
Basic School Finance

History of School Finance in Iowa

School Finance – Background

- Originally Iowa's schools were created when enough money could be raised to pay a teacher
- 1864 a new state governance system was established
- By 1900 how many operating schoolhouses did Iowa have?

School Finance – Background

- At one time there was over 1,700 school districts in Iowa
 - How many school districts do we have today?
- In the 1950s adopted Code of Iowa 275.1 (300 or more?)
 - How were these schools funded back then?

School Finance – Background

- 1967 equalized property taxes on a per pupil basis
- 1971 the first state foundation aid formula was adopted
 - Is the school aid formula the same today as it was in 1971?

School Finance – “The Rule”

- Dillon’s rule:
 - School districts only have those powers expressly authorized by the Code of Iowa
- Home rule:
 - Cities and counties can do anything not expressly prohibited

School Finance – Legal Order

- **Iowa school districts are creatures of the legislature**
- **Hierarchy of Authority**
 - **Dillon's Rule**
 - **Code of Iowa**
 - **Administrative rules of Iowa**
 - **DOE regulations**
 - **Formal Attorney General opinions**
 - **Governmental accounting, auditing, & financial reporting standards**

School Finance Basics

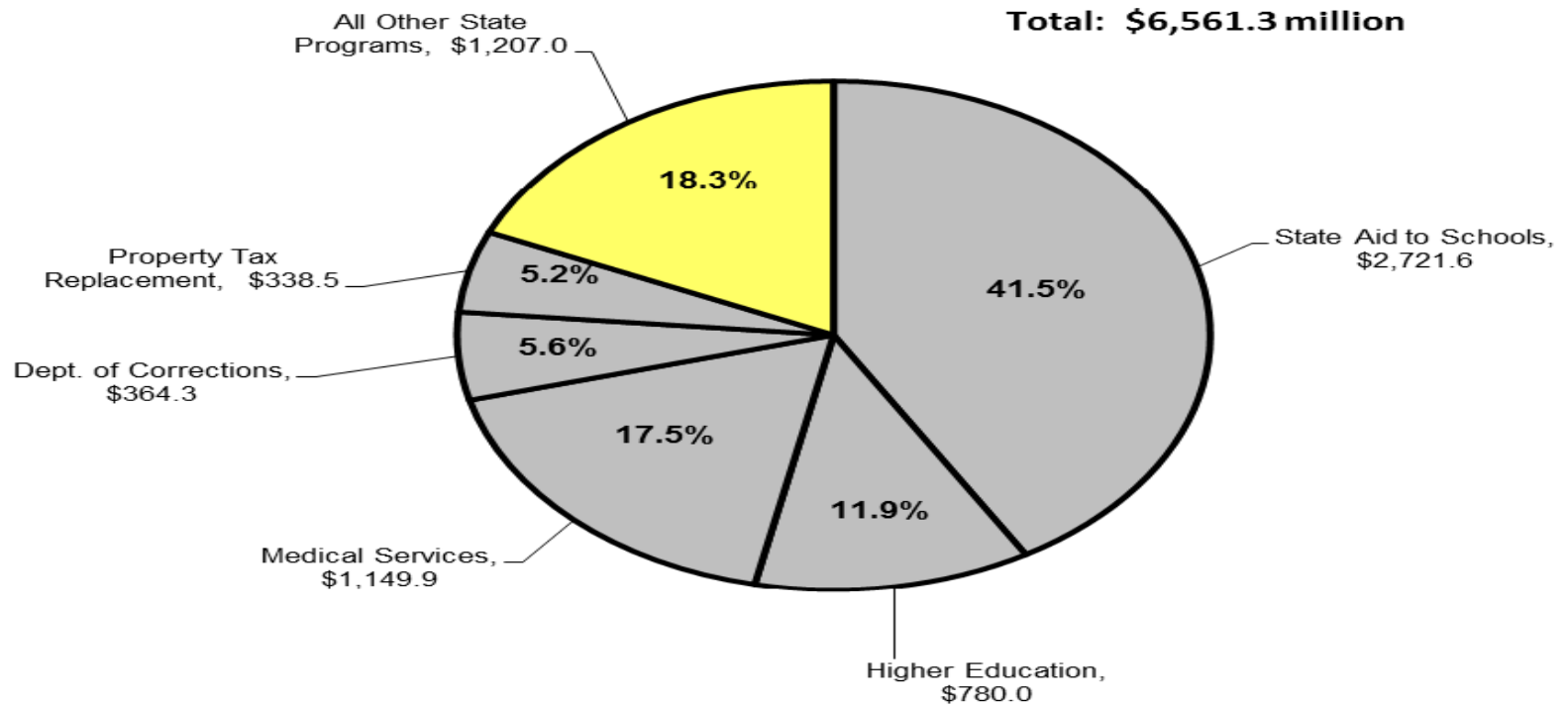
School Finance – Formula Fundamentals

The school foundation formula relies on two sources of revenue:

- *State General Fund appropriations*
- *Locally raised property taxes*

FY 2012 Net General Fund Appropriations

FY 2012 Projected General Fund Appropriations (Dollars in Millions)



School Aid – Formula Purpose

- Purpose of the foundation formula:
 - Code of Iowa, 257.31:
 - “Equalize educational opportunity,
 - provide a good education for all children of Iowa,
 - provide property tax relief,
 - decrease the percentage of school costs paid from property taxes,
 - and to provide reasonable control of school costs.”

School Aid - Basics

Foundation formula - ceiling vs. floor

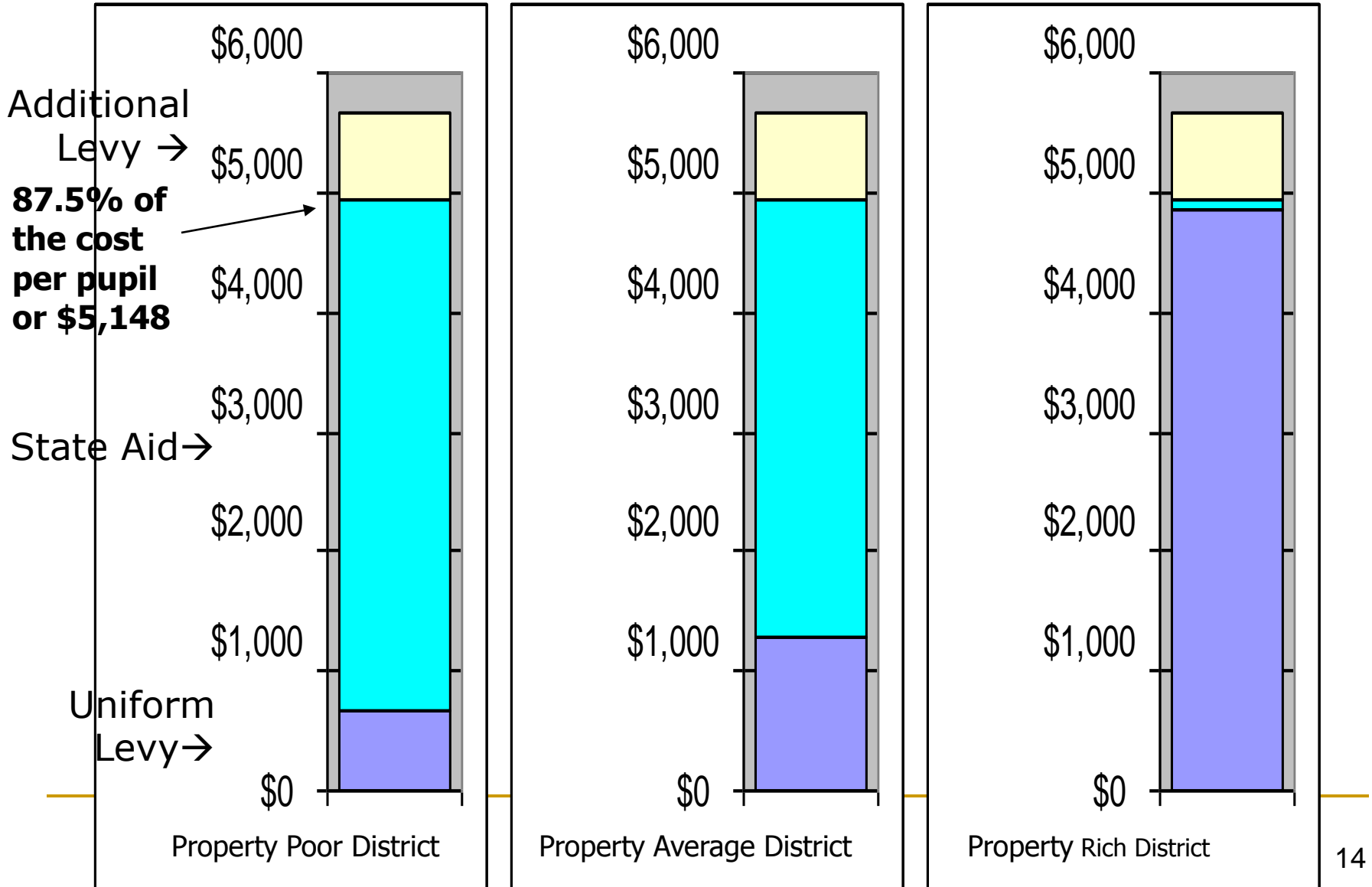
- *The foundation formula results in a maximum expenditure per pupil and therefore a maximum amount a district can raise and spend (note: not every district has the same ceiling).*
- *Other states' school aid formulas have created a minimum spending per pupil.*
- *This has led to lawsuits nationwide.*
- *Iowa's Constitution does not guarantee educational equity.*

Operation of Foundation Formula

Three components:

- *Uniform Levy - Property tax levy of \$5.40 per thousand of taxable valuation*
- *State Foundation Percentage - Amount the state pays in excess of \$5.40 - varies by district (87.5% of cost per pupil)*
- *Additional Levy - Property tax levy which funds the difference between the sum of the Uniform Levy and the State Foundation Percentage and the Combined District Cost*

Operation of Foundation Formula – Total Cost per Pupil is \$5,883



Operation of Foundation Formula

Two factors affecting a district's Regular Program budgets:

1. *Enrollment - increases or decreases in enrollment*
2. *District cost per pupil – changes in allowable growth*

Changes in valuations - uniform levy rate (\$5.40) or foundation percentage have no effect on Regular Program budgets

School Aid - Basics

Basic Calculations:

- Regular Program District Cost (RPDC) - budget enrollment times district cost per pupil, $608.4 \text{ students} \times \$5,883 = \$3,579,217$
- Combined District Cost (CDC) - sum of RPDC plus supplementary weightings, special education, English Language Learners (ELL), media services, Teacher salary supplement, professional development and early intervention

What happens if less is spent? Carries forward as unspent budget authority and can be used in future years. Important to remember it is only one-time monies.

School Finance – “The Bright Line”

- Educational program expenditures are funded and equalized by the state foundation formula.
- Facility expenditures are not under the finance formula and may not be used for educational program expenditures (and vice versa).

Enrollments

Enrollment

- Why important?
 - Pupil-driven formula
 - Each enrollment category has associated revenue
 - Determines total spending authority
- Terminology
 - Regular program
 - Weighted enrollment

Enrollment

- Headcount – October 1
 - Basic v. budget enrollment
 - Always use prior year enrollment for setting budget
- Special education weightings
 - Levels
 - Weightings
- Supplementary weightings
 - English Language Learners ELL
 - At-risk
 - Pre-school
 - Senior Year Plus

Enrollment - Weightings

- **Why Weighting Is Needed?**
 - Some student populations have higher costs than others. Two choices: pay more per student or count students at value greater than 1
 - Special education has three weightings: .72, 1.21, 2.74 depending on level of services child needs
 - These are in addition to the 1.0 weight

Enrollment - Special Education

- Iowa's system is unique
 - If you spend less than the weightings generate have to send back (>10%)
 - What happens if spend more?
 - Creates a “deficit”
 - Does not cause long term spending from regular education
 - Deficits may be recouped from property taxes
-

Enrollment - Special Education

- Are weightings sufficient?
 - No, special ed deficits growing statewide
 - Number of kids increasing
- How solve
 - Adjusting weightings = more state \$'s
 - Adjust annually = less “sticker shock”

Enrollment – Add it all up

- Weighted enrollment:
 - + Budget enrollment
 - + Supplementary weighting – ELL
 - + Supplementary weighting – At-risk
 - + Supplementary weighting – PK, etc
 - + Special ed weighting
 - + 0.72 weight
 - + 1.21 weight
 - + 2.74 weight

Enrollment – Computation facts

- Doing the math
- Facts:
 - October 1, 2011 headcount: 672.6
 - Special Education
 - 6 Level I
 - 9 Level II
 - 4 Level III
 - Supplementary weighting – 12.82
- What is my weighted enrollment?

Enrollment – The Math - Solution

Count	Weighting	Enrollment
a	b	c=b*a

Budget Enrollment	672.6	1.00	672.6
Special Education			
* Level 1	6	0.72	4.32
* Level II	9	1.21	10.89
* Level III	4	2.74	10.96
Total Special Education Weighting			<u>26.17</u>
Supplementary Weighting	12.82	1.00	12.82
Total Weighted Enrollment			<u><u>711.59</u></u>

Enrollment: Key Point

- In preceding example, even though serving about 672 children, the funding formula generated almost 712 “children” for the funding formula.
- Why important? It builds the District’s spending capacity “credit card” limit.
- Our “limit” is being multiplied by 712 and not 672. That’s 40 additional students.
- Weighting of students provides additional dollars to cover their unique needs.

Questions

Property Tax Basics

Understanding Property Taxes

- Taxing authorities
- Taxing districts
- Basic equation
 - $\text{Rate} \times \text{Value} = \text{Taxes due}$
- Tax rates
 - Expressed in dollars per thousand

Property Taxes - Valuation

- Assessed value
 - Classes of property
 - Residential
 - Agricultural
 - Commercial/Industrial
 - Gas and Electric
 - Railroad
 - Market value
 - Productivity value
 - Equalization
- Taxable value
 - Rollbacks
 - Credits

Understanding Property Taxes

Computing school taxes paid on an individual property can be reduced to the following steps:

1. Taking the assessed value, multiply by the rollback percentage which results in the taxable value
2. Taking the taxable value, divide by 1,000 and multiply by the school tax rate to get the school taxes due without homestead credit
3. Taking the homestead credit, divide by 1,000 and multiply by the school tax rate to get dollars of homestead credit
4. Taking the taxes due without homestead credit, subtracting the dollars of homestead credit to get the net school taxes due.

Sample Calculation

Home with assessed value = \$100,000

Projected Rollback (2012-13) = 48.529%

District Tax Rate = \$15.20 per \$1,000

Homestead Credit on first \$4,850 of taxable value

1. $\$100,000 \times .48529 = \$48,529$ (taxable value)
2. $\$48,529 / \$1,000 * \$15.20 = \737.64 (school taxes due without homestead credit)
3. $\$4,850 / \$1000 * \$15.20 = \73.72 (dollars of homestead credit if fully funded)
4. $\$737.64 - \$73.72 = \$663.92$ net school taxes due

Exercise 1

- Figuring your property taxes

Understanding Property Taxes

- Property valuation characteristic of school districts (why we care):
 - “Property Rich”
 - “Property Poor”
- How is it calculated?
 - Total Property Valuation / Enrollment
- Interaction:
 - High value = lower property tax rate
 - Low value = higher property tax rate

-
- Questions about taxes before we go into the concept of Spending Authority?

Spending Authority

Big Picture: Spending Authority

School finance concepts:

- Cash and Spending Authority:
 - Cash - normal fund accounting (think Audit or Certified Annual Report)
 - Spending authority
- What controls school district spending – cash or spending authority?
- Both are important, but spending authority is vital.

Spending Authority

- Two key concepts
 - Spending authority
 - Is the maximum a district could spend in a year if it chose
 - Unspent balance (unspent budget authority)
 - Is the difference between a district's total spending authority for a year and what they actually spent

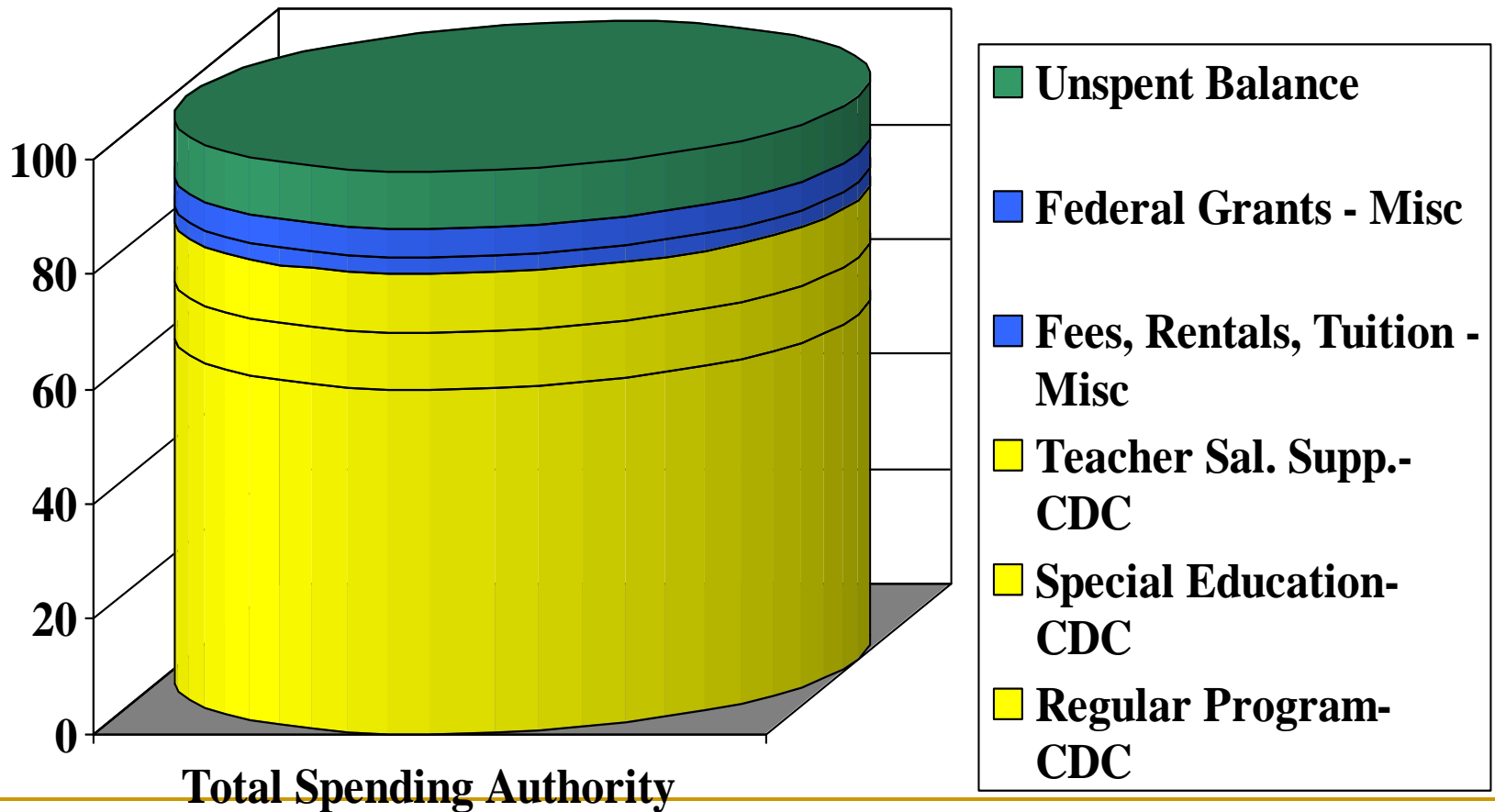
Spending Authority

- **Concept:**
 - ❑ State gave each District permission to spend \$5,883 per student for FY 2011
 - ❑ The funding formula decides the mix of property tax and state aid to pay the bill
 - ❑ If you spend less, the remainder carries forward and can be added to next year's budget if so desired

Spending Authority

- Spending authority is the sum of:
 - Combined District Cost
(property tax and state aid)
 - Miscellaneous income – anything not above
 - Unspent balance from previous years
- Why important?
 - Districts cannot exceed spending authority
 - Not a measure of cash
 - Why allow districts to carry forward unused spending authority?

Building Blocks of Spending Authority



Total Spending Authority =
Total Certified Budget Capacity

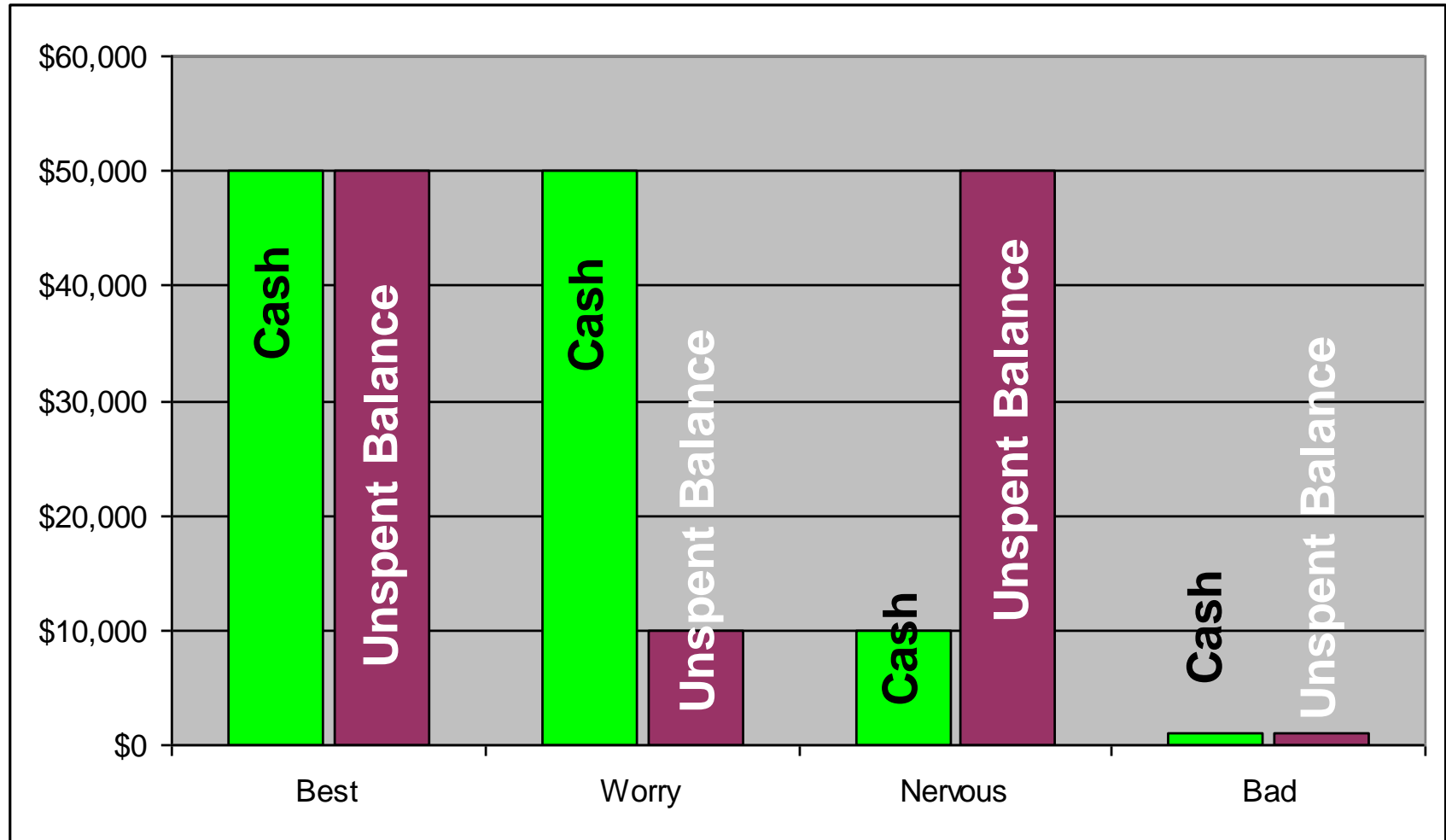


Another Way of Looking at Spending Authority & Cash

Comparing Spending Authority and Cash Concepts

Term	Explanation	Type
<i>Spending Authority</i>	Total amount a school district can legally spend during a year.	Recurring
<i>Unspent Balance</i>	Remaining amount of spending authority at end of year (Spending Authority minus Actual Expenditures).	One time
Term	Explanation	Type
<i>Cash On Hand</i>	Total cash on hand.	One time
<i>State Aid</i>	Amount received by a district from state General Fund.	Recurring
<i>Property Taxes</i>	Amount received by a district from local property taxes.	Recurring
<i>Miscellaneous Income</i>	Any income which is not property tax or state aid (must be actually received).	One time/ recurring

Cash and Unspent Balance - Four Possible Conditions



Questions?

Allowable Growth

Which scenario is best for Iowa school districts?

1. Legislature sets 4 percent allowable growth 18 months in advance and due to low state revenues, an across-the-board cut reduces state aid, or
2. Legislature sets 2 percent allowable growth 18 months in advance and promises to increase it mid-year should state revenues exceed expectations, or
3. Legislature waits to set allowable growth until revenues are known - 6 months before the start of the fiscal year.

Allowable Growth

- What is it?
 - Amount district cost per pupil may increase
 - Percent increase => \$ increase
 - Generates spending authority
 - Tells us how much our credit card limit can go up by
 - Only Foundation Formula (General Fund)
- What isn't it?
 - Doesn't differentiate funding sources
 - Doesn't guarantee budget increase

Allowable Growth - Per Pupil

- FY 2012 state cost per pupil
\$5,883
- Allowable growth rate for FY 2013
is set at 2% at this time.

What would state cost per pupil be for this coming Budget Year?

Allowable Growth - Computation

- This year's minimum District Cost Per Pupil (e.g., \$5,883)
- Allowable Growth Rate FY2013 = 2.0%
 - $\$5,883 \times 2\% = \118
 - $\$5,883 + \$118 = \$6,001$
- If District Cost Per Pupil (DCPP) is higher than minimum, they only get the fixed dollar.
 - For example DCPP = \$5,980
 - $\$5,980 + \$118 = \$6,098$
 - Not $\$5,980 \times 102\% = \$6,100$

Allowable Growth - continued

- Differing District Costs Per Pupil
 - Slightly over 50% of districts have a cost per pupil above the minimum, although the deviation is less than 3%.
 - Percentage differences will be reduced over time.
- Allowable Growth Rate for 2014 should be set by the 2012 Legislature

Allowable Growth

- When is 2% allowable growth not 2%?
 - Anytime your district has declining enrollment you will receive less than a true 2% growth in your regular program budget.
 - Anytime your district has an increasing enrollment (expect those districts that are working out of a budget guarantee status) will have higher than 2% growth in the regular program budget.

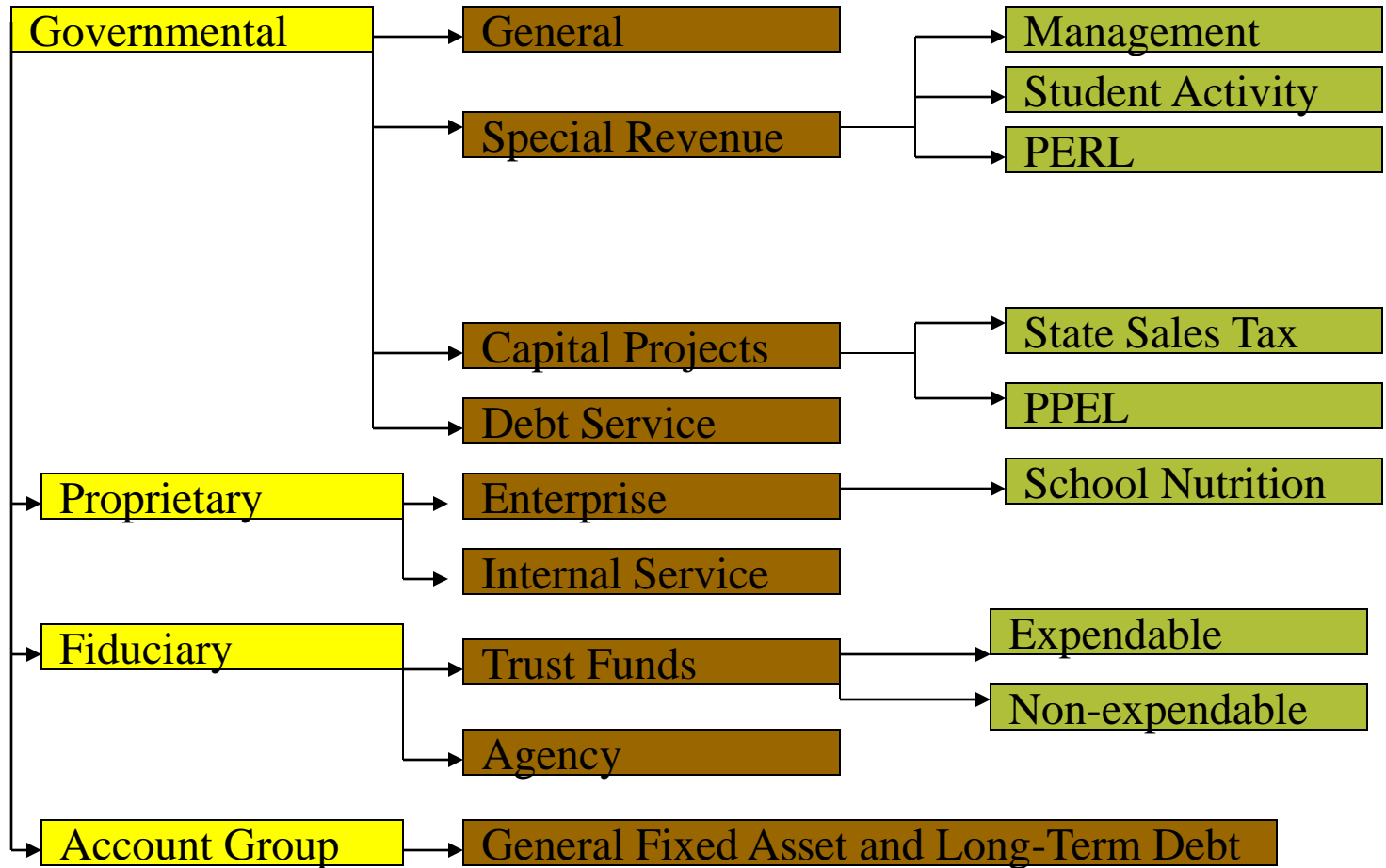
Exercise 2

- Allowable Growth

Questions?

Funds

FUND DIRECTORY TREE



GAAP Fund Structure

- Governmental
 - Proprietary
 - Fiduciary
-

Governmental

- General Fund
 - Special Revenue Funds
 - Capital Projects
 - Debt Service
-

Governmental - General

- Money In:
 - State aid
 - Most Property Taxes
 - Grants
 - Most Miscellaneous Income
-

Governmental - General

■ Money Out:

- Most all Wages & Benefits
 - Supplies
 - Equipment
 - Utilities
 - Purchased Services
 - Continuing Education Conferences
-

Special Revenue (SR) Funds

- Management
 - Public Education & Recreation Levy (PERL)
 - Student Activity
-

SR - Management

- Money In

- Board Approved Property Tax

- Money Out

- Liability Insurance
 - Early Retirement
 - Unemployment Claims
 - Tort Payments
-

SR - PERL

- Money In
 - \$.135 Voter Approved
 - Money Out
 - For the Purchase & Construction of playground Equipment
-

SR - Student Activity

- Money In

- Activity Admissions
- Student Fund - Raising Events
- Picture money

- Money Out

- Co-Curricular Activities
-

Governmental Funds – Capital Projects

- Physical Plant & Equipment Levy (PPEL)
 - 33 cent Board Approved
 - 67 cent / \$1.34 Voter Approved
 - State Sales Tax
-

Capital Projects - PPEL

■ Money In

- \$.33 Maximum Board approved annually (cannot borrow against)
- \$1.34 maximum voter approved tax/income surtax (50% simple majority) 10 years max.; Can borrow against property tax portion of proceeds; Must have at least \$1 of property tax

Capital Projects - PPEL

- Money Out
 - ❑ Purchase grounds, construct sidewalks, roadways, athletic fields, lighting, and demolition work
 - ❑ Construction of schoolhouses or buildings
 - ❑ Purchase, lease or lease-purchase of buildings or single unit of equipment or technology > \$500
 - ❑ Repair/remodel/reconstruct facilities
 - ❑ Transportation equipment
 - ❑ See Iowa Code Section 298.2&3 for full details
-

Capital Projects – State Sales Tax

- Money In
 - Bond Proceeds
 - Sales Tax (LOST); (SILO), (SAVE)
 - Money Out
 - For the purpose for which the bonds or indebtedness was incurred
 - Any school infrastructure authorized by Iowa Code 422E
-

Capital Projects - State Penny

- Replaced the School Infrastructure Local Option Tax with State Penny effective July 1, 2008
- Sunset 12/31/2029
- Need a Revenue Purpose Statement vote prior to expiration of existing SILO ballot OR if district wants to borrow against time period between expiration and 12/31/2029
- District election rather than county election.
 - 50% plus one simple majority to pass

Capital Projects - State Penny

- Current Revenue Purpose Statement or ballot is valid until expired or replaced
- Law requires lowering certain levies if a RPS is not approved:
 - Debt
 - Voted and Board PPEL
 - PERL
 - Schoolhouse Levy
- Once levies are reduced, revenue can be used for any lawful purpose

Capital Projects - State Penny

- Full per pupil equity by 2014 after expiration of all grandfathered counties
- Distributed monthly – reconciliation payment in November
- So, how does this help my General Fund?
 - Cannot spend on direct General Fund purposes – except those authorized by Code (buses, technology, etc.)
 - Can use to reduce General Fund expenditures – for example – replace HVAC system with geothermal – savings in natural gas and electricity accrue to General Fund but costs are paid through State Penny.

Governmental Fund - Debt Service

■ Money In

- ❑ Ballot language approving bond
- ❑ Both require 60% super majority for approval
- ❑ One-time election if want to go from \$2.70 to \$4.05
- ❑ Collected for other sources and transferred to this fund

■ Money Out

- ❑ Principal & Interest Payments on Debt for voter approved levy for construction and renovation of school buildings, sites and other school facilities
-

Proprietary Funds

- Enterprise
- Internal Service



Enterprise - Nutrition

- Money In
 - Lunch Fees
 - State and Federal Reimbursements
 - Money Out
 - Any expenditure related to the hot lunch program
-

Enterprise - Child Care

- Money In
 - Fee for Service Revenue
 - Money Out
 - Any expenditure related to the Child Care program
-

Internal Service

- Money In
 - Departmental Reimbursements and Charge-backs
 - Money Out
 - Purchasing or Production of Goods and Services
-

Fiduciary Funds

- Trust
- Agency



Trust - Expendable

- Money In
 - Benefactor Gifts
 - Money Out
 - Both Principal and Interest spent on the trust's intended purpose
-

Trust – Non-Expendable

- Money In
 - Benefactor Gifts
 - Money Out
 - Only Interest spent on the trust's intended purpose
-

Agency

- Money In
 - Individuals
 - Private Organizations
 - Money Out
 - Funds held in a custodial capacity on behalf of the owner
-

Questions

Instructional Support Levy

Instructional Support Levy (ISL)

- Local levy to increase regular program district cost per pupil – IA Code 257.18
 - Two questions:
 - How much do you want to increase (max 10%)?
 - How are you going to fund (property tax, income surtax)?
-

Instructional Support Levy (ISL)

- How do we get it approved?
 - Board action for up to five years
 - Subject to reverse referendum
 - Voter-approved for up to ten years
 - Simple majority vote
 - Series of board actions and resolutions
 - Must be approved and in budget by April 15
 - work backwards to get timelines – late January or early February is latest you can start
-

Instructional Support Levy (ISL)

■ Funding

- ❑ Property tax – not rate limited – is limited on amount of expenditure
 - ❑ Income surtax – surtax on state income tax – maximum combined surtax rate of 20%
 - ❑ State aid – prorated to \$7.5 million for FY2011. Current shortfall is \$59.6 million
-

Instructional Support Levy (ISL)

■ Uses

- Any General Fund purpose except:
 - Dropout prevention
 - Talented and Gifted
 - Physical plant and equipment levy (PPEL) uses
 - Management levy uses
 - Special education deficits
- May be more restrictive in use, but not less

Instructional Support Levy (ISL)

- Who has it in FY2012?
 - 334/351 districts have it in place
 - Generates \$185.6 million
 - \$85.2M Surtax
 - \$100.4M Property Tax
 - Of the 334 districts 305 use the 10% maximum funding rate
 - 5 use 9%; 4 use 8%; 9 use 7%; 3 use 6%
 - 8 use 5% or less
-

Instructional Support Levy (ISL)

- Surtax or Property Tax?
 - Districts continue to increased the use of income surtax
 - 277 out of 334 have the surtax
 - Statewide surtax represents 46% of ISL revenue while property tax is 54%
 - Surtax lightens the load of property tax
 - Drawback 1 – people have to pay this at a time when they are typically in a grouchy mood
 - Drawback 2 – timing of receipt of payments
-

Cash Reserve

Cash Reserve

- Cash reserve levy
 - Levy amount determined annually by the board for cash flow purposes
 - Used to **fund** spending authority but does not **create** spending authority
 - Limitation – total cash reserves can't exceed 25% of expenditures for the prior fiscal year (changes to 20% for FY2013)

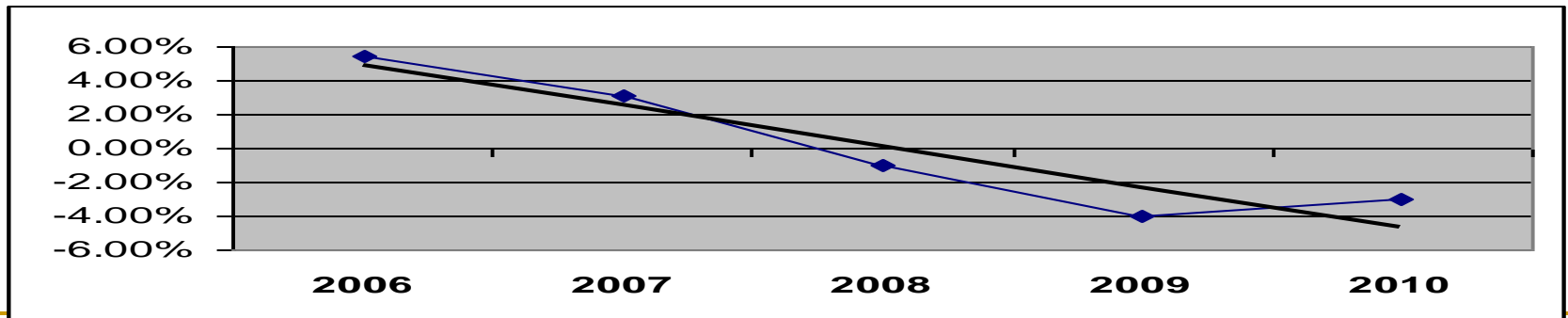
Cash Reserve

- Who has it in FY2012?
 - 309 of 351 districts have some regular cash reserve levy
 - Highest levy amount is \$6.80 / \$1,000
 - State average levy is \$1.58 / \$1,000

Cash Reserve – Why is so important?

Because without it your Financial Solvency Ratio could look like mine!

Year		UUF _B	Total Revenue	Ratio
2006		\$2,583,476	\$47,311,056	5.46%
2007		\$1,678,885	\$53,945,178	3.11%
2008		(\$578,342)	\$58,323,991	-0.99%
2009		(\$2,622,526)	\$66,409,847	-3.95%
2010		(\$2,078,767)	\$68,532,034	-3.03%



Exercise 3

- Cash Reserve / Spending Authority

New Election Cycles

New Special Elections Law

2010 – Even Year	2011 – Odd Year	2012 – Even Year	2013 – Odd Year
February – 1 st Tuesday, Feb. 2, 2010	February – 1 st Tuesday, Feb. 1, 2011	February – 1 st Tuesday, Feb. 7, 2012	February – 1 st Tuesday, Feb. 5, 2013
April – 1 st Tuesday, April 6, 2010	April – 1 st Tuesday, April 5, 2011	April – 1 st Tuesday, April 3, 2012	April – 1 st Tuesday, April 2, 2013
	June – last Tuesday, June 28, 2011		June – last Tuesday, June 25, 2013
September – 2 nd Tuesday, Sept. 14, 2010 (No school board election)	September – 2 nd Tuesday, Sept. 13, 2011 (with school board election)	September – 2 nd Tuesday, Sept. 11, 2012 (No school board election)	September – 2 nd Tuesday, Sept. 10, 2013 (with school board election)
December – 1 st Tuesday, Dec. 7, 2010		December – 1 st Tuesday, Dec. 4, 2012	

Summary / Wrap- Up / Reflection