

Iowa Legislative Fiscal Bureau

Dennis Prouty
(515) 281-5279
FAX 281-8451



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Des Moines, IA 50319
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Budget Guarantee Provision Changes

ISSUE

Examine how the changes made to the school district budget guarantee provision during the 2001 Legislative Session may impact school districts with declining enrollments.

AFFECTED AGENCIES

Department of Education
Department of Management
Local School Districts

CODE AUTHORITY

Section 257.14, Code of Iowa

BACKGROUND

During the 2001 Legislative Session, the General Assembly passed SF 203 (School Finance Provisions Act). This Act codified a budget guarantee provision for eligible school districts with declining enrollments. As enacted, school districts will not have to wait for legislative approval of a budget guarantee, but must adopt a resolution and notify the Department of Management annually by April 1, of the amount of budget guarantee to be received. Previously, the General Assembly would approve a budget guarantee provision each year to provide eligible school districts with declining enrollments a vehicle to maintain the budget at the previous year's level.

Senate File 203 provides that school districts eligible to receive the budget guarantee fund the provision through local property tax. Since 1996, the budget guarantee provision was funded through State aid, local property tax, or a combination of the two. **Table 1** provides a breakdown of the funding source since FY 1996 and the number of school districts that received the budget guarantee.

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Table 1
Budget Guarantee Amounts FY 1996-2002
(\$ in millions)

	<u>Local Property Tax</u>	<u>State Aid</u>	<u>Budget Guarantee Total</u>	<u>Number of Districts</u>
FY 1996	\$ 1.9	\$ 0.9	\$ 2.8	68
FY 1997	2.2	0.0	2.2	54
FY 1998	2.4	0.0	2.4	60
FY 1999	3.2	0.0	3.2	63
FY 2000	0.0	6.2	6.2	105
FY 2001	6.6	0.0	6.6	106
FY 2002	7.7	0.0	7.7	115

Budget Guarantee for FY 2002

Of the 371 school districts, 115 received the 100.0% budget guarantee in FY 2002. **Table 2** details the number of school districts receiving the budget guarantee by enrollment class. Approximately 90.0% of the school districts that received the budget guarantee had enrollments less than 1,000 students. The Council Bluffs School District is the only district over 2,500 students that received the budget guarantee in FY 2002.

Table 2
FY 2002 Budget Guarantee Comparisons by Enrollment Class

<u>Size of District</u>	<u>Total Number of Districts</u>	<u>Number of Districts Receiving Budget Guarantee</u>	<u>Percentage of Districts within Enrollment Class</u>	<u>Percentage of all Budget Guarantee Recipients</u>	<u>Overall Percentage</u>
<250	25	20	80.0%	17.4%	5.4%
250-399	53	31	58.5%	27.0%	8.4%
400-599	71	29	40.8%	25.2%	7.8%
600-999	105	24	22.9%	20.9%	6.5%
1000-2499	84	10	11.9%	8.7%	2.7%
2500-7499	24	0	0.0%	0.0%	0.0%
7500+	9	1	11.1%	0.9%	0.3%

The average budget enrollment for school districts that received the budget guarantee in FY 2002 was approximately 1,000 students less than school districts that didn't receive the budget guarantee and about 700 students less than the statewide budget enrollment. The property tax portion of allowable growth accounted for approximately 42.0% of the combined district cost for school districts that received the budget guarantee compared to 35.0% for school districts that didn't receive the budget guarantee. On average, the taxable valuations per pupil are approximately \$51,000 higher in districts that received the budget guarantee compared to districts that did not receive the budget guarantee. **Table 3** provides information on the averages for budget guarantee recipients and non-recipients.

**Table 3
Budget Guarantee Comparison**

	Average for Districts Receiving Budget Guar. in FY 2002	Average for Districts Not Receiving Budget Guar. in FY 2002	Statewide Average FY 2002
Budget Enrollment	615	1,655	1,332
Total Regular Program District Cost	\$ 2,867,846	\$ 7,502,613	\$ 6,065,960
% Prop. Tax Support	41.9%	35.3%	37.4%
Taxable Valuations per Pupil	\$ 256,714	\$ 205,226	\$ 221,186

CURRENT SITUATION

Senate File 203 provides eligible school districts with declining enrollments a 100.0% budget guarantee (based on the previous fiscal year's total regular program district cost) through FY 2004. Starting in FY 2005, the calculation for the budget guarantee changes to either a "step-down" budget adjustment based on the FY 2004 total regular program district cost or a 101.0% budget adjustment based on the previous fiscal year's regular program district cost.* In FY 2005, an eligible school district will receive the larger of the guarantee amounts.

Step-Down Percentage

Starting in FY 2005, school districts that are eligible, will receive a 90.0% budget adjustment based on the FY 2004 total regular program district cost. Each following year, this adjustment will be based on the FY 2004 total regular program district cost and will "step-down" or be reduced each year by 10.0% until FY 2014 when the percentage will equal 0.0%. Only those districts that receive the 90.0% budget adjustment in FY 2005 will be eligible to receive this "step-down" guarantee in FY 2006 through FY 2013. However, these districts will remain eligible to receive the 101.0% budget guarantee if that amount is greater than the "step-down" adjustment.

101.0% Budget Guarantee

Another calculation of the budget guarantee is the 101.0% budget guarantee. This adjustment is based on the previous fiscal year's regular program district cost. Eligible school districts with declining enrollments will receive 101.0% of the previous year's regular program cost if the current year's regular program has decreased. Any district that qualifies is eligible to receive this budget guarantee.

*

Regular Program District Cost = Budget Enrollment X State Cost per Pupil

Total Regular Program District Cost = Previous Year's Regular Program Cost + Budget Guarantee

EXAMPLE

The following provides a scenario for two school districts with declining enrollments and how the budget guarantee will impact each district starting in FY 2005 through FY 2014. **Attachment A** provides a detailed table of the following information.

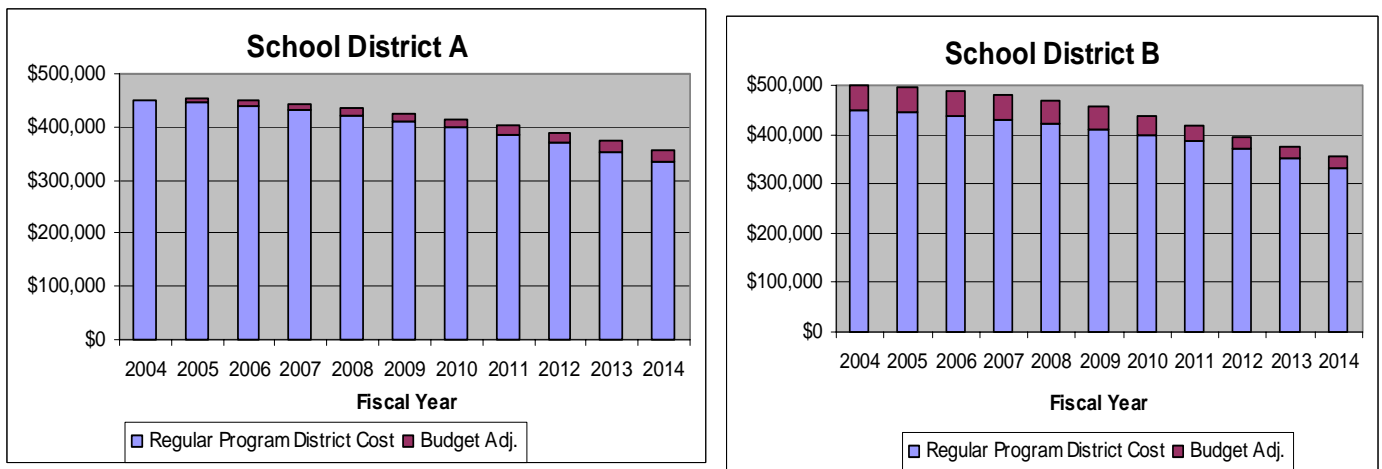
For comparison purposes, both school districts have the same enrollments in FY 2004 and each district declines by 5 students each year. However, School District A’s enrollment has decreased for the first time beginning in FY 2005 and has just become eligible for the budget guarantee. School District B has participated in the 100.0% budget guarantee for a number of years and has experienced declining enrollments for consecutive years prior to FY 2004.

Since School District A’s enrollment increased in FY 2004, it doesn’t qualify for the 100.0% budget guarantee and the total regular program district cost is \$450,000. However, in the following year (FY 2005), the district’s enrollment did decline and the district was eligible for the 101.0% budget guarantee. The amount of the budget adjustment was \$9,900, for a total regular program district cost of \$454,500 (a 1.0% increase over the FY 2004 total regular program district cost). Since School District A did not qualify for the Step-down percentage guarantee in FY 2005, it does not qualify for the Step-down percentage in future years. By FY 2014, School District A’s enrollment has declined by five students each year and the amount of the budget adjustment it will receive in FY 2014 is approximately \$23,000. However, the total regular program district cost has decreased approximately \$94,000 during that 11-year span.

School District B has participated in the budget guarantee for several consecutive years entering FY 2004 and will receive a budget adjustment of \$50,000 to maintain the previous fiscal year’s total regular program district cost at \$500,000. In FY 2005, School District B qualified for a Step-down percentage guarantee of 90.0% for a total regular program district cost of \$494,460. School District B continues to qualify for the step-down percentage guarantee until FY 2013, when it will receive more from the 101.0% budget guarantee. By FY 2014, School District B’s budget adjustment has been reduced from \$50,000 in FY 2004, to approximately \$23,000 in FY 2014. The total regular program district cost has decreased approximately \$144,000 during that 11-year span.

Graph 1 illustrates regular program cost, budget adjustment and total regular program cost for FY 2004 – FY 2014 for both example school districts.

**Graph 1
Budget Adjustment Comparisons FY 2004 - 2014**



BUDGET IMPACT

Using Department of Education enrollment estimates, the estimated budget impact of the budget guarantee is as follows:

- The estimated FY 2003 statewide property tax cost of this provision is \$5.3 million, with 82 recipient school districts.
- The estimated FY 2004 statewide property tax cost of this provision is \$3.8 million, with 63 recipient school districts.
- The estimated total FY 2005 statewide property tax cost of this provision is \$3.5 million, with 75 recipient school districts. Of this amount, 38 school districts will receive the 90.0% step-down provision at a cost of \$2.8 million and 37 school districts will receive the 101.0% provision at a cost of \$700,000.
- The estimated total FY 2006 statewide property tax cost of this provision is \$3.3 million, with 70 recipient school districts. Of this amount, 31 school districts will receive the 80.0% step-down provision at a cost of \$2.0 million and 39 school districts will receive the 101.0% provision at a cost of \$1.3 million.
- The estimated total FY 2007 statewide property tax cost of this provision is \$1.7 million, with 53 recipient school districts. Of this amount, 24 school districts will receive the 70.0% step-down provision at a cost of \$1.2 million and 29 school districts will receive the 101.0% provision at a cost of \$500,000.

Attachment B provides the estimated district-by-district budget guarantee amounts through FY 2007.

This document can be found on the LFB web site at <http://staffweb.legis.state.ia.us/lfb>.

STAFF CONTACT: Shawn Snyder (1-7799)

School District Budget Guarantee Example Estimates

Attachment A

School District A							
FY	Number of Students	Regular Program District Cost	Step-Down Budget Adjustment	101% Budget Adjustment	Budget Adj.	Total Reg. Program District Cost	% of Budg. Adj. To Tot. Reg. Prog. Dist. Cost
2004	100	\$ 450,000	\$ 0	n/a	\$ 0	\$ 450,000	0.0%
2005	95	444,600	4,860	9,900	9,900	454,500	2.2%
2006	90	438,030	9,576	11,016	11,016	449,046	2.5%
2007	85	430,270	13,811	12,140	12,140	442,410	2.7%
2008	80	421,120	17,328	13,453	13,453	434,573	3.1%
2009	75	410,625	19,688	14,706	14,706	425,331	3.5%
2010	70	398,580	20,568	16,151	16,151	414,731	3.9%
2011	65	384,930	19,521	17,636	17,636	402,566	4.4%
2012	60	369,540	16,092	19,239	19,239	388,779	4.9%
2013	55	352,275	9,773	20,960	20,960	373,235	5.6%
2014	50	333,050	0	22,748	22,748	355,798	6.4%

School District B							
FY	Number of Students	Regular Program District Cost	Step-Down Budget Adjustment	101% Budget Adjustment	Budget Adj.	Total Reg. Program District Cost	% of Budg. Adj. To Tot. Reg. Prog. Dist. Cost
2004	100	\$ 450,000	\$ 50,000	n/a	\$ 50,000	\$ 500,000	10.0%
2005	95	444,600	49,860	9,900	49,860	494,460	10.1%
2006	90	438,030	49,576	11,016	49,576	487,606	10.2%
2007	85	430,270	48,811	12,140	48,811	479,081	10.2%
2008	80	421,120	47,328	13,453	47,328	468,448	10.1%
2009	75	410,625	44,688	14,706	44,688	455,313	9.8%
2010	70	398,580	40,568	16,151	40,568	439,148	9.2%
2011	65	384,930	34,521	17,636	34,521	419,451	8.2%
2012	60	369,540	26,092	19,239	26,092	395,632	6.6%
2013	55	352,275	14,773	20,960	20,960	373,235	5.6%
2014	50	333,050	0	22,748	22,748	355,798	6.4%

Notes:

For simplicity purposes, the cost per pupil is \$4,500 in FY 2004 and allowable growth is estimated at 4.0% each year.

The Step-Down Budget Adjustment is 100.0% in FY 2004 and declines 10.0% each year until FY 2014 when it reaches 0.0%.

Only school districts that received the Step-down percentage guarantee in FY 2005 are eligible to receive the Step-down percentage guarantee in FY's 2006-2013.

**School District Budget Adjustment Estimates
FY 2002 - FY 2007**

Attachment B

Dist. No.	Name	FY 2002	FY 2002	FY02 Total	Estimated	FY 2003	Estimated	FY 2004	FY 2004	FY 2005	FY 2005	FY 2006	FY 2006	FY 2007	FY 2007	FY07 Total	FY07
		Budget Enrollment	100% Budget Guarantee	Reg. Prog. District Cost	FY 2003 Budget Enrollment	100% Budget Guarantee	FY 2004 Budget Enrollment	100% Budget Guarantee	FY 2005 Budget Enrollment	90% Budget Guarantee	101% Budget Guarantee	90% Adjustment	101% Budget Guarantee	80% Adjustment	101% Budget Guarantee	70% Adjustment	Reg. Prog. District Cost
6579	URBANDALE	3,222.7	0	14,540,822	3,171.0	0	3,108.7	0	0	0	0	0	0	0	16,670,642	2,129,820	
6591	VALLEY	617.5	0	2,800,363	611.9	0	613.2	0	0	0	0	0	0	0	3,326,492	526,130	
6592	VAN BUREN	684.3	0	3,087,562	667.4	0	658.7	0	39,708	0	908	0	4,479	0	3,270,434	182,872	
6615	VAN METER	520.2	0	2,347,142	545.8	0	562.3	0	0	0	0	0	0	0	3,455,326	1,108,183	
6633	VENTURA	302.0	28,305	1,429,887	296.7	0	297.4	0	0	0	0	0	0	0	1,696,636	266,749	
6651	VILLISCA	464.7	0	2,096,726	453.7	0	458.3	0	0	0	0	0	0	0	2,490,359	393,633	
6660	VINTON-SHELLSBURG	1,987.1	0	8,965,795	1,974.6	0	1,955.5	0	0	0	0	0	0	0	10,474,110	1,508,315	
6700	WACO	611.2	0	2,833,523	592.6	0	584.0	0	23,483	0	0	0	0	0	3,050,104	216,581	
6741	WALL LAKE VIEW AUBURN	624.8	40,745	2,874,838	617.1	0	598.5	0	84,989	0	0	0	29,936	0	2,984,353	109,515	
6750	WALNUT	277.4	0	1,251,629	274.2	0	273.9	0	0	0	0	0	0	0	1,441,411	189,783	
6759	WAPELLO	794.0	0	3,600,790	781.6	0	787.5	0	0	0	0	0	0	0	4,460,862	860,072	
6762	WAPSIE VALLEY	725.0	0	3,304,550	714.9	0	705.2	0	0	0	0	0	0	0	3,859,556	555,006	
6768	WASHINGTON	1,739.6	0	7,849,075	1,753.1	0	1,766.2	0	0	0	0	0	0	0	9,721,019	1,871,944	
6795	WATERLOO	10,914.0	0	49,243,968	10,813.4	0	10,717.0	0	0	0	0	0	0	0	56,808,406	7,564,438	
6822	WAUKEE	2,385.4	0	10,762,925	2,619.1	0	2,841.1	0	0	0	0	0	0	0	19,605,610	8,842,685	
6840	WAVERLY-SHELL ROCK	1,981.8	0	8,941,882	1,939.4	0	1,892.4	0	0	0	0	0	0	0	9,887,336	945,454	
6854	WAYNE	705.6	0	3,183,667	691.6	0	669.9	0	78,671	0	421	0	0	0	3,310,965	127,298	
6867	WEBSTER CITY	1,705.0	0	7,692,960	1,681.8	0	1,669.4	0	0	0	0	0	0	0	9,031,052	1,338,092	
6921	WEST BEND-MALLARD (WEST BENI	431.6	18,564	1,988,386	415.8	15,831	409.4	0	0	0	14,844	0	0	0	2,165,977	177,591	
6930	WEST BRANCH	807.1	0	3,667,462	798.7	0	802.8	0	0	0	0	0	0	0	4,355,517	688,055	
6937	WEST BURLINGTON	501.0	0	2,260,512	528.7	0	561.1	0	0	0	0	0	0	0	3,471,244	1,210,732	
6943	WEST CENTRAL	353.1	73,988	1,667,175	334.7	96,762	324.3	84,591	41,598	0	45,063	0	14,332	0	1,661,032	-6,142	
6950	WEST DELAWARE CO	1,952.3	0	8,814,635	1,899.1	0	1,867.1	0	0	0	162,232	0	0	0	9,325,965	511,331	
6957	WEST DES MOINES	8,732.6	0	39,401,491	8,790.7	0	8,891.3	0	0	0	0	0	0	0	50,412,074	11,010,583	
6961	WESTERN DUBUQUE CO	2,649.4	0	12,099,810	2,672.9	0	2,712.0	0	0	0	0	0	0	0	16,097,004	3,997,194	
6969	WEST HARRISON	505.0	0	2,364,410	502.8	0	501.3	0	5,713	0	0	0	0	0	2,714,622	350,212	
6975	WEST LIBERTY	1,198.4	0	5,407,181	1,170.4	0	1,133.2	0	0	0	0	0	0	0	6,091,692	684,511	
6983	WEST LYON	811.3	0	3,660,586	802.8	0	791.0	0	0	0	0	0	0	0	4,205,123	544,537	
6985	WEST MARSHALL	863.2	0	3,900,801	863.5	0	873.6	0	0	0	0	0	0	0	4,976,628	1,075,827	
6987	WEST MONONA	693.0	34,171	3,167,224	677.1	0	681.4	0	0	0	0	0	0	0	3,631,979	464,755	
6990	WEST SIOUX	777.1	0	3,524,149	761.8	0	747.0	0	0	0	0	0	0	0	3,996,751	472,603	
6992	WESTWOOD	730.4	0	3,316,746	727.3	0	731.5	0	0	0	0	0	0	0	4,048,005	731,258	
7002	WHITING	248.4	0	1,120,781	239.4	0	233.1	0	0	0	18,026	0	0	0	1,255,883	135,102	
7029	WILLIAMSBURG	1,131.2	0	5,122,074	1,146.3	0	1,156.0	0	0	0	0	0	0	0	6,482,688	1,360,614	
7038	WILTON	920.7	36,823	4,191,021	924.7	0	947.7	0	0	0	0	0	0	0	5,310,608	1,119,587	
7047	WINFIELD-MT UNION	424.6	0	1,928,533	408.8	0	405.4	0	0	0	0	0	0	0	2,173,934	245,401	
7056	WINTERSET	1,610.9	71,515	7,339,896	1,605.0	0	1,597.3	0	0	0	0	0	0	0	8,795,025	1,455,129	
7083	WODEN-CRYSTAL LAKE	196.3	24,538	923,788	188.6	25,863	184.7	9,707	29,708	0	944	0	0	0	941,525	17,738	
7092	WOODBINE	578.0	151,466	2,759,402	567.6	96,223	558.0	36,362	0	0	0	0	26,168	0	2,909,540	150,138	
7098	WOODBURY CENTRAL	629.1	0	2,838,499	616.4	0	627.8	0	0	0	0	0	0	0	3,496,493	657,994	
7110	WOODWARD-GRANGER	682.6	0	3,142,690	674.7	0	668.0	0	0	0	0	0	0	0	3,662,252	519,562	
Total		494,290.4	\$ 7,727,414	\$ 2,250,471,083	490,241.1	\$ 5,283,161	487,716.4	\$ 3,834,070	\$ 717,334	\$ 2,753,520	\$ 1,306,036	\$ 1,989,735	\$ 464,280	\$ 1,249,184	\$ 2,658,063,509	\$ 407,594,228	
Number of Districts Receiving			115			82		63	37	38	39	31	29	24			
Total Statewide Guarantee Amount									<u>\$ 3,470,854</u>		<u>\$ 3,295,772</u>		<u>\$ 1,713,463</u>				
Total Number of Districts Receiving									75		70		53				

Notes:
 Allowable Growth is assumed to be 4% each year.
 Enrollments are based on the Department of Education projections.
 FY 2002 - FY 2004 100% Budget Guarantee is based upon the previous FY's total regular program district cost with the adjustment.
 FY 2005 - FY 2007 101% budget guarantee is based on the previous fiscal year's regular program district cost without the adjustment.
 The FY 2005 90% adjustment is defined as the amount by which the budget guarantee as calculated for the budget year beginning July 1, 2003, exceeds the adjusted guarantee amount. The adjusted guarantee amount is defined as the amount which would be applicable for the budget year beginning July 1, 2005, if the budget guarantee were determined for the budget year as calculated for the budget year beginning July 1, 2004. Only those districts that received this guarantee in FY 2005 are eligible to receive the guarantee in FY 2006 and FY 2007.
 Contact LFB for further explanations on assumptions.