding comes entirely from an additional school district property tax levy. Appendix C 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 the spending authority is funded. This involves consideration of three primary funding components: the uniform levy, state foundation aid, and the additional levy.

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<sup>44</sup>Iowa Code § 257.14.

<sup>45</sup>Iowa Code § 257.10(8).

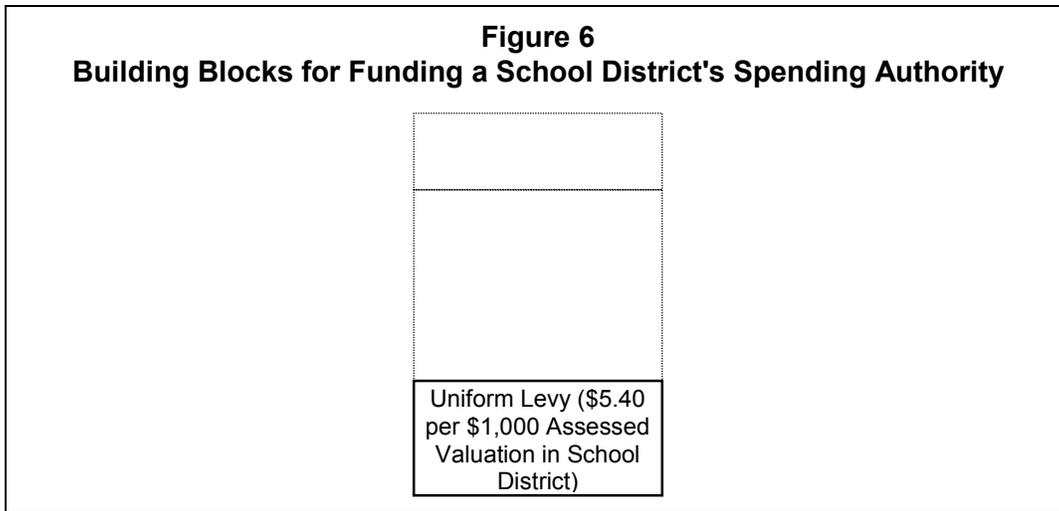
<sup>46</sup>Iowa Code §§ 257.1(2), 257.35.

<sup>47</sup>Iowa Code §§ 257.31(5), (6).



## A. Uniform Levy

The first funding component, the uniform school district property tax levy, could be regarded as the "bottom block" in a building block schematic of formula funding sources (see Figure 6). The property tax 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>48</sup> Tax-exempt property in the state is not subject to the levy.



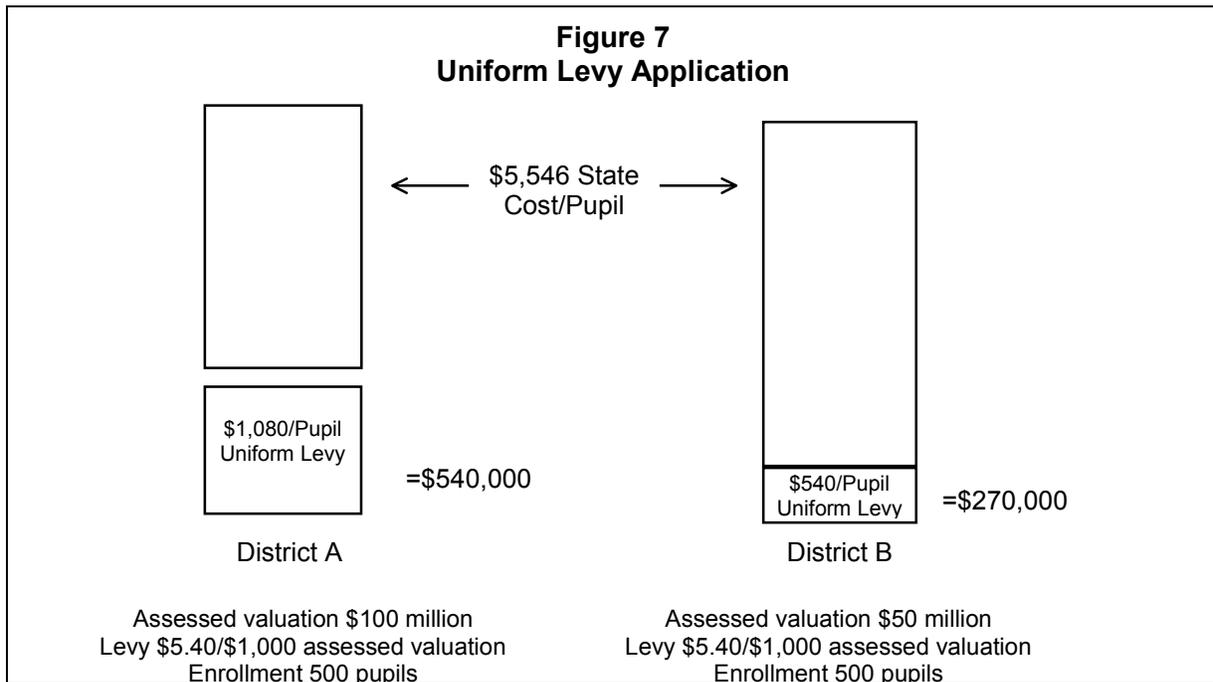
The term "uniform" refers to the fact that a flat statewide rate of \$5.40 is levied. The resulting amount of property tax revenue may vary significantly, however, depending upon the assessed valuation of taxable property in a particular school district. Higher assessed value property will result in 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 "uniform," the total amount raised, and thus the amount raised per pupil, differs substantially. See Figure 7.

<sup>48</sup>Iowa Code § 257.3.



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This illustrates one of the inherent weaknesses of the "pre-formula" finance system. Relying largely on property taxes for education funding resulted 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 education finance formula was conceived was to address these inequities.

It should be noted that in certain instances relatively small-size school districts may be eligible for a reduced uniform levy tax rate. During the 2007 Legislative Session, the Legislature extended a lower uniform levy option 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, 2014.<sup>49</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 in the event that, in the year preceding a reorganization or dissolution, a school district with a certified enrollment of 600 pupils or greater 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 could not 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

<sup>49</sup>2007 Iowa Acts ch. 130, § 1.



agreement, as previously discussed, serves as an incentive for smaller-sized school districts to consolidate. The reduced uniform levy authority in effect prior to the 2007 enactment for schools that reorganized prior to July 1, 2006, was left intact, allowing school districts to utilize the incentive if they reorganize on or before July 1, 2014.<sup>50</sup>

## 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 allowable growth 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.<sup>51</sup> 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>52</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>53</sup> The prior percentage level in effect for several years was 83 percent.<sup>54</sup>

Example: Continuing the previous example for the budget year 2009-2010, application of the uniform levy raised \$540,000 in District A and \$270,000 in District B. If a state cost per pupil of \$5,768 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 \$2,523,500 for the 500 students (if no school property taxes were generated). District A will receive \$1,983,500 in state financial assistance (the maximum state foundation aid amount arrived at using the state cost

<sup>50</sup>Iowa Code §§ 257.3(2), 257.11(2), (6).

<sup>51</sup>Iowa Code § 257.1(2).

<sup>52</sup>Iowa Code § 257.1(2).

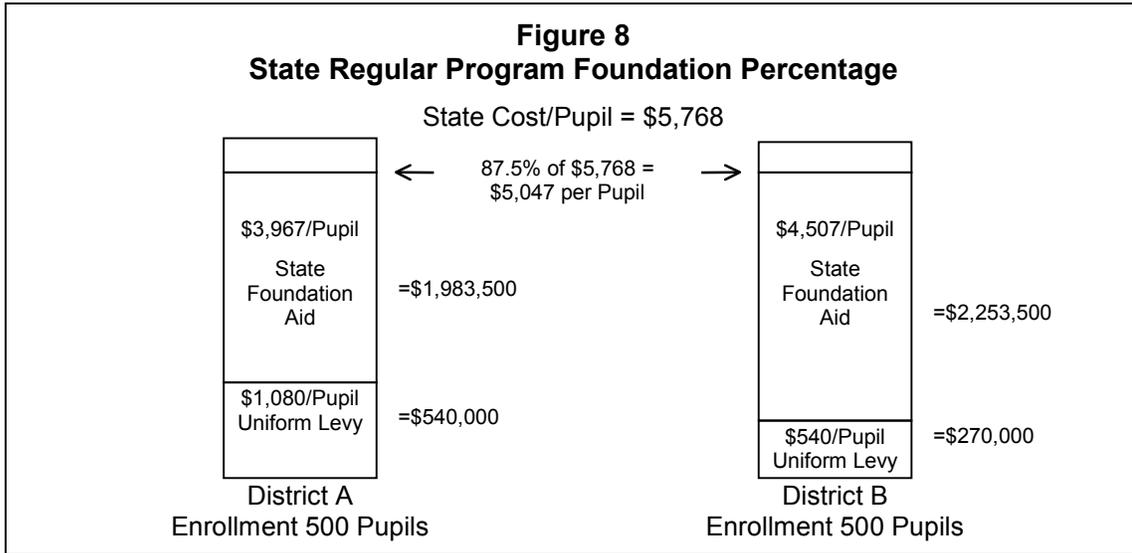
<sup>53</sup>1996 Iowa Acts ch. 1197, §§ 5, 6.

<sup>54</sup>1995 Iowa Code Supplement § 257.1.



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figure, \$2,523,500, minus the uniform levy amount, \$540,000), and District B will receive \$2,253,500 (the maximum state aid amount, \$2,523,500, 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 8.



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>55</sup> The 79 percent foundation aid percentage remains applicable to special education support services costs administered through an AEA.<sup>56</sup> These costs were mentioned in the 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 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. 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 9. 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 Website at <http://legis.state.ia.us/Central/Guides>.

<sup>55</sup>Iowa Code § 257.1(2).

<sup>56</sup>Iowa Code § 257.1(2).

# Basic Iowa Education Finance

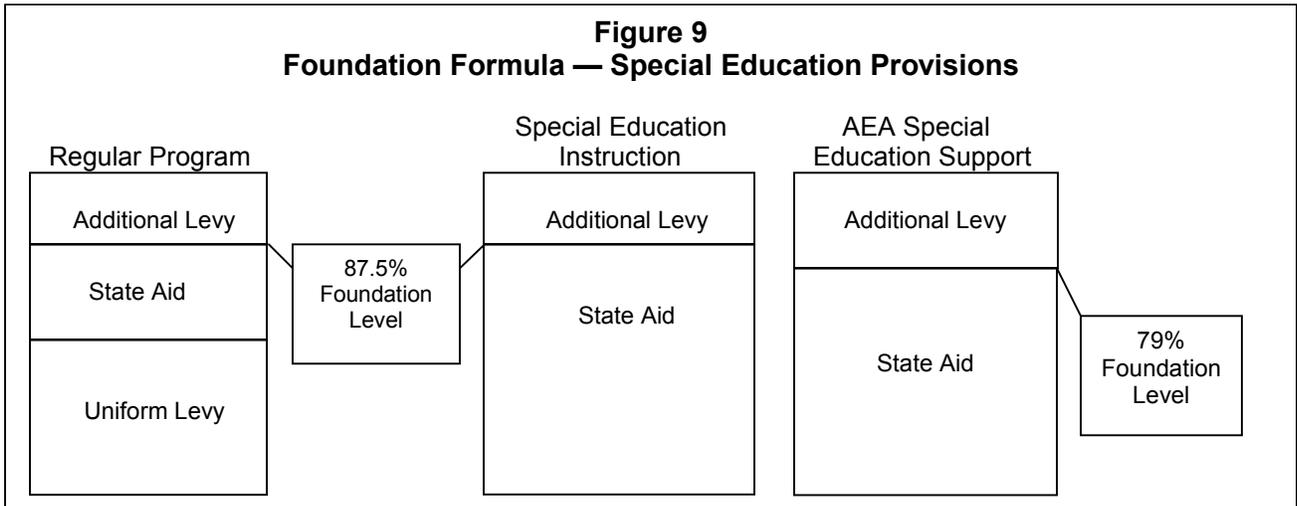
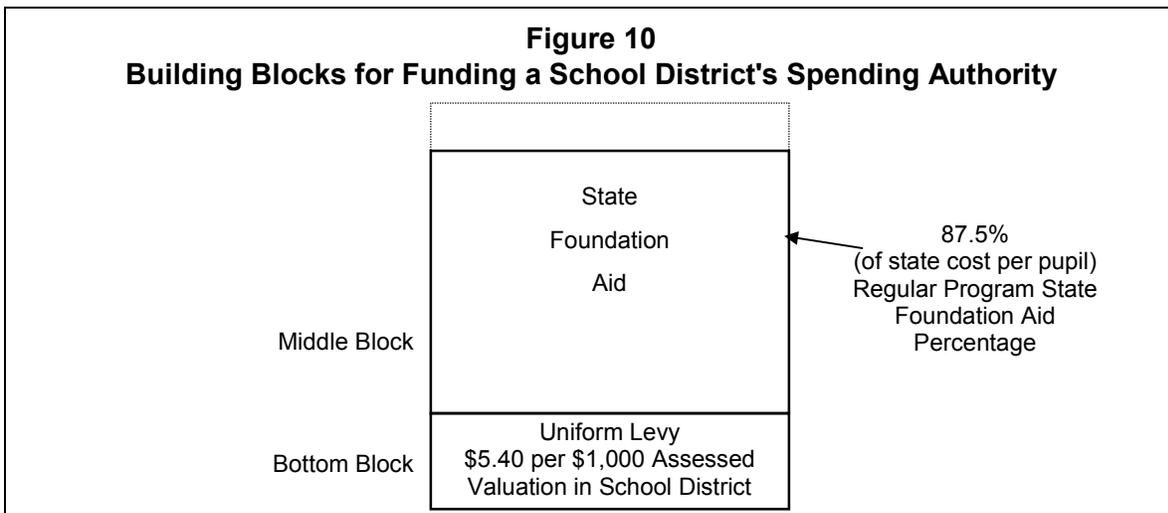


Figure 10 illustrates the state foundation level as the middle building block for funding school district spending authority. Figure 11 provides dollar and percentage values for state foundation aid over the past several years, illustrating that state foundation aid for education comprises a significant portion of the overall state budget.



**Figure 11**  
**State Aid to School Districts (Dollars in Millions)**

Fiscal Year	State Aid - Formula		Appropriations*		Percent of General Fund Budget	
	Dollars	Increase	Dollars	Increase	State Aid	With Other*
1973	\$215.1		\$215.1		34%	34%
1974	250.1	16%	250.1	16%	32%	32%
1975	290.8	16%	290.8	16%	33%	33%
1976	385.4	33%	385.4	33%	36%	36%
1977	389.5	1%	389.5	1%	32%	32%
1978	430.0	10%	430.0	10%	33%	33%
1979	467.1	9%	467.1	9%	33%	33%



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**Figure 11 (continued)**  
**State Aid to School Districts (Dollars in Millions)**

Fiscal Year	State Aid - Formula		Appropriations*		Percent of General Fund Budget	
	Dollars	Increase	Dollars	Increase	State Aid	State Aid With Other*
1980	527.4	13%	527.4	13%	33%	33%
1981	575.4	9%	575.4	9%	35%	35%
1982	621.0	8%	621.0	8%	35%	35%
1983	642.3	3%	642.3	3%	34%	34%
1984	660.3	3%	660.3	3%	33%	33%
1985	708.5	7%	708.5	7%	34%	34%
1986	712.3	1%	712.3	1%	33%	33%
1987	761.1	7%	761.1	7%	35%	35%
1988	813.8	7%	905.8	19%	33%	37%
1989	872.1	7%	964.1	6%	32%	36%
1990	957.4	10%	1,050.5	9%	34%	37%
1991	1,054.6	10%	1,155.0	10%	34%	37%
1992	1,093.8	4%	1,207.6	5%	34%	38%
1993	1,178.5	8%	1,283.7	6%	34%	37%
1994	1,231.7	5%	1,336.1	4%	35%	38%
1995	1,268.3	3%	1,374.2	3%	35%	38%
1996	1,330.9	4.9%	1,440.8	5%	35%	38%
1997	1,489.2	11.9%	1,614.5	12%	36%	39%
1998	1,558.2	4.6%	1,699.2	5%	36%	39%
1999	1,611.9	3%	1,754.9	3%	36%	39%
2000	1,698.5	5%	1,841.5	5%	35%	38%
2001	1,747.3	3%	1,913.8	4%	36%	39%
2002	1,723.6	-1.4%	1,879.1	-1.8%	37%	41%**
2003	1,784.1	3.5%	1,931.8	2.8%	39%	43%***
2004	1,776.7	-0.41%	1,938.9	0.37%	40%	43%****
2005	1,881.2	5.88%	2,045.5	5.50%	42%	46%
2006	1,963.9	4.40%	2,152.8	5.25%	40%	44%
2007	2,048.3	4.30%	2,272.3	5.55%	39%	43%
2008	2,142.3	4.59%	2,451.8	7.9%	36%	42%
2009	2,195.0	2.29%	2,554.9	4.2%	36%	42%^
2010	2,587.5	18.09%	2,627.5	2.8%	42%	43%^^

\*The dollar amount of "state aid with other education standing appropriations" includes state funding for Child Development, Educational Excellence, Early Intervention Block Grants, Instructional Support, Transportation/Nonpublic, Textbooks/Nonpublic, Statewide Preschool Program, and Student Achievement/Teacher Quality. Beginning in fiscal year 2010, funding for Early Intervention Block Grants and Student Achievement/Teacher Quality is part of the state school aid through the categorical allowable growth. The Educational Excellence Program was repealed as of June 30, 2009, and Phase I eliminated. Phase II funding is part of the state school aid through the categorical allowable growth.

\*\*The Fiscal Year 2002 dollar and percentage value figures reflect the Governor's 4.3 percent across-the-board budget reductions made on November 1, 2001, pursuant to Executive Order No. 24 and legislative action taken during the 2001 Second Extraordinary Legislative Session which met on November 8, 2001. The figures include a transfer of \$44.9 million from the Economic Emergency Fund.

\*\*\*The figures include a transfer of \$25 million from the Economic Emergency Fund and a transfer of \$20 million from wagering tax revenues.

\*\*\*\*The figures reflect the Governor's 2.5 percent across-the-board budget reductions made on October 10, 2003, pursuant to Executive Order No. 31.

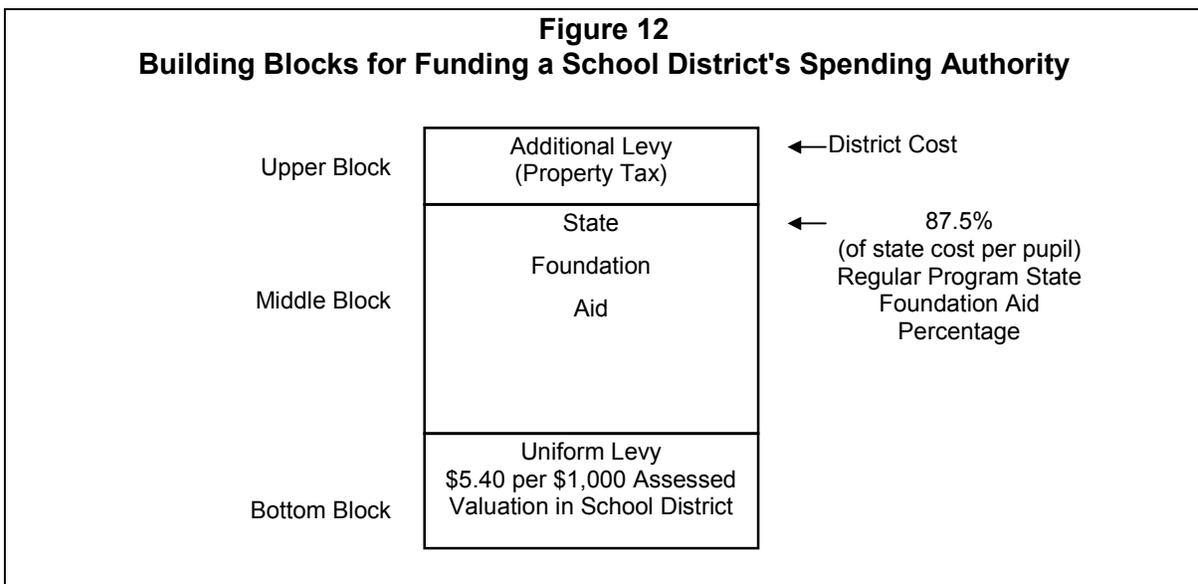
^The Fiscal Year 2009 figures include a 1.5 percent across-the-board General Fund reduction (Executive Order No. 10). The figures also include \$40 million of American Recovery and Reinvestment Act (ARRA) Education Fiscal Stabilization Funds.

^^The Fiscal Year 2010 figures include General Fund, ARRA Education Fiscal Stabilization Funds, and ARRA Government Fiscal Stabilization Funds appropriated by the General Assembly. See first note above regarding increase in state aid due to inclusion of categorical allowable growth.



## C. Additional Levy

The third funding component, and "upper block," is generally referred to as the "additional levy." The additional school district property tax 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>57</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 12 illustrates the additional levy as the upper block for funding a school district's spending authority.



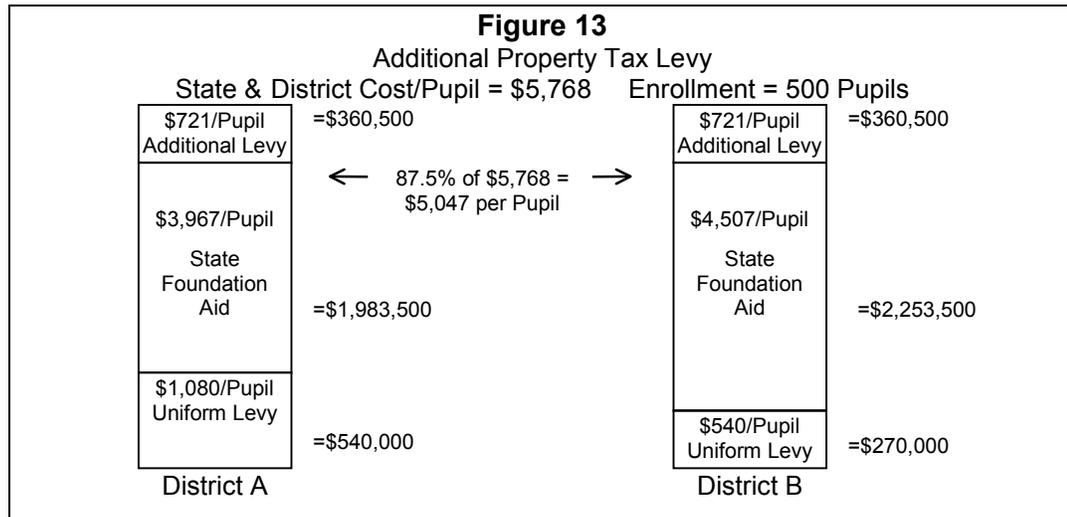
Example: In the previous two examples, the uniform levy raises \$540,000 in District A and \$270,000 in District B. The state foundation aid amounts total \$1,983,500 and \$2,253,500, respectively, for the two districts. Enrollment in each district was assumed, for hypothetical purposes, to equal 500 students. Assuming a district cost for each equal to the state cost per pupil for the budget year 2009-2010 of \$5,768 multiplied by 500, or \$2,884,000, 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 \$360,500. This result is illustrated in Figure 13. While, based on our

<sup>57</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.



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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.



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. The statewide maximum rate is calculated taking into account amounts appropriated pursuant to a graduated schedule which will ultimately reach \$24 million applicable for fiscal year 2011 and succeeding fiscal years.<sup>58</sup>

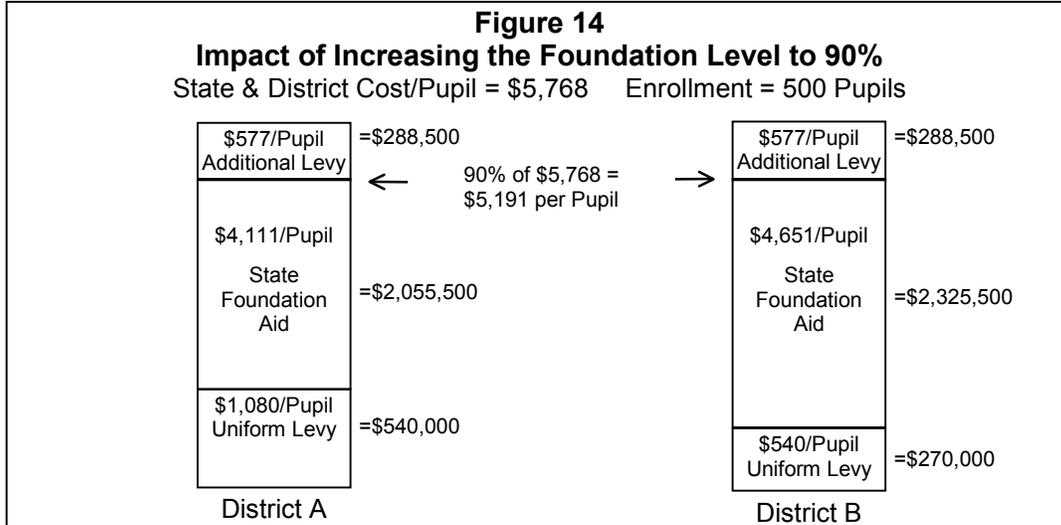
The uniform levy, state foundation aid, and additional levy combine to fund a school district's district cost. Having examined the impact of high versus low assessed valuations of property on these parameters, another valuable insight concerns how fluctuations in one of the components affect the other 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 \$5,768 equals \$5,191 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 – \$2,595,500 (\$5,191 per pupil multiplied by 500 pupils) minus \$540,000 equals \$2,055,500 for District A. For District B, a similar calculation results in state foundation aid of \$2,325,500. See Figure 14. Note that this hypothetical increase to 90 percent of the state cost per pupil figure of \$5,768 results in the same amount of additional state foundation aid per pupil to both districts (\$144 to each). Note also that the amount of revenue to be raised

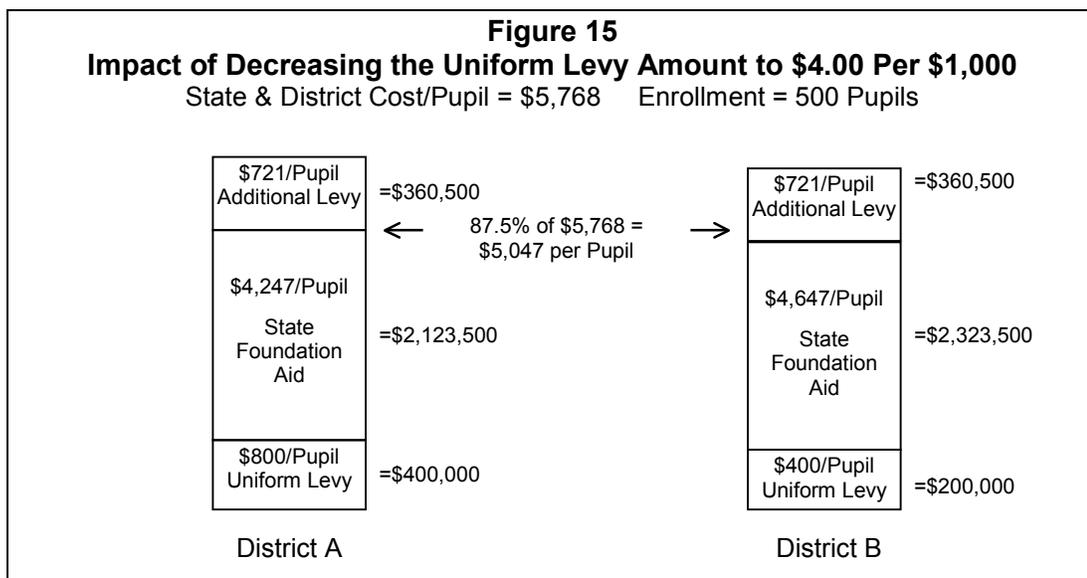
<sup>58</sup>Iowa Code §§ 257.4(1), 257.15(4), 257.16(1), 257.16A.



from the additional levy amount decreases, lessening the overall property tax impact on both districts.



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 15.





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## 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, or the additional levy.<sup>59</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.

### 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>60</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>61</sup> combination levies, and a state sales and use tax beginning in fiscal year 2009, 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>62</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

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<sup>59</sup>Iowa Code § 257.2(9).

<sup>60</sup>Iowa Code § 257.7(1).

<sup>61</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>62</sup>Iowa Code ch. 256C.



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 by 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 existing local revenue sources to the extent the expenditures are permitted within the uses of that funding source. Authorization is specifically provided for use of the state aid provided to schools for transportation under Code chapter 285.

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 is 60 percent of that enrollment multiplied by the state cost per pupil. However, in the initial year, the funding is based on the initial year's enrollment and program requirements are modified.

For the initial year that the program is implemented by a school district, the awarding of preschool foundation aid is subject to an approval process to receive funding, and aid is paid from standing limited appropriations of \$15 million per year provided for fiscal year 2009 and fiscal year 2010 and \$16.16 million provided for fiscal year 2011. After the initial year, the funding is appropriated as part of the standing appropriation in Code Section 257.16. Unless otherwise provided by law, the department may use a portion of the annual appropriation to fund administrative staff for the program.

## **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>63</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>64</sup> For fiscal year 2010, federal American Recovery and Reinvestment Act Education Stabilization funds were used in lieu of the state aid matching portion from the State General Fund appropriation for the Instructional Support Program.<sup>65</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

<sup>63</sup>Iowa Code § 257.19.

<sup>64</sup>Iowa Code § 257.20(2).

<sup>65</sup>2009 Iowa Acts ch. 183, § 61 (H.F. 820).



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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>66</sup>

### 4. Gifted and Talented Education Program

This program was previously funded through the granting of additional allowable growth by SBRC. Effective for the school budget year beginning July 1, 1999, and succeeding school budget years, a school district's gifted and talented program is funded through the school finance formula. Legislation enacted during the 1999 Legislation Session provided for an increase in the regular program allowable growth for the school budget year beginning July 1, 1999, of \$38 per pupil, with the proportion of a school district's budget which corresponds to the increase utilized exclusively for gifted and talented program funding. The \$38 per pupil of allowable growth is incorporated in the regular program state cost per pupil for subsequent years.<sup>67</sup> All school districts within the state must establish a gifted and talented program, and the program and budget must be approved by the Department of Education.

### 5. 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 the granting of additional allowable growth 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>68</sup>

### 6. 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, tort judgments against the district, and loss of property.<sup>69</sup> The board of directors of a school district may certify this levy, which does not require approval of the electorate.

### 7. 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

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<sup>66</sup>Iowa Code § 257.29.

<sup>67</sup>Iowa Code § 257.8(4).

<sup>68</sup>Iowa Code § 257.41.

<sup>69</sup>Iowa Code § 298.4.



approval, and with voter approval required for the remaining portion.<sup>70</sup> It should be noted that the amount authorized to be levied with voter approval was doubled from a previous maximum limit of 67 cents per \$1,000 of assessed valuation to \$1.34 per \$1,000 of assessed valuation.<sup>71</sup> However, the legislation enacted during the 1997 Legislative Session establishing this increase provided that a school district that already had a voter-approved levy at the former maximum rate of up to 67 cents per \$1,000 of assessed value must continue at that rate for the duration of the period authorized for levy, unless the voters in the school district approve an additional levy of up to 67 cents per \$1,000 of assessed value during the authorized period.<sup>72</sup>

The legislation also provided that 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 Code Section 298.3.

## **8. Public Education and Recreational (Playground) Levy**

The board of directors may authorize 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>73</sup>

## **9. 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>74</sup> The cash reserve can be utilized if state foundation aid is reduced — such as for across-the-board cuts — or if the full amount of property taxes due is not collected.<sup>75</sup>

## **10. 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 fund in order to meet deficiencies, but must first receive written approval from the SBRC.<sup>76</sup>

## **11. Bonds**

Bonds for debt service retirement, with a maximum length of 20 years, may be issued by a school board with the approval of 60 percent of the electorate.<sup>77</sup> The 60

<sup>70</sup>Iowa Code § 298.2.

<sup>71</sup>1997 Iowa Acts ch. 182.

<sup>72</sup>Iowa Code § 298.2(2).

<sup>73</sup>Iowa Code ch. 300.

<sup>74</sup>Iowa Code § 298.10. For limitation on cash reserve levy effective for fiscal years beginning on or after July 1, 2012, see 2009 Iowa Acts ch. 183, §70 (H.F. 820).

<sup>75</sup>Iowa Code § 257.34.

<sup>76</sup>Iowa Code § 24.6; 2009 Iowa Acts ch. 65, § 1 (S.F. 81).

<sup>77</sup>Iowa Code § 298.18.



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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. This supermajority approval requirement has been perceived as difficult to achieve by proponents of failed bond issue efforts in recent years. In fact, only about 56 percent of the 29 school bond issues presented on average to Iowa voters annually during the period from 1998 through 2008 passed. If only a simple majority vote were required for passage, about 77 percent of the 29 school bond issues presented on average annually during that 11-year period would have passed. See Figure 16.

**Figure 16**  
**School Bond Issue Election Results: 1997-2008<sup>78</sup>**

Year	Number attempted	Number that passed	Number that garnered more than 50 percent, but still failed
2007-08	24	14	5
2006-07	21	11	5
2005-06	25	20	3
2004-05	20	13	4
2003-04	27	16	6
2002-03	26	15	6
2001-02	35	17	9
2000-01	28	12	8
1999-00	30	16	4
1998-99	34	17	7
1997-98	53	31	8

### 12. 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, derived from sales tax rather than property tax or an income surtax.<sup>79</sup> During the 2008 Legislative Session, legislation was enacted that 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>80</sup>

<sup>78</sup> Iowa Dept. of Education, "School Bonds," accessed on September 16, 2009, [http://www.iowa.gov/educate/index.php?option=com\\_content&view=article&id=142:schoolbonds&catid=66:school-facilities&Itemid=1351](http://www.iowa.gov/educate/index.php?option=com_content&view=article&id=142:schoolbonds&catid=66:school-facilities&Itemid=1351).

<sup>79</sup> Iowa Code ch. 423E.

<sup>80</sup> Iowa Code ch. 423F; 2008 Iowa Acts ch. 1134.



School districts will receive funding for school infrastructure purposes as though the local option sales tax funding were still in place. By fiscal year 2014, each school district will receive the same amount per pupil (currently estimated at \$912 per pupil).

Any additional sales and use tax revenues resulting from the 1.0 percentage point increase that remain after the school infrastructure formula funds have been distributed are to be used to fund property tax relief for eligible districts through the school aid formula. The funds designated for property tax relief will be transferred to the Property Tax Equity and Relief (PTER) Fund and used to reduce property tax rates for the eligible districts.<sup>81</sup> The PTER funds will first be used to supplement the property tax adjustment aid appropriation of \$24 million in fiscal year 2011 (see discussion of this aid in the portion of this guide relating to "Additional Levy"). These funds will be used to "buy down" the adjusted property tax rate to the statewide average providing property tax relief to all school districts with an additional levy rate above the statewide average.<sup>82</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>83</sup>

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

## **B. State School Finance Approaches Around the Nation**

Iowa's approach to school finance, with the state contributing financial assistance under the foundation formula up to a specified percentage of the state cost per pupil calculation, is one of four basic types or varieties of state aid distribution formulas. While the mechanics of each approach operate quite differently, they share the common objective of addressing the disparities in revenue-generating capacity among local school districts. To assist in understanding the operation of Iowa school finance by way of comparison with the approaches of other states, and to provide a frame of reference for evaluating periodic suggestions for Iowa school aid formula reform, a brief explanation of each approach follows. A chart summarizing state school finance formula approaches on a state-by-state basis accompanies the explanation.

### **1. Flat Grants**

The flat grant approach involves the state distributing a specified minimum level of funding per "unit." A unit can either be measured in terms of the number of pupils attending school within a given school district or the number of teachers or instructional units employed by the school district. Each unit receives a designated amount of state aid dollars, with a school district able to exceed the grant amount either through use of a weighting procedure in the determination of unit count (conceptually similar to weighted enrollment or supplemental weighting, discussed in

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<sup>81</sup>Iowa Code §§ 423F.2(3), 257.16A.

<sup>82</sup>Iowa Code § 257.15(4)(a).

<sup>83</sup>Iowa Code § 257.15(4)(b).



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earlier sections of this Guide) or through a local, nonstate-assisted funding effort.<sup>84</sup> The appeal of the flat grant approach, beyond its simplicity, lies in the fact that it establishes a minimum level of financial assistance for all pupils in the state, and that it focuses on educational needs by calculating aid on the basis of students and teachers. The primary drawback to the approach, however, is that it fails to account for the wide disparity or variation among local school districts in terms of revenue-generating capacity.<sup>85</sup> Even in states which utilize another school finance approach as their primary funding mechanism, flat grants may be employed for designated programs and services.

### 2. Foundation Programs

The foundation approach, utilized in Iowa, is the method of school finance employed by a majority of the states. In common with the flat grant approach, there is a commitment by the state to provide a minimum level of state financial assistance per pupil. The difference is that instead of a flat dollar amount per unit, state financial assistance takes the form of a specified percentage of a designated level of support, with local school districts providing a floor level of funding through local tax effort. The state provides funding above and beyond the amount raised locally, up to the designated minimum level. In Iowa, as discussed in previous sections of this Guide, the designated minimum level of support is referred to as a percentage of state cost per pupil, and the local tax effort is referred to as the uniform levy. Variations exist between states as to whether a minimum rate of tax must be imposed locally.<sup>86</sup> As previously discussed, the uniform levy is imposed in Iowa at the rate of \$5.40 per \$1,000 of assessed valuation. The primary advantage of the foundation approach is that it incorporates an equalization factor. The state makes up the difference in state financial assistance between the amount raised locally (which will vary depending on the valuation levels involved) and the designated minimum level. The potential for disparity still exists, however, for any amounts raised locally above and beyond the designated minimum level of support (i.e., the "additional levy" in Iowa). It should be noted that not only is the foundation program approach the most widely utilized school finance method, but over the past two decades several states have switched to some form of it from another method.<sup>87</sup>

### 3. District Power Equalization Programs

A third approach, which has several variations, involves focusing on state assistance in equalizing the ability of local school districts to raise revenue, rather than establishing a minimum threshold of state financial support. The idea is to guarantee to all school districts, regardless of assessed valuation, the same revenue yield from

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<sup>84</sup>Gold, Steven D., *Public School Finance Programs of the United States and Canada 1993-94*, Vol. I and II. American Education Finance Association and Center for the Study of the States; The Nelson A. Rockefeller Institute of Government, State University of New York, 1995.

<sup>85</sup>*Understanding State School Finance Formulas*, National Education Association, 1987.

<sup>86</sup>Gold, Steven D., *Public School Finance Programs of the United States and Canada 1993-94*, Vol. I and II. American Education Finance Association and Center for the Study of the States; The Nelson A. Rockefeller Institute of Government, State University of New York, 1995.

<sup>87</sup>*Id.*



the application of a specified tax rate. There are three primary forms of district power equalization. Percentage equalization programs involve a local school district determining the size of its budget, with the state then paying a portion of the budget based upon an aid ratio for the district which takes into account assessed valuation in the district and the state in its entirety. Guaranteed tax base programs focus on guaranteeing a designated level of assessed valuation per pupil. Guaranteed tax yield programs, in contrast, are concerned with guaranteeing a designated level of revenue per pupil.<sup>88</sup>

#### 4. Full Funding Programs

The final primary approach to state school finance involves the state assuming full financial responsibility for school funding. While this promotes equity, there is a corresponding loss of local control, given that the entire state is essentially converted into one uniform school district. Further, a substantial commitment of state financial resources, derived from tax revenue, is involved. This method is the least commonly encountered approach, but a general trend can be observed toward increasing greater state assumption of financial responsibility for school district funding.<sup>89</sup>

Figure 17 provides a breakdown of the primary school finance mechanism employed by each state.<sup>90</sup>

**Figure 17**  
**STATE SCHOOL FINANCE SYSTEMS**

STATE	BASIC SUPPORT PROGRAM
Alabama	Foundation Program with mandatory local effort
Alaska	Foundation Program with mandatory local effort
Arizona	Foundation Program - mandatory local effort
Arkansas	Foundation Program - local effort not mandatory
California	Foundation Program - local effort not mandatory
Colorado	Foundation Program with mandatory local effort
Connecticut	Foundation and Equalization Program - mandatory local effort
Delaware	Flat Grant and Equalization Program - local effort not mandatory
Florida	Foundation Program with mandatory local effort
Georgia	Percentage Equalization Program with mandatory local effort
Hawaii	Full state funding
Idaho	Foundation Program - local effort not mandatory
Illinois	Foundation Program - local effort not mandatory

<sup>88</sup>Id.

<sup>89</sup>Id.

<sup>90</sup>National Conference of State Legislatures Education Finance Database, September 2008.



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Indiana	Guaranteed Tax Base/Yield Program - local effort not mandatory
Iowa	Foundation Program with mandatory local effort
Kansas	Foundation Program - local effort not mandatory
Kentucky	Foundation Program with mandatory local effort
Louisiana	Foundation Program - local effort not mandatory
Maine	Foundation Program with mandatory local effort
Maryland	Foundation Program - local effort not mandatory
Massachusetts	Foundation and Equalization Program with mandatory local effort
Michigan	Foundation Program with mandatory local effort
Minnesota	Foundation Program with mandatory local effort
Mississippi	Foundation Program with mandatory local effort
Missouri	Foundation Program and Guaranteed Tax Base with mandatory local effort
Montana	Foundation Program and Guaranteed Tax Base with mandatory local effort
Nebraska	Foundation and Equalization Program - local effort not mandatory
Nevada	Foundation and Equalization Program with mandatory local effort
New Hampshire	Foundation Program - local effort not mandatory
New Jersey	Foundation Program - local effort not mandatory
New Mexico	Foundation and Equalization Program with mandatory local effort
New York	Percentage Equalization Program - local effort not mandatory
North Carolina	Flat Grant and Equalization
North Dakota	Foundation Program - local effort not mandatory
Ohio	Foundation Program with mandatory local effort
Oklahoma	Foundation Program and Guaranteed Yield Formula with mandatory local effort
Oregon	Foundation Program - local effort not mandatory
Pennsylvania	Percentage Equalization Program - local effort not mandatory
Rhode Island	Percentage Equalization Program
South Carolina	Foundation Program with mandatory local effort
South Dakota	Foundation Program - local effort not mandatory
Tennessee	Foundation and Equalization Program with mandatory local effort
Texas	Foundation and Guaranteed Yield Program with mandatory local effort
Utah	Foundation Program with mandatory local effort
Vermont	Foundation Program - local effort not mandatory
Virginia	Foundation Program with mandatory local effort
Washington	Foundation Program with mandatory local effort

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West Virginia	Foundation Program - local effort not mandatory
Wisconsin	Guaranteed Tax Base/Yield Program
Wyoming	Foundation Program with mandatory local effort

## C. School Budget Review Committee

The SBRC is a five-member committee functioning within the Department of Education and comprised of appointed members knowledgeable in Iowa school finance. 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 Code Section 257.31, to review and make recommendations concerning any matter potentially impacting school district accounting and budgeting aspects. 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 allowable growth. Modified allowable growth in this context consists 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 modified allowable growth if faced with the following unique or unusual situations:<sup>91</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.

<sup>91</sup>Iowa Code § 257.31(5).



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j. Unusual need to continue providing a program or other special assistance to non-English-speaking pupils after the expiration of the four-year period specified in Code Section 280.4.

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 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.

### 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>92</sup> State transportation aid is discussed in more detail in the following Appendix D.

### 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 Code Section 256B.9, and is authorized to reallocate positive balances and provide assistance and authorize an increase in allowable growth for negative balances.<sup>93</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>94</sup>

### 4. Unexpended Cash Reserves

The SBRC is authorized to review the extent to which school districts levy for cash reserve, 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>95</sup>

Beyond the specific examples set forth above, SBRC has general authority to review school districts' budgets and request school officials to appear before SBRC or provide SBRC with specific information.<sup>96</sup>

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<sup>92</sup>Iowa Code § 257.31(17).

<sup>93</sup>Iowa Code § 257.31(14).

<sup>94</sup>Iowa Code § 257.31(12).

<sup>95</sup>Iowa Code § 257.31(7), (15).

<sup>96</sup>Iowa Code § 257.31(3), (11).



## D. State Transportation Aid

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 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>97</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>98</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>99</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>100</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

<sup>97</sup>Iowa Code § 285.1.

<sup>98</sup>Iowa Code § 285.1(1), (12).

<sup>99</sup>Iowa Code § 285.1(1)-(4).

<sup>100</sup>Iowa Code § 285.1(5)-(12).



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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 district, by another carrier pursuant to contract, or the cost of the transportation may be reimbursed.<sup>101</sup>

- In Code Section 285.2, school districts are required 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 Code Section 285.3. When a school closes, 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>102</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>103</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 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 this Code chapter.<sup>104</sup>

### E. 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.

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<sup>101</sup>Iowa Code § 285.1(14)-(17).

<sup>102</sup>Iowa Code §§ 285.8-285.13.

<sup>103</sup>Iowa Code § 257.31(17).

<sup>104</sup>Iowa Code § 285.1(1)(a)(3).



## 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. Code Section 282.18, subsection 1, paragraph "a," sets forth the following rationale for permitting open enrollment:

*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>105</sup> The application must be approved by the school district's board of directors. If approved, the application will then be transmitted to the school district in which open enrollment is sought, which must also approve the application. For purposes of open enrollment, the school district in which a student resides and would be enrolled but for an application for open enrollment is often referred to as the "sending district," and the school district in which enrollment is sought is referred to as the "receiving district." 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>106</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>107</sup> Payments are made on a quarterly basis. If the pupil requires special education pursuant to 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

<sup>105</sup>Iowa Code § 282.18(2),(4).

<sup>106</sup>Iowa Code § 282.13(3).

<sup>107</sup>Iowa Code § 282.18(7).



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corresponding to the actual costs incurred in providing special education instruction for the pupil.<sup>108</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 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>109</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 Code Chapter 260C, or an "accredited private institution" as defined in Code Section 261.9, subsection 1.<sup>110</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>111</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>112</sup>

### F. School Finance Formula Review Committee — 2005 Recommendations

In compliance with Code Section 257.1(4), which requires that a legislative interim study committee status report be prepared at five-year intervals, the School Finance

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<sup>108</sup>Iowa Code § 282.18(8).

<sup>109</sup>Iowa Code § 261E.6.

<sup>110</sup>Iowa Code § 261E.2(4).

<sup>111</sup>Iowa Code §§ 261E.6-261E.10.

<sup>112</sup>Iowa Code §§ 261E.7-261E.8.



Formula Review Committee conducted three meetings during the latter part of 2004. The committee unanimously approved the following recommendations:<sup>113</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.
- 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 (Code chapter 261C).
- Increase the state aid amount under the Instructional Support Program over multiple years, eventually building the amount into the school aid formula.

## G. Glossary of Terms

### 1. Additional Levy

"Additional levy" means a property tax levy imposed at a rate determined by the Department of Management in a school district upon taxable real property located in the district. The levy is intended to raise revenues equal to the difference between the combined district cost and the foundation level.

### 2. Allowable Growth

"Allowable growth" means the dollar amount by which state cost per pupil and district cost per pupil will increase from one budget year to the next. A state percent of growth figure, established by the state pursuant to Code Section 257.8, is multiplied by the previous year's state cost per pupil, and the result is added to the previous year's state and district cost per pupil figures to determine new state and district cost per pupil amounts.

### 3. Categorical Allowable Growth

"Categorical allowable growth" means the dollar amount by which the state cost per pupil and the district cost per pupil will increase in order to pay for certain categorical funding programs from one budget year to the next. A categorical state percent of growth figure, established by statute, is multiplied by the previous year's state cost per pupil, and the result is added to the previous year's state and district cost per pupil figures to determine the new categorical state and district cost per pupil amounts.

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<sup>113</sup>School Finance Formula Review Committee, Final Report, <http://www.legis.state.ia.us/lsadocs/IntReport/2005/IPR%20N000.pdf>. A legislative committee is scheduled to meet in Fall 2009 to discuss the school finance formula and will submit a report to the General Assembly in January 2010.



## Basic Iowa Education Finance

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### 4. State Foundation Aid

"State foundation aid" represents the state's commitment to education finance. The state provides funding up to a specified percentage of the state cost per pupil, after imposition of the uniform levy. The percentage is contributed at two primary levels:

**a. Regular and Special Education Program Foundation Level.** Funding per pupil is equalized at 87.5 percent of the state cost per pupil, less whatever amount a school district contributes from the uniform levy. The 87.5 percent level is also applicable to the portion of weighted enrollment that is additional enrollment because of special education. Districts having a relatively lower taxable property value base will require a proportionately larger amount of state aid to reach the 87.5 percent level than will higher taxable property value base districts because the uniform levy will generate a smaller proportion of the state cost per pupil.

**b. Special Education Support Services.** Special education support services, one of the classifications of services provided by an AEA, is funded at 79 percent of the state cost per pupil but with separate state and district cost per pupil calculations involved. Note that the uniform levy is only applicable to calculation of regular program district cost. Special education support services are funded fully at the 79 percent level, without subtraction of any uniform levy amount.

### 5. Uniform Levy

"Uniform levy" means the property tax imposed on the taxable real property located in each school district at a uniform rate of \$5.40 per \$1,000 of assessed valuation. State foundation aid, when added to the amount generated by the uniform levy, is contributed up to the 87.5 percent foundation level.

### 6. Weighted Enrollment

"Weighted enrollment" means counting a pupil enrolled in a specified type of program at a value of greater or lesser than one when determining the number of enrolled pupils in a district for purposes of school financing. There are two primary forms of 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.

**b. Supplementary Weighting.** This type of weighted enrollment provides additional weighting for students enrolled in a program involving the sharing of one or more classes or teachers between districts, for district and community college sharing, for classes delivered over the Iowa communications network, for at-risk programs and alternative schools, for school districts involved in a reorganization or dissolution, for school districts establishing regional academies, for shared operational functions, or for students enrolled in a non-English-speaking program.