

FINAL REPORT

SCHOOL FINANCE REVIEW STUDY COMMITTEE

January 1995

AUTHORIZATION AND APPOINTMENT

The Legislative Council established the School Finance Review Study Committee and directed the Committee to "review the current K-12 school finance formula, with consideration given to the reliance on property tax revenues, and make any recommendations that will make the base formula adequate and more equitable while continuing to allow school districts the option to supplement their educational offerings". The Committee was further directed to "determine if school districts that are receiving no more than the 100 percent guarantee or school districts that are growing rapidly are receiving an adequate and equitable amount of funding to meet the needs of the pupils of the district".

Members of the Study Committee were:

Senator Michael Connolly, Co-chairperson	Representative Horace Daggett, Co-chairperson
Senator John Jensen	Representative Dennis Cohoon
Senator John P. Kibbie	Representative Ron Corbett
Senator O. Gene Maddox	Representative Don Gries
Senator Larry Murphy	Representative Keith Weigel

COMMITTEE PROCEEDINGS

The Committee was originally allocated two meeting days to complete its work, but requested and received from the Legislative Council approval for a third meeting date.

The purpose of the first meeting of the Committee, held on September 27, 1994, was to explain the workings of Iowa's school finance formula, determine whether criticisms recently leveled at the formula are fair, and whether there is a need to change the formula in light of recent court decisions affecting other states.

Dr. Al Ramirez, Director of the Iowa Department of Education, noted that Iowa's formula is sound but needs "fine tuning." Dr. Ramirez suggested that there is a possibility of looking at a single funding formula for all education-related agencies. He proposed that the Committee consider whether the formula provides adequate funding. Other areas he identified for further study include the pent-up demand for improved educational facilities and the importance of operation and maintenance funding. Dr. Ramirez concluded by saying that the

Committee needs to keep the focus on the total picture and possibly devise a finance mechanism for all schooling from kindergarten through graduate school to provide everything Iowa's educational system will need.

Dr. Lee Tack, Administrator of the Division of Research, Evaluation, and Information Services, Department of Education, provided Committee members with an overview of the history and the status of Iowa's school finance formula. Dr. Tack commented that if transportation costs were removed from total cost per pupil, the present percentage of lowest to highest total cost per pupil would remain the same, i.e., at 62 percent, but there would be different school districts at the lowest or highest total cost per pupil. He added that a study was done that compared all the states, and two states -- Iowa and Virginia -- were rated as the most equitable, i.e., lowest expenditure disparity.

Dr. John Augenblick, a school finance consultant from Denver, Colorado, who has previously assisted the state, discussed the components of a good funding system, litigation involving other states' funding, and listed the strengths and weaknesses of Iowa's school finance system. He told the members that although the list of weaknesses is longer than the list of strengths, Iowa's strengths are really very significant. Under strengths, Dr. Augenblick listed the state's foundation program, which he said should withstand court challenge; the annual increases in state aid, which show a commitment to address the growth in spending needs; and the simple three-level special education weighting system. Weaknesses identified by Dr. Augenblick included the foundation level, which at 83 percent is not as rational as it should be and should be studied; the state's failure to address cost pressures, such as transportation; the costlier than necessary efforts to force reorganization; the problem of declining enrollment, which leads him to believe that the declining enrollment matrix proposed in 1989 should be revisited; a relatively low foundation levy; the concern that additional spending for teacher salaries is not sensitive to a district's wealth; a concern that capital outlay is not taken into consideration; forced state aid reductions, which are not sensitive to the wealth of the district since low valuation districts lose more state aid than high valuation districts; and the lack of a formal mechanism to evaluate various parts of the foundation program.

Dr. Augenblick also discussed options such as linking finance to accountability by setting pupil or district performance targets and specifying what portion of funds are to be used for purchase of supplies and materials, to create capital reserve, or to provide staff development.

Dr. George Chambers, Professor and Coordinator for Planning, Policy, and Leadership Studies at the University of Iowa, distributed a handout resembling a survey in that it asks the individual to judge the fairness of each of the 20 items listed from most unfair to most fair. Based on his own answers to the survey questions, Dr. Chambers concluded that Iowa's school finance system is unfair. He stated that the state should start anew to establish a better formula and said that one could do it without an increase in state assistance dollars.

The focus for the Committee's second meeting, on November 29, 1994, was on the recommendations of persons interested in school finance. Presenters, and if applicable the organizations they spoke on behalf of, included the following:

- Mr. Roy L. Marshall, State Fire Marshal *
- Mr. Ron Livermore, Lobbyist, Iowa State Education Association *
- Ms. Carolyn Jons, President, Iowa Association of School Boards *
- Ms. Marla Sheffler, Executive Director, League of Women Voters of Iowa *
- Ms. Kathy Collins, Director of Legal Services, School Administrators of Iowa *
- Mr. Denny Presnall, Director of Legislative Affairs, Iowa Farm Bureau Federation *
- Dr. Harold Connolly, Director of Special Education, Green Valley AEA/Area 14 *
- Dr. Phil Burmeister, Superintendent, Mount Ayr/Grand Valley Community school districts
- Dr. Steve Waterman, Superintendent, Clark Community Schools
- Dr. Tom Spear, Superintendent, Central Decatur/Mormon Trail Community school districts
- Dr. Stan Jensen, Executive Director, Rural Schools of Iowa, Inc. *
- Dr. Veronica Stalker, Superintendent of the Waukee Community School District, for the Johnston, Norwalk, Southeast Polk, Waukee, and West Des Moines school districts
- Dr. Ben Norman, Superintendent, Ankeny Community Schools
- Dr. Dennis Bishop, Superintendent, Dallas Center/Grimes Community School District
- Dr. Gary Wegenke, Des Moines Independent School District Superintendent, for the Urban Education Network *
- Mr. Mark Hanson, Vice-President for Legislation, Iowa PTA *
- Dr. Mick Starceвич, College Community School District Superintendent, for the Area Education Agencies
- Ms. Myrt Levin, Executive Director, Iowa Business Council
- Mr. Michael Ralston, President, Iowa Taxpayers Association *
- Mr. Norman Pogemiller, Executive Director, Iowa Assn. of School Business Officials *
- Mr. Galen Howsare, Executive Director for Administrative Services for the Lewis-Central School District for the Iowa Assn. of School Business Officials

*Denotes that a copy of the presenter's testimony is on file with the Legislative Service Bureau and available upon request.

The School Finance Review Study Committee heard the following testimony:

FIRE SAFETY IN IOWA'S SCHOOLS. State Fire Marshal Roy L. Marshall outlined for members a report on the general fire safety conditions of K-12 school in Iowa. His slide presentation pointed out many fire code problems, mostly related to old buildings. He noted there are more than 1,000 schools in the state over 50 years old. He recommended the updating of the administrative rules on fire safety in schools.

ENROLLMENT INCREASES. Mr. Ron Livermore of the Iowa State Education Association recommended that the Legislature reenact the declining enrollment matrix developed by School Finance Consultant Mr. John Augenblick. He also recommended that the state provide increased enrollment funding in the same school year the enrollment increase occurs, while Ms. Carolyn Jons of the Iowa Association of School Boards, Ms. Kathy Collins of the School Administrators of Iowa, and Superintendents Veronica Stalker of Waukee, Ben Norman of Ankeny, and Dennis Bishop, Dallas Center-Grimes Community School Districts, advocated the reinstatement of advanced funding for schools with increasing enrollment. Mr. Norman Pogemiller and Mr. Galen Howsare of the Iowa Association of School Business Officials also recommended increasing state funds for schools experiencing enrollment growth.

ALLOWABLE GROWTH. Mr. Livermore suggested the state provide a realistic two-year allowable growth, while Mr. Howsare recommended that a minimum of two years of the allowable growth percentage be placed back into the formula. Ms. Jons, Ms. Collins, Dr. Stan Jensen of Rural Schools of Iowa, Inc., and Dr. Gary Wegenke of the Urban Education Network proposed an allowable growth rate equal to or greater than the projected rate of growth in state revenues. Mr. Mark Hanson of the Iowa PTA expressed concern about the untimely determination of allowable growth.¹

BUDGET GUARANTEE. Ms. Collins and Mr. Howsare recommended a budget guarantee of 101 percent. Mr. Livermore suggested the state maintain a minimum 102 percent guarantee. Dr. Jensen advised the continuation of the 100 percent guarantee with a reasonable allowable growth rate that recognizes inflationary pressures.²

TRANSPORTATION. Mr. Livermore recommended that districts with high transportation costs be assisted. Ms. Collins proposed a fully funded formula to address the special and unique needs of school transportation. Dr. Jensen suggested that the state include in the school aid formula a weight factor that compensates districts that incur heavy transportation costs.

¹ Allowable growth is the percentage by which the state cost per pupil will be increased to generate additional funding for schools. Until the 1993-94 school year, the figure was determined by a formula involving the rate of change in general state revenues and the rate of change in the gross national product. Beginning with the 1993-94 school year, and within 30 days of the Governor's budget message to the General Assembly, the General Assembly determines the allowable growth percentage. Allowable growth was set at 2.1 percent for the 1993-94 school year and at 2.85 percent for 1994-95 school year.

² The regular program budget of each district is guaranteed to be at 100 percent of the previous year's level. Funding for the guarantee is paid from property taxes. When a school district's enrollment decreases and the resulting decrease in the state cost per pupil funds is not offset by the allowable growth increase, the district is qualified to, and may go on, the budget guarantee. Under the guarantee, the difference between the district's budget and the decreased state funding is funded through increased property taxes. To withdraw from the budget guarantee, a district must experience enrollment growth, which must be maintained, or the allowable growth rate must be above zero, or the district may need both an increase in enrollment and an allowable growth rate above zero.

SPECIAL EDUCATION. Dr. Harold Connolly of the Green Valley AEA and Superintendents Phil Burmeister, Steve Waterman, and Tom Spear proposed that a variable factor be developed that would generate additional categorical funds to provide short-term services in special education support areas. Mr. Denny Presnall of the Iowa Farm Bureau Federation suggested the state fund special education at 83 percent, the same funding rate as the regular foundation formula. Mr. Livermore advised that the state adjust weights for special education each year to reflect actual program costs. Ms. Jons proposed state funding at a level that reflects the actual costs of serving special education students. Dr. Mark Starcevich, speaking for the Area Education Agencies, and Mr. Pogemiller proposed the full funding of the special education funding formula.

INSTRUCTIONAL SUPPORT LEVY. Ms. Jons, Dr. Jensen, and Mr. Livermore recommended full funding of the state's obligation to districts that have approved the instructional support levy. Dr. Wegenke proposed that the cap on the instructional support levy be removed.

SCHOOL BONDS. Ms. Jons, Ms. Collins, and Dr. Wegenke recommended a simple majority vote for approval of all school bond issues. Dr. Jensen suggested a shift of a percentage of bonding authority from funding based on property taxes to funding based on income taxes if school bond issues are decided by a simple majority.

WEIGHTING. Ms. Jons advised the reestablishment of supplementary weightings for shared administrators, including curriculum and staff development coordinators. Dr. Wegenke proposed, and Dr. Starcevich approved, the establishment of a weight factor in the formula of .1 percent for all students whose families are eligible for and are receiving benefits under the Family Investment Program (formerly AFDC).

MANDATES. Dr. Jensen and Mr. Hanson spoke out in opposition to unfunded mandates, which are also a concern of the districts experiencing sustained enrollment growth represented by Dr. Stalker. Dr. Wegenke also proposed *appropriate funding mechanisms for mandates.*

IOWA COMMUNICATIONS NETWORK AND TECHNOLOGY. Ms. Jons recommended adequate funding to connect K-12 districts with the ICN and funding for the equipment necessary for districts to use the ICN. Ms. Collins proposed that the state fully fund Part III of the ICN. Dr. Wegenke noted that the Urban Education Network (UEN) is concerned about the high costs related to connecting schools with the ICN. Dr. Starcevich argued for increased state funding for the ICN and technology for schools.

PROPERTY TAX. Mr. Presnall noted that nationwide there is inequity in using property taxes to fund schools and suggested that talented and gifted programs, the K-12 Instructional Support Program, and advanced enrollment should be funded under the school aid formula. Mr. Hanson recommended that the school finance formula should be used to alleviate the inequity of local property tax support. Mr. Michael Ralston of the Iowa Taxpayers

Association remarked that the association is not opposed to the property tax as a funding source for school finance, but is concerned about how funds are spent.

MISCELLANEOUS. Mr. Howsare recommended the establishment of a committee of education stakeholders to monitor, collect data, and provide input on the various functions of school finance law. Ms. Marla Sheffler of the League of Women Voters of Iowa testified that the League supports increased state aid. Dr. Jensen suggested streamlining reporting to the Department of Education. Dr. Stalker expressed concern about the effect tax increment financing has on districts. Dr. Wegenke noted that the UEN remains concerned about the impact of open enrollment on desegregation. Dr. Mark Starceovich recommended that funding for media and educational services provided through the area education agencies and teacher training be expanded, and that the state fund school infrastructure needs. Ms. Myrt Levin of the Iowa Business Council spoke to members of the importance of allocating funds to train teachers to enable students to function in business. The Committee asked for additional information from the Legislative Fiscal Bureau and agreed to meet for the third and final time on December 9, 1994.

During the Committee's third meeting, on December 9, 1994, Mr. Jon Studer, Legislative Analyst for the Legislative Fiscal Bureau, presented the information requested by the Committee during its last meeting. Mr. Studer also presented and explained a handout compiled by Dr. Lee Tack of the Department of Education. Mr. Tack joined the Committee for the afternoon discussion. The areas covered during Mr. Studer's presentation included the following:

1. Estimated state revenue growth for FY 1996.
2. Figures for the present school foundation aid formula for FY 1996, and for proposed changes to the formula based generally on FY 1995 figures.
3. Funding for the equipment necessary to enable K-12 school districts to use the Iowa Communications Network.
4. State foundation formula state aid and property tax estimates for FY 1996.
5. A comparison of the percentage change in the Gross National Product (GNP) Implicit Price Deflator and State Revenues to the Allowable Growth Rate over 15 years.
6. Costs of bringing teachers' salaries to the national average.
7. Study of infrastructure needs.
8. Bond issues attempted over the last 10 years and the percentage of approval votes received.

9. Supplemental weighting use and costs.
10. Transportation costs.
11. At-risk funding.

Dr. Tack noted that the budget the Department presented to the Governor includes a 4.5 percent allowable growth rate. School Finance Consultant Dr. John Augenblick, who testified at the first Committee meeting, told Committee members that he supports the move to increase allowable growth rather than providing separate funding for various special needs because the increased allowable growth rate would give districts more discretion in the use of the additional funds

RECOMMENDATIONS

The School Finance Review Study Committee unanimously recommended that packets containing the following information be delivered to the standing Committees on Education of the Senate and House of Representatives at the beginning of the 1995 Legislative Session:

1. Costs of providing an advance for increasing enrollment with a look at a 50 percent advance of state aid. *Prior to 1992, districts that experienced increased actual enrollment above their previously calculated budget enrollment were given additional state aid equal to the district cost per pupil times the increased enrollment. Advance funding for districts experiencing increased enrollment was eliminated in 1992.*
2. Costs of using the declining enrollment matrix. *From 1989 through 1992, the declining enrollment matrix was used in Iowa as a means of cushioning the impact of declines in enrollment. Each school district counted enrollment by using a rolling enrollment average based upon the district's previous three to five years. The cushion was not intended to be permanent. Under the declining enrollment matrix, "phantom students," representing the decline in student enrollment, were counted in the enrollment for funding purposes.*
3. Costs to the state of maintaining or increasing the budget guarantee of 100 and 101 percent and research on the idea of using the guarantee as an alternative to the declining enrollment matrix. *The regular program budget of each district is guaranteed to be at 100 percent of the previous year's level. Under the guarantee, if the district experiences an enrollment decline, and therefore will not receive as much funding as the previous year,*

the difference between the district's budget and the decreased state funding is funded through increased property taxes.

4. Cost of providing state funding for districts for the amount of transportation costs in excess of 25 percent above the state average cost per pupil for transportation costs. *Transportation is part of a school district's regular program cost. Because of the differences between the districts in transportation costs, this packet would show the costs of providing state funding to districts spending 25 percent above the state average transportation cost to reduce the cost to these districts to the 25 percent level.*

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