



September 2009

Inside this Briefing

- Overview
- Applicable Terminology
- Historical Perspective
- Determination
- Application

Legal Background Briefings are prepared and updated periodically by the Legal Services Division of the Iowa Legislative Services Agency, a nonpartisan agency providing legislative drafting and research services to the committees and members of the Iowa General Assembly. The briefings provide background information regarding a particular area of law. Although a briefing may identify issues for consideration by the General Assembly, nothing contained in a briefing should be interpreted as advocating a particular course of action. The reader is cautioned against using information contained in a briefing to draw conclusions as to the legality of a particular behavior or set of circumstances.

Prepared by:

Amanda Knief
Iowa Legislative Services Agency
State Capitol
Des Moines, Iowa 50319
515-281-6048
amanda.knief@legis.state.ia.us

Legal Background Briefing on ...

Education Finance — Categorical Allowable Growth

Overview

The Iowa school finance system is administered through the application of a pupil-driven formula. The amount of funding received through the formula is dependent on a school district's enrollment. Therefore, one way in which school districts may receive additional funding, for the limited number of districts that are growing in size, is through an increase in the school district's enrollment.

During the 2008 Legislative Session, the Legislature changed the way several existing programs are funded to school districts beginning in fiscal year 2010. These categorical funding programs are divided into three supplements and are switched from an appropriations-based funding to a per-pupil basis through the school aid formula, with each supplement becoming eligible for an increase in funding beginning in fiscal year 2011. The increase in funding is based on each supplement's categorical state percent of growth as set by the Legislature.

This legal background briefing describes the process for determining a categorical state percent of growth for the supplements funding these categorical funding programs: the total teacher salary supplement, total professional development supplement, and the early intervention supplement.¹

This legal background briefing also contains a chart estimating the costs of the supplements funding the categorical funding programs for fiscal year 2010 and fiscal year 2011.

Unless otherwise stated, Code references in this briefing incorporate both the 2009 edition of the Iowa Code and the 2009 Iowa Code Supplement. 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.

Applicable Terminology

Categorical Allowable Growth Amount Per Pupil. The amount calculated annually by the Department of Management by applying the categorical state percent of growth to the previous year's state cost per pupil.

Categorical District Cost Per Pupil. An amount corresponding to the district cost per pupil for a school district for the previous year, increased by the applicable categorical allowable growth amount per pupil, and utilized by the school district to determine the amount it is authorized to spend.

Categorical State Cost Per Pupil. An amount to which the categorical state percent of growth is applied in determining the categorical allowable growth amount per pupil, and to which the state foundation percentage is applied in determining the amount of state foundation aid per pupil a school district is entitled to receive.

Categorical State Percent of Growth. The annually determined percentage figure established by the Legislature. The categorical state percent of growth may be one percentage figure that covers the total teacher salary supplement, the total professional supplement, and early intervention supplement equally, or the Legislature may set individual percentage figures for each categorical funding program supplement.

Historical Perspective

Until fiscal year 2010, the following programs were funded through separate appropriations in the general budget: student achievement/teacher quality/teacher compensation, and educational excellence phase II;² student achievement/teacher quality professional development; and early intervention/class size reduction.³

The new method makes funding of these programs part of the combined foundation base, i.e., part of the school aid formula, beginning in fiscal year 2010. The new method

also requires legislative determination of the categorical state percent of growth for these programs beginning in fiscal year 2011. These changes make the programs' appropriations a permanent part of the budget rather than contingent on a year-to-year approval made as part of the normal appropriations process of enacting the bulk of the state budget just before the new fiscal year, which made it difficult for school districts to anticipate their complete budgets less than six months before the new fiscal year. The new method ensures that the Legislature will decide categorical funding programs' funding well in advance of the applicable fiscal year. However, there is no guarantee that the new method will result in increased funding or that the programs will receive equal funding growth because the method allows for the programs to receive individual categorical state percents of growth.

Determination

As provided in Code Section 257.8, subsection 2, the Legislature may either determine a combined categorical state percent of growth for the categorical funding programs or determine three separate allowable growth figures, one each for the categorical funding programs. The Department of Management then takes the allowable growth figure or figures provided and calculates the categorical allowable growth amount per pupil by multiplying the percent of growth figure or figures by the previous year's state cost per pupil.

The Legislature is required to determine the categorical state percent of growth each legislative session within 30 days following submission of the Governor's budget.⁴ In an effort to simplify the process of establishing the categorical state percent of growth and reduce the likelihood that the applicable legislation will become mired in debate concerning other education initiatives, the statute also provides that determining the categorical state percent of growth shall be the only subject matter of the bill that seeks to establish it.⁵

Code Section 257.8, subsection 2, also provides for giving school districts advance notice regarding available funding for budget preparation and certification purposes by providing for the legislation containing the categorical state percent of growth to be enacted a year ahead, as compared to the normal state budget process. For example, the Legislature set the growth for fiscal year 2011 during the 2009 Legislative Session.⁶ It should be noted, however, that the categorical state percent of growth may be subject to reduction after enactment if statewide budget reduction initiatives are undertaken by the Legislature. Also, the effect of application of the categorical state percent of growth, i.e., increased state funding per pupil, is subject to reduction by legislative action or by across-the-board cuts implemented by the Governor.

Application

The categorical funding programs are funded entirely through state aid.⁷

Beginning in fiscal year 2010, the following state categorical funding programs will be funded on a per-pupil basis through the regular program school aid formula: student achievement/teacher quality/teacher compensation, (the total teacher salary supplement); student achievement/teacher quality professional development (the total professional development supplement); and early

intervention/class size reduction (the early intervention supplement).

The total teacher salary supplement and the total professional development supplement are funded so that allocations are made to both school districts and area education agencies (AEAs). The AEAs' funding for teacher salary supplement and professional development supplement are now also based on the per-pupil cost and district cost formula.

Despite the change in the source of the funding for the categorical funding programs, the legislation requires that the funds be used in compliance with the requirements of each Code chapter that relates to the programs.⁸

Beginning in fiscal year 2011, each supplement that funds the categorical funding programs is eligible to be increased annually by an allowable growth factor. The Legislature may set one combined allowable growth factor for all of the supplements or the Legislature may choose to set up to three separate allowable growth factors, one for each supplement. The Legislature set one categorical allowable growth rate for the supplements for the first time during the 2009 Legislative Session. The rate was set at 2 percent for the fiscal year beginning July 1, 2010.⁹

Additionally, school districts and AEAs are guaranteed the previous year's total sup-

Figure 1 — Estimated State Categorical Supplements FY 2010 and FY 2011

	<u>FY 2010</u>	<u>FY 2011</u>
Teacher Salary Supplement	\$ 237,122,234	\$ 242,102,820
AEA Teacher Salary Supplement	<u>14,129,530</u>	<u>14,430,635</u>
Total Teacher Salary Supplement	\$ 251,251,764	\$ 256,533,455
Professional Development Supplement	\$ 26,849,138	\$ 27,409,087
AEA Professional Development Supplement	<u>1,650,594</u>	<u>1,685,897</u>
Total Professional Development Supplement	\$ 28,499,732	\$ 29,094,984
Early Intervention Supplement	\$ 29,250,240	\$ 29,853,446
Total of All Supplements	<u>\$ 309,001,736</u>	<u>\$ 315,481,885</u>

Note: The allowable growth rate for the FY 2011 State Categorical Supplements was established at 2.0% during the 2009 Legislative Session.

plement amount in each category. The guarantee is based on the previous fiscal year's unadjusted supplement total. Each supplement (total teacher salary, total professional development, and early intervention) and the corresponding budget guarantee is part of a school district's budget authority.

Figure 1 provides estimates for the total teacher salary supplement, the total professional development supplement, and the early intervention supplement for fiscal years 2010 and 2011. An allowable growth rate of 2 percent for all the supplements in fiscal year 2011 will yield an estimated increase totaling \$6.5 million compared to the estimated total in fiscal year 2010. Of that increase, approximately \$500,000 is attributed to the cost of providing the budget guarantee to school districts that would otherwise be subject to a reduction due to a decline in enrollment.

0916RR

¹2008 Iowa Acts ch. 1181, §§ 87-109.

²Educational excellence phase II program is repealed as of June 30, 2009; 2008 Iowa Acts ch. 1181, §§ 103-105; 2009 Iowa Acts ch. 68, §§ 10-11 (S.F. 445).

³2007 Iowa Code Supplement §§ 256D.5, 284.1, 284.13; 2007 Iowa Code § 294A.25.

⁴Iowa Code § 257.8(2).

⁵Iowa Code § 257.8(2).

⁶2009 Iowa Acts ch. 5 (S.F. 217).

⁷Iowa Code § 257.35(1).

⁸Iowa Code §§ 256D.1, 257.9, 284.1, 284.13.

⁹2009 Iowa Acts ch. 5 (S.F. 217).