



November 2013

Inside this Briefing

- Overview
- Regular Program Supplemental State Aid
- Categorical Supplemental State Aid
- Determination and Calculation of Aid
- Applying Regular Program Supplemental State Aid to School Finance Formula
- Applying Categorical Supplemental State Aid
- Illustrations and Examples

Legal Background Briefings are prepared and updated periodically by the Legal Services Division of the Iowa Legislative Services Agency, a non-partisan agency providing legislative drafting and research services to the committees and members of the Iowa General Assembly. The briefings provide background information regarding a particular area of law. Although a briefing may identify issues for consideration by the General Assembly, nothing contained in a briefing should be interpreted as advocating a particular course of action. The reader is cautioned against using information contained in a briefing to draw conclusions as to the legality of a particular behavior or set of circumstances.

Prepared by:

Michael Duster, Legal Counsel
(515) 281-4800
michael.duster@legis.iowa.gov

Legal Background Briefing on ...

Education Finance — Supplemental State Aid Programs (formerly “Allowable Growth”)

Overview

Iowa’s school finance system is administered through the application of a pupil-driven formula. The amount of funding received through the formula is dependent on a school district’s enrollment. For the limited number of school districts that are growing in size, additional funding is received as a result of an increase in the district’s enrollment. Another method of receiving additional funding that is available to all school districts consists of the receipt of two kinds of annual inflationary increases, referred to as regular program supplemental state aid and categorical supplemental state aid. Until the enactment of 2013 Iowa Acts, chapter 121, House File 215, “supplemental state aid” was referred to in the Iowa Code as “allowable growth.”

This legal background briefing describes the processes for determining both regular program supplemental state aid and categorical supplemental state aid and demonstrates how such supplemental state aid programs are applied.

Unless otherwise noted, Code references in this briefing are to the 2014 Iowa Code.

Regular Program Supplemental State Aid

Regular program supplemental state aid is a statutorily determined dollar amount which, when added to specified calculations at the state and district level, impacts the calculation of foundation aid pursuant to the school finance formula and increases the amount that a school district is authorized to spend

per pupil. Establishing the state percent of growth that is used to calculate regular program supplemental state aid is usually one of the early enactments in each legislative session, and is intended to provide school districts with advance notice of any applicable increase prior to each district's budget preparation and certification process.

Prior to 1993, the state percent of growth was established by way of a predetermined formula which incorporated specified state and national economic indicators.

The current method of establishing supplemental state aid was enacted in 1992.¹ Iowa Code section 257.8 was rewritten to provide that the state percent of growth for the school budget year beginning during the following calendar year shall be determined by the General Assembly each year within 30 days following the submission of the Governor's budget.² This generally means the state percent of growth should be enacted by approximately March 1 annually (approximately 16 months prior to the beginning of the budget year). In an effort to simplify the process of establishing the state percent of growth, and reduce the likelihood that the applicable legislation becomes mired in debate concerning other education initiatives, the legislation provided that determining the state percent of growth shall be the only subject matter of the bill seeking to establish it.³

Categorical Supplemental State Aid

During the 2008 Legislative Session, the General Assembly changed the way several existing programs are funded to school districts and area education agencies beginning in fiscal year 2009-2010. These categorical funding programs were divided into three supplements for school districts and two supplements for area education agencies and were switched from an appropriations-based funding to a per-pupil basis through the school aid formula, with each supplement becoming eligible for an increase in funding beginning in fiscal year 2010-2011. The increase in funding is based on each supplement's categorical state percent of growth as set by the General Assembly in the same

manner that the regular program state percent of growth is determined.

Prior to fiscal year 2009-2010, the following programs were funded through separate appropriations in the general budget:⁴

- Student achievement/teacher quality/teacher compensation, and educational excellence phase II.⁵
- Student achievement/teacher quality professional development.
- Early intervention/class size reduction.

Beginning with fiscal year 2009-2010, the following state categorical funding programs are funded on a per-pupil basis through the regular program school aid formula:

- Student achievement/teacher quality/teacher compensation, (the total teacher salary supplement).
- Student achievement/teacher quality professional development (the total professional development supplement).
- Early intervention/class size reduction (the early intervention supplement).

The total teacher salary supplement and the total professional development supplement are funded so that allocations are made to both school districts and area education agencies (AEAs). The AEAs' funding for teacher salary supplement and professional development supplement are now also based on the per-pupil cost and district cost formula.

An additional categorical funding program, known as the teacher leadership supplement, was enacted in 2013 Iowa Acts, chapter 121, House File 215, and begins providing funding for school districts during the 2014-2015 fiscal year.

This method of funding makes these programs part of the combined foundation base, i.e., part of the school aid formula. The method also requires legislative determination of the categorical state percent of growth for these programs. This funding method makes the programs' appropriations a permanent part of the state budget rather than contin-

gent on a year-to-year appropriations process, which was typically completed just before the new fiscal year, making it difficult for school districts to determine their complete budgets only a few months before the new school year. However, there is no guarantee that the categorical funding method will result in increased funding or that the programs will receive equal funding growth because the method allows for the programs to receive individual categorical state percents of growth.

Determination and Calculation of Aid

As provided in Iowa Code section 257.8, subsection 1, the General Assembly establishes by law a regular program state percent of growth for each year. Utilizing the state percent of growth, it is the Department of Management that then calculates the regular program supplemental state aid amount by multiplying the state percent of growth by the previous year's regular program state cost per pupil.⁶

Similarly, as provided in Iowa Code section 257.8, subsection 2, the General Assembly may either determine a combined categorical state percent of growth for the categorical funding programs or determine separate percents of growth for each of the categorical funding programs. The Department of Management then calculates the categorical supplemental state aid amounts per pupil by multiplying the applicable percent of growth by the previous year's state cost per pupil for the categorical funding program.

It should be noted that the enacted state percent of growth has been subject to reduction resulting from statewide budget reduction initiatives, such as the reduction during the 2002 Legislative Session from an initial rate of 4 percent passed during the 2001 Legislative Session down to 1 percent, applicable for fiscal year 2002-2003.⁷ Also, the effect of application of the state percent of growth, i.e., increased state funding per pupil, is subject to reduction by legislative action or by across-the-board budget reductions implemented by

the Governor, as occurred most recently in October 2009.⁸ However, the categorical funding programs are to be paid in full as calculated and are not subject to such reductions made by the Governor.⁹

Applying Regular Program Supplemental State Aid to School Finance Formula

Regular program supplemental state aid has several effects on the operation of the school finance formula and significantly impacts the amount of state general fund dollars that are needed for state foundation aid.¹⁰ For the fiscal year 2013-2014, regular program state foundation aid will cost the state \$2.33 billion.¹¹

Once the state percent of growth and supplemental state aid amount have been determined, the supplemental state aid amount is added to the previous year's state cost per pupil to arrive at a new state cost per pupil.¹² The regular program foundation base per pupil percentage of 87.5 percent is then applied to the new regular program state cost per pupil to be used in determining the amount of state foundation aid available through operation of the school finance formula.¹³

At the district level, the supplemental state aid amount is added to the previous year's district cost per pupil in determining a new district cost per pupil level, which in large measure constitutes the amount a school district is authorized to expend per pupil, and as part of the school finance formula impacts the amount of property taxes levied by the school district.¹⁴

Additionally, because the state cost per pupil figure constitutes a statutory minimum district cost per pupil figure for all school districts, the supplemental state aid amount serves to increase the statutory minimum each year.¹⁵

The term "supplemental state aid" is also subject to some modifications regarding application to particular programs or concepts:

- A separate supplemental state aid amount is calculated in determining area

education agency funding for special education support services.¹⁶

- One-time additions to supplemental state aid have sometimes occurred in order to incorporate funding for a specified program within the school finance formula, such as gifted and talented program funding, which had previously been primarily funded through non-state-aid mechanisms.¹⁷
- A “modified supplemental amount” may be applied to increase funding authority to be derived through property taxes, such as when the School Budget Review Committee grants assistance to applicant

school districts pursuant to Iowa Code section 257.31.

Applying Categorical Supplemental State Aid

The categorical funding programs are funded entirely through state aid.¹⁸

Despite the change in the budgeting process for the categorical funding programs, the legislation requires that the funds be used in compliance with the requirements of each Code chapter that relates to the programs.¹⁹

Each supplement that funds the categorical funding programs is eligible to be increased annually by a categorical supplemental state aid amount. The General Assembly may set one combined categorical state percent of growth for all of the supplements or the General Assembly may choose to set separate categorical state percents of growth for each supplement.

The categorical supplemental state aid amount for each categorical funding program is calculated using the same methodology as is used for the regular program supplemental state aid.

Additionally, school districts and AEAs are guaranteed the previous year’s total supplement amount in each category. The guarantee is based on the previous fiscal year’s unadjusted supplement total. Each supplement (total teacher salary, total professional development, and early intervention) and the corresponding budget guarantee is part of a school district’s budget authority.

Illustrations and Examples

The following illustrations, in table form, regarding the calculation of regular program supplemental state aid, and examples of sample calculations, are based upon the information contained in the Legislative Guide to Basic Iowa Education Finance, published by the Legislative Services Agency, available online at:

https://www.legis.iowa.gov/DOCS/LSA/Legis_Guide/2011/LGLSL004.PDF.

State Percent of Growth and Supplemental State Aid Amounts

Fiscal Year	State Percent of Growth	Supplemental State Aid Amount Per Pupil
1993-94	2.100%	\$70.00
1994-95	2.850%	\$97.00
1995-96	3.50%	\$123.00
1996-97	3.30%	\$120.00
1997-98	3.50%	\$131.00
1998-99	3.50%	\$136.00
1999-00	3.00%	\$158.00*
2000-01	4.00%	\$167.00
2001-02	4.00%	\$174.00
2002-03	1.00%	\$45.00
2003-04	2.00%	\$91.00
2004-05	2.00%	\$93.00
2005-06	4.00%	\$190.00
2006-07	4.00%	\$197.00
2007-08	4.00%	\$205.00
2008-09	4.00%	\$213.00
2009-10	4.00%	\$222.00
2010-11	2.00%	\$115.00
2011-12	0.00%	\$0.00
2012-13	2.00%	\$118.00
2013-14	2.00%	\$120.00
2014-15	4.00%	\$245.00

*\$120 from supplemental state aid; \$38 from gifted and talented program roll-in.

The Guide may be consulted for more detailed information concerning the concepts addressed in this briefing and other aspects of the operation of the school finance formula.

of \$5,768, the resulting state cost per pupil for the budget year 2013-2014 is \$6,121.

State Cost Per Pupil and Supplemental State Aid Determinations				
Previous Year's (Base Year's) State Cost Per Pupil	x	State Percent of Growth Rate	=	Supplemental State Aid Amount Per Pupil
Previous Year's (Base Year's) State Cost Per Pupil	+	Supplemental State Aid Amount Per Pupil	=	State Cost Per Pupil for Budget Year

District Cost Per Pupil Determination

$$\begin{aligned} &\text{Previous Year's (Base Year's) District Cost Per Pupil} \\ &\quad + \\ &\text{Supplemental State Aid Per Pupil Amount for the} \\ &\text{Budget Year (Determined Under the State Cost Per} \\ &\text{Pupil Calculation)} = \\ &\text{District Cost Per Pupil for the Budget Year} \end{aligned}$$

Example: The regular program state cost per pupil for the budget year 2012-2013 was \$6,001. The state percent of growth set by the General Assembly for the budget year 2013-2014 is 2 percent. The supplemental state aid amount per pupil for the budget year 2013-2014 equals \$120, which is 2 percent of \$6,001. When the supplemental state aid amount of \$120 is added to the previous year's (i.e., base year's) state cost per pupil

Example: Assuming that a school district's district cost per pupil for the budget year 2012-2013 was \$6,030, the budget year 2013-2014 district cost per pupil equals \$6,150, calculated by adding the supplemental state aid per pupil amount of \$120 for the budget year 2013-2014 to the previous year's (base year's) district cost per pupil.

Figure 1 demonstrates how the state categorical supplements increased between the fiscal year 2012-2013 and the fiscal year 2013-2014.²⁰ This does not include the AEA categorical cost per pupil supplements, which are calculated in the same manner.

Figure 1 - State Categorical Supplements—Per Pupil Calculations FY 2013 to FY 2014						
		Teacher Salary		Professional Development		Early Intervention
State Categorical Supplements: State Cost Per Pupil Calculation						
	FY 2013 Cost Per Pupil	\$	517.17	\$	58.57	\$ 63.80
FY 2014 Categorical Supplemental State Aid (Based on 2.0% Categorical State Percent of Growth)		\$	10.34	\$	1.17	\$ 1.27
	FY 2014 Cost Per Pupil	\$	527.51	\$	59.74	\$ 65.08

1338RR

¹ 1992 Iowa Acts, ch. 1227, §15.
² Iowa Code §257.8. However, the General Assembly has in certain years delayed the establishment of the state percent of growth or notwithstanding the statutory requirements for enactment. See, e.g., 2010 Iowa Acts, ch. 1002 (delaying the establishment of the state percent of growth); 2010 Iowa Acts, ch. 1003 (delaying the establishment of the categorical state percent of growth); 2013 Iowa Acts, ch. 121, §4.7 (es-

establishing state percents of growth and notwithstanding enactment requirements).
³ Iowa Code §257.8.
⁴ 2013 Iowa Code §256D.5; Iowa Code §§284.1 and 284.13; 2009 Iowa Code §294A.25.
⁵ Educational excellence phase II program in Iowa Code chapter 294A is repealed as of June 30, 2009; 2008 Iowa Acts, ch. 1181, §§103-105; 2009 Iowa Acts, ch. 68, §§10-11; 2010 Iowa Acts, ch. 1069, §67.
⁶ Iowa Code §257.8(3).
⁷ 2002 Iowa Acts, ch. 1167, §1.

-
- ⁸ See 2001 Iowa Acts, ch. 172, §3 (item vetoed); Executive Order No. 19 published in IAB, XXXII, No. 9, October 21, 2009, page 1139; and Executive Order No. 24 published in IAB, XXIV, No. 11, November 28, 2001, page 858.
- ⁹ Iowa Code §257.16(4).
- ¹⁰ Legislative Services Agency, Legal Services Division, Basic Education Finance, *available at* https://www.legis.iowa.gov/DOCS/LSA/Legis_Guide/2011/GLSL004.pdf (last visited October 21, 2013).
- ¹¹ Legislative Services Agency, Fiscal Services Division, School Aid Estimates, *available at* https://www.legis.iowa.gov/DOCS/lsareports/k12Education/SchoolAid_Agreement_May22_FinalAction.pdf (last visited October 25, 2013).
- ¹² Iowa Code §257.9(2).
- ¹³ Iowa Code §257.1(2).
- ¹⁴ Iowa Code §257.10(2)(a).
- ¹⁵ Iowa Code §§257.2(2); 257.10; 257.15.
- ¹⁶ Iowa Code §257.8(3).
- ¹⁷ Iowa Code §257.8(5); see also 2013 Iowa Code §257.8(4), (5).
- ¹⁸ Iowa Code §257.4.
- ¹⁹ Iowa Code §§256D.1(1), 257.9(6)-(11), 284.1, 284.13.
- ²⁰ Legislative Services Agency, Fiscal Services Division, School Aid Formula Funding Allowable Growth Rates and State Cost Per Pupil Amounts, *available at* https://www.legis.iowa.gov/DOCS/LSARReports/k12Education/Historic_SchlAid_GrowthRates.pdf (last visited October 15, 2013).