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R E P O R T
OF THE
LEGISLATIVE ADVISORY COMMITTEE
ON THE STUDY OF
S T A T E A I D T O S C H O O L S

Submitted To: Members of the 60th Iowa General Assembly
January, 1963

By: The State Aid to Schools Advisory Committee

Representative Leroy H. Petersen, Chairman
Senator Edward A. Wearin, Vice Chairman
Senator C. Joseph Coleman Senator Melvin H. Wolf
Senator Robert R. Rigler Representative Harvey W. Ware
Representative Merle W. Hagedorn

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REPORT OF THE ADVISORY COMMITTEE ON
THE STUDY OF STATE AID TO SCHOOLS

PREFACE

There is currently much public interest in many vital areas relating to the administration and financing of our public schools. Reorganization, minimum standards, curricula, achievement of goals, teacher qualifications, efficiency of operation, the intermediate unit, tax revision, and tax policies are a few such areas which quickly come to mind. Although the Advisory Committee on State Aid to Schools was established for the main purpose of studying state school aid programs, Committee members are quite aware of the fact that many of the problems arising in administration and financing of Iowa public schools must be properly discussed and considered during the 60th Iowa General Assembly. Legislative decisions in related areas will undoubtedly affect the nature of any changes in the state school aid program in Iowa.

It is important to recall while studying this Report the specific purposes for which the Advisory Committee on State Aid to Schools was created. House Concurrent Resolution 16 as passed by the 59th Iowa General Assembly directed the Legislative Research Committee and Bureau to study prior to the 1963 Legislative Session the following:

1. Present programs of state aid for schools in Iowa.
2. State Aid programs in other states, particularly minimum foundation programs.
3. Uniformity of assessed valuations in Iowa and methods used in other states to achieve uniformity, particularly in those states where state aids to schools are largely related to local property tax effort.

As directed in House Concurrent Resolution 16, the Legislative Research Committee requested that a legislative advisory committee be formed for the purpose of assisting the Bureau with the study. The Advisory Committee had specific

instructions from the Resolution that "such Committee should consider the advisability of a minimum foundation program in Iowa and suggest means of making assessments more uniform." In compliance with the Resolution, the three areas which Advisory Committee members have given primary attention have been:

1. Methods of distributing state aid in the form of a foundation program.
2. The property tax.
3. Equalization of assessments.

The Resolution further instructed that if the Advisory Committee decided that recommendations should be made in regard to Iowa state school aid programs, "these recommendations should be supported by bills."

During the course of this Study, the Committee has relied chiefly upon the Legislative Research Bureau for the accumulation of facts and other data. Representatives of the State Department of Public Instruction, State Tax Commission and several other state departments either appeared before the Committee or were contacted individually. Dr. Henry DeKock of the State University of Iowa appeared before the Committee and presented information. A tentative report of the results of the Committee's Study was drafted early in October and mailed to a number of leading citizen's groups in the State requesting written comments and suggestions. Some, but not all, of the groups replied.

Since the Committee has received assistance in this Study from no professional personnel other than from individuals named, this Report predominantly discusses some of the problems involved in state school aid and possible solutions to the problems as viewed by particular legislators who were involved in the Study. Naturally, there has not been agreement in many areas which have been studied and it would be unrealistic to believe that some of the ideas contained in this Report would always be supported by all members of the Committee. However, the Committee is in full agreement on two principles. One, any new state school aid program considered by the Iowa General Assembly should aim to provide enough funds to all school districts to give equal educational opportunity to all children attending school within the State.

Two, some acceptable method of equalizing property tax assessments must be adopted before additional state school aid can be equitably distributed.

This Report represents the maximum consensus of the members of the Advisory Committee on State Aid to Schools.

PART I

PRESENT STATE AID PROGRAMS

Before changes or improvements in the present state school aid program can be discussed, it is essential that the methods by which state aid is presently distributed and the amounts in the various Iowa school aid programs be understood.

Exhibit ASTATE AID APPROPRIATED FOR EACH YEAR OF 61-63 BIENNIUM

General Aid	\$19,529,780
Supplemental Aid	4,000,000
Transportation Aid	4,000,000
Handicapped Children Aid	1,500,000
Mining Camp Aid, Regular	45,000
Mining Camp Aid, Emergency	27,000
Emergency Aid - For Districts with tax levy in excess of 100 mills	200,000
Vocational Aid	200,000
Normal Institute	<u>49,500</u>
TOTAL AID	\$29,551,280

The figures shown in Exhibit A were secured from Data on Iowa Schools, Department of Public Instruction, February, 1962.

Considerable amounts of money are appropriated by the State for Agricultural Land Tax Credit and for Homestead Tax Credits which help reduce the burden of local property taxes on taxpayers. These forms of credit are in a sense a form of indirect state aid.

Annual appropriations for Agricultural Land Tax Credit for the years 1961 and 1962 totaled \$11,250,000.00. In 1961, the \$11 million dollar appropriation by the 59th Iowa General Assembly permitted payment of Agriculture Land Tax Credit claims at 39.880 percent of total claims. Payment of 1962 Agriculture Land Tax

Credit Claims were prorated at the rate of 35.910 percent. Homestead Tax Credits claims will total approximately \$29 million in 1962.

At the present time, state aid for schools is distributed in Iowa on the assumption that all approved public school districts shall be entitled to some aid from the State. Details of the calculation and distribution of state aid are related in the following paragraphs.

1. GENERAL AID is computed on the following basis:

Seventeen cents is multiplied "by the combined number of nontuition elementary students in average daily attendance and the average number of elementary students for which the district pays tuition to another district." The product is multiplied "by the actual number of days school was officially in session, not to exceed one hundred eighty days."

The same procedure is used for computing General Aid for high school students. The State pays twenty cents per high school student instead of seventeen cents.

General Aid is also paid to districts with a junior college at the rate of one dollar times the average daily enrollment of resident students of the junior college district. The aid is paid for each student carrying twelve or more semester hours of work. One dollar and a half is paid for nonresident students carrying twelve or more semester hours except the payment does not apply to nonresidents of Iowa. The sum of the number of students complying with the law is then multiplied times the number of days school was in session, not to exceed one hundred eighty days.

Under this formula of flat grant payments, all approved school districts receive some state aid provided the school tax levy for the general fund was at least 15 mills for the preceding year.

2. SUPPLEMENTAL AID is generally thought of as equalization aid which is intended to guarantee \$120 per elementary student in average daily attendance through a combination of state

and local funds. Each district determines the amount of supplemental aid it will receive in the following manner:

One hundred twenty dollars multiplied by the number of nontuition elementary pupils in average daily attendance (ADA) and one hundred twenty dollars times the average number of tuition elementary students attending other districts. One hundred seventy dollars multiplied by the number of nontuition high school pupils in ADA and the average number of high school pupils for which tuition is paid to other districts. The products of these two products are totaled. Assessed valuation of the school district is multiplied by 15 mills if a high school district or 10 mills if an elementary district. If the product is more than the sum of the \$120 per elementary pupil and \$170 per high school pupil, the district is not entitled to supplemental aid. If the product is less, the difference is the amount of supplemental aid to which the district is entitled. In past years, claims for supplemental aid have exceeded the appropriation. Supplemental aid claims were prorated and paid at 43.291% of the claim for the 1960-61 school year and at 47.148% of the claim for the 1961-62 school year.

3. TRANSPORTATION AID is paid on the basis of \$30.00 per pupil per annum. The conditions for entitlement and payment are outlined in Chapter 285, 1962 Code of Iowa. Transportation aid claims were prorated and paid at 62.650% of total claims for the 1960-61 school year and at 60.196% of the claims for the 1961-62 school year.

PART II

EQUALIZATION OF ASSESSMENTS

The bulk of the state aid to schools appropriation, \$27,529,780.00 in each year of the 1961-63 biennium, was distributed under the general, supplemental, and transportation aid programs. Under the provisions for general aid and supplemental aid, two basic factors, millage rate and assessed value of property, are used in determining the amount of state aid a district will receive. Assessed value of property and millage rates are the yardsticks by which the district's effort and ability to support education are measured. General aid is distributed on the assumption that if school districts are levying an equal effort of 15 mills for school purposes, the districts are then making an equal financial effort and are entitled to share in the aid. Supplemental aid is determined on the basis of assessed value of property multiplied by 10 or 15 mills. A study of both types of aid soon reveals that state aid can be distributed fairly and equitably only if there is equalization of assessments.

Present available statistics indicate that property assessments vary considerably. A 1960 study of the ninety-nine counties shows the ratio of assessed value to sales value of all property ranged from a low of 18.09% in one county to a high of 35.60% in another county. The average assessment for all property in the State was 23.65%.¹

Rural property sales-assessment ratios ranged from 16.88% to 37.25%. Urban property sales-assessment ratios ranged from 17.16% to 32.42%. The average sales-assessment ratio for all rural property in the State was 24.48% and 23.63% for urban property.²

¹ 1960 Iowa Ratio Study, Warranty Deed Sales and Assessments for the year 1959, conducted by representatives of utility companies.

² Ibid.

These averages are stated in terms of assessed value to actual sales value. The sales value represents market value of the property. Iowa law provides that property shall be assessed at 60% of actual value rather than market value.³

Actual value is explained in Iowa law as follows:

"In arriving at said actual value the assessor shall take into consideration its productive and earning capacity, if any, past, present, and prospective, its market value, if any, and all other matters that affect the actual value of the property;"4

Most of the property, both real and personal, in Iowa is assessed at the local level by the ninety-nine county assessors and twenty-one city assessors. The State is responsible for assessing railroads and other public utilities through the State Tax Commission. The State Tax Commission has the authority to act as the State Board of Review to bring about equalization of assessments.

Iowa law does not provide any standards as a basis for the State Board of Review to make adjustments in valuations for equalization purposes. In practice, the factors considered in making adjustments of agricultural land and buildings include capitalized value of land per acre--based on a 10-year production of all crops and average prices received for such--township by township, survey of Iowa land values showing selling price of land for the last six years, the sales-assessment ratios, and reports of Tax Commission field representatives assigned to assisting assessors and local boards of review.

Urban residential property is adjusted by using the sales-assessment ratio factors, sales tax reports of the counties, unit values reported, population of the counties, and reports of Tax Commission field representatives.

³Code of Iowa (1962), sec. 441.21.

⁴Ibid.

Commercial and industrial property is adjusted at the same percentage that urban residential property is adjusted. There are a limited number of sales of this type of property and a sales-assessment ratio figure is difficult to obtain.

It is obvious that the assessment of property is an important task which demands careful judgment and proper use and interpretation of statistical data. Considering the number of individuals involved in assessing property and the subjective definition of "actual value" of property, it would seem that it will be impossible to achieve complete equalization of assessments of property. However, because of the great importance attached to assessed valuations, it is especially important that every effort be made to improve the Iowa assessment system.

The Fifty-ninth Iowa General Assembly recognized the importance of making more information available for equalization by enacting House File 112 which requires

"all county recorders and city and county assessors to prepare a quarterly report in the manner and form to be prescribed by the (tax) commission showing for each warranty deed or contract of sale of real estate, divided between rural and urban, during the last completed quarter the amount of revenue stamps, sale price or consideration, and the equalized value at which that property was assessed that year. This report with such further information as may be required by the commission, shall be submitted to the commission within sixty days after the end of each quarter. The commission shall prepare annual summaries of such records of the ratio of assessments to actual sales prices for all counties, and for cities having city assessors, and such information for the preceding year shall be available for public inspection by May 1."⁵

The information which is currently being submitted to the State Tax Commission should be of considerable assistance in determining sales-assessment ratios in the future.

⁵ Code of Iowa (1962), sec. 421.17(6).

In studying methods used in other states to attain equalization of assessments, the Advisory Committee has noted that some states use the term "full or market value" for assessment purposes. A number of people believe the term "actual value" as defined in Iowa Law needs further definition. Others feel that "market value" should be substituted in the Law for "actual value". This thinking is based on the premise that market value is a concept more readily understood by the public and can be most easily determined when a sale of property occurs. The State Tax Equalization Board in Pennsylvania interprets market value as:

"The reasonable exchange value in the current year between a willing buyer and a willing seller, each being familiar with all the facts relating to the particular property."⁶

Wisconsin law requires that:

" . . . real property shall be valued by the assessor from the actual view or from the best information that the assessor can practically obtain, at the full value which could ordinarily be obtained therefore at private sale."⁷

Wisconsin also requires that:

"all articles of personal property shall, as far as practicable, be valued by the assessor upon actual view of their true cash value;"⁸

Under a system using the "market value" concept, the most important factor in determining evidence of value is an analysis of properties that have been sold. Wisconsin has provided necessary personnel and funds to accumulate, classify, and interpret sales data to the state agency responsible for equalization.

⁶ Pennsylvania, The State Tax Equalization Board, School Subsidies, Pennsylvania's Program for State Support of Public Education, 1954, p. 6.

⁷ Wisconsin, Annotated Statutes, sec. 70.32(1).

⁸ Ibid., sec. 70.34.

There are many types of property that do not sell or seldom sell so that there is no sales-assessment ratio approach for such property. Standards to be considered as evidence of value of this type of property were outlined by the Wisconsin Supreme Court in a case before that body.

"They itemized the taxpayers propectus, book value appraisal procured by the taxpayer and the amount of insurance carried; account was properly taken of the cost, depreciation, replacement value, earnings, industrial conditions, as well as the sale of similar properties, if any, as proper evidence to receive consideration."

In Wisconsin, the Property Tax Division of the Department of Taxation is divided into a number of field offices under the supervision of regional directors. Records of sales of all types of property, as well as other pertinent appraisal statistics, are accumulated and kept on file. Equalized values are determined, based on the market value of property. These equalized values are used only for purposes of determining state aid to be paid to the local school districts. The equalized values are not used at the local level and therefore have no direct effect on local assessment practices.

If a system similar to the Wisconsin system were adopted in Iowa, it would probably be necessary to increase the personnel and the budget of the Property Tax Division of the Iowa Tax Commission. If the State Tax Commission were able to obtain sufficient data based on actual sales over a period of years, it would be relatively easy for the local assessment districts, as well as state and legislative officials, to determine the variations in assessment practices. The State could use this information for determining an equalized value of property in all school districts, and state aid could be distributed using equalized, rather than assessed, value. An important aspect of this type of procedure is that it does not force local districts to give up local rights since districts can continue to assess property as they choose.

This procedure still provides a standard for comparison of local effort and gives the state an equalized standard on which to base the distribution of state aid.

It would take a few years to accumulate a large amount of sales data. It seems probable that by January, 1963, the Tax Commission will have information which could serve as a starting point for formulating sales-assessment ratios. This data will be available as a result of the legislation enacted by the Fifty-ninth General Assembly and which has been discussed in an earlier paragraph. When such data are available, the Tax Commission could supply the necessary facts to the State Department of Public Instruction for state and school aid purposes. This is one method of obtaining equalization.

In Minnesota, the Tax Commissioner is authorized to act as the State Board of Review and has power to equalize assessments throughout the State. Recently, the Commissioner equalized the values of some types of property in Minnesota.

Once equalization has been realized, districts will not purposely hold assessments low in order to obtain more state aid.

PART III

POSSIBILITY OF BROADENING THE LOCAL TAX BASE

There are many people who feel that the property tax can no longer adequately support schools, and therefore there is an urgent need to obtain additional funds in the form of state aid raised from new taxes or increased tax rates at the state level. Some people believe that ownership of property is no longer a true index of ability to pay taxes, so additional yardsticks of ability to support schools must be applied when measuring the effort of the local school district.

Some states approach this problem by determining an economic index of taxpaying ability. Economic indices represent the extent of business and financial activity in the community or area in relation to similar activity in other parts of the state. Several factors are usually employed and are assigned weightings to make the index a reasonably accurate measure of local ability. Items used in measuring local ability include selections from such factors as sales taxes, passenger car licenses paid, state personal income taxes paid, assessed valuations of public utilities, value added by manufacture, value of farm products, school populations, payrolls, etc.

The economic index concept was proposed in House File 501 of the 1951 session of the Iowa General Assembly. This bill called for the calculation of an index for local ability to support an educational program.

One of the main difficulties encountered in determining an economic index is that no statistical data are available on a school district basis, other than assessed value of property. All other data are compiled on a county basis. However, income of a district as well as property should be taken into consideration in determining ability to support education since all taxes must essentially be paid from income. This factor is especially true in Iowa since there is not always a high correlation between property and income.

A suggestion has been made that a figure showing the income per pupil in average daily attendance be obtained for all school districts by requesting every individual filing a state income tax return to identify on his return the school district in which he resides. The total reported income for a district could then be determined. For example, every individual would be required to report income above \$1,000. There would then be an income factor for each child in ADA in each district as well as the assessed valuation for each child in ADA. Once the figure has been established and kept current, the problem arises as to how to use the information.

One method of using income per child in ADA would be to consider income when equalizing the assessed valuations of a district. The equalized value could be adjusted upward for a district with income per ADA over the state average, or downward for those districts with an income below the state average. This adjustment would be comparatively easy to accomplish if authority were granted. However, the revenue to be raised would still have to come from the property taxpayer and would seem valid only if it can be proved that there is a high correlation between ownership of property and income.

Another suggestion is to authorize the local district to raise a certain percentage of the school budget by levying a school tax on the income of the residents of the district. This levy might possibly be an adjusted gross income tax, or some variation of that principle, with a flat rate levy. All taxpayers could be required to file a return and to remit the "school tax" along with their state income tax. Such tax would then be returned to the school district from which it originated or placed in a county equalization fund and distributed on a per pupil basis. The purpose of such a move would be to broaden the local school tax base.

Some persons feel an income factor does not need to be considered because they believe there is a high correlation between income and property. However, it can be seen that a high correlation does not exist between adjusted gross income and assessed

value of property in Iowa. A survey ordered by this Committee shows that one county had only .13% of the adjusted gross income in the state in 1961, but has .30% of the assessed value of property. Another county has 13.08% of the income in the State and 7.24% of the assessed value of property in the State. It has been said that farm families constitute about 25% of the population, receive 15% of the state's personal income, and pay 40% of the property tax. Owners of business enterprises pay taxes on real estate and personal property owned regardless of the financial status of the business. Property owners in growing cities pay a large share of new costs for expanding schools, streets, fire and police protection, plus other municipal services. Real estate ownership is not an accurate indicator of ability to pay, particularly in urban areas where a large share of the population is employed in services, vocations, and professions. Home owners in heavily populated areas having little or no industry pay higher taxes--while those in areas heavily industrialized pay lower taxes.

A plan using income as a source of revenue might offer the advantage of broadening the tax base of the local level and might help to equalize the burden between taxpayers in the local district. Tapping income at the local level would not be a substitute for an adequate state aid program since some districts have neither sufficient property nor income to support an adequate educational program. The need for state aid in such districts would become even more apparent when measured by value of property and earned income instead of property only as is the present policy.

PART IV

MINIMUM FOUNDATION PROGRAMS

Many states distribute state aid to schools under a foundation program. A foundation program consists of the minimum educational program or the amount of education to be supported through joint state and local financing. The basic foundation program is the minimum which the state seeks to assure schooling for each child. In terms of dollar amounts, the program is the level of school expenditure which the state will share with each district or municipality. A foundation program is also a level of expenditure which each district or municipality should provide if it is to receive the maximum of state assistance available.¹

The first step in developing a foundation program is to identify the educational services that the majority of persons want to include as basic for all public schools. These services are translated into dollar amounts by determining the costs necessary to provide the services. This "dollar level" of support--whether based on average daily attendance, weighted classroom unit, or some other common denominator--is generally the average or just above the average per unit cost for the state.²

The second step in developing a foundation program is the determination of the amount to be raised by each school district as the local share of the total school expenditure. The local share of the foundation program should represent a uniform local effort for all the districts in the state which are participating in the program. Some method is needed to measure local fiscal capacity in establishing the program. Fiscal capacity of local districts can be measured by:

1. Local assessed property valuations per child in ADA or some other measurement unit.

¹Public School Finance Programs of the U.S. 1957-58, U.S. Department of Health, Education, and Welfare, 1960, p. 2.

²Ibid., p. 3.

2. Local assessments determined under state supervision.
3. State equalized assessed valuations of local property.
4. Economic index of local taxpaying ability.
5. A combination of property values and economic indices.

When property is used as the base for determination of local ability, a uniform minimum millage rate is required to be levied by all school districts before the district can participate in the foundation program. The difference between the amount raised by the required minimum millage rate on property and the total cost of the foundation program in the district is the amount of state aid the district is entitled to receive. Some districts would receive considerable aid, some lesser amounts, and some districts with considerable property valuations might receive little or no equalization aid.

When a state employs an economic index for determining local taxpaying ability, the cost of the foundation program is established by the state. If it is decided the state will pay, for example, 30% of the total cost, the remaining 70% must be raised at the local level. Several factors are used in determining local taxpaying ability. These factors are enumerated in Part III of this Report. An index number is determined after weighing the factors involved. The index number is multiplied times the total local share for the state, and the product is the share which the local district must raise. The local district's share is usually raised by a levy on property.

In a sense Iowa now has a foundation program in its general and supplemental aid programs. However, there are many reasons why an improved program should be developed in this State.

The main problems in establishing a sound program are basically those pertaining to the questions:

1. What shall be the level of support for each pupil in average daily attendance or other support unit?

(Iowa has used average daily attendance for a number of years as one factor in determining state aid.)

2. What is the local ability to support a foundation program?

(Reference is made to the previous discussion on economic indices and property as measures of local ability.)

A foundation program in Iowa would probably only replace the present general and supplemental aids and not replace transportation and the other special aids. Claims for Ag Land Tax Credit would be reduced if a sound program were adopted.

The purpose of a foundation program is to have the state assure equal educational opportunity to every child by joint local-state financing of a guaranteed minimum amount for each child or for each school district. This type of program is essentially a formula for providing equal educational opportunity and adequate support for the schools. The basic purpose of the program is not to provide a mechanism for property tax relief. However, any increase in state aid will give a measure of property tax relief by reducing the amount of money raised at the local level from property taxes. A major hope for property tax relief would be in obtaining greater equalization of assessments and in broadening the tax base for school purposes either at the state or local level, or both.

If a foundation program were considered, the Iowa General Assembly would have to decide the source of funds to finance the State's share for this program. This Committee is to suggest possible methods by which aid can be equitably distributed, and not sources of revenue for increased aid.

The alternative to using a foundation program is direct appropriation for specific needs. This method was used by the Fifty-ninth General Assembly when the Assembly increased General Aid by \$6,000,000 per year. The Ag Land Tax Credit appropriation was increased by \$750,000 annually. All of Iowa's School Aid Programs have been developed on the direct appropriation basis, but as has been previously noted, many of the programs are being paid on a pro-rata basis because of the rapid increase in claims.

PART V

PROPOSED FOUNDATION PROGRAM FOR IOWA

The Committee recommends the following as a possible foundation program for Iowa. A bill has been drafted (See Appendix I) to propose such a program to the 60th Iowa General Assembly. The essential features of the proposal are:

1. Foundation program of \$325 per pupil in ADA.
2. Total cost in Iowa would be \$181,389,467. (558,122.2 children in ADA times \$325.)
3. Local ability would be determined by a 6 mill levy on the market value of property in each district; market value to be determined by State Tax Commission. Market value would be used only for equalization purposes: For example, a 6 mill levy on market value would raise X amount of dollars in a local school district. This amount would be the required minimum local effort. The district would have to raise the X amount of dollars by levying the necessary actual millage based on the local assessed valuation. Local assessment districts could still assess property at whatever percentage of actual value desired. Market value would not be used at the local level as an actual valuation.
4. A flat grant of \$80 per pupil in ADA would be paid to every approved school district regardless of wealth.
5. If the sum raised by the theoretical 6 mill levy on market value of property and the \$80 flat grant per pupil failed to provide \$325 for each pupil qualifying under the provisions of the program, the difference would be paid to the district in the form of equalization aid.
6. On this basis, state aid for the foundation program (which would replace the present \$23,529,780 annual appropriation for general aid and supplemental aid) would be as follows:

Flat grant - \$80 per pupil	\$44,649,776.00
Equalization Aid	<u>21,294,499.00</u>
TOTAL STATE AID	\$65,944,275.00

PART VI

REVIEW OF SCHOOL COSTS IN IOWA

It may be helpful in attempting to evaluate the proposed foundation program to review past and predicted school costs in Iowa.

Exhibit B

Total Public School Expenditures

<u>School Year</u>	<u>Current Operating Expense</u>	<u>Capital Outlay & Debit Service</u>	<u>Total</u>
1950-51	\$101,470,997	\$26,647,798	\$128,118,795
1951-52	111,867,759	31,160,063	143,027,822
1952-53	120,844,364	38,072,251	158,916,615
1953-54	130,564,974	48,633,024	179,197,998
1954-55	140,352,543	41,992,022	182,344,565
1955-56	150,347,680	51,377,275	201,724,955
1956-57	160,162,976	44,127,178	204,290,154
1957-58	173,036,622	49,878,955	222,915,577
1958-59	187,025,060	38,624,928	225,649,988
1959-60	202,323,688	45,536,406	247,860,094
1960-61	218,733,535	55,029,615	273,763,150

Exhibit C

Predicted Public School Costs For Current Operating Expenses

1961-62	\$225,280,000
1962-63	238,870,000
1963-64	252,880,000
1964-65	267,310,000
1965-66	282,160,000
1966-67	297,430,000
1967-68	313,120,000
1968-69	329,230,000
1969-70	345,700,000

Source: Use of State Funds to Improve Public Education in Iowa, Department of Public Instruction, February, 1961, p. 11.

Inasmuch as the costs for 1960-61 were actually about \$6 million more than predicted, the above figures will also be higher.

The following tables show that property taxes are high in Iowa as a percent of personal income compared to the Nation as a whole, and that local effort for schools as a percent of personal income is higher in Iowa than the Nation.

Exhibit D

North Central States
Revenue From Property Taxes
As A Percent of Personal
Income, 1960

United States . . .	4.1%
Iowa	5.4%
Minnesota	5.7%
Nebraska	5.7%
North Dakota	6.0%
South Dakota	6.1%
Wisconsin	5.2%
Kansas	6.0%

North Central States
Local Revenue For Public
Elementary & Secondary
Schools As A Percent of
Personal Income, 1960

United States . . .	2.1%
Iowa	3.2%
Minnesota	2.6%
Nebraska	3.0%
North Dakota	3.4%
South Dakota	3.6%
Wisconsin	2.8%
Kansas	3.4%

PART VII

SUMMARY

The Committee might well have submitted a number of bills relating to distribution of state aid and the problem of equalization of assessments; however, Committee members did not choose to follow this procedure. Instead, members have chosen to submit a single proposal which incorporates a Foundation Program and suggestions for equalization of assessments for the distribution of state school aid. The Committee feels that Legislative discussion of this proposal will certainly focus attention on the principal problems the Committee has encountered in this Study. Some of these problems are related in the following paragraphs:

1. One of the first problems encountered in building a foundation program is determining the type and extent of the educational program which is to be supported. As can be expected, the scope of the program offered will be directly related to the per pupil cost in a given size school. The Committee has found that in discussing educational programs, a wide range of ideas exists on the subject. These ideas range from support of a curriculum which would provide for only a so-called basic education to a very comprehensive curriculum offering many subjects and a great number of special services. There has always been much discussion of the so-called frills in many school programs. This subject also arose during the course of this Study; but as usual, there was also little agreement in defining the so-called frills.

At the present time, Section 257.18, Code of Iowa (1962), grants the State Board of Public Instruction the responsibility of setting standards for the schools of the State. This same section gives the State Superintendent of Public Instruction the power to withhold state aid to nonapproved schools. It would be difficult to develop Foundation Program costs by using a different basis than costs of the present school programs being offered in our Iowa schools. Therefore it seems logical to proceed on the assumption that the type of school program to be supported would be similar to that which is currently approved by the State Department of Public Instruction. Defined in terms of dollars, it is

found that this type of program requires more than the suggested \$325.00 per pupil in ADA based on current costs. For the 1959-60 school year, the State Department of Public Instruction estimated that the average per pupil cost in schools which the Department classified as efficiently operated was \$328.00 per pupil.

2. A second major problem confronted by the Committee has been referred to throughout the body of this Report; namely, the problem of finding an equitable yardstick to measure the local ability of a school district to support its educational program. Because many school districts cross county lines and because of the great variation in assessment levels among the counties, this problem is particularly difficult to resolve. As has been noted, present state aids are largely tied to the requirement that a local district levy a certain minimum millage. The 15 mill levy before payment of general aid is an example of this requirement. This problem explains the great emphasis in this Report on the need for equalization of assessments.

One of the difficulties encountered in trying to determine the local district's ability to support its educational program lies in the fact that statistical data regarding income and other evidences of wealth other than ownership of property is not available on a school district basis. This type of information is largely compiled on a county basis. Thus when the Committee attempted to develop an economic index to indicate evidences of wealth other than the property ownership, it was found that projections could be made only on the basis of some rather unscientific assumptions.

Another facet of this problem which became apparent in trying to determine the local district's ability to pay for its school is that of deciding how to evaluate and use other factors of wealth in the distribution formula. For example, it may be that a particular school district has a low property valuation either because of low assessment practices or because of a marked lack of industrial or commercial property. It may also be that the residents of the particular school district have a very high average earned income per capita. It would then seem that this district should receive less state aid than if the average income per capita was very low. However, to substantially decrease the amount of school aid given to such a district would not result in all of the people in that district making an equally greater effort to support their local school, but added burden of support would fall entirely on the property owners of the district.

3. There is almost a unanimous desire in this State to slow the rise in school costs, particularly if this procedure can be accomplished without impairing the quality of our educational program. Certainly reducing costs is a laudable goal and explains why there are many proposals for limiting school curricula and also for incorporating so-called penalty clauses in distribution formulas. Many persons honestly feel that greatly increased state aid may only result in greatly increased school expenses without increased benefits. Certainly any sound proposals for assuring greater efficiency in use of the tax dollar must be given serious consideration. However, the Committee is also aware of the fact that it is very difficult to make such limitation and penalty proposals function equitably and not work to the disadvantage of some school districts. Any valid proposal must be designed in such a manner that it does not slow improvement in those districts which need and want to improve school programs.
4. Even if optimum use is made of each school tax dollar, it is almost certain that total school costs will continue to rise. Even if costs do not rise at the rate predicted in Exhibit D of this Report, it is very important that some provision be made in the distribution of state aids so that the percentage of total state aid to total school costs remain nearly constant. If this provision is not made, the effects of any increased state aid will be short-lived and local taxpayers will soon find their school property taxes rising at as fast a rate as prior to adoption of a foundation program. This is the reason that a type of escalator clause or provision is incorporated in the bill for the Minimum Foundation Program. It seems that the Legislature must think in terms of such a provision or else find another method which will reflect economic trends and thus provide sources of income that will grow with the needs of our schools.
5. The great demand for property tax relief has been identified in the public mind as one of the major problems relating to the financing of our schools. This demand is certainly valid to the degree that school costs, in most cases, use up the greatest share of the property tax dollar. As has been stated before in this Report, any increase in state aid regardless of how distributed will give a measure of property tax relief in that local districts would be relieved from the necessity of

raising an equivalent sum of money by a local property tax levy. However, the Committee found it very difficult to devise a formula which would assure a great degree of property tax relief and also assure each child in all districts a basic minimum educational opportunity. The proposed Foundation Program attempts to achieve both goals.

It should be kept in mind that the Committee felt that its primary purpose was to suggest a method or formula to help equalize educational opportunity for the children of Iowa. It would seem that additional property tax relief can best be secured through a forthright effort of the Legislature to equalize assessments of all classes of property, through tax revision to correct inequities, and through a greater use of tax sources other than property.

6. The Committee agreed that equalization of assessments should logically be accomplished before a Foundation Program is adopted. However, it felt that the statistical equalization which could be performed by the State Tax Commission as required by the proposed Foundation Program, could be used as a starting point on which to base the flat grant and equalization aid provided in the program. The Committee is aware of the fact that this statistical equalization has many imperfections and would need to be refined based on experience. When the State achieves greater equalization for all property tax purposes, the provision to make a special calculation for the distribution of school aids might need to be amended or even found unnecessary.

The problems in the area of school finance are broad and complicated. The extent of the problem is likewise true in the field of property taxes and equalization of assessments. If the Committee had been directed to employ a staff similar to the staff which assisted with the Higher Education Study conducted during the 1959-61 Legislative interim, this Report and the recommendations would naturally have been more exhaustive. It is the hope of the Committee that this Report will serve to give a better understanding of the problems in the areas studied.

School finance has been discussed in each session of the Legislature and as has been noted, a Foundation Program for schools was proposed as early as 1951. The concensus of the

Committee was that the Foundation Program as proposed in Appendix I is workable even though many problems remain unsolved; however, these problems are properly the concern of the entire Legislature and of all citizens. Such problems cannot be solved quickly or easily. It is hoped that all interested groups will exert maximum constructive effort to achieve improvement.

It is well to keep in mind that Iowans have been traditionally proud of their school system. No thinking Iowan wants to deprive our children of the best possible education that can be provided at a reasonable cost. Our real challenge is to provide equal educational opportunity for children and to provide this opportunity through methods which require a proportionate tax responsibility.

ADVISORY COMMITTEE ON THE STUDY
OF STATE AID TO SCHOOLS

Representative Leroy Petersen, Chairman
Senator Edward Wearin, Vice Chairman
Senator C. Joseph Coleman
Senator Robert Rigler
Senator Melvin Wolf
Representative Merle Hagedorn
Representative Harvey Ware

APPENDIX I

A BILL FOR

An Act to provide for the establishment of a minimum foundation program for the state of Iowa.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. Chapter two hundred eighty-six (286), Code 1962, is hereby repealed.

Sec. 2. For the purpose of equalizing educational opportunity in the school districts throughout the state of Iowa there is hereby created the "minimum foundation program". The minimum foundation program shall insure that a minimum of three hundred twenty-five (325) dollars shall be expended each year for the education of each pupil who attends public school in districts which qualify under this Act. The cost of the minimum foundation program for the entire state shall be supported jointly by the state and the several school districts of the state in the manner and to the extent as set forth in this Act.

Sec. 3. For the purpose of this Act, unless the text otherwise requires:

1. "State department" means the state department of public instruction.

2. "State superintendent" means the state superintendent of public instruction.

3. "Commission" means the state tax commission.

4. "Qualified school district" means any school district in the state of Iowa which meets all of the following qualifications:

a. Maintains twelve (12) grades of instruction or pays tuition of at least three hundred twenty-five (325) dollars per school year to an approved high school district for each student attending school outside the district.

b. Is approved by the state superintendent under the provisions of section two hundred fifty-seven point eighteen (257.18), subsection thirteen (13) of the Code.

c. Levied for the general fund for the preceding school year a tax of at least fifteen (15) mills on the assessed value of all taxable property within the school district.

5. "Average daily attendance" means the average obtained by dividing the aggregate days of attendance for the school year by the number of days school was in session.

Sec. 4. The state shall pay to each qualified school district aid of eighty (80) dollars multiplied by the combined number of nontuition students in average daily attendance in schools maintained by the school district and the number of students for which the district pays tuition to another district. Such aid shall be known as general aid.

Sec. 5. The state shall pay additional aid, which shall be known as equalization aid, to any qualified school district provided:

1. The tax levied for school purposes within a district provided for in subsection two (2) of this section plus the total general aid paid to the district does not provide a sum equal to three hundred twenty-five (325) dollars for each student in average daily attendance within the district and for each student for which the district pays tuition to another qualified school district.

2. Such district shall have levied a tax for school purposes equal to six (6) mills upon the fair market value of all taxable property within the school district.

Sec. 6. The amount of equalization aid for a qualified school district shall be determined as follows:

1. Multiply three hundred twenty-five (325) dollars by the combined number of nontuition students in average daily attendance within the school district and the number of students for which the district pays tuition to another qualified district.

2. Subtract from the product the sum of the amount equal to a six (6) mill tax levy on the fair market value of all taxable property within the school district plus the amount of general aid the school district is entitled under this Act.

3. Equalization aid shall be paid to the school district in the amount of the remainder.

Sec. 7. At the close of the school year, but not later than July 5, each school district shall supply the state department

with the information required for calculation of the amount reimbursable to the school district for maintenance of programs. Before June 1 of each year, forms for this purpose shall be supplied by the state department to each school district.

Sec. 8. On June 1 of each year, the state department shall submit to the commission a list of the several school districts in the state showing the assessed valuation of all taxable property for the previous year in each school district.

Sec. 9. The commission shall:

1. Compute the ratio of total sales price to total assessed valuation for sales of real estate, occurring and recorded within each county or city with city assessors during the two (2) preceding calendar years.

2. Apply the ratio computed to the total assessed valuation of all taxable property of each school district.

Sec. 10. After determining the fair market value in each district, the commission shall multiply the total market value of all taxable property within each school district by six (6) mills. The product shall be the amount which can be raised by a six (6) mill levy on the market value of all taxable property in each school district.

Sec. 11. On or before July 15 of each year, the commission shall certify to the state department the amount which can be raised by a six (6) mill levy on the total market value of all taxable property in each school district.

Sec. 12. Before September 1 of each year, the state department shall calculate and determine the amount of state aid reimbursable to each qualified school district.

Sec. 13. After calculating and validating for accuracy the amount of aid due each qualified school district under this Act, the state department shall certify the same to the state comptroller for payment.

Sec. 14. When such conditions as unnatural weather hazards, impassable roads, epidemics and other emergencies occur to such an extent as to penalize any district, the state superintendent may adjust the average daily attendance for a school district by taking the average of several weeks' attendance in lieu of the weeks effected by such hazards or epidemics.

Sec. 15. Any school district in the state shall have the authority to exceed the foundation program if such district can legally provide the funds as now provided by law.

Sec. 16. The funds received by the several school districts from the foundation program shall be credited to the schools general fund.

Sec. 17. The state superintendent, subject to the approval of the state board of public instruction, is hereby authorized to adopt such rules and regulations and definitions of terms as are necessary and proper for the administration of this Act.

Sec. 18. After July 1, 1965, the state department shall determine the cost of the basic education program expressed in dollars to be used in the computation of the foundation program.

The basic cost figure shall be determined in the following manner: The state department shall compute the average current operating cost per pupil in average daily attendance for the year next preceding the school year for which the foundation program will apply. The state department shall use eighty-seven point eight (87.8) percent of this computed average current cost per pupil as the basic cost of the educational program.

The state department shall compute this figure before April 15 of each year, notifying immediately every qualified school district in the state the basic cost figure to be used in computing the foundation program for the current year.

Sec. 19. Section two hundred eighty-six A point two (286A.2), Code 1962, is hereby repealed.

Sec. 20. Section two hundred eighty-six A point three (286A.3), Code 1962, is hereby amended by striking from line one (1) the word "General".

Sec. 21. Section two hundred eighty-six A point four (286A.4), Code 1962, is hereby amended as follows:

1. By striking from line one (1) the words "The general school" and inserting in lieu thereof the word "School".

2. By striking subsection one (1) and subsection two (2) of such section.

3. By striking from line thirty-eight (38) of subsection three (3) of such section the word "school".

4. By striking subsection four (4) of such section and enacting in lieu thereof the following sentence: "The sum of the

