

BUDGET REVIEW INFORMATION REPORT

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Financing Public Education

The data which will follow is predicated on an attempt to relate a change in philosophy while still using at least a portion of the understandable features of the present financing plan. It is not the contention in preparing this plan that responsibility is to be assumed for recommending the proportions of various funds to be used, but rather to furnish a framework which would allow legislators to intelligently choose a combination which would be best for financing Iowa schools.

To effectively finance public education in Iowa an attempt should be made to accomplish the following four objectives:

1. It should equalize opportunity.
2. It should provide equity in the distribution of the tax burden.
3. It should be tied to a wealth factor determined to best identify the districts ability to pay.
4. It should obtain funds from local and state sources in proportion to their popularity and relative to an equalizing process.

This report is divided into three main phases. The first is to assess the overall structure of the present plan and follow with the concept of using a larger base for the equalizing features. A second area would be to determine an intermediary source of state funds which could be regulated in various ways in order to further equalize the financing efforts throughout the state.

A final phase has been prepared to attempt to convey to those concerned that the distribution processes followed at the present time are workable and can be easily regulated to any changes that may develop in either of the two above possible changes.

It should be the concern of anyone responsible for making changes to realize that the controlling feature is the amount of funds that can be placed in a common depository at a state level. The local contribution to a state effort should also be a prime concern to the lawmakers of Iowa.

The opportunity for the greatest error lies in attempts to control the distribution by statute. Many times the ultimate effect of a statute change has implications that are not immediately apparent. Changes in distribution

should be thoroughly researched before being recommended and this step should not be taken until the basic plan has been established and the funds to be allocated at a state level determined.

It is the concern of this writer that full consideration be given to the efforts made by the School Budget Review Committee and the 63rd General Assembly to equalize through the present system. The School Budget Review Committee in its sessions has made decisions which have greatly effected distribution. No effort has been made by any organization to research these effects and also as interpreted from changes mandated in S.F. 640.

Full consideration should be given to simplifying the entire process. This should be done by broadening the scope of understanding to a general knowledge of the financing plan as to the effects of a properly established state basic unit and an adequately funded state effort. With proper policy developed by statute in these two areas, it should mean that minor guidelines in final distribution can be left to lesser authorities who have delegated responsibilities.

Three Phases of the Financial Plan

In separating the total plan for financing Iowa schools into three phases, it should be understood that one is dependent upon the other. A well developed state basic unit could be useless if the funding from other sources than property tax is not properly supplied. Neither can a distribution plan be effective if there is little to distribute.

Tables will be made which will show the possible changes resulting from different efforts either at a state or local level. It should be of the utmost importance that no single factor should be considered without the knowledge of a balancing factor to apply. It also is important to understand that the final proposal may have five or more factors that may be favorable to a district, but that several other factors are operating to minimize this effect. The understanding of the ultimate effect is vital and can best be done by an interim committee, not in debate on the legislative floor or while trades are being made by legislative conference committees.

Equalization by State Basic Instead of County

It would be recommended that the present county basic units be abolished and shift to a uniform state effort. The new basic unit could be statewide and could provide that a uniform state millage based on each district's assessed valuation be made. Also any designated amount of income which would be returned to the district could also be returned on a statewide basis. These funds would be returned to the districts on the basis of fall enrollment of students actually being given full time instruction by the school district.

The amount of the uniform state millage could be determined by statute as also the state uniform distribution of a designated portion of the income tax returned the district. For example, if a uniform assessment of 20 mills on the state total assessed valuation used this year of \$7,261,490,992 were to be made would raise approximately \$145,229,819.84. The 40 percent income returned this

year was \$37,402,182.88. The number of students as shown by the fall enrollment for 1969-70 school year was 660,903. Dividing the two totals above by the number of students in fall enrollment would amount to \$219.75 per pupil returned from a statewide property tax. Fifty six fifty-nine (\$56.59) per pupil would be returned from a statewide distribution of the income tax.

With the two total dollars divided uniformly throughout the state, this basic effort would be \$276.34 per student. This figure could be raised or lowered by the amount considered as a base levy for the state basic property tax or the percentage of income so designated to be returned to the district.

Equalization Through Appropriation

The second phase would be equalization through appropriation. This section, along with changes previously mentioned, could easily be considered the key to the amount of relief that could come to the local property taxpayer.

The present appropriation for direct state equalization aid for the 1969-70 school year to be paid on this years expenditure commitment is \$112,000,000 or \$169.47 per pupil. On the basis of each million dollars added to the appropriation \$1.50 per student would be added to the present allotment of \$169.47.

Up to this point there could be \$445.28 which might be distributed on the basis of the number of students in fall enrollment in 1969.

The total estimated cost of education as represented by using approximately 97 percent of the general fund proposed for 1969-70 was \$521,906,000. The above commitments by state accumulated funds mentioned would amount to \$294,632,001. To this figure approximately 9 percent could be added representing other income which is \$25,653,138 or 39.00 per pupil. This total added to the above would equal \$320,285,139. If this were to be subtracted from the total proposed, it would leave \$201,620,861 which would have to come from additional property tax at a local level.

It is at this stage where a legislative decision would have to be made as to the approximate figure they would be authorize for state funding. The amount allotted will directly affect the portion of the program that can be financed.

It is also at this point where a decision should be made as to whether all special aids related to any school reimbursement for school costs such as agricultural land credit, the homestead tax credit, drivers education and other credits for special education programs, should or should not, be included in building the total figure to be appropriated. If a \$50,000,000 addition could be added in the way mentioned above this would result in \$33.00 more per pupil being raised on the base which could reach approximately \$517.28 which would be raised from sources other than the local property tax. This total along with the income from other sources, state equalization and a state basic involving a general state levy would reduce the total dollar amount \$151,620,868, an average millage of 21 mills statewide. This may be a considerably different millage effort for a given district.

Equalization by Distribution

A pattern for each school district spending has been monitored over a period of five years. To this pattern a change has been made to increase the portion of state aids of various types up to almost approximately 40 percent depending on "who" is considering "what" to be state aid. The increased costs in recent years has decreased this percentage. The original bill, H.F. 686, which designed the aid distribution procedure outlined many features but also left others to be implied.

In working with the implied sections many adjustments have been made to overcome inconsistencies and especially instances where high spending districts could qualify for a larger proportion of funds.

Some corrective measures were recommended in the first report to the legislature but no statute action was taken. The Committee went deeply into the realm of the implied and established payment procedures which restricted high spending districts and released those on the lower spending areas from similar restrictions.

With the help given by S.F. 640 and a general knowledge of each districts spending patterns, it would be extremely inappropriate at this time not to use this information and specific figures as points of departure. The possibilities for making a variety of restrictive adjustments as well as making more money available by appropriation can easily be done within the framework of using the reimbursable expenditure approach but all expenditures should be included and present deductible receipts subtracted.

Changes which could be made in the wealth factor can be researched thoroughly, and it should be fully understood that any change may turn out negative for one district and that this should be balanced by a positive change of a different nature made by another change.

Determining the wealth factor has been difficult to relate, but no state aid formula should attempt to equalize unless such measures towards making the richer district share less in equalization funds have been properly established.

The present wealth factor plan identifies a districts wealth on the basis of a districts income. Many seem to believe this makes income the sole determiner of the factor used.

The 70-30 ratio at a state level using present income as .3 and building a districts wealth factor by using 2 1/3 times the adjusted gross income to determine the market value used is understandable, and it cannot be said that the districts factor is determined solely on income. It, however, has only been able to bring approximately 257 districts to an 80-20 relationship, 100 to the desired 70-30, 29 to a 60-40 and one to 50-50 and 65 still at 90-10. The 50-50 district is the largest school district in the state which in turn stands to lose most in the present process with its approximate 45,000 students at the present ratio and still more at a 60-40 state level weighting.

It would be suggested that a run be made using a 60-40 ratio at a state level and then compensate those districts which fall into low ratio categories

by balancing factors. These compensating items may come from some of the measures mentioned in the first two sections of this report.

Some specific changes might be made in distribution by changing the process of using a projected enrollment. For those with little fluctuation in membership no hardship exists, however, those able to have large positive increases one year can be free from limitation for a period of two years and those that have decreased may find limits multiplied beyond any justified amounts. The fall enrollment used with non-public included as eligible for the count should be the determining figure to use in multiplying by the previous years allowable limit in order to establish new limits. To further alleviate points which have been hard to police, another suggested change would be to make all expenditures reimbursable. It would be suggested that all expenditures be used along with the deductible receipts in order to determine the proposed allowable limit and the actual reimbursable expenditures.

If it is necessary to make the distribution more restrictive, some attention could be given to lowering the 120 percent limitation based upon the state adjusted average. It should be fully understood that this percentage adjustment has no relation to an 85% or some other percentage figure often mentioned as the states participation in a foundation plan. The former is based on a plan already in operation for distribution of direct state aid while the latter proposes to use a different means to arrive at a distribution of all funds.

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