

FINANCING PUBLIC ELEMENTARY AND SECONDARY EDUCATION IN IOWA

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August 2004

PUBLIC SCHOOL FINANCE IN IOWA GENERAL BACKGROUND

Iowa's method for financing public elementary and secondary education in the 2004-05 school year dates back to the mid 1960's when the 62nd General Assembly took steps to provide for general property tax replacements, equalization of the method of taxation of property for school purposes and establishing a method of allocation of state funds for aid to schools. The General Assembly also established agriculture land tax credits, personal property tax credits, and additional homestead tax credit for the aged as part of general property tax reform. Between 1970 and 1972 the Iowa General Assembly modified the 1967 law to achieve the present type of foundation plan. The basic features included a uniform levy requirement, establishing a state foundation base, establishing a maximum on each budget, providing for leveling up of low spending districts, providing for minimum state aid to each district and budgeting on the number of students enrolled.

In 1989 the finance plan was substantially modified with the enactment of a new finance chapter in the Code of Iowa, Chapter 257 and repealing the existing statute, Chapter 442. The new finance plan was implemented in the 1991-92 school year. The new formula was designed to equalize spending per pupil, provide an enrollment decline cushion, provide advance funding for increasing enrollment districts, provide increased property tax relief, provide for increased local discretion, equalize access to discretionary local revenues, expand the use of selected local levies, and provide for increased use of income taxes as a source of revenue.

The 1991-92 school year was the first year of a three year phase-in of the new finance formula; however, the momentum of state government budget and finance reform was such that the formula was changed for both the 1991-92 and 1992-93 school years. The amount of state aid schools were expecting to receive was reduced by executive order of the Governor and by legislative action for 1991-92 and 1992-93. The Governor reduced all state funding, including schools, by 3.87 percent or \$44.1 million during 1991-92 plus additional legislative enacted reductions were made to reduce the 1991-92 state funding. The legislative action resulted in a reduction in 1991-92 of approximately \$6 million to districts with increasing enrollment.

The finance plan which was implemented in 1992-93 was a substantial revision from the plan enacted in 1989. The enrollment decline cushion was eliminated and state aid advances for increasing enrollments were no longer available. Growth in state aid and budgets were to be determined on an annual basis through the political process. Budget predictability of nine months to a year in advance was shortened to four months.

In the 1993, 1994, and 1995 legislative sessions, allowable growth was set by the legislature for the upcoming school year. In 1995 the legislature established allowable growth rates not only for 1995-96 but also for 1996-97, and in 1996 the legislature established growth rates for the 1997-98 and 1998-99 school years. The legislature also established in the 1996 session that future rates would be established two years in advance.

During the 2001-02 year, economic changes in Iowa resulted in drastic reductions in state revenues which caused the Governor to issue on November 1, 2001, an Executive Order reducing all General Fund appropriations by 4.3 percent for the 2001-02 year. The legislature also lowered the allowable growth rate for 2002-03 to 1 percent from the previously established 4% rate. State aid flowing to area education agencies was also reduced by \$7.5 million in 2001-02 and 2002-03.

In 2003-04, Iowa's economy continued to remain sluggish resulting in the need to again implement across-the-board reductions in state appropriations. On October 14, 2003, the Governor ordered a 2.5 percent reduction in 2003-04 appropriations. By the end of the 2003-04 fiscal year, state revenues were growing sufficiently such that the Governor reinstated a portion (10 percent) of the reduction. Several reductions in state aid flowing to AEAs were enacted by the legislature in 2003 and 2004. In 2004, the \$7.5 million reduction was made permanent, an additional \$10 million reduction was enacted for 2003-04 and 2004-05, plus AEAs were required to revert \$10 million of their beginning balances in 2003-04.

Five other significant changes have occurred in recent years: establishing a date for the beginning of the phasing out of the current budget guarantee, increased funding for categorical programs such as teacher quality/teacher compensation, the establishment of a local option sales and services tax for school infrastructure, state funding for school infrastructure, and reestablishment of reorganization incentives.

There are 12 budget areas plus miscellaneous income plus the prior year's unspent balance available to districts in 2004-05 as funding sources. The basic funding for schools as defined under Chapter 257 is the "combined district cost." Included in this cost are the regular program district cost, regular program guarantee, supplemental weighting, special education instruction cost, AEA costs, and SBRC modified allowable growth. In 2004-05 the combined district cost was just over \$2.9 billion. State foundation aid accounted for \$1,881.2 million and property taxes accounted for \$1,025.7 million of the combined district costs.

In addition to the combined district cost, districts may elect to seek additional funds through a combination of board and voter-approved taxes. The areas are detailed in Table 1. In 2004-05 the estimated budgets of the 367 school districts total \$3,952.0 million.

Table 1

FY05 Budget Detail

Budget Item	FY 05	Percent
Regular Program	\$2,311,434,736	58.5
Guarantee Amount	30,762,863	0.8
Supplementary Weights	29,566,816	0.7
Special Education Instruction	330,839,905	8.4
AEA Media	20,282,059	0.5
AEA Ed Services	22,418,300	0.6
AEA Spec Ed	115,604,184	2.9
AEA Special Education Adjustment	1,178,740	0
AEA Prorated Budget Reduction	(19,298,677)	-0.5
Dropout SBRC	64,410,508	1.6
Other SBRC	0	0
Instructional Support & Enrichment	143,350,035	3.6
Educational Improvement	841,318	0
Enrollment Audit Adjustment	(580,055)	0
Management	86,726,869	2.2
Physical Plant and Equipment	103,847,961	2.6
Playground & Library	1,604,436	0
Debt Service	96,490,838	2.4
Local Options Sales Tax (FY 04)	197,200,000	5.0
Miscellaneous		
State Categorical	130,002,947	3.3
Federal	285,288,649	7.2
Total	3,951,972,432	

GENERAL SCHOOL AID FORMULA

General Budget Concepts

Local school district funding is primarily determined by the number of students within the district and the district's cost per pupil. A district's basic budget is calculated by multiplying a district cost per pupil amount times the weighted enrollment. A district's weighted enrollment is based upon the number of pupils in the district one year prior to the budget, plus: (1) a weighting for special education; (2) a supplemental weighting for sharing teachers, pupils, or administrators; (3) for students in an English Language Learners (ELL) program; and (4) reorganization incentives. The total enrollment used is referred to as the total weighted enrollment which is multiplied times the district cost per pupil. The September 2002 enrollment is the basic enrollment used for the 2003-04 budget and is the enrollment to which adjustments are made. Total district weighted enrollment for the 2003-04 year was 487,021 compared to an actual enrollment of 485,011 in September 2003.

The district cost per pupil amount is based upon the historical spending in that district, plus a per pupil growth amount each year. In addition to each district's cost per pupil, a "state cost" per pupil was calculated to be used to calculate the annual allowable growth amount, as well as provide the floor amount per pupil for each district, and establish the state foundation aid per pupil amount. In 2004-05 the state regular program cost per pupil is \$4,741. All districts' cost per pupil are at or above the state cost per pupil.

The state cost per pupil, which is the basis for determining the foundation level and state aid, is increased each year by an allowable growth amount per pupil. The allowable growth amount is determined by multiplying an allowable growth rate by the state cost per pupil. The allowable growth amount is added to each district's per pupil cost. Until the 1993-94 budget, the allowable growth rate had been calculated by averaging the rate of change in general fund state revenues over a two year time period and by averaging the rate of change in the gross national product implicit price deflator. If revenue rate changes were below the deflator rate changes then the revenue change rates were used, otherwise the average of the two averages were used. Beginning with the 1993-94 school year, allowable growth was enacted by the legislature within 30 days of the Governor's budget message to the General Assembly. This is expected to occur by March 1 of each year. Prior to 1993-94 the allowable growth was announced on September 15 of the base year. For the 2002-03 year, the allowable growth rate was lowered from the level set during the 2001 legislative session. The rate was lowered from 4 percent to 1 percent.

In the 1993, 1994, and 1995 legislative sessions, allowable growth was set by the legislature for the upcoming school year. In 1995 the legislature also established allowable growth rates for 1996-97 and in 1996 the legislature established growth rates for the 1997-98 and 1998-99 school years, and established that future rates would be

set two years in advance. The change in the date when allowable growth is known and how it will be determined are two of the most significant changes which occurred in school finance in recent years. Allowable growth amounts and enrollment changes are the two key factors in budget growth.

General Revenue Concepts

School districts receive revenue from two primary sources--state aid and property taxes. A uniform property tax levy rate of \$5.40 per \$1,000 taxable valuation is required of all districts. The amount raised from the uniform levy is subtracted from the state supported foundation level. The difference is the amount of state aid a district will receive. Each district is guaranteed a minimum of \$300 per pupil state aid. The foundation level is based upon 87.5 percent of the state cost per pupil for the regular program and for special education and at 79 percent for AEA special education support services. The foundation level for regular program cost was raised effective with the 1996-97 school year from 83 percent to 87.5 percent. The special education foundation level was raised to 87.5 percent effective with the 1999-00 school year. In 2004-05 the foundation level for regular program cost and special education instruction is \$4,148 per pupil. The AEA special education support cost is \$208.16 per pupil and the foundation level is 79 percent or \$164 per pupil.

The local share of the general foundation plan is based upon property taxes raised from the uniform levy and the property taxes required for the amount of the difference between the total district cost and the foundation level. The uniform levy of \$5.40 per \$1,000 of taxable valuation raised \$529.2 million and the additional levy raised \$496.6 million in 2004-05.

Special Provisions: The regular program budget of each district was guaranteed to be at the same level in 2003-04 as it was in 2002-03. The guarantee provisions changed effective with the 2004-05 year. Beginning with the 2004-05 year the guarantee is based upon the greater of 101 percent of the prior year's budget or a budget adjustment based upon the prior year budget guarantee but reduced by 10 percent. The 10 percent reduction will occur each year until the current budget guarantee is eliminated in 2013-14. In 1999-00 the funding for the guarantee was paid from state aid. In prior years it has been either all property taxes or a mix of state aid and property taxes. Since 2000-01 funding for the guarantee has been on property taxes and requires local board approval.

A significant change made in 1992 was the elimination of the advanced funding concept for increasing enrollment districts. Prior to 1992 districts which experienced an increase in their actual enrollment in September above their previously calculated budget enrollment were given additional state aid equal to the district cost per pupil times the increased enrollment. This advance was adjusted the following year to achieve the same mix of state aid and property taxes as if the students had been counted when the budget was built. Since 1992 districts may ask the School Budget Review Committee (SBRC) for

modified allowable growth for enrollment increases, if granted the additional expenditure authority will be paid from property taxes. In 1999-00, four million dollars was appropriated for districts with increasing enrollments. The funds were appropriated to the SBRC instructing the committee to grant this state aid to districts that were experiencing enrollment increases and had documented expenditure increases because of the enrollment increases. In 1999-00 districts could also ask the SBRC for modified allowable growth, less any state aid received, for enrollment increases. In 2000-01 districts could, by board action, receive an increase in their budget authority up to 50 percent of the amount of the enrollment increase. School Budget Review Committee approval was required for the remaining 50 percent. Since the 2000-01 school year, districts need only inform the SBRC of their enrollment increase to be eligible to receive an increase in their spending authority as granted through modified allowable growth.

In 1999-00 talented and gifted (TAG) funding was "rolled" into the finance formula with the intent to continue TAG funding at a level previously funded through allowable growth and to provide property tax relief. Prior to 1999-00 districts could request modified allowable growth through the School Budget Review Committee. This growth, if approved, would be funded through a property tax increase and a commitment from the general fund. In 1998-99, 327 districts were levying \$15.5 million in property taxes for TAG funding. TAG funding was added to the formula by increasing regular program allowable growth by \$38 per pupil in 1999-00. This increase resulted in a corresponding increase to the regular program district cost per pupil and the state cost per pupil. In 2004-05 the estimated amount included in the district cost per pupil for TAG is \$44 per pupil.

Special state aid and budget incentives were provided to districts that reorganized prior to July 1, 1994. The incentives were completely phased out by July 1, 1999, but some were reinstated effective with the 2001-02 school year. Districts that whole grade share and have in place a board passed resolution to study reorganization are eligible to receive an increase in their budget for up to three years. If the districts reorganize they are eligible for additional funding for another three years. A taxpayer incentive continues to be in place that reduces the uniform levy to \$4.40 per \$1,000 taxable valuation the first year of the reorganization. The levy is increased back to \$5.40 over the next three years. Prior to July 1, 1999, the taxpayer incentive was given for five years and additional funding was carried into the new districts for five years.

A special provision of Iowa's school aid and school budgeting is a state-level School Budget Review Committee. The committee provides relief for unique and unusual situations not covered under the basic foundation plan. To provide the relief, the committee has the authority to grant districts increases in spending authority which may result in increases in property taxes. The five-member committee annually reviews areas such as the special education weighting plan and adjusts the weights as the committee deems necessary. If the special education expenditures exceeded revenues, as has been

the case in recent years, additional allowable growth may be granted. This additional growth requires an increase in cash reserve property taxes or use of cash balances.

Iowa is unique compared to other states in that maximum spending authority is controlled in each district through the foundation plan. The funding sources include state aid, property taxes, unspent balances from the prior year, plus actual miscellaneous income. The controlled expenditure has resulted in greater equity in expenditures but less local discretion. Once spending authority has been granted it is not removed even if authorized state aid or property taxes revenues are not actually received. Thus when an across the board state aid cut is made, spending authority is not reduced. A district may levy for a cash reserve (property taxes) to replace any revenues not received.

All school district funding in Iowa is controlled through a formula (i.e., basic foundation aid plan and total combined district cost), through a maximum levy rate allowed (i.e., physical, plant and equipment levy), or defined usage for funds raised (i.e., management levy). These controls limit local discretion but also are intended to equalize access to funding as well as amounts expended across the districts in the state.

FUNDING COMPONENTS

REGULAR PROGRAM COST

Funding in 2004-05: \$2,311.4 million

Source of revenue: \$1,468.4 million state aid
\$ 843.1 million property taxes

Regular program district cost is calculated by multiplying district costs per pupil and budget enrollments. Budget enrollments include the actual number of pupils present in September 2003, plus an adjustment for those students who are enrolled in a district-sponsored home school assistance program, who are considered to be dual-enrolled students, or nonpublic students who are enrolled on a shared-time basis. The state aid/property mix of \$1,468 million/\$843.1 million is an approximation.

Statute: Chapter 257, Financing School Programs

REGULAR PROGRAM GUARANTEE

Funding in 2004-05: \$30.8 million

Source of revenue: property taxes

Number of districts: 235

The 2003-04 regular program budgets were guaranteed to be at the same level as 2002-03 budgets. Beginning with 2004-05 budgets, the budget adjustment calculation will change and the current method used to calculate a guarantee will be phased out over ten years. In 2004-05 the budget adjustment will allow for a minimum increase of one percent of the prior year's regular program budget or be 90% of the guarantee as previously calculated. In 2005-06 the same method will be used except the minimum will be 80 per cent as previously calculated. This method of reduction will continue until the 2013-14 when only the 101 percent will be available.

Seventy-three districts will be on 101 percent guarantee. One hundred sixty-two districts will be on the phase reduction of the prior guarantee method.

Statute: Chapter 257.14, Financing School Programs, Budget Adjustment

SUPPLEMENTARY WEIGHTINGS

Funding in 2004-05: \$29.6 million

Source of revenue: \$25.9 million state aid
\$ 3.7 million property taxes

Number of districts: 367

Supplementary weighting or additional funding is provided to districts involved in sharing teachers, sharing students, whole grade sharing, reorganizing, regional

academies, or having students in an ESL program. A supplementary weighting is also provided for the purposes of providing funding for at-risk student programs. All districts receive additional funding for at-risk students based upon their enrollment and the percent of students receiving free and reduced price lunches.

The basic supplementary weighting for shared teachers, shared students, is .48 times the percent of time they are involved in a sharing situation. The weighting for whole grade/reorganization sharing is .10 times the number of students involved.

Students identified by the district as having limited English proficiency are weighted .22 for budget purposes and may be weighted for up to three years. The weighting was changed from .19 to .22 effective July 1, 2002.

The additional supplementary weighting added 6,199.436 pupils to the total weighted enrollment in 2004-05. Pupil/teacher sharing, regional academies, and whole grade sharing added 2,034.2 pupils, ESL added 2,084.5 pupils and the at-risk formula added 2,063.736 pupils.

In 1998 the Department of Education requested that the Attorney General clarify the eligibility requirements for supplementary weighting for students in various sharing situations. The Attorney General's Opinion, which was issued in 1998, was applied to the supplementary weights effective with the 1999 certified enrollments. The major consequence of the opinion was that students in high school level courses that were offered by community colleges for high school credit (but not college credit) were not eligible for supplementary weighting. In 2000 the legislature added the at-risk formula and eliminated the inclusion of students in alternative high schools in the supplementary weighting.

A supplementary weight is available for districts that participate in whole grade sharing and agree to study reorganizing or dissolving. They are eligible to receive a weight of .10 times the number of students in the district prior to reorganizing or dissolving and the weight will carry into the new district. The total number of years that this weight is available to the affected districts is six. District that wish to participate in this must reorganize by July 1, 2006.

A supplementary weighting is available for districts that host a regional academy. The weight is .1 for each student in the academy times the percent of the day in regional academy classes. The minimum weight for the host district is 10 and the maximum is 15. In addition, the maximum statewide funding amount is capped at one million dollars.

Statute: Chapters 257, Financing School Programs; 280.4, Limited English Proficiency Weighting

SPECIAL EDUCATION – DISTRICT COST

Funding in 2004-05: \$330.8 million

Source of revenue: \$289.5 million state aid
\$ 41.4 million property taxes

Funding for special education instruction is included as part of the basic foundation plan. Schools are funded on the basis of weighted enrollment, which includes the weighting for special education. Students receiving special education are assigned a weight of .72, 1.21, or 2.74 in addition to the 1.0 count. These three weights are calculated to generate sufficient funds to cover the excess cost of special education. If the excess is not covered and districts incur a deficit, they may be granted additional allowable growth by the School Budget Review Committee to cover the deficit. The growth will be covered by property taxes after the state aid from districts having positive balances are applied to the deficits. If a district has an unspent balance of special education funds, the balance, in excess of 10 percent of the special education funds generated, reverts to the state to be used by districts incurring a deficit.

The financial amounts associated with the weights times district cost are in addition to the regular program amounts. The net impact of the special education weightings through the formula is that approximately 87.5 percent of the instructional cost of special education is paid by the state. In addition to the direct instructional support, special education is also supported and funded through Iowa's area education agencies (AEAs). Using the weighted enrollment, each district generates funds for the AEA. The weighted enrollment is multiplied by the AEA instructional support amount per pupil. Approximately 79 percent of AEA special education support costs are paid by the state.

Statute: Chapters 257, Financing School Programs; 256B Special Education; 273, Area Education Agencies

AREA EDUCATION AGENCIES

Funding in 2004-05: \$ 140.1 million

Source of revenue: \$ 72.0 million state aid
\$ 68.2 million property taxes

Area education agencies serve as intermediate service units to provide special education support services, media services, and educational services. The AEAs are fiscally dependent upon the school districts. The basic funding formula includes separate funding on a per pupil basis for each of the three service areas. The media and education services program area is funded entirely from property taxes. The enrollment count used for media and educational services includes pupils from approved nonpublic schools.

Special education support services funding is included in the state aid foundation plan. The effective state support level and the foundation level for special education is 79 percent. The enrollment count for special education support services includes the special education weights.

In 2002-03 and 2003-04 the state foundation aid to AEAs was annually reduced by \$7.5 million through legislative action. In 2004, the legislature codified the reduction and thus AEAs will be reduced by \$7.5 million each year. In addition, the legislature reduced state foundation to AEAs by \$10 million in 2003-04 and 2004-05. At the beginning of 2003-04, the AEAs were also required to revert \$10 million in 2002-03 carryover funds. The AEAs were also subject to the 2.225 percent across-the-board reduction that totaled approximately \$1.8 million in 2003-04.

Statute: Chapters 257, Financing School Programs; 273, Area Education Agencies

DROPOUT AND DROPOUT PREVENTION PROGRAMS

Funding in 2004-05: \$64.4 million

Source of revenue: property taxes

Number of districts: 274

Permission to levy property taxes for dropout and dropout prevention programs is granted by the state level School Budget Review Committee to districts having approved programs. The Department of Education reviews each district's program and budget prior to recommending to the SBRC approval for modified allowable growth. Up to 75 percent of the program's budget may come from the additional property taxes. The remainder must be supported from the general operating funds of the district.

Statute: Chapter 257.41, Funding for Programs for Returning Dropouts and Dropout Prevention

SBRC MODIFIED ADDITIONAL ALLOWABLE GROWTH

Funding in 2002-03: \$26.7 million (not including returning dropout funding)

Source of revenue: property taxes

Number of districts: 258

The basic funding plan for the state includes a budget and tax oversight process which is administered through a state-level committee. This five-member committee which is known as the School Budget Review Committee provides a process by which districts can seek relief from unique and unusual circumstances. The committee has the power to grant additional spending authority and thus authorize increases in property taxes. The most frequent requests for increased budgets are for returning dropout and dropout prevention programs, new and/or ongoing unique educational programs, special education deficits, 2003-04 enrollment changes due to open enrollment, enrollment

increases, or nonpublic enrollments impact. The SBRC reviews the extent to which districts levy for cash reserve and has the power to reduce cash reserve levies. The SBRC has general authority to review districts' budgets and ask school officials to appear or provide the committee with information.

Statute: Chapter 257.31, Duties of the SBRC Committee

INSTRUCTIONAL SUPPORT PROGRAM

Funding in 2004-05: \$143.4 million

Source of revenue: \$ 77.0 million - property taxes
\$ 52.0 million - income surtaxes
\$ 14.4 million - state aid

Number of districts: 325

In 2004-05 three hundred twenty-five districts implemented an instructional support program. Districts may increase their budgets by up to 10 percent of the regular program cost including the guarantee. The money generated may be used for any general fund purpose. If authority to participate in the program is approved by a vote of the electorate, the maximum number of years the levy can remain in place without additional approval is ten years. A board may approve the implementation of the program without voter approval for a period of up to five years. Board action is subject to a petition which may call for an election. The board determines the mix of income surtaxes and property taxes. State aid is provided to equalize the property taxes required. The state aid amount was intended to be approximately 25 percent of the total amount generated through the instructional support program. However, state aid was frozen at \$14.8 million and was reduced to \$14.4 million in FY05. If fully funded, state aid would have been \$45.7 million. Income surtaxes are used by 269 of the 325 districts which have implemented an instructional support program.

Statute: Chapter 257.18, Instructional Support Program

EDUCATIONAL IMPROVEMENT LEVY

Funding in 2004-05: \$841,000

Source of revenue: \$694,000 - property taxes
\$147,000 - income surtaxes

Number of districts: 5

One of the provisions of the school finance law implemented in 1992-93 was to decrease the district cost per pupil of the districts that had high per pupil spending levels. Maximum district cost per pupil was established at 110 percent of the state cost in 1991-92 and was gradually to be reduced to 5 percent of the state cost over time. Any district which was above 110 percent was allowed to establish a levy of the board's choosing to replace all, part or generate more than they previously were receiving. Five districts have enacted the educational improvement levy. This levy will remain in place until the board acts to remove it or a referendum is held to remove it. In 1993 this

section was amended to permit the use of income surtaxes to support the educational improvement program. All five districts have implemented an income surtax to support the educational improvement program.

Statute: Chapter 257.29, Educational Improvement Program

PHYSICAL PLANT AND EQUIPMENT LEVY

Funding in 2004-05: \$103.8 million

Source of revenue: \$ 96.4 million property taxes
\$ 7.4 million income surtaxes

Number of districts: 337

In 2004-05 up to \$1.67 per \$1,000 taxable valuation may be levied under the general area of physical plant and equipment. The board may enact a 33 cent per \$1,000 taxable valuation levy for expenditures under the physical plant and equipment levy and with voter approval districts may add an additional levy of \$1.34 per \$1,000 taxable valuation. This new levy created under the finance formula changes in 1989 is a combination of the previous site and schoolhouse fund levies. All uses previously permitted under either the site or schoolhouse fund were included. Two new uses were permitted which are the purchase of school buses and the purchase of technology equipment, systems, or services. Previously and continuing permitted uses include the purchase or improvement of sites or major building repair. The funds may not be used for new construction of school buildings or administration buildings without voter approval. Building repair includes reconstruction, improvement or remodeling to existing schoolhouses or additions to schoolhouses, and expenditures for energy conservation. Also permissible is the purchase of grounds, construction of buildings, repairing or remodeling, expanding buildings, opening roads, repairing roads, improving grounds or facilities, and renting facilities. Three hundred thirty-seven districts have enacted a board voted levy. Two hundred fifty-seven have implemented a voted physical plant and equipment levy and of those, 84 are using an income surtax.

The voter-approved portion was increased effective July 1, 1997, to \$1.34 per \$1,000 taxable valuation. It had previously been 67 cents per \$1,000 taxable valuation. The voter-approved portion of this levy may be requested for up to ten years. The board may borrow against anticipated revenue from the voter-approved levy and the levy may be a combination of property taxes and income surtaxes.

Statute: Chapter 298.2, Imposition of Physical Plant and Equipment Levy

SCHOOLHOUSE LEVY

Funding in 2004-05: \$59,000

Source of revenue: property taxes

Number of districts: 1

Although districts may no longer initiate new 67.5 cent levies, districts which had it approved by the voters prior to the new finance law passed in 1989 may continue until the authorization expires. With voter approval, districts could levy up to 67.5 cents per \$1,000 taxable valuation for capital-related activities under this schoolhouse fund levy. This levy may have been requested for up to ten years and boards could borrow against anticipated revenue from the schoolhouse levy. Permissible activities included purchase of grounds, construction of buildings, repairing or remodeling, expanding buildings, opening roads, repairing roads, improving grounds or facilities, and renting facilities.

Statute: Chapter 278.1(7), Power of Electors, Code of Iowa, 1993

MANAGEMENT LEVY

Funding in 2004-05: \$86.7 million

Source of revenue: property taxes

Number of districts: 362

The management levy is a combination of what previously was defined as the insurance levy, the unemployment levy, and the early retirement levy. Districts may levy to pay the cost of liability insurance premiums, tort judgments against the district, a self-insurance program, cost of a local government risk pool to protect the school corporation against tort liability, loss of property, or any other risk associated with the operation of the school district. Districts may also levy to pay for unemployment insurance premiums or unemployment claims.

Districts may levy to pay for early retirement incentives such as a monetary bonus and the continuation of health or medical insurance coverage. The early retirement program was available only for employees between 59 and 65 years of age at the time districts certified their budgets for 1998-99. In the 1998 legislative session the age was lowered to 55 and districts were permitted to levy for early retirement costs regardless of whether they had achieved a savings.

Statute: Chapter 298.4, District Management Levy

EDUCATIONAL AND RECREATIONAL TAX

Funding in 2004-05: \$1.6 million
Source of revenue: property taxes
Number of districts: 18

With voter approval the board may levy up to 13.5 cents per \$1,000 taxable valuation levy for the purchase of recreation places and playgrounds in public school buildings and grounds of the district. The board may authorize the use of the funds for recreational programs. The funds may also be used to provide for community education programs under the Iowa Community Education Act. Once enacted the levy remains in place until rescinded by the board of directors or by the voters of the district.

Statute: Chapter 300, Educational and Recreational Tax

BONDS/DEBT SERVICE RETIREMENT

Funding in 2004-05 \$96.5 million
Source of revenue: property taxes
Number of districts: 217

A local board may only issue bonds if 60 percent of the electorate approve. The maximum bonded indebtedness is 5 percent of the district's assessed valuation. The maximum length of any bond is 20 years. Bonds issued by school districts are subject to the provisions of Iowa Code Chapter 75 and 76, Authorization and Sale of Public Bonds, Provisions Related to the Public Bonds and Debt Service.

Statutes: Chapters 296, Indebtedness of School Corporations; 298, School Taxes and Bonds; 75 and 76, Authorization and Sale of Public Bonds

LOCAL OPTION SALES AND SERVICES TAX

Funding in 2004-05* \$244 million
Source of revenue: sales and services taxes
Number of counties: 90

*Estimate based on 2003-04 data

The residents of a county may elect to impose a local option sales and services tax not to exceed 1 percent and for a period not greater than ten years for the purposes of school infrastructure. A simple majority is required for passage. This revenue source was first made available in 1998, with three counties imposing the tax beginning with 1998-99. The proceeds from the tax are distributed to the districts located wholly or partially in the county based upon the number of students who are residents of the county. Districts may issue revenue bonds against future revenues.

In 2003, the legislature modified the local option sales tax by expanding the use to include activities under the physical plant and equipment levy. They also created a

means by which revenues would be shared across counties. The county that would raise the least revenue per pupil would be brought up to the next highest revenue/per pupil county and then both would be brought up and so on until they receive \$575 per pupil. Receiving funds is contingent upon a state appropriation and the passage of the tax in counties that would be above \$575 per pupil.

Statutes: Chapter 422E, School Infrastructure Funding

MISCELLANEOUS INCOME

Total miscellaneous income is estimated to account for over \$415 million in 2004-05. The primary sources of miscellaneous income are various state and federal categorical aid programs. Phases I and II of the Educational Excellence Program for teachers, school improvement/class size reduction funds, teacher quality/compensation, and federal aid account for the primary revenue sources. Miscellaneous state aid is expected to be \$130 million. In 2004-05 federal receipts including USDA food and nutrition funding are estimated to be \$ 285.3 million.

CASH RESERVE LEVY

Funding in 2004-05: \$57.2 million

Source of revenue: property taxes

Number of districts: 237

Districts may levy for cash reserve property taxes to enable them to manage their cash flow. The cash reserve does not increase their spending authority or budget. The purpose is to provide cash behind existing authority. The cash reserve levy may be used for such items as replacement of state aid not received due to across the board cuts or for property taxes not received due to delinquent payments.

Statute: Chapter 298.10, Levy for Cash Reserve

OTHER RELATED FINANCE ISSUES

Property Valuations

Property values are equalized by the director of the Iowa Department of Revenue and Finance every two years by increasing or decreasing the aggregate valuations for certain classes of property within the 112 assessing jurisdictions. Assessments are adjusted to actual values, except that agriculture values are based on a productivity formula.

Adjustments are based on assessment/sales ratio studies as well as investigations and appraisals made by the Department of Revenue. For agriculture realty, productivity and related prices and expenses for a five-year period are used to determine assessed values. If reported valuations are more than 5 percent above or below those determined by the state, the state orders a percentage adjustment on effected class of property.

Property valuations and changes in property valuations affect some areas of the school districts' budgets but not others. The controlled budget is not affected since decreases or increase in valuations will result in corresponding changes in the amount of state aid a district receives and will change the tax rate of the additional levy. Decreases in the 2003 taxable valuation in some districts, which affected the 2004-05 budgets, resulted in less revenues generated under the physical plant and equipment levy and public education and recreation levy. Since the management levy does not have a rate limitation the result of decreases or increases in taxable valuations was a decrease or increase in the tax rate.

Tax and Spending Limits

Spending limits are imposed under the basic funding of districts through the calculations used to determine the combined or "controlled" budget. This budget is based upon the district cost per pupil and the total weighted enrollment in that district. Tax limits are imposed on a levy by levy basis, as previously described. There are no state imposed limits on the total property taxes which can be levied for school districts.

The state imposed maximum cumulative surtax rate is 20 percent.

SCHOOL BUDGET REVIEW COMMITTEE AUTHORITY

The School Budget Review Committee has broad authority relating specifically to local school district budgets. This authority is exemplified in the following sections of the 1997 Iowa Code:

257.31(1), The school budget review committee may recommend the revision of any rules, regulations, directives, or forms relating to school district budgeting and

accounting, confer with local school boards or their representatives and make recommendations relating to any budgeting or accounting matters, and direct the director of the Department of Education or the director of the Department of Management to make studies and investigations of school costs in any school district.

257.31(3), The committee shall review the proposed budget and certified budget of each school district, and may make recommendations.

257.31(11), Failure by any school district to provide information or appear before the committee as requested for the accomplishment of review or hearing is justification for the committee to instruct the director of the Department of Management to withhold any state aid to that district until the committee's inquiries are satisfied completely.

257.31(13), The committee may recommend that two or more school districts jointly employ and share the services of any school personnel, or acquire and share the use of classrooms, laboratories, equipment, and facilities as specified in Section 280.15.

257.31(15), Annually the school budget review committee shall review the amount of property tax levied by each school district for the cash reserve authorized in Section 298.10....

A significant feature of the Iowa finance law is the establishment of a state level school budget review committee. The committee's powers are not only broad but provide for those unique and unusual circumstances which cannot be easily or timely handled through legislation.

One of the major responsibilities of the SBRC is to consider requests for additional allowable growth from school districts. The major criteria used in considering these requests is found in Section 257.31(5), Iowa Code 1995, although other subsections of Section 257 also include other criteria.