



Fulfilling the 30-Year Vision of the Iowa School Foundation Formula

When the Iowa school foundation formula was created over 30 years ago, schools were funded almost exclusively by the property tax. Disparity in both per-pupil funding and tax rates was wide. The legislature stepped in and said that no longer would a child's educational opportunity be determined by their address and the state had a role in ensuring taxpayer equity. Now is the time to finish the work begun 30 years ago and equalize school foundation property taxes to finally ensure that inequities to taxpayers do not result in inequities to Iowa children.

The Problem

Under the current state foundation formula, property taxes are partially equalized. Schools have the \$5.40 uniform levy and the additional levy. Additional levy rates range from a low of \$1.59 to a high of \$12 per thousand. This taxpayer inequity has a number of consequences for children. In districts with high levy rates, taxpayers are often unwilling to provide the same level of educational support that districts with low tax rates enjoy. Instructional Support Levies, Physical Plant and Equipment Levies or bond issues in districts with high rates are less likely to receive public approval. This raises the issue of whether a child's educational opportunity is truly independent of their address.

Taxpayers express concern about tax rates. Concern is aggravated by the disparity in tax rates between neighboring districts. A fundamental concern of Iowans has always been fairness. Most people don't mind paying taxes, as long as they are not paying more than their neighbor. With two identical homes, separated by a school district boundary line, one can pay \$6, \$8 or even \$10 more per thousand than the home located across the line. This is not due to better management or more services. It is simply due to how much property value is backing each child in the district - something beyond the control of either the taxpayer or the school district.

The divergence of tax rates is a huge barrier to reorganization. In many cases, school districts are faced with a nearly impossible situation: the realization that they can no longer efficiently provide a broad-based, academically rich education for their children. Consolidation today means both raising their property taxpayers' bill AND closing buildings - a tough sell indeed. Or in some cases, it is the opposite predicament; a tax rate is so much higher that the appropriate partner would not wish to adopt them.

The attached presentation demonstrates in detail the tax rate disparity problem, the reasons for achieving property tax equity through the foundation formula, and comparisons with other suggested solutions.

The Solution

Over the next 10 years, the Iowa legislature should finish the long journey begun over 30 years ago. The uniform levy and the state foundation percentage should be increased together until the additional levy is eliminated. The uniform levy should be indexed annually, as was originally intended, to ensure that the state portion of K-12 funding remains relatively constant over time. A 10-year phase in of the schedule would look something like the following:

Year	Foundation Percentage	Uniform Levy
FY 2005	87.5%	\$ 5.40
FY 2006	88.8%	\$ 5.78
FY 2007	90.0%	\$ 6.16
FY 2008	91.3%	\$ 6.54
FY 2009	92.5%	\$ 6.92
FY 2010	93.8%	\$ 7.30
FY 2011	95.0%	\$ 7.68
FY 2012	96.3%	\$ 8.06
FY 2013	97.5%	\$ 8.44
FY 2014	98.8%	\$ 8.82
FY 2015	100.0%	\$ 9.00

The Impact

For the first few years, taxpayers and districts would be minimally affected. The increase in the uniform levy would be offset by the reduction in the additional levy. As time progressed, there would be classes of taxpayers affected by the change, some more than others. There are ways to reduce or eliminate the impacts through state funding of property tax credits.

While differences will still exist for those levies outside the foundation formula, they are relatively small and a decreasing proportion of overall school tax levies due to the passage of the local option sales tax. Coupled with state supplemental funding, property taxes to fund facilities are becoming less prevalent and will continue to fade over the years in all but the fastest growing Iowa districts.

Conclusion

This change provides the best combination of taxpayer and student fairness at the lowest possible state cost. It provides more equity for taxpayers and solves one of the most vexing problems for the Iowa property tax system: inequity in tax rates for classes of property.

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