



HANDOUTS

Property Taxation Review Committee

September 1, 2004

**Property Taxes and the School Foundation Formula
Provided by Iowa Association of School Boards**

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Property Taxes and the School Foundation Formula

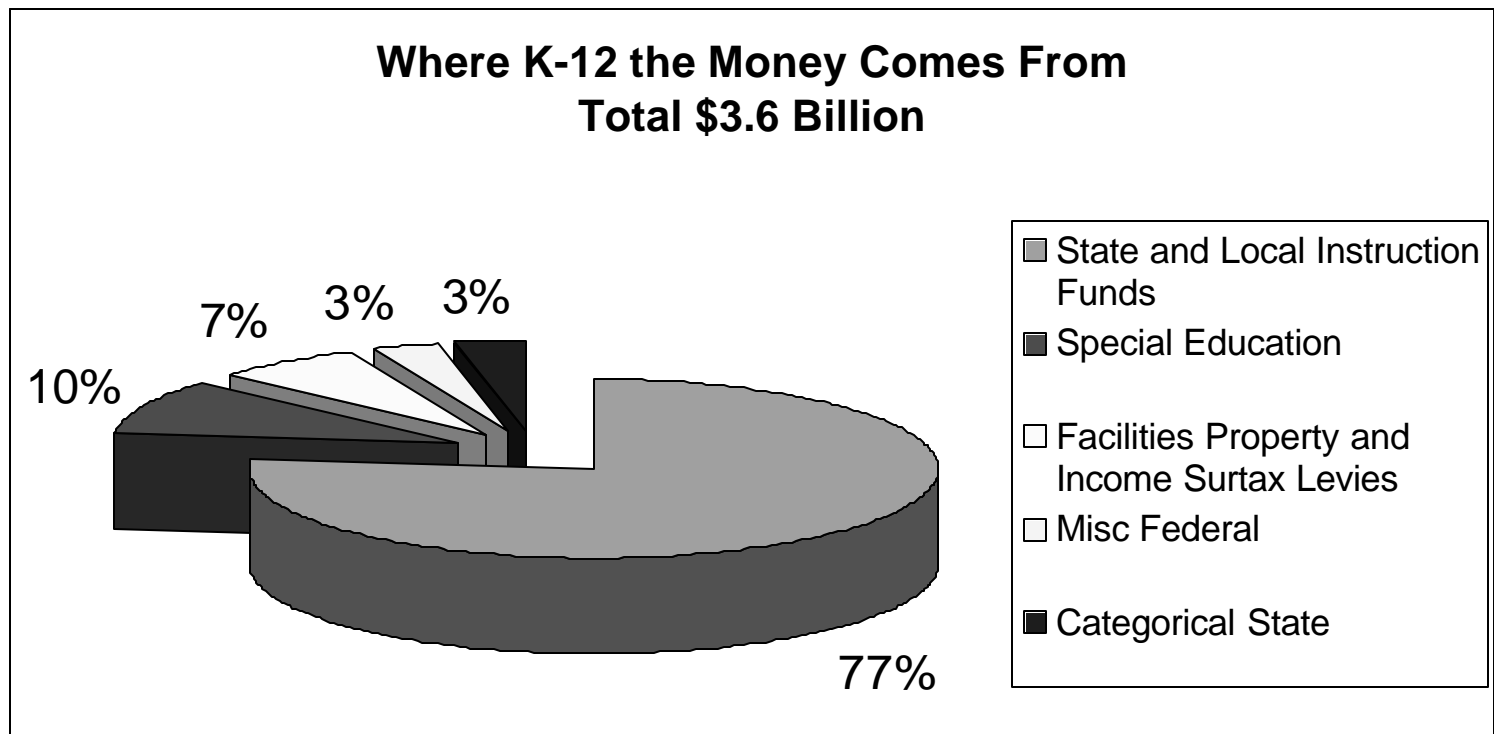
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Common Questions

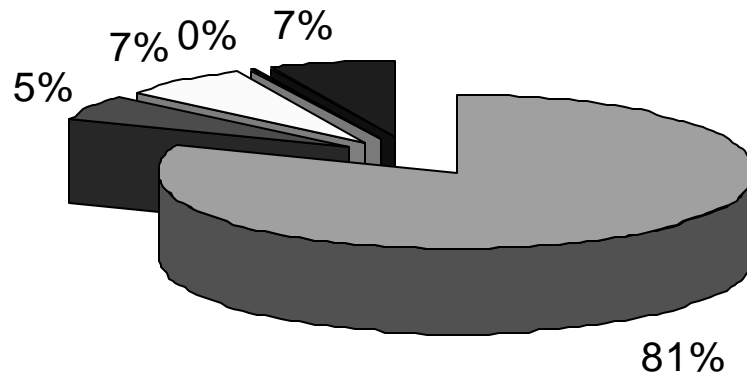
- How much is total education funding?
- Where does it come from?
- What are total property tax revenues to schools?
- Where does General Fund revenue come from and where does it go?

Funds Received – All Sources



K-12 Property Tax Revenues

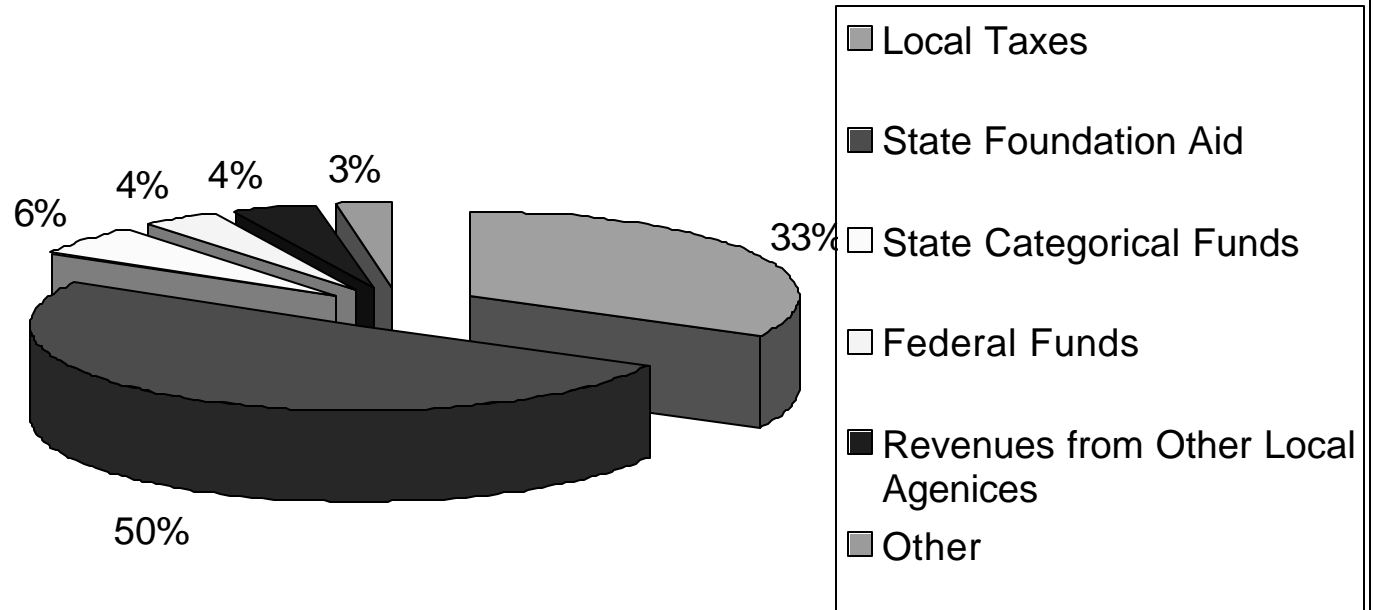
Total K-12 Property Taxes
\$1.470 Billion



- General Fund
- Management Funds
- Physical Plant and Equipment Levy
- Public Education and Recreation Levy
- Debt Service Levy

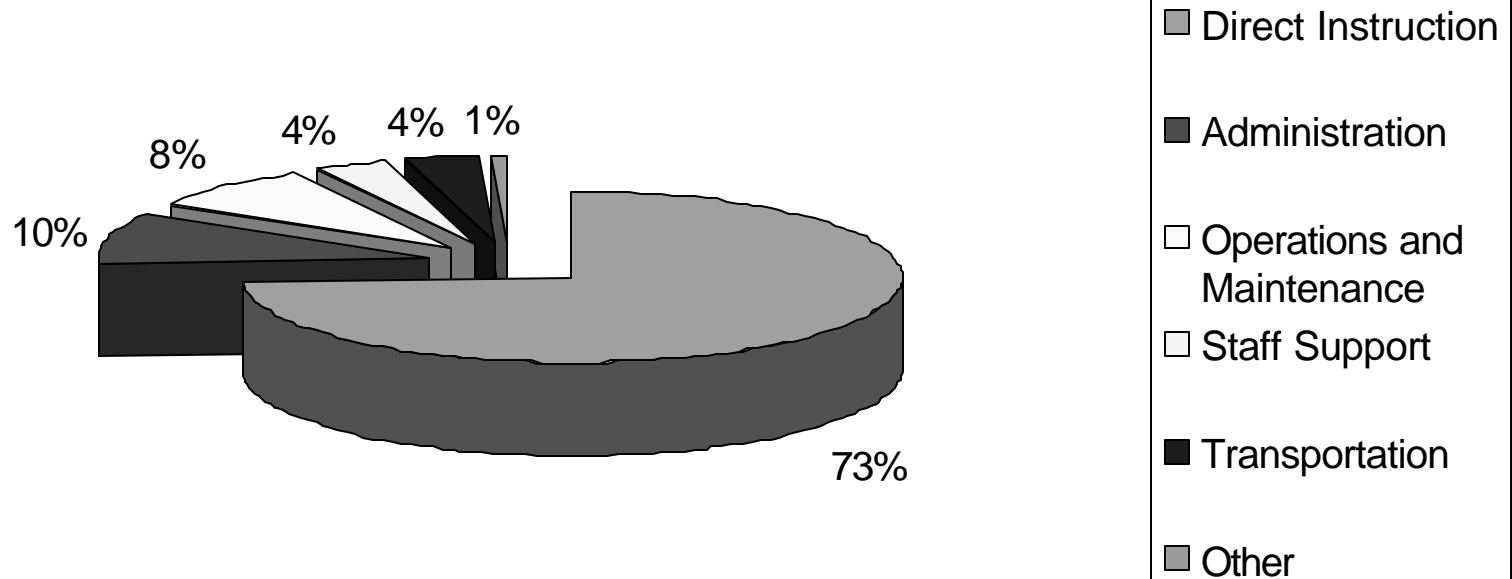
General Fund Revenues

**Revenues to K-12 General Fund
Total \$3.1 Billion**



General Fund Expenditures

Where the K-12 General Fund Money Goes



Foundation Formula Goals Discussion

- Before we discuss how to change the funding of the formula, discussing the goals is important.
 - Constrains choices
 - Focuses on the end result we are seeking
 - Goals drive the system you implement and not vice versa

Guiding Goals

- Education finance systems should facilitate a substantially higher level of achievement for all students while using resources in a cost efficient manner.
- Education finance systems should facilitate efforts to break the nexus between student background characteristics and student achievement.
- Education finance systems should generate revenue in a fair, predictable and efficient manner.

Adapted from Ladd and Hansen, *Making Money Matter: Financing America's Schools*, July 2002

Equity

- Student and taxpayer equity defined
- Student and taxpayer equity
 - Taxpayer equity issues can become student equity issues and vice versa
 - Taxpayer equity impacts student equity: Low property value => higher tax rate => inability to pass bond issue
 - Student equity impacts taxpayer equity: Example
 - build building for 500 kids, one district requires a \$4.05 levy, the other requires a \$0.66 levy

Equity

- Why do we care about taxpayer equity?
 - As previously discussed, it can affect student equity.
 - Tax differentials lead to legislative solutions
 - Example: property tax reform legislation stemmed from unhappiness over the property tax system (note: dealt with the valuation piece rather than the tax rate piece)
 - Differentials in tax rates lead to competition for tax rate relief (example: TIF), which makes the tax rate disparity worse (new entrants to area pay less than existing residents/businesses) => downward spiral.

School Foundation Formula

- Current statement of purpose:
 - Code of Iowa, 257.31:
 - “...equalize educational opportunity, to provide good education for all children of Iowa, to provide property tax relief, decrease the percentage of school costs paid from property taxes, and to provide reasonable control of school costs.”

School Foundation Formula

Component	H	M	L
–Equalize educational opportunity		X	
–Provide a good education for all kids		X	
–Provide property tax relief	X		
–Reduce percentage of school costs paid from property taxes	X		
–Reasonable control of school costs		X	

School Foundation Formula

■ Student Equity

– Cost per pupil

- State FY 2004 cost per pupil - \$4,648
- Maximum FY 2004 cost per pupil - \$4,823
 - Absolute deviation - \$175
 - Percent deviation 3.77%
 - 182 of the 370 (49.2%) districts have the state cost per pupil (remainder higher)
 - 263,214 of the 487,021 (54.1%) students have the state cost per pupil (remainder higher)
- Property taxes pay the difference between state and district cost per pupil (taxpayer equity).

School Foundation Formula

■ Student equity (cont.)

– Instructional Support Levy (ISL)

- Permits districts to raise regular program district cost by 10% prior to prorate.
- State funding fixed at \$14 million, prorated.
- Can't make up state shortfall locally.
- Absolute per child deviation - \$313.71 (low) to \$461.15 (high), or \$147.44
- Percent deviation: 47%
 - 243 of 371 (65.8%) generate full amount
 - 51 of 370 (13.8%) generate 5.0% to 9.99%
 - 19 of 370 (5.1%) generate more than 0 but less than 5.0%
 - 57 districts (15.4%) do not have any ISL

School Foundation Formula

■ Cost of transportation

– Expense item, no formula adjustment

- Average cost per student enrolled

 - High - \$567.37

 - Low - \$0.57

- Average cost per student transported

 - High - \$1,010

 - Low - \$0

School Property Tax Levies

■ General Fund (Instruction)

- Uniform Levy \$5.40/thousand
- Additional Levy – not rate limited – automatically calculated
- Cash Reserve Levy – not rate limited – fund balance is limit
- Instructional Support Levy – voter approved up to 10 yrs

■ Non-General Fund (similar to trust and agency)

- Management Levy – not rate limited – purpose limited.
-

■ Facilities

- Physical Plant and Equipment Levy (PPEL)
 - \$0.33/thousand board approved annually
 - \$1.34/thousand voter-approved (10 yrs, 50% majority, income surtax available)
- Debt Service - \$4.05/thousand – voter approved 60%, 20 yr limit.
- Public Education and Recreation Levy (PERL) – \$0.135/thousand voter-approved (one-time).

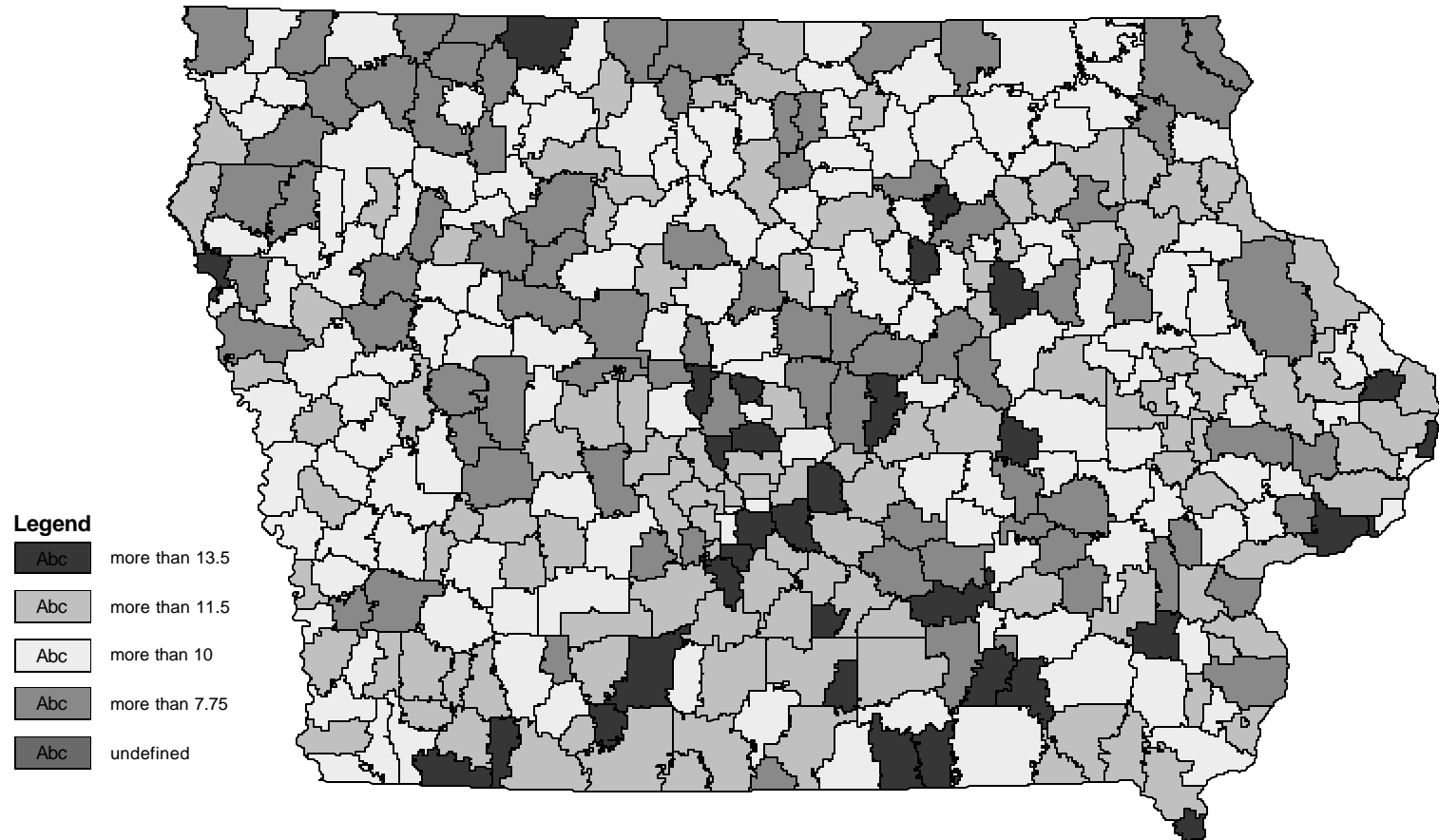
School Foundation Formula

■ Infrastructure funding

- Property tax capacity per pupil
 - Six times from high to low.
 - Implication: levy rate can be one-sixth, or can buy six times as much building.
 - Affects debt service and PPEL primarily because rate-limited.
- Sales tax capacity per pupil
 - Over nine times from high to low.
 - Will be eliminated over time.

Taxpayer Equity

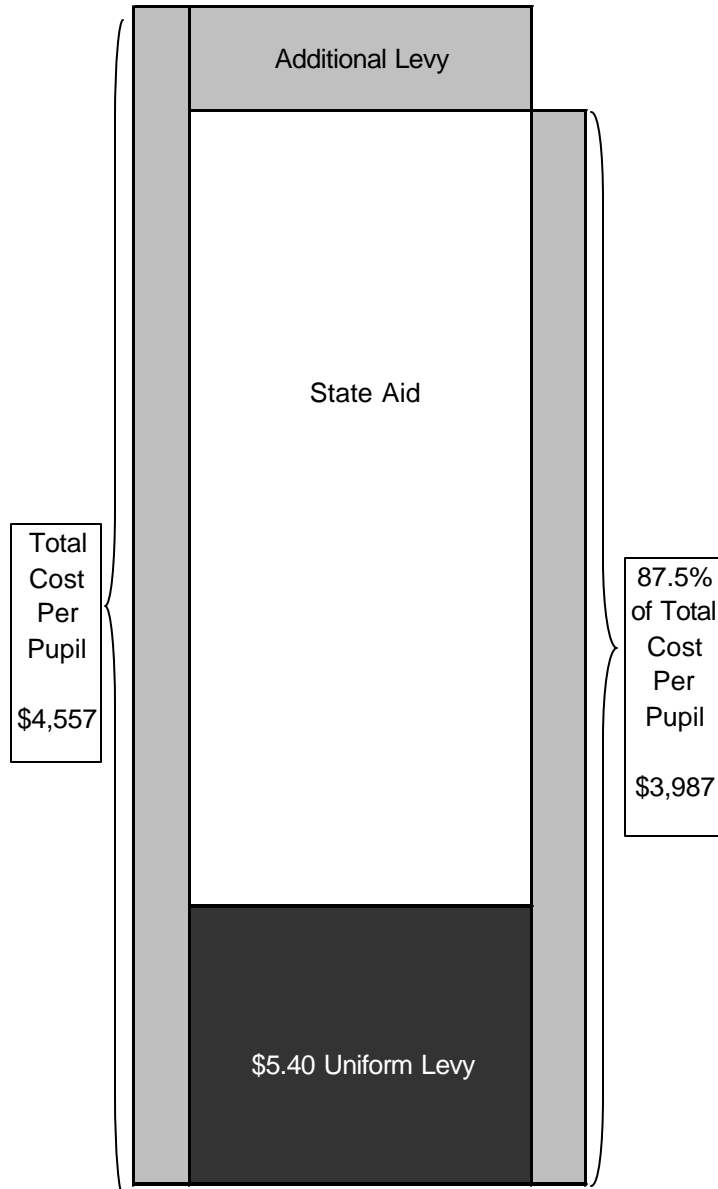
FY 2004 General Fund Tax Rate w/o ISL



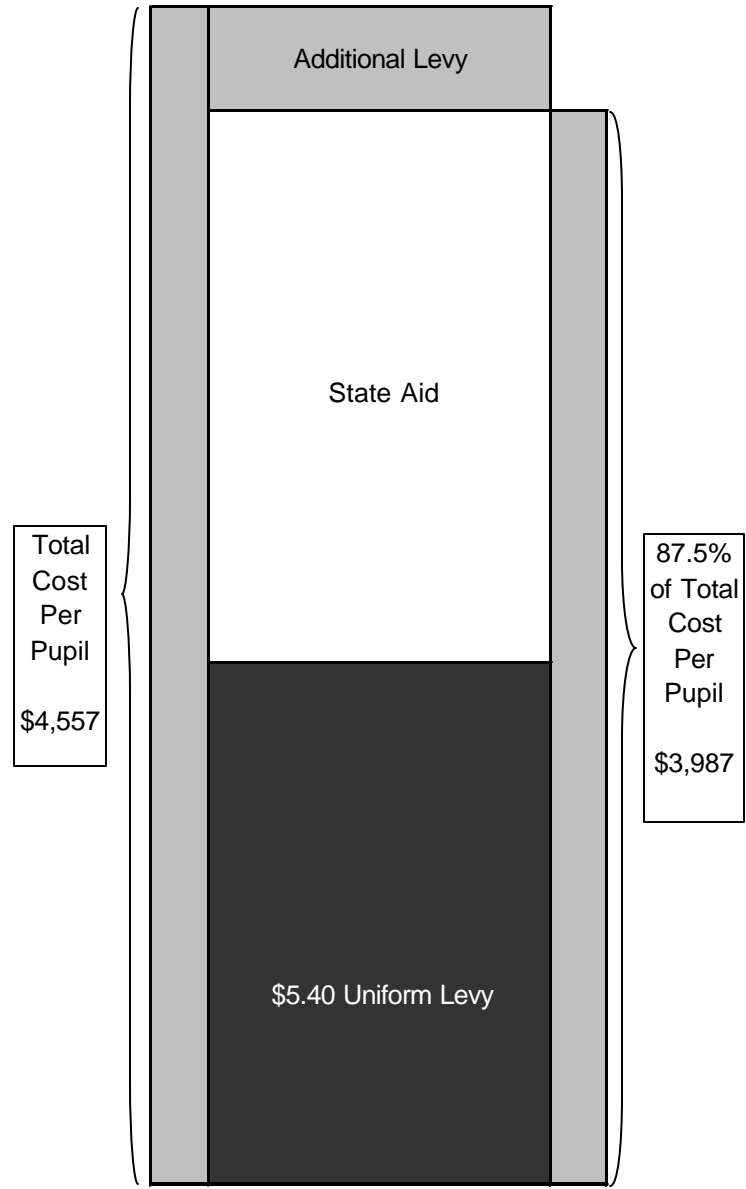
Taxpayer Equity

- Foundation formula recap – three components
 - Uniform Levy - Property tax levy of \$5.40 per thousand of taxable valuation.
 - State Foundation Percentage - Amount the state pays in excess of \$5.40 - varies by district (87.5% of cost per pupil).
 - Additional Levy - Property tax levy which funds the difference between the Combined District Cost and the sum of the Uniform Levy and the State Foundation Percentage.

Property Poor District



Property Rich District



Additional Levy

- Additional levy results in large tax rate differentials
 - Lowest additional levy - \$1.89 per thousand
 - Highest additional levy \$8.34 per thousand
 - Rate is inversely proportional to property value per pupil (low property value per pupil = higher additional levy rate and vice versa).

Other Sources of Taxpayer Inequity

■ Special education deficits

- Districts whose special education costs exceed weightings-generated revenue can recoup through property taxes the following year.
- Range of property tax rates (cash reserve levy):
 - Lowest - \$0 per thousand
 - Highest - \$2.04 per thousand

Other Sources of Taxpayer Inequity

- On-time funding (funding in cash reserve levy)
- Cash reserve levy (non-special ed) property tax rates
 - Low - \$0.00 per thousand
 - High - \$2.00 per thousand
- Management levy range of property tax rates
 - Low - \$0.00 per thousand
 - High - \$2.10 per thousand

Overall Picture

- School levies for all purposes
 - Highest - \$22.06 per thousand
 - Lowest - \$9.49 per thousand
 - Average (mean) - \$14.50 per thousand
- How do we address?

Items to Keep

- Don't want to “throw the baby out with the bathwater” – what are the important things to keep.
 - Concept of spending authority
 - Special education deficits
 - Mix of funding sources
 - Targeting funding through weightings for special populations

Spending Authority

■ Why important?

- Allows “funding bridge” during tough times. Keeps huge swings in funding from year to year (feast or famine).
- Is good public policy – avoids “use it or lose it” mentality.
- Focuses on spending per child rather than arbitrary rate limitations (e.g., cities and counties).

Mix of funding sources

■ Why important?

- Exclusively state-funded systems have lower levels of satisfaction.
- Local funding component provides buy-in/ownership at local level.
- Diversification – less likely to be impacted when one taxing source has an awful year (evens highs and lows).

What are the solutions?

■ Student equity

- Standardize per pupil costs under the foundation formula (currently just over 4% difference).
- Roll instructional support levy into formula. Provide vote authorization to fund from income surtax in districts without current ISL and set allowable uses.
- Fund transportation costs explicitly, but inside of foundation formula.
- Increase funding level for SILO supplement funds
 - provide equity at the statewide average.

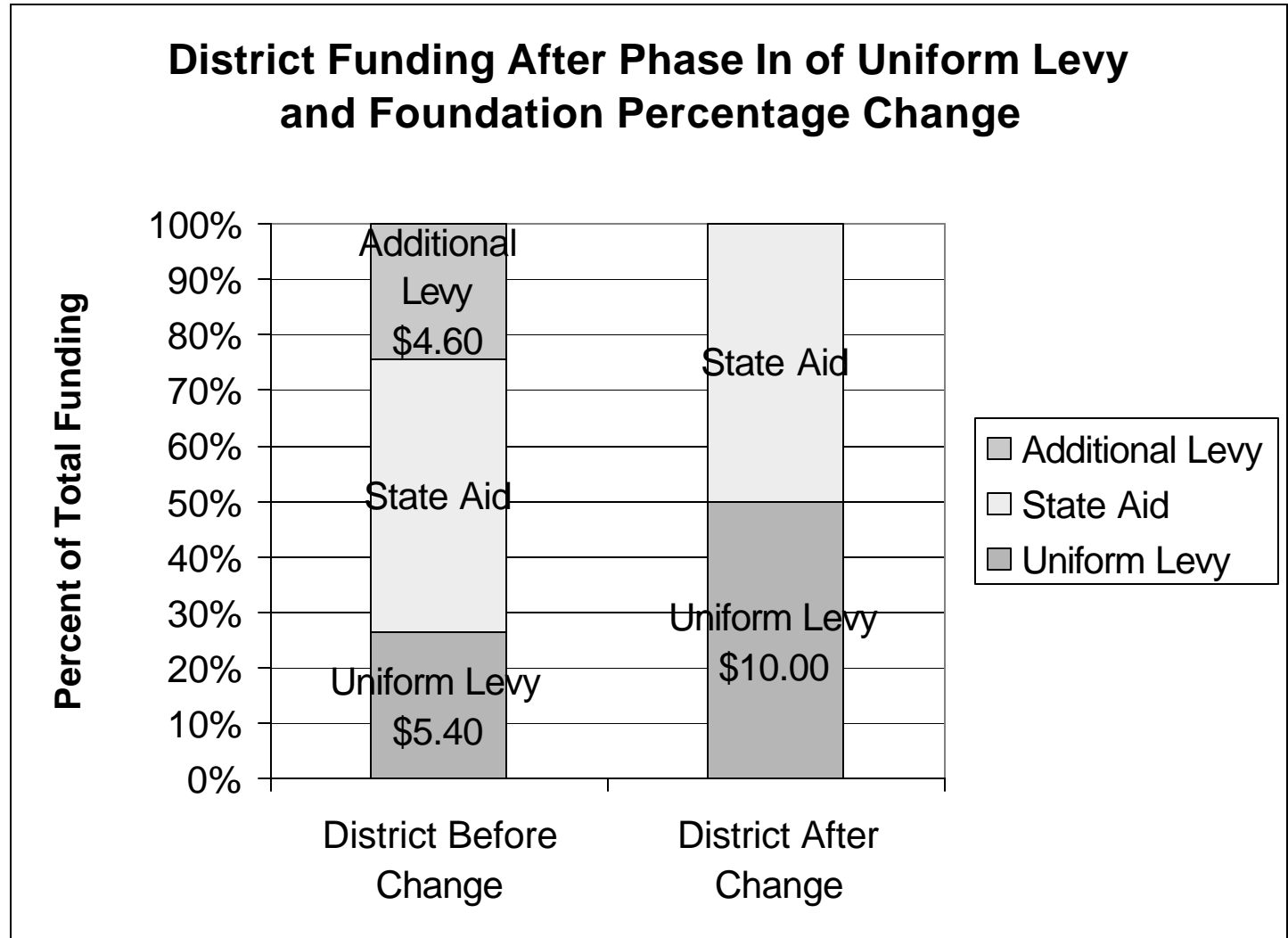
Solutions (cont.)

■ Taxpayer Equity

– Foundation formula changes (program side)

- Raise uniform levy from \$5.40 to approximately \$10.00 per thousand (index annually over several years).
- Set the foundation level at 100% (from the current 87.5%).
- These two changes would eliminate the additional levy – all general fund tax rates would be roughly similar.

Formula Changes Illustrated



Formula Changes

■ Other formula changes

– Special education weightings

- Adjust annually.
- Move to percentile system for weightings (the state will fund up to the 80th percentile of level 1 costs, for example).
- Reflect true cost of educating a special education child.
- Would mean the state is paying its full share because currently this is being shifted to property taxes.

Formula Changes

■ What would this mean?

- Property tax rates for foundation formula would be the same. Disparity would be reduced by approximately \$6.00 per thousand.
- Per pupil funding would be the same across the state and all districts would benefit from the instructional support levy.
- Revenues for instruction would truly reflect cost (due to transportation being funded).
- Special education deficits would be reduced over time due to weightings adjusted annually. Up to \$2.00 per thousand tax rate savings.
- Would remove/significantly reduce one of the major barriers to reorganization – tax rate differentials

Formula Changes

- What would this mean?
 - Some property tax rate disparities would still exist (management levy, cash reserve levy, etc.) but would be vastly minimized.
 - True (and permanent) staff development funding would be ready to meet district and students learning needs.

Impact on Local Control

- Would enhance local control – tax rate differences would be due to action of districts rather than formula driven.
 - Current system with additional levy gives illusion of control but no actual control.
 - Focus on educational program rather than worrying about tax rate differentials.

Overall Analysis

- Iowa school aid formula for instruction is relatively sound. Needs updating.
- Remember the three original goals?
 - Education finance systems should facilitate a substantially higher level of achievement for all students while using resources in a cost efficient manner.
 - Education finance systems should facilitate efforts to break the nexus between student background characteristics and student achievement.
 - Education finance systems should generate revenue in a fair, predictable and efficient manner.

Conclusion

- Please give me your feedback.
- Don't hesitate to call with questions or comments.

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