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# **SCHOOL FINANCE MANUAL**

## **CHAPTER I**

### **INTRODUCTION**

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#### ***Brief History of School Funding in Iowa***

Originally, Iowa's schools were created by community members when enough money could be raised to pay a teacher, provide a school and purchase essential books and supplies. Each school was operated in the manner desired by the community. After the adoption of the Constitution of the State of Iowa, the Board of Education governing the common schools consisted of the Lieutenant Governor and one member elected from each judicial district in the state. *Iowa Const.*, Art. IX, § 1. The Constitution authorized the General Assembly to abolish that board and to provide an educational system for the state as it deemed best and proper. *Iowa Const.*, Art. IX, § 15. The original board was abolished, and a new state governance system was established in 1864. Local school districts were authorized and the methods of operation were defined. Iowa school districts are creatures of the legislature. School districts have only those powers which are expressly granted or necessarily implied in governing statutes. This limitation on school districts' power is often referred to as "Dillon's Rule." *McFarland v. Board of Education*, 277 N.W.2d 901, 906 (Iowa 1979); *Barnett v. Durant Community School*, 249 N.W.2d 626, 627 (Iowa 1977); *Silver Lake Community School District v. Parker*, 238 Iowa 984, 990, 29 N.W.2d 214, 217 (1947). State law authorized the election of school boards to direct the operation of school districts, subject to the requirements of the General Assembly. The school board represents the community and determines the budget and has limited control of taxes to be levied to fund the school district. IOWA CODE §§ [279.8](#); [280.14](#).

From the beginning, decisions of school boards could be challenged by appeal. IOWA CODE ch. 290. Financial and taxation decisions have been subjected to strict oversight by the courts. Local budget and tax levies are subject to hearing and appeal. IOWA CODE ch. 24. Laws that establish taxpayer remedies are to be liberally construed. The Iowa Supreme Court has held that if doubt exists, such a statute is to be construed against the taxing body and in favor of the taxpayer. *Northern Natural Gas Company v. Forst*, 205 N.W.2d 692, 697 (Iowa 1973). *See also Farnsworth v. Assoc. Gen'l. Constr. v. State Tax Com.*, 255 Iowa 673, 676, 123 N.W.2d 922 (1963). This rule has been imposed on large urban school districts as well as on districts operating one-room schools.

At one time there were over 5,000 school districts in Iowa. In the 1950s, the General Assembly adopted a reorganization law that required all areas of the state to be in a school district offering a kindergarten through grade 12 (K-12) education program, and that reorganizing school districts have no less than 300 pupils. IOWA CODE §§ [275.1](#), [275.3](#). School districts continued to be governed by a school board. The operation of school districts was supported by property taxes. The teaching of few specific subjects was mandated, but the school districts were relatively free to offer the education program they desired. A major use of property taxes was to fund the school district. The method of fully financing school districts through property tax remained in place until the mid-1960s. At that time, Iowa taxpayers sought the state's assistance in reducing the property tax burden.

In 1967, the state adopted a new way to fund Iowa's school districts that equalized the property tax burden by county on a per-pupil basis. In 1971, the first state foundation program was adopted. With the adoption of this state foundation formula, state aid to school districts was substantially increased. The goals of the state foundation formula were "to equalize educational opportunity, to provide a good

education for all the children of Iowa, to provide property tax relief, to decrease the percentage of school costs paid from property taxes and to provide reasonable control of school costs.” IOWA CODE § [257.31](#)(10).

Iowa school districts are funded through a mechanism called the Iowa State Foundation Program. This program is commonly referred to as the “state foundation formula” or “school finance formula.” Since the adoption of the state foundation formula, Iowa school finance law has been considered a very complicated and confusing web of language reserved only for the “experts.” The word “formula” brings to mind complicated mathematical equations with which people would rather not become involved. Further, listening to a group of experienced school officials discuss school district budgets in terms specific to Iowa school finance, such as “allowable growth,” “unspent balance,” and “supplementary weighting,” makes most people seek another conversation.

In truth, understanding Iowa school finance law is relatively simple using the principles of school finance. Once these principles are understood, the rest will follow as every element of Iowa school finance is related to these basic principles. These principles are:

1. Enrollment is a primary factor in determining school districts’ spending authority. The major enrollment calculations are based on the [October 1](#) count date for all except special education (November 1). The major calculation is:

Weighted Enrollment equals:

Budget Enrollment plus Supplementary Weighting plus Special Education Weighting.

2. The state foundation formula is “pupil driven.” School districts’ spending authority and funding are determined by multiplying a cost per-pupil by the appropriate enrollment. The major calculations are:

- State Foundation Aid equals Regular Program State Foundation Cost Per-pupil times Weighted Enrollment (Budget Enrollment plus Supplementary Weighting plus Special Education Weighting).
- Regular Program District Cost equals Regular Program District Cost Per-pupil times Budget Enrollment.
- [Teacher salary supplement, Professional Development, and Early Intervention Supplemental costs per pupil times budget enrollment.](#)
- Special Education District Cost equals Regular Program District Cost Per-pupil times Special Education Weighting.
- Combined District Cost equals Regular Program District Cost Per-pupil times [Weighted Enrollment plus Special Education District Cost plus Teacher salary supplement, Professional Development, and Early Intervention Supplemental costs per pupil times budget enrollment](#) and Area Education Agency Funding.

3. Iowa school districts receive and disburse moneys from many funds. The state foundation formula pertains only to the General Fund.

4. The state foundation formula calculates a maximum school district spending amount (ceiling), which is referred to as *maximum spending authority*. The formula then specifies the mix of state aid, property taxes, income taxes and other sources of income to *fund* the *maximum spending authority*.

The calculations are:

- Maximum Spending Authority equals Combined District Cost plus Miscellaneous Income plus Unspent Balance.

Combined District Cost equals Regular Program District Cost plus Supplementary Weighting District Cost plus Special Ed District Cost plus Teacher salary supplement, Professional Development, and Early Intervention Supplemental costs per pupil times budget enrollment plus English Language Learner District Cost plus Media and Ed Services District Cost. The Combined District Cost is *funded* by the Uniform Levy plus State Foundation Aid plus Additional Levy plus Budget Adjustment (Budget Guarantee).

5. School districts are authorized to levy taxes in addition to the general fund. Some of these taxes may be levied by the school board, while others require voter approval first. These include:
  - The Physical Plant and Equipment Levy (PEEL);
  - The Public Education and Recreation Levy (PERL);
  - The Management Levy;
  - The Library Levy;
  - Statewide School Infrastructure Sales and Service Tax/Secure and Advanced Vision in Education (SAVE);
  - Debt Service Levy.

These levies are funded by property tax, a combination of property tax and income surtax, or sales tax. The money received under these levies may be used only for the purposes stated in the law or approved by the voters. With approval of 60 percent of the voters, school districts may issue general obligation bonds. School districts may levy property tax to repay the principal and to pay the interest on the bonds. School districts may also levy for lease-purchase of equipment.

The terms used to describe the elements in each principle are also included so readers may become familiar with the legal terms as well as the commonly used terms.

The **state foundation formula** is used to calculate a school district's general fund budget, which primarily supports the education program of a school district. Each school district is responsible for calculating its budget under the state foundation formula. The state foundation formula determines how each school district's budget is calculated as well as the maximum amount of its budget. In other words, the state foundation formula sets a ceiling for each school district's total spending authority and tells the school district how to fund (mix of property tax, state aid and miscellaneous income) its total spending authority. As the formula is discussed in this manual, the term "spending authority" is used because the formula determines the maximum amount a school district can spend.

The terms "spending authority" and "budget" are different. **Spending authority** means the maximum amount a school district could spend if it chose to fund that amount. **Budget** means the document prepared by each school district, which includes the calculation of the school district's total spending authority, an itemized list of the school district's expenditures and revenues, and the method the school district will use to fund its spending authority, since the budget is also the method of levying property taxes. A school district is not required to fully fund its total spending authority. Only the expenses specifically included in the budget may be funded and spent. A school district annually calculates its total spending authority, itemizes its revenues and expenditures, and states its funding method in its budget. The result of these calculations is the school district's **certified budget** which must be filed with the county auditor no later than April 15 each year. A budget should always be equal to or less than a district's maximum spending authority.

School districts operate on a **fiscal year** which begins each July 1 and ends the following June 30. The fiscal year in which a school district is operating, the current fiscal year, is called the **base year**. The subsequent fiscal year that is being planned is called the **budget year**. In this manual there is reference to several fiscal years. For example, fiscal year 2011 (usually expressed as FY 2011) means that the fiscal year begins on July 1, 2010, and ends on June 30, 2011. Another way to remember the fiscal year reference is that FY 2006 applies to school year 2010-2011.

Iowa school district operations and budget calculations are monitored by two state agencies, one state board and one state committee. One agency is the Department of Management (DOM), which reviews each school district's budget for accuracy. The Department of Management has legal authority to make adjustments in school district budgets. IOWA CODE ch. 257. This department also certifies the property tax levies for each school district to the county auditor and determines the amount each school district receives in state foundation aid.

The other state agency that oversees school districts is the Department of Education (DE). This state agency monitors every aspect of Iowa's school districts. The State Board of Education governs the DE and oversees school districts. A state committee that impacts school districts' finances is the School Budget Review Committee (SBRC). This committee is authorized to oversee the budgets and the financial needs of Iowa's school districts.

Chapter II contains a discussion of property tax basics. It is vital to understand how property tax is assessed and taxed in Iowa to fully understand school finance.

# CHAPTER II

## PROPERTY TAXES

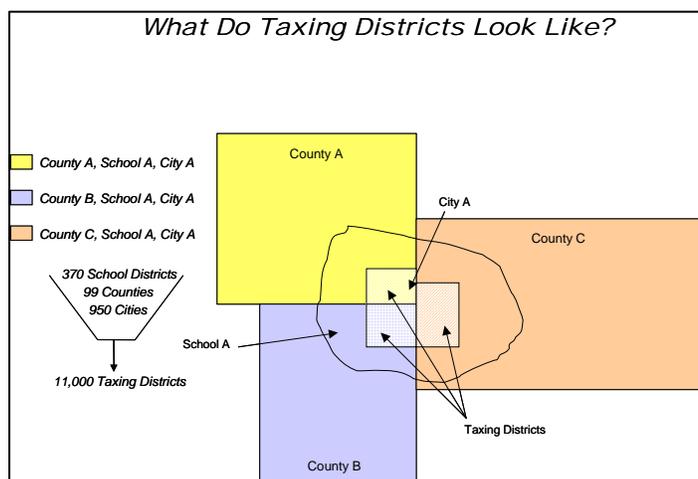
Property taxes represent over one-third of the total revenue received by school districts annually. They are the second largest source of revenue to districts, with state aid being the largest. Nothing seems to generate more blank stares than discussions around property taxes. In reality, property taxes are fairly easy to understand once you know the language. Before delving deeply into school finance, it is valuable to have an understanding of one of the primary funding mechanisms to a school district, the property tax. Two essential terms to understanding the property tax system are **taxing authority** and **taxing district**.

### ***Taxing Authorities and Taxing Districts***

Taxing authorities are the political subdivisions of the state having the authority to levy a property tax. All schools, cities, counties, community colleges, rural water districts, etc. have the ability to levy a property tax. However, area education agencies (AEAs), for example, have no taxing authority. Schools levy the property taxes on behalf of the AEA and then those taxes are passed through to the AEA. Each taxing authority imposes a tax rate or rates on its constituents. The total of all taxing authorities' tax rates is the consolidated (total) levy rate the property owner pays.

However, since these political boundaries often cross each other (for example, a city or school district can cross county lines), a finer level of geographic distinction is needed. Taxing districts are defined as the smallest geographic entity sharing a common consolidated levy rate. Because there are school districts, 950 cities, 99 counties and innumerable special taxing authorities, this creates more than 11,000 taxing districts statewide. School districts are made up of multiple taxing districts leading to confusion among some as to why one person's total tax rate is different from another's in the same school district. While their total tax rate is different, their school tax rate is the same. It is the other taxing authorities rate differences that cause the difference in the total tax rate.

This graphic shows the concept of taxing districts:



## **Background**

In their most basic form, property taxes can be expressed in the form:

$$\text{Rate} \times \text{Value} = \text{Taxes Paid}$$

## **Property Tax Rates**

$$\text{Rate} \times \text{Value} = \text{Taxes Paid}$$

We will first discuss property tax rates and then discuss the valuation of property.

Property tax rates in Iowa are expressed in the form of some **rate per thousand dollars of taxable value**. Converting from expressions in "per thousand" is really nothing more than dividing whatever number is given by 1,000 to see the "real" number. For example, if a district says its tax rate is \$14.53 per thousand of taxable value, this is equal to \$0.01453 tax per dollar of value (or 1.4 cents tax per dollar of value).

## **Property Valuation**

$$\text{Rate} \times \text{Value} = \text{Taxes Paid}$$

The more difficult side of the equation is the value side, because there are different classes of property and all have different values associated with them. All classes of property in Iowa, except agricultural property, are valued for taxation purposes at their market value (selling price). In other words, what value you could get for your property if you sold it today. This market value is also referred to as **assessed value**. Assessments are completed by county assessors, although a small number of larger cities have retained the assessment function. Property is assessed annually and may be done by a number of methods including comparative sales analysis. For taxation purposes, property value is based on a January 1 to December 31 (calendar) basis. Taxes applied to the property are not paid until the fall and spring of the year following. For example, if property were assessed as of January 1, 2009, taxes would not be paid on that value until the fall of 2010 and spring of 2011.

Property in Iowa is also divided into five classes. All property in Iowa fits into one of the following classes:

- Residential
- Agricultural
- Commercial
- Industrial
- Railroads/Utility (centrally assessed at the state level)

## **Rollbacks**

Multiplying the rate times the assessed value will not provide the taxes levied on a property because Iowa has a number of adjustments to value needing to be made prior to multiplying the rate. The primary adjustment for making the adjustment from assessed (market) value to taxable value is the rollback, a mechanism where assessed values are reduced (rolled back) by a percentage to then multiply the rate. All classes of property are eligible for the rollback. The rollback is expressed as a percentage and is calculated annually by the Department of Revenue and Finance. The rollback applies to a single class of property, but is applied to all property in that class across the entire state. For example, the rollback applied to residential property (called the residential rollback) is equal to 46.9094 percent for 2010-11. This means you take the assessed value of a home and multiply times 46.9094 percent for the 2009 calendar year (Jan. 2009) to get the value which you multiply the tax rate by to get total taxes paid. This value is also referred to as the **taxable value**.

As mentioned previously, a rollback can be applied to any class (residential, agricultural, commercial, etc.) of property. Certain rollbacks are linked and others are not. For example, the commercial rollback is calculated by saying that the value of existing commercial property as a class (statewide) cannot grow by more than 6 percent in total.

The residential and agricultural rollbacks are linked in two ways. First, both classes of property have a growth limitation which says that neither class of property can grow faster than 4 percent annually. Additionally, in a given year, neither class of property can grow at a rate greater than the other (called the ag tie). Both of these factors combined result in the residential rollback and the agricultural rollback. All of the rollback formulations were created during the 1970's when inflationary spikes were driving property values at double-digit rates.

The rollbacks were intended to slow the rate of taxable value increase, and therefore hold down property tax collections due to inflation in values and not in service demand.

### ***Property Tax Credits***

The other set of adjustments to arrive at taxable value are the various property tax credits. There are three primary property tax credits for residential property: 1) the homestead tax credit, 2) the military service tax credit and 3) the elderly and disabled tax credit.

The homestead tax credit is available to owner-occupied housing and pays a credit on the first \$4,850 of taxable value. Homestead calculation is  $(4850/1000 * 34.85923) = 169.07$ . In this case the state pays \$169 of credit on the property. This amount can be pro-rated to each levying authority. To calculate by levy authority it is  $(4850/100 * 13.90 \text{ [school's tax rate]}) = 67.42$ . This assumes that the state is fully funding 100% of the credit. The military service tax credit pays a credit on \$1,852 of taxable value and is calculated in a similar manner.

The two credits available to agricultural property are the family farm tax credit and the agricultural land tax credit. The agricultural land tax credit was originally established in 1939 to help offset higher farm taxes. The credit is available to all owners of agricultural land of 10 acres or more if the use is for agricultural or horticultural purposes. The agricultural land tax credit helps partially offset the impact of the additional levy – in other words the amount of the tax levy in excess of the \$5.40 uniform levy. Legislation was enacted in 1990 to provide \$10 million annually for the Family Farm Tax Credit. The purpose was to give an additional property tax credit to those individual landowners who were actively engaged in farming the land. An annual application is required to be filed with the local assessor between July 1 and October 15. Land used for agricultural or horticultural purposes in tracts of 10 contiguous acres or more qualify for this credit. Buildings and other structures do not.

### ***Property Tax Liability***

$$\text{Rate x Value} = \text{Taxes Paid}$$

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

- taking the rate, dividing by 1,000
- taking the assessed value, multiply by the rollback percentage and subtract any applicable value credits (homestead, military, etc.) to get the taxable value
- multiply the rate times the taxable value to get the tax liability

As an example, assume an \$85,000 home and a \$12.17 per thousand property tax levy. What are the taxes due?

- $\$85,000 \times .469094 = \$39,872.99$  (taxable value)
- $\$39,872.99/1000 * 12.17 = \$485.25$  (school taxes due without homestead credit)
- $4,850/1000 * 23.17 = \$59.02$  (dollars of homestead credit if fully funded)
- $\$485.25 - \$59.02 = \$426.05$  net school taxes due

## **Summary**

The key components of this chapter are:

- Tax rates are expressed in dollars per thousand of property valuation.
- Assessed value and taxable value have different meanings. Assessed value is the market value of the property and taxable value is the value to which the tax rate is applied.
- The difference between assessed and taxable value is due to the various rollbacks on classes of property or value-based credits reducing the value of the property. Taxable value is always equal to or less than the assessed value.

# CHAPTER III

## ENROLLMENT

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**Principle 1:** Pupil enrollment is a primary factor in determining school districts' spending authority. Several different enrollments are considered under the formula. Each type of enrollment builds upon another type of enrollment. The importance of these different enrollments is they specify who is counted and/or when they are counted. Because the *Code of Iowa* uses the definitions in this chapter and these definitions ultimately determine the amount of money a district receives, understanding these terms is vital.

The major enrollment calculations for the upcoming fiscal year are:

- **District Weighted Enrollment equals Budget Enrollment plus Supplementary Weightings plus Special Education Weightings.**
  - **Budget Enrollment equals the previous year's Actual Enrollment.**
  - **Basic Enrollment equals Actual Enrollment for the Base Year.**
- 

### ***Actual Enrollment***

**Actual enrollment** is the number of pupils in the school district in the current fiscal year. This enrollment figure is commonly referred to as the “headcount.” The actual enrollment is determined on the third Friday of September each year by counting the number of resident pupils enrolled in the school district on that day. “Enrolled” and “resident” are key words. School districts receive spending authority under the formula only for pupils that are enrolled and that are residents of the school district. Pupils who are not residents, or who are not defined as a resident for purposes of the formula, must pay tuition. IOWA CODE §§ [257.6](#), [257.11](#); [282.1](#), [282.6](#). The amount of tuition charged varies according to the status of the pupil. It is important for the school district to only charge the amount of tuition allowed by law. In cases of students choosing to open enroll to another district, the district of residence receives the spending authority under the formula, and pays the receiving district tuition equal to the amount of the receiving district's regular program district cost. IOWA CODE §§ [282.18](#), [282.20](#), [282.24](#).

Under the state foundation formula, resident pupils include six groups. The first group is pupils who are residents of the school district and enrolled in the school district. This includes the pupils in grades K-12, whether regular program or special education pupils, and special education pupils in pre-kindergarten programs. It also includes pupils who reside in the school district but who are attending another school district under open enrollment. IOWA CODE §§ [257.6\(1\)](#); [282.1](#), [282.18](#).

The second group includes full-time equivalent resident pupils of high school age attending an Iowa community college to which the school district pays tuition.

The third group includes pupils who may or may not be residents of the school district but are enrolled on a shared-time or part-time basis. The pupil is counted only for the percentage of time in proportion to a full-time pupil at the school district. For example, a pupil enrolled in one class period a day is counted as 1/7 if the school district's full-time pupils attended seven periods a day. If the shared or part-time pupils

pay tuition, then their tuition is reduced by the amount of state aid received for the pupil. IOWA CODE § [257.6\(1\)](#). Kindergarten pupils are counted as full-time pupils.

The fourth group defined as resident pupils under the formula is 11th- and 12th-grade nonresident pupils who were residents of the school district in the preceding year. These pupils may enroll in the school district until the pupil graduates. IOWA CODE § [257.6\(1\)](#).

The fifth group includes resident pupils receiving private instruction from a licensed practitioner through a public school district and are counted as six-tenths (6/10th) of a pupil. IOWA CODE § [257.6\(1\)\(e\)](#).

The sixth group includes pupils receiving private instruction under dual enrollment that are counted as one-tenth (1/10<sup>th</sup>) of a pupil. IOWA CODE §§ [257.6\(1\)\(f\)](#), [299A.8](#).

On the third Friday of September, each resident-enrolled pupil is counted as one pupil or the appropriate equivalent. Assuming District A had 90 full-time students in grades one through 12, five students in kindergarten (counted as one whether full day or half day) and 10 half-time students, its certified headcount is 100. The total count (headcount) for grades K-12 and pre-kindergarten special education pupils is reported to the DE by October 1 each year. A school district's certified enrollment report is authenticated by the school district's auditor during the annual audit. IOWA CODE § [11.6\(1\)](#). A school district that has "miscounted" its enrollment will have its funding adjusted in a subsequent year. The actual enrollment on the third Friday of September is the beginning point for calculating school districts' weighted enrollment for the next fiscal year's budget.

On occasion, a family will move into a school district after the headcount is taken on the third Friday of September. An often-asked question is whether a family with school-age children may be counted if it is known they will be enrolled and residing in the school district in October. This question arises because if the school district can count these pupils, then its spending authority is increased by the district cost per-pupil multiplied by the number of children. The answer to the question is "no."

If a family moves into District A and the children begin attending school on October 1, but the children resided and were enrolled in a neighboring school district, District B, on the third Friday of September, District B counts the children because they meet the formula's definition of resident pupil.

The important thing to remember about actual enrollment is that pupils defined in the formula as resident pupils enrolled in the school district are counted on the third Friday of September each year. Since a school district's total spending authority depends on the number of pupils in the school district, a school district's budget will fluctuate with the increase or decrease in the number of pupils in the school district each year. **Figure 1** on page 11 illustrates the headcount for the past 25 years.

**Figure 1**  
**IOWA SCHOOL DISTRICT ENROLLMENTS**  
**FISCAL YEAR's 1979 - 2006**

<b>Budget Year</b>	<b>September Headcount</b>	<b>Weighted Enrollment</b>	<b>Special Education Weighting</b>	<b>Special Supplemental Weighting</b>
1978-79	586,029	627,324	32,921	n/a
1979-80	571,049	619,793	32,730	n/a
1980-81	551,330	605,485	34,012	n/a
1981-82	536,979	600,017	37,300	91.2
1982-83	520,250	582,150	35,570	87.6
1983-84	506,796	569,081	35,264	90.7
1984-85	498,742	568,152	36,014	148.6
1985-86	492,007	558,672	37,224	172.1
1986-87	486,725	555,167	37,329	686.8
1987-88	482,208	553,444	37,831	1,409.1 <sup>a</sup>
1988-89	480,729	552,034	37,912	2,442 <sup>b</sup>
1989-90	478,203	549,978	39,888	4,064
1990-91	478,816	549,163	41,252	5,748
1991-92 <sup>c</sup>	483,395	543,066	41,916	6,218
1991-92 <sup>d</sup>	483,395	547,610	43,233	6,385
1992-93	490,394	539,913	43,217	6,302
1993-94	495,342	547,285	44,895	7,047
1994-95	497,009	548,681	46,067	5,604
1995-96	500,593	554,493	48,596	5,304
1996-97	504,506	562,276	52,342	5,428
1997-98	505,523	566,799	55,433	5,843
1998-99	505,130	569,723	58,970	5,623
1999-00	502,534	569,387	61,448	5,406
2000-01	498,606	567,344	63,725	5,012
2001-02	494,291	564,747	65,462	4,994
2002-03	489,523	562,562	67,181	5,352
2003-04	487,021	561,386	68,555	5,810
2004-05	485,011	560,607	69,396	6,199
2005-06	483,335	560,259	70,150	6,774

a - Includes shared administrators weight of 291.1  
b - Includes shared administrators weight of 894.5  
c - Figures under formula effective July 1, 1991  
d - Figures under formula repealed July 1, 1991

Supplemental Weighting includes weights for teacher/student sharing, administrator sharing, reorganization incentives, and English as a Second Language.

**Basic**  
is another

**enrollment**  
name for

the actual enrollment. The key is that basic enrollment is the actual enrollment for a particular year. The basic enrollment for the budget year is the district's actual enrollment for the base year. IOWA CODE § [257.6\(2\)](#). The **base year** is the current year in which the school district is operating. The **budget year** is the year immediately following the current year. In terms of fiscal years, the base year is the current fiscal year and the budget year is the upcoming fiscal year. One way to think about this is to consider June 30 as New Year's Eve for the base year. At midnight on June 30 each year the budget year becomes the base year. For example, if the base year for school districts is FY 2006, which runs from July 1, 2005, to June 30, 2006, then the budget year for school districts is FY 2007, which runs from July 1, 2006, to June 30, 2007. At midnight on June 30, 2006, the new base year is FY 2007, and the new budget year is FY 2008.

An example: District A had an actual enrollment of 95 on the third Friday of September 2004, and 100 on the third Friday of September 2005. The basic enrollment for the budget fiscal year, 2004-05, is 100. This is the actual enrollment generated on the third Friday in September 2004. The basic enrollment for the current base fiscal year, 2004-05, is 95. This is the actual enrollment taken on the third Friday of September 2004 and the actual enrollment used to calculate the budget enrollment for current FY 2005.

The important thing to remember about basic enrollment for a fiscal year is that it is the actual enrollment used to determine the budget.

## ***Budget Enrollment***

Because at the core, the amount of spending authority a school district receives in next year's budget is due to cost per child times the number of children, **budget enrollment** is a very important number. As the terms are used in practice, **budget enrollment** and **actual enrollment for the budget year** are synonymous, therefore most practitioners refer to the **budget enrollment** when they are calculating their budgets for the upcoming fiscal year. In short, **budget enrollment** times **regular program district cost per-pupil** will provide you with the amount of your **total regular program district cost** for the upcoming fiscal year (one of the key components of [Spending Authority](#)).

The use of budget enrollment, as opposed to actual, does cushion the blow of a loss of student population in a district for one year. Likewise, it limits the amount of state aid to districts with increasing enrollment by one year as well. In both cases, it is due to using *last year's* student count to determine *this year's* budget, or stated prospectively, it is due to using *this year's* student count to determine *next year's* budget. While it may seem strange to some that we use an "old" number to determine the budget, it must be remembered that budgets have to be certified by April 15, it would be impossible to certify a budget with an enrollment number which wouldn't be taken for six months.

It is important to remember that the state foundation formula is based on the number of pupils multiplied by a per-pupil cost. It is also important to remember that budget enrollment for the budget year equals basic enrollment for the budget year. The September 19, 2004, headcount (taken in FY 2005) is the FY 2005 **actual enrollment**, the FY 2005 **basic enrollment** and the FY 2006 budget enrollment.

## ***Weighted Enrollment***

Another type of enrollment is weighted enrollment, which is also based on the actual enrollment. Weighted enrollment is the sum of the budget enrollment and the additional pupil weighting. Each pupil is counted as one, or its full-time equivalent, under the formula for the regular education program. This headcount is taken on the third Friday of September each year and includes the resident

pupils and the nonresident pupils defined as resident pupils enrolled in the school district. This figure is added to the weighting to determine the weighted enrollment. IOWA CODE § [257.6\(5\)](#).

One type of additional pupil weighting allows a school district to count a single pupil at a higher value because of a higher cost to educate the pupil. Another type of additional pupil weighting allows a school district to increase its number of pupils by providing an incentive for the school district to offer certain types of programs or to structure itself in a certain way. There are two types of weighting under the formula. They are special education weighting and supplementary weighting.

### **Special Education Weighting**

The **special education weighting** allows a pupil to be counted at a value greater than one because of the increased cost to educate the pupil. Depending on the needs of the pupil, additional weighting of 0.72, 1.21 or 2.74 can be counted for a special education pupil (these weightings are in addition to the 1.0 weighting, therefore the total weighted enrollment for a level 1 child would be 1.0 + 0.72, or 1.72, etc.). The weighting is reviewed and set by the **School Budget Review Committee (SBRC)**. In December each year, the director of the DE makes a recommendation to the SBRC to increase, decrease or maintain the current special education weighting. The weighting listed here is the current weighting and is subject to change in December each year. IOWA CODE § [256B.9\(4\)](#).

The amount of weighting a school district can generate in its spending authority is determined on November 1 each year. It is called the **special education headcount**.

For example, the special education headcount taken on November 1, 2004, is used by school districts to calculate FY 2006 spending authority. On that day, the number of special education pupils or their full-time equivalent in pre-kindergarten through grade 12 are counted by level. The sum of each level is multiplied by the additional weighting for the level and then added to the actual number of pupils in the level. Only the resident pupils enrolled on November 1 may be counted. An example of the special education headcount is illustrated in **Figure 2**. IOWA CODE §§ [257.6](#); [256B.2\(4\)](#), [256B.9\(1\)\(e\)](#).

<b>Figure 2</b>					
<b>Special Education Weighting Calculation</b>					
<b>Level</b>	<b>Weighting</b>		<b>Pupils</b>	<b>=</b>	<b>Weighting</b>
	0.72	x	20	=	20.72
II	1.21	x	15	=	18.15
III	2.74	x	10	=	27.40
Total Weighting in Additon to 1.0					66.27

There are three important things to remember about special education weighting:

It is designed to allow school districts to generate more funds per-pupil because of the increased costs to educate special education pupils.

Special education weighting may be changed by the SBRC.

The special education weighting may not be sufficient to cover all costs associated with educating special education pupils. School districts may request additional spending authority be granted by the SBRC to fund the special education deficit, which is the difference between the funds generated and actual cost to operate the programs. IOWA CODE §§ [257.31\(14\)\(b\)](#).

Historical special education weightings are provided in **Figure 1** on page 11.

### ***Supplementary Weighting***

Supplementary weighting is designed to encourage a particular type of activity by school districts. The amount of the supplementary weighting is determined by the SBRC. **Supplementary weighting** falls into one of five main groups, district-to-district sharing, district-to-community college sharing, at-risk programs, alternative schools and regional academies, and English-language learner (ELL) programs.

### ***District-to-District Sharing***

There are two main types of district-to-district sharing, shared teachers/classes and whole-grade sharing. Shared teachers/classes provides a supplementary weighting equal to 0.48 times the percent of the school day the pupil attends classes under a sharing arrangement. It is provided to school districts sharing classes and teachers with other school districts. In the case of school district-to-school district sharing, the SBRC must certify to the Department of Management that the shared classes or teachers would not be implemented without the additional funding. IOWA CODE § [257.11\(2\)](#).

### ***Whole-Grade Sharing***

School districts that were participating in a whole-grade sharing arrangement during FY 2002, and adopt a resolution with the other affected boards to study the question of undergoing reorganization to take effect on or before July 1, 2006, will receive a one-tenth weighting for a maximum of two years.

School districts that adopted a whole-grade sharing agreement for FY 2004 and adopted with the other affected boards a resolution studying reorganization by July 1, 2006, receive a maximum one-tenth weighting for a maximum of three years.

### ***District to Community College Sharing***

The *Code of Iowa* provides the following criteria for supplementary weighting applied to students in programs shared between community colleges and K-12 school districts.

To be eligible for the additional 0.48 weighting times the percentage of the day the student is in these classes, the courses must: IOWA CODE § [257.11\(3\)\(b\)](#).

- Supplement high school courses and not supplant.
- Be included in the community college catalog.
- Be open to all registered students, not just high school students.
- Be for college credit.
- Be taught by a community college employed instructor.
- Be taught in line with community college course syllabus.
- Be the same quality as a course offered on a community college campus.

### ***At-Risk Programs and Alternative School Programs***

The legislature implemented a change during the 2000 legislative session that allocates funds to all districts. The funding is based three-fourths on enrollment and one-fourth based on the percentage of free and reduced lunch population. The calculation is .0048 times the percent of children in grades 1 through 6 who are free and reduced priced meals-eligible times budget enrollment. This is added to a .0156 weighting times budget enrollment to know the total amount of supplementary weighting for at-risk

programs and alternative programs. The *Code of Iowa* provides for recalculation of the weights to generate roughly equal amounts from the free/reduced counts and the enrollment counts. IOWA CODE § [257.11\(4\)](#).

### **Regional Academies**

A school district that establishes a regional academy is eligible to assign its resident pupils a one-tenth (0.1) weighting for the time the pupil attends classes at the regional academy. The regional academy must be an educational institution established by the school district to which multiple schools send pupils in grades seven through 12. The maximum amount of additional weighting for a school district establishing a regional academy (offering both advanced level courses and vocational-technical courses) is equal to 10 pupils. IOWA CODE § [257.11\(5\)](#).

### **Certain Classes and Programs for Non-English Speaking Students**

Supplementary weighting is provided to offer programs for non-English speaking students for up to three years. The weighting is equal to 0.22 times headcount identified as limited-English proficient. A school district may extend the program period for additional years funded entirely with property tax with approval of the SBRC. IOWA CODE § [280.4\(3\)](#).

The important thing to remember about supplementary weighting is that it is designed to encourage a certain type of activity by allowing school districts to generate more spending authority per-pupil.

### **Summary**

This section focused on the different enrollment figures used in the state foundation formula. Each type of enrollment is based on the actual enrollment. Understanding how the actual enrollment is derived and that the other types of enrollment build upon the actual enrollment to create weighted enrollment is the key. See **Figure 3**.

Also see **Figure 1** on page 11, which illustrates the enrollment figures in Iowa’s school districts since FY 1979.

<b>Figure 3</b>				
<b>Enrollment Calculations</b>				
				Special
Weighted	Budget		Education	Supplementary
Enrollment	= Enrollment	+	Weighting	+ Weighting
Budget		Actual		
Enrollment	=	Enrollment		
		of Prior		
		Year		

## CHAPTER IV

# COST PER-PUPIL AND DISTRICT COST

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**Principle 2:** The state foundation formula is “pupil driven.” School districts’ spending authority and funding are determined by multiplying a cost per-pupil by the appropriate enrollment. The major calculations are:

- **State Foundation Aid equals Total Foundation dollars less Uniform Levy dollars.**
  - **Regular Program District Cost equals Regular Program District Cost Per-pupil times Budget (previous year's actual) Enrollment.**
  - **Special Education District Cost equals Regular Program District Cost Per-pupil times Special Education Weighting.**
  - **Combined District Cost equals Regular Program District Cost, AEA/Special Education District Cost plus Supplemental Weighting District Cost plus Media and Educational Services District Cost.**
- 

The state foundation formula is “pupil driven” in that the amount of funds a school district may generate and spend is determined by the number of pupils, or enrollment, in the school district multiplied by a dollar value, or cost, assigned to those pupils. Chapter II discussed the different types of enrollment used under the formula. This chapter discusses the costs assigned to pupils at the state and school district levels for the regular education and special education programs.

This chapter explains how the per-pupil costs and the enrollments multiplied together generate state foundation aid at the state level and the district costs at the school district level and how these costs are increased from one year to another. The **district costs** are spending authority levels a school district may fund.

### ***State Cost Per-pupil***

The formula establishes a minimum value at the state level for each pupil in Iowa. Depending on the program, this value is called the regular program state cost per-pupil or the special education support services state cost per-pupil.

### ***Regular Program State Cost Per-pupil***

The regular program state cost per-pupil value originally was calculated by dividing the total number of pupils statewide by a statewide expenditure figure. Since the original calculation, the value has been modified to meet changing state policy. IOWA CODE § [257.10\(1\)](#). The regular program state cost per-pupil is commonly referred to as the **state cost per-pupil**, and that term is used in this manual. References to other state costs per-pupil are specific. For example, there is also the special education support services state cost per-pupil, the combined state cost per-pupil and the regular program state foundation cost per-pupil.

**State Foundation Cost Per-pupil**

The **state cost per-pupil** is the basis for calculating state foundation aid. However, the amount of state aid a school district will receive consists of only a portion of the state cost per-pupil multiplied by a school district’s weighted enrollment. This portion of the state cost per-pupil is called the regular program state foundation cost per-pupil. Traditionally, the same portion of the state cost per-pupil was used for the regular program and the special education program. Beginning in 1991-92, the law required a separate portion of the state cost per-pupil be used to calculate state foundation aid for both the special education program and the balance of the education program. The regular program state foundation cost per-pupil is commonly referred to as the **state foundation cost per-pupil**.

The amount of the state foundation cost per-pupil is determined by the regular program foundation percentage. The **regular program foundation percentage** under the formula is 87.5 percent. IOWA CODE § [257.1](#). For example, the state foundation cost per-pupil for FY 2005 is determined by multiplying the FY 2005 state cost per-pupil, \$4,741, by the regular program foundation percentage, 87.5 percent, or \$4,148. The calculation for the state foundation cost per-pupil is illustrated in **Figure 4**.

Figure 4 State Foundation Cost Per Pupil Calculation			
Regular Program		Regular Program	
State Foundation	=	State Cost	x Foundation
Cost Per Pupil		Per Pupil	Percentage (87.5%)

The **special education state foundation cost per-pupil** is calculated each year. The amount of the special education state foundation cost per-pupil is determined by the special education foundation percentage. The special education foundation percentage under the formula used to be 79 percent. Effective in FY 2000 (school year 1999-2000), the special education foundation percentage is equal to the regular program foundation percentage of 87.5 percent. IOWA CODE § [257.1](#). For example, the special education state foundation cost per-pupil for FY 2005 is determined by multiplying the FY 2005 state cost per-pupil, \$4,741, by the special education foundation percentage, 87.5 percent. The special education state foundation cost per-pupil is \$4,148, or the same as the regular program foundation cost per-pupil. The calculation for the special education state foundation cost per-pupil is illustrated in **Figure 5**.

Figure 5 Special Education State Foundation Cost Per Pupil Calculation			
Special Education		Special Education	
State Foundation	=	State Cost	x Foundation
Cost Per Pupil		Per Pupil	Percentage (87.5%)
		(Same as Regular Program Cost Per Pupil)	

The **special education support services state cost per-pupil** is used to calculate the state aid paid to area education agencies (AEAs) for special education programs. This term is commonly referred to as the special education state cost per-pupil. The special education support services state cost per-pupil

foundation level is 79 percent of the regular program state cost per-pupil. Special education support services are provided by the 12 AEAs.

The special education state cost per-pupil was originally calculated in the same manner as the state cost per-pupil. IOWA CODE §§ [257.10\(2\)](#), [10\(3\)](#). The special education state cost per-pupil is available in January each year after the November 1 special education weightings are determined.

### ***Combined State Cost Per-pupil***

The **combined state cost per-pupil** is the sum of the special education support services state cost per-pupil, commonly called the special education state cost per-pupil, and the regular program state cost per-pupil, commonly called the state cost per-pupil. IOWA CODE § [257.10\(5\)](#). The important thing to remember about per-pupil costs at the state level is that their main purpose is to determine the amount of state foundation aid to be received by school districts. Each school district receives a different amount of state foundation aid based on its enrollment and relative property value per-pupil.

### ***District Cost Per-pupil***

The formula is also pupil driven at the school district level. A school district uses its per-pupil cost to determine its total spending authority. The formula contains three per-pupil costs for each school district. These costs are the regular program district cost per-pupil, the special education support services district cost per-pupil, and the **combined district cost per-pupil**, which is the sum of the other two. The regular program district cost per-pupil is commonly referred to as the **district cost per-pupil**. In this manual, the term district cost per-pupil is used to refer to the regular program district cost per-pupil. References to other district costs per-pupil are specific.

### ***Regular Program District Cost Per-pupil***

The **regular program district cost per-pupil**, or district cost per-pupil, was originally established by dividing the number of pupils in the school district by the school district's expenditures. IOWA CODE § [257.10\(1\)](#). Each school district had its own (and different) district cost per-pupil. In FY 1991, each school district's district cost per-pupil was recalculated. 1989 IOWA ACTS ch. 135, §10. Beginning in FY 1992, the formula set two limits on each school district's district cost per-pupil. First, no district cost per-pupil may be lower than the state cost per-pupil. In FY 2005, approximately half of the school districts have a district cost per-pupil equal to the state cost per-pupil of \$4,741. The second limit is a maximum. The formula sets a goal of a maximum district cost per-pupil of 105 percent of the state cost per-pupil. In 2005, no district exceeds the 105 percent maximum. Unless a sustained period of negative allowable growth ensues, maximum district costs per-pupil will continue to narrow on a percentage basis.

A school district with a district cost per-pupil equal to, or less than, 105 percent of the state cost per-pupil has its district cost per-pupil increased each year by the state allowable growth dollar amount. This specific dollar amount translates into a slightly lower percent increase than the state allowable growth percent increase.

### ***Special Education Support Services District Cost Per-pupil***

The formula also requires that a special education support services district cost per-pupil be established. While this term is commonly referred to as the **special education district cost per-pupil**, it is important to understand the support services aspect. The special education support services are provided by the 12 area education agencies. The spending level for these services is determined by the school district's weighted enrollment less its supplementary weighting multiplied by its district cost per-pupil. The special education district cost per-pupil was originally calculated like the district cost per-pupil. The special education district cost per-pupil is increased by special education support services allowable growth. IOWA CODE § [257.10\(3\)](#).

The two important things to remember about the district cost per-pupil and the special education district cost per-pupil are:

The district cost per-pupil cannot be less than the state cost per-pupil.

The special education district cost per-pupil is increased each year by the special education services allowable growth.

In this chapter, the various costs per-pupil for both the state and the school district have been discussed. These different costs per-pupil are confusing. To keep these terms straight, it is helpful to remember two things:

There are two levels of per-pupil costs, the state level and the school district level.

The function of the state cost per-pupil, the state foundation cost per-pupil and the special education state foundation cost per-pupil is to determine state foundation aid and set the minimum district cost per-pupil.

The function of the district cost per-pupil and the special education district cost per-pupil is to determine the total spending authority for each school district. The amount of state foundation aid and the total spending authority for each school district will depend on the number of pupils in the school district. In other words, the state foundation aid and the total spending authority for each school district is pupil driven, since they are calculated by multiplying the school district's weighted enrollment by either the state or district cost per-pupil.

## ***State Allowable Growth***

The costs of providing an education program increase each year. Since the formula is pupil driven, an increase in total spending authority occurs by increasing the number of pupils or by increasing the cost per-pupil. The state foundation formula provides for an annual process to allow an increase in the state cost per-pupil and the special education state cost per-pupil. The state allowable growth takes two forms—state percent of growth and state allowable growth. However, both of these are commonly referred to as state allowable growth. In this manual, **state percent of growth** refers to the percentage of allowable growth increase in the state cost per-pupil, and **state allowable growth** refers to the dollar allowable growth increase in the state cost per-pupil.

## ***State Percent of Growth***

Under law, the legislature has 30 days after receiving the governor's budget recommendation to set the state percent of growth for the year following the budget year. IOWA CODE § [257.8](#). To illustrate, the 2004 legislature set the FY 2006 state percent of growth, and the 2005 legislature set the state percent of growth for FY 2007.

Under the law, the bill setting the state percent of growth can only deal with that issue and no other matter. It is the responsibility of the Department of Management to determine the state allowable growth (the dollar allowable growth) each year after the state percent of growth is set by legislation. IOWA CODE §§ [257.8\(1\)-\(2\)](#).

**Figure 6** illustrates the state percent of growth since FY 1975, the number of districts, total headcount to school districts and state government appropriations and revenues.

**Figure 6  
Allowed Growth History**

Fiscal Year	Enrollment	Number of Districts	Allowable Growth
1973	646,949	452	
1974	630,722	451	4.98%
1975	619,856	450	8.02%
1976	616,633	450	10.74%
1977	610,087	449	9.79%
1978	601,591	449	7.87%
1979	586,029	447	9.46%
1980	571,049	445	9.46%
1981	551,330	443	14.85%
1982	536,979	441	5.00%
1983	520,250	441	7.00%
1984	506,796	439	7.10%
1985	498,742	438	2.54%
1986	492,007	436	5.33%
1987	486,725	436	3.54%
1988	482,208	436	3.47%
1989	480,729	433	3.59%
1990	478,203	431	3.53%
1991	478,816	430	7.18%
1992	483,395	425	4.21%
1993	490,394	418	4.15%
1994	495,342	397	2.10%
1995	497,009	390	2.85%
1996	500,592	384	3.50%
1997	504,524	379	3.30%
1998	505,523	377	3.50%
1999	505,130	375	3.50%
2000	502,534	375	3.00%
2001	498,607	374	4.00%
2002	494,291	371	4.00% *
2003	489,523	371	1.00%
2004	487,021	370	2.00%
2005	485,011	367	4.00%
2006	483,335	365	4.00%

\*Prior to 4.3% across the board reduction.

The state cost per-pupil was \$4,471 for FY 2005. In calculating the state foundation aid and each school district's spending authority for FY 2006, a new state cost per-pupil and district cost per-pupil is used based on the state allowable growth. Based on the FY 2006 state percent of growth of 4.0 percent, the regular program state allowable growth, which is the dollar state allowable growth, is \$190 (\$4,741 times 4.0 percent and rounded to the nearest whole dollar). The \$190 state allowable growth is added to the FY 2005 state cost per-pupil to determine the FY 2006 state cost per-pupil, \$4,931 (\$4,741 + \$190). If a district's Regular Program District cost per-pupil is higher than \$4,931, the district still receives a \$190 increase in per-pupil cost, not 4.00 percent of the higher number. The special education state allowable growth is determined by multiplying the special

education state cost per-pupil for FY 2005 by 4.0 percent for FY 2006. IOWA CODE §§ [257.9\(1\)-9\(4\)](#); [257.10\(1\)-10\(4\)](#).

Figure 7 summarizes the effect of the state allowable growth on the per pupil costs at the state and the school district level.

**Figure 7**  
**State Allowable Growth and Per Pupil Cost**

State Allowable Growth (\$)	=	State Percent of Growth (Allowable Growth Rate)	x	Base Year State Cost Per Pupil
Budget Year State Cost Per Pupil	=	State Allowable Growth (\$)	+	Base Year State Cost Per Pupil
Budget Year District Cost Per Pupil	=	State Allowable Growth (\$)	+	Base Year District Cost Per Pupil
Special Education State Allowable Growth	=	State Percent of Growth	x	Base Year District Cost Per Pupil
Budget Year Special Education State Cost Per Pupil	=	Special Education * State Allowable Growth (\$)	+	Base Year * Special Education State Cost Per Pupil
Budget Year Special Education District Cost Per Pupil	=	Special Education * State Allowable Growth	+	Base Year * Special Education District Cost Per Pupil

\* NOTE: Special Education growth and percent growth are the same as state allowable growth due to the same formulation level of 87.5%.

There are three important things to remember about state allowable growth:

It is determined by legislation within 30 days of submission of the governor’s budget for the fiscal year following the upcoming budget year.

State allowable growth dollar amount is added to the base year state cost per-pupil and the base year district cost per-pupil to determine the budget year cost per-pupil at the state and school district levels.

Only the state cost per-pupil is used to determine the amount of the state allowable growth each school district receives. Districts with district cost per-pupil in excess of the state cost per-pupil fund that portion entirely through property tax.

## ***Modified Allowable Growth***

School districts may be provided allowable growth beyond the state allowable growth. This is called **modified allowable growth** because the school district's allowable growth, as determined by the state allowable growth, is modified by the Department of Management or the DE to reflect factors peculiar to the individual school district. Modified allowable growth is stated as a dollar figure like the state allowable growth, rather than as a percentage figure. There are several types of modified allowable growth.

### ***AEA Special Education Balances***

One type of modified allowable growth is an adjustment made by the Department of Management for the portion of a school district's budget funding special education support services at its area education agency. Balances in these areas, determined to be unreserved and undesignated by the DE, are deducted from the portion of the school district budget funding special education support services. The Department of Management, at the direction of the DE, deducts the proportional amount from each school district's budget. The amount deducted is adjusted for property tax and state foundation aid. While this does not change the district cost per-pupil, it will change the amount of allowable growth a school district receives. IOWA CODE §§ [257.8\(3\)](#); [257.36](#).

### ***Permanent Allowable Growth***

Another provision of modified allowable growth is **permanent allowable growth** granted by the **School Budget Review Committee** (SBRC). Permanent allowable growth has been granted in the past from time to time for good reason. One example of permanent allowable growth granted in the past was the establishment of a continuing program in a school district that required revenues above and beyond its current spending authority.

Permanent allowable growth has not been granted by the SBRC since prior to the revision of the formula on July 1, 1990. When permanent allowable growth was granted in the past, it was converted to a per-pupil amount. If the SBRC approved permanent allowable growth today, a lump sum amount would be added to the district cost because the formula limits the district cost per-pupil to 105 percent of the state cost per-pupil. An increase in a school district's spending authority because of permanent allowable growth does not increase the amount of state foundation aid the school district receives. School districts may levy property tax to fund permanent allowable growth. Permanent allowable growth increases a school district's total spending authority. IOWA CODE §§ [257.8\(3\)](#); [257.31\(5\)](#).

### ***Additional (Modified) Allowable Growth***

School districts may also receive modified allowable growth from the SBRC on an annual basis. This provision is commonly called **additional (modified) allowable growth**. Additional allowable growth is granted often by the SBRC to meet a school district's unique and unusual needs. School districts also receive additional allowable growth for the funding of programs, such as dropout prevention or additional costs of extending English-language learner programs. While this form of allowable growth increases a school district's spending authority just like the other provisions of modified allowable growth, it does so only for the fiscal year requested. An increase in a school district's spending authority because of additional allowable growth does not increase the amount of state foundation aid a school district receives. School districts must levy property tax if they want to back the spending authority from the additional allowable growth with cash. IOWA CODE §§ [257.8\(3\)](#); [257.31](#).

## **Negative Special Education Balances**

The SBRC will also grant additional allowable growth to school districts with **negative special education balances**. As soon as possible following June 30 each year, the SBRC determines the special education balance of each school district. If the revenues exceed the expenditures, it is commonly referred to as a positive special education balance. If expenditures exceed revenues, it is commonly referred to as a negative special education balance. School districts are allowed to retain a maximum 10 percent positive special education balance. This 10 percent is commonly referred to as the 10 percent carryover for special education. Positive balances in excess of 10 percent are subtracted from the school district's state foundation aid amount for the fiscal year. If the portion of the positive balance exceeding 10 percent is more than the state foundation aid remaining to be paid to the school district, the school district must send that amount to the Department of Management in quarterly installments over the next fiscal year. The following budget year, the school district's state foundation aid is increased and its property tax levy reduced for the property tax portion of the positive balance received by the state.

School districts with a negative special education balance may receive some supplemental aid for the state foundation aid portion of the negative balance. The lesser of the sum of 5 percent of the receipts for special education for all school districts with a positive special education balance, or the amount of the state foundation aid portion of the total positive balances, is prorated and paid as supplemental aid to school districts with a negative balance. Supplemental aid is generally not sufficient to fully pay a school district's total state foundation aid portion of its negative balance. To receive this supplemental aid and fund its negative balance, a school district with a negative balance must certify to the SBRC that it will notify the SBRC to instruct the Department of Management to increase its allowable growth by the amount of state foundation aid not paid in supplemental aid and the property tax portion of the negative balance. The school district must also certify to the SBRC that it will fund the additional allowable growth with unexpended cash balance or cash reserve levy. IOWA CODE § [257.31\(14\)](#). While additional allowable growth is granted by the SBRC for programs and negative special education balances, it will also be granted for unusual situations unique to a school district if the school district can justify the need to the SBRC. IOWA CODE §§ [257.31\(5\)-31\(7\)](#). These needs are discussed in more detail in Chapter VIII, SBRC.

There are three important things to remember about modified allowable growth:

Modified allowable growth is a dollar amount that increases a school district's total spending authority.

Modified allowable growth for one year is called additional allowable growth, and it increases the total spending authority for only one year.

Modified allowable growth does not increase the amount of state foundation aid a school district receives.

## **Combined District Cost**

The state and district per-pupil costs and how they are increased each year by state allowable growth or modified allowable growth have been discussed. The various types of enrollments have also been discussed. The per-pupil costs and the enrollments determine regular program district cost, special education support services district cost, supplementary weighting district cost, area education agency special education support services district cost, area education agency media and educational services district cost. All of these added together make up **combined district cost**. **Combined district cost** has traditionally been referred to as the **controlled budget**. Today, the combined district cost is often referred to as the "**CDC**." The term "combined district cost" is used in this manual. These equations are illustrated in **Figure 8**.

<b>Figure 8 District Cost Calculations</b>					
Regular Program District Cost	=	District Budget Enrollment	x	Regular Program District Cost Per Pupil	
Special Education Support Services District Cost	=	District Special Education Weighting	x	Special Education District Cost Per Pupil	
Supplementary Weighting District Cost	=	District Supplementary Weighting	x	Regular Program District Cost Per Pupil	
AEA Special Education Support Services District Cost	=	District Special Education Weighting	+	District Budget Enrollment	x AEA Special Education Cost Per Pupil
AEA Media and Educational Services District Cost	=	[Budget Enrollment + (Resident Non-Public Pupils - Shared Pupils)]	x	AEA Media and Educational Services Cost Per Pupil	
Combined District Cost (Controlled Budget)	=	Regular Program District Cost	+	Special Education Support Services District Cost	+
				Supplementary Weighting District Cost	+
					AEA Special Education Support Services District Cost

School districts with a type of district cost not discussed in this section can easily calculate it by determining the number of pupils involved and multiplying the number by the appropriate per-pupil cost.

## New Money

Two factors determine the amount of **new money** a school district receives. First, state and school district costs per-pupil are increased each year by the state allowable growth. Second, enrollment changes in a school district affect a school district's new money calculation. Generally, an increase in enrollment will increase the "new money," while an enrollment decrease will reduce the amount of "new money" a school district receives. For budgeting and negotiations purposes, it is imperative that the definition of new money be determined and agreed upon prior to discussing it because new money can be calculated in different ways. As most commonly used, "new money" refers to the growth in dollars and percentage terms for the regular program portion of the general fund.

This figure is calculated by taking the district cost per-pupil times the budget enrollment for the future year minus the same calculation for the current year. This figure is readily used because it is known very early in the budget preparation process and represents a large portion of a district's revenue. Once a district has completed its third Friday in September headcount (budget enrollment) and assuming the legislature has set an allowable growth figure for the next fiscal year, a district can figure out new money for the next fiscal year. The headcount times the regular program district cost per-pupil will give the regular program district cost.

Another definition of new money is the increase in the school district's combined district cost from one year to the next. New money generated under this definition of the year-to-year increase in the combined district cost is a recurring source of spending authority for school districts. Combined district cost includes the regular program cost plus special education, plus supplementary weightings, plus AEA costs, etc. Combined district cost will always be larger than regular program district cost. Calculating the

change in combined district cost is the most complete picture of the amount of new money each year because it encompasses the vast majority of school district income during a year. However, it is more difficult to calculate combined district cost because of having to know supplemental weightings that may not yet be certified. Just because an increase is seen in combined district cost does not mean the additional funds are necessarily discretionary. Portions of combined district cost (e.g., AEA flow through) are not subject to non-expenditure by the district.

Sometimes the term “new money” is defined as the year-to-year increase in the combined district cost plus the increase in miscellaneous income. If this definition is used to calculate new money, the increase may be for a limited time or for only one year. Using new money under this definition to fund recurring costs will result in a shortage of funds when the miscellaneous income is no longer available.

### ***Budget Adjustment (Budget Guarantee)***

As we recall the basis for school finance (pupils x cost per-pupil = spending), there are two mechanisms for increasing overall authority, increasing pupils or increasing the cost per-pupil. In many cases, one may be increasing and the other decreasing. For districts where enrollment declines more than the growth in per-pupil cost, budgets would decline.

### ***Budget Guarantee History***

For many, but not all, years, the legislature annually authorized or appropriated what is known as the “budget guarantee.” The budget guarantee, when set at 100 percent, provided a district with the same regular program district cost as the prior year. Note that it only applies to the regular program district cost and not those items outside of regular program district cost (e.g., special education, all supplementary weightings, etc.). While it is stated at 100 percent, in actuality, districts may lose cash (but not spending authority) when property tax delinquencies are included. In nearly all cases, the amount of the budget guarantee was (and will be) paid from property taxes if the spending authority from the budget guarantee is to be backed with cash.

Because the legislative authorization/appropriation process for the budget guarantee occurred on an annual basis, uncertainty reigned the day. In many cases, the budget guarantee was approved by the legislature after the budget certification date, which created headaches for many districts.

In 2001, the legislature put in the *Code of Iowa* long-term legislation dealing with the budget guarantee. The budget guarantee was set at 100 percent for three fiscal years (FY 2002, FY 2003 and FY 2004), and then a declining balance and eventual phase out of the guarantee began.

Districts are allowed to take the greater of two calculations in determining the amount of the budget guarantee for a certain year. Districts will be allowed to take the greater of:

1. Scale-Down Option: A declining percentage of the change in regular program district cost from FY 2005 to FY 2013 compared to FY 2004, or:
2. 101 Percent Option: 101percent of the change in year-to-year regular program district cost (without any accumulated budget guarantee).

The legislation specified that, once a district did not utilize the scale-down option (for whatever reason), they were only eligible for the 101 percent option. Nearly all districts having a significant budget guarantee amount will almost always generate more budget guarantee under the **scale down option** than they will by using the **101 percent option**. The primary advantage in the scale down option is that the base comparison year (always FY 2004 under this option) includes the FY 2004 budget guarantee amount in calculating regular program district cost.

Under the 101 percent option, the comparison is always back to the prior fiscal year (e.g., FY 2007 minus FY 2006) and does not include the budget guarantee, so the base is lower. During the 2005 Legislative sessions this process was amended to allow districts to choose the greater of the 100 % or 101% annually.

<b>Calculation of Budget Guarantee Using Scale-Down and 101% Options</b>										
	Enroll.	Cost Per Pupil (2% growth)	FY04 Budget Guarantee	Regular Program Dist. Cost	Change in Regular Program Dist. Cost	Scale Down Pct.	101% Guarantee	Scale Down Amount	101% Amount	Regular Program Cost w/Guarantee
FY04	373.3	\$ 4,648	\$ 103,572	\$ 1,838,577		100%	101%			\$ 1,838,577
FY05	356.6	\$ 4,741		\$ 1,690,721	\$ (147,856)	90%	101%	\$ -	\$ 62,670	\$ 1,753,391
FY06	350.0	\$ 4,836		\$ 1,692,523	\$ 1,802	80%	101%	\$ -	\$ 15,106	\$ 1,707,628
FY07	338.0	\$ 4,932		\$ 1,667,183	\$ (25,339)	70%	101%	\$ -	\$ 42,265	\$ 1,709,448
FY08	380.0	\$ 5,031		\$ 1,911,835	\$ 244,652	60%	101%	\$ -	\$ -	\$ 1,911,835
FY09	318.2	\$ 5,132		\$ 1,632,928	\$ (278,907)	50%	101%	\$ -	\$ 298,025	\$ 1,930,953
FY10	315.5	\$ 5,234		\$ 1,651,454	\$ 18,526	40%	101%	\$ -	\$ -	\$ 1,651,454
FY11	308.2	\$ 5,339		\$ 1,645,508	\$ (5,946)	30%	101%	\$ -	\$ 22,461	\$ 1,667,969
FY12	307.0	\$ 5,446		\$ 1,671,883	\$ 26,375	20%	101%	\$ -	\$ -	\$ 1,671,883
FY13	305.0	\$ 5,555		\$ 1,694,211	\$ 22,328	10%	101%	\$ -	\$ -	\$ 1,694,211
FY14	301.1	\$ 5,666		\$ 1,705,998	\$ 11,787	0%	101%	\$ -	\$ 5,155	\$ 1,711,153

[Click here](#) to go to interactive Budget Guarantee Worksheet on IASB's Website  
(this requires an Internet connection)

Districts (especially those with declining enrollments) must begin planning for the phase out of the budget guarantee. Because this will affect spending authority, in the long term it will mean districts with percentage declines in enrollment greater than the allowable growth rate will see actual reductions in their spending authority and hence budgets. Utilizing unspent balance may be the short-term answer, but since it is one-time spending authority by nature, it will one day be gone as well. Districts must begin planning now and quantify the impact on their budgets. IOWA CODE §§ [257.2](#), [257.14](#).

## Summary

There are many important things to remember about the costs per-pupil and the district costs.

There are two types of cost per-pupil—state and school district.

The state per-pupil costs are:

- the regular program state cost per-pupil, called the state cost per-pupil;
- the regular program state foundation cost per-pupil, called the state foundation cost per-pupil (87.5 percent of the state cost per-pupil);
- the special education state foundation cost per-pupil (87.5 percent of the state cost per-pupil); and
- the special education support services state cost per-pupil, called the special education state cost per-pupil (79 percent of the state cost per-pupil).

The state foundation cost per-pupil (87.5 percent of the state cost per-pupil) and the special education state foundation cost per-pupil (also 87.5 percent) are used to determine the amount of state foundation aid for each school district.

The per-pupil costs at the school district level are:

- the regular program district cost per-pupil, commonly called the district cost per-pupil; and
- the special education support services district cost per-pupil, commonly called the special education district cost per-pupil.

These per-pupil costs are used to determine the school district's total spending authority (remember that total spending authority includes AEA flow-through funds). Note that both the state and the school district have a regular program cost per-pupil and a special education cost per-pupil even though these are the same in each case.

State allowable growth is calculated as both a dollar and a percentage amount. The dollar amount is referred to as the state allowable growth, and the percentage amount is referred to as the state percent of growth (allowable growth rate). The state percent of growth is multiplied by the base year state cost per-pupil to determine the state allowable growth (rounded to the nearest dollar).

The state allowable growth is then added to the base year state cost per-pupil and to each school district's base year district cost per-pupil to determine the budget year state and district costs per-pupil.

An individual school district may have its allowable growth modified by the SBRC. Permanent allowable growth, if ever granted, permanently increases the school district's spending authority. Additional (modified) allowable growth increases the school district's spending authority only for the year in which it was granted by the SBRC. The most important thing to remember about modified allowable growth is that it does not increase the school district's state foundation aid. This is because state foundation aid is calculated using the state foundation cost per-pupil and not the district cost per-pupil. School districts may levy property tax to fund modified allowable growth.

New money, in a narrower (and more frequently used) definition, is the difference in regular program district cost from one year to the next. By comparison, a broader definition is the difference between the combined district cost from one year to the next (more inclusive). If miscellaneous income is also included (more inclusive yet) in new money, it should be determined whether the miscellaneous income is one-time in nature or ongoing. School districts are cautioned to match the type of revenue (one-time or ongoing) with expenditures (one-time or ongoing).

## CHAPTER V

# SCHOOL DISTRICT SPENDING AUTHORITY

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**Principle 3:** The state foundation formula calculates spending authority and how the spending authority is funded. The calculations are:

- **Total Spending Authority equals Combined District Cost plus Miscellaneous Income plus Unspent Balance (Unspent Budget Authority).**
  - **Combined District Cost is funded through the Uniform Levy plus State Foundation Aid plus Additional Levy plus Property Tax Adjustment.**
- 

Up to now, only the generation of spending authority has been discussed. In this chapter, the total spending authority of a school district and how it is funded is discussed. **Total spending authority** determines the maximum amount of a school district's budget. A school district may set its budget at an amount up to the maximum amount. The amount of spending authority budgeted is within the discretion of the school board. However, no school board may exceed its school district's total spending authority. IOWA CODE § [257.7\(1\)](#). The budget developed by each school district indicates how the school district funds its spending authority and how the funds are spent.

The components of a school district's total spending authority are the combined district cost, miscellaneous income and unspent balance. This chapter first focuses on the major element of funding spending authority, the combined district cost, which is often referred to as the controlled budget. Then miscellaneous income and unspent balance are discussed.

An illustration of the primary computation of the total spending authority is included in **Figure 9** on page 29.

<b>Figure 9</b>	
<b>Uniform Levy - Total Spending Authority</b>	
<b>Illustration of Primary Computation</b>	
<b>Unspent Balance (Budget Authority)</b>	<b>Base Year Total Spending Authority - Actual Expenditures = Unspent Balance Authority</b>
<b>Miscellaneous Income</b>	<b>Generated During Fiscal Year Adjusted to Actual Receipts</b>
<b>Combined District Cost</b>  (District Cost Per Pupil x Weighted Enrollment)	<b>Additional Levy = Combined District Cost minus Foundation Dollar Level</b>
	State Foundation Aid = Foundation Percentage 87.5% Foundation Dollar Level - Foundation Cost Per Pupil = Uniform Levy State Cost Per Pupil X .875
	Uniform Levy = \$5.40 per \$1,000 Taxable Valuation in the School District

**Combined District Cost**

The combined district cost may only be funded in accordance with the state foundation formula. The **combined district cost** portion of school districts’ total spending authority is the major funding mechanism for a school district’s general fund. As a reminder, combined district cost is the sum of regular program district cost, special education, supplemental weighting, etc. The uniform levy, state foundation aid and the additional levy fund the combined district cost.

**Uniform Levy**

The technical name used in the statute for the **uniform levy** is the “foundation property tax.” In this manual, the more common term, “uniform levy,” is used. The uniform levy is a property tax levied equally against the taxable property valuation in all the school districts in the state. The uniform levy is \$5.40 per \$1,000 of taxable valuation. The uniform levy is also often referred to as the “five-forty” in reference to the levy rate.

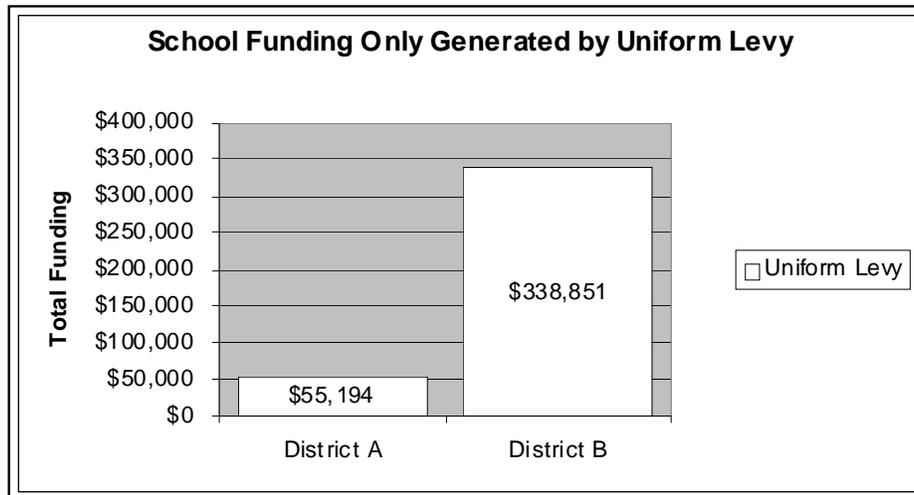
There have been exceptions to the uniform levy of \$5.40 for school districts that have been reorganized. Reorganization incentives currently exist that reduce the \$5.40 levy to \$4.40, and then ratchet back up to \$5.40 over five years.

School districts with a higher taxable valuation per-pupil receive more money from the uniform levy than school districts with a lower taxable valuation per-pupil. The effect of taxable valuation on the uniform levy is illustrated in Figure 10. Prior to the original formula, school districts were largely funded by

property tax. For example, District B, with a higher taxable valuation, was able to maintain a low property tax rate and still generate enough funds for its education program because of a higher taxable valuation.

District A, with a lower taxable valuation, required a higher tax rate to offer the same education program as District B. Since many school districts try to keep property taxes low, funds available for education programs varied from school district to school district. One of the reasons for the first state foundation formula, and one of the goals of the current formula, is to remedy the situation shown in **Figure 10**.

**Figure 10**



The important thing to remember is the uniform levy amount is \$5.40 per \$1,000 taxable valuation and it is levied by each school district.

### **State Foundation Aid**

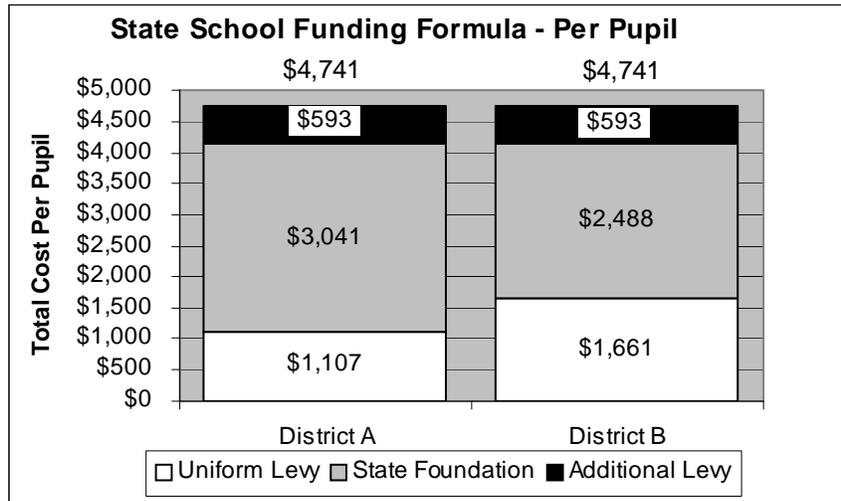
Another important goal of the formula is to provide equity in education programs statewide. **State foundation aid** is used to assist in equalizing funding as well as reducing property tax. Because the formula is pupil driven and the cost per-pupil is a key element in determining spending authority, funding is equalized using the state cost per-pupil.

### **Foundation Percentage**

Under the formula, funding is not equalized at 100 percent of cost per-pupil. Funding per-pupil is equalized at 87.5 percent for the combined district cost less the special education weightings. This portion of the combined district cost for purposes of the foundation percentage is often referred to as the regular program. In this manual, the term “regular program” is used to refer to the budget enrollment times the district cost per-pupil. The state money funding the difference between the uniform levy per-pupil in each school district and the foundation percentage, 87.5 percent of the state cost per-pupil, is called **state foundation aid**. IOWA CODE § [257.1\(2\)](#).

The following chart helps illustrate the equalizing aspect of the foundation percentage. Both districts are exactly identical in every respect except one, taxable valuation per-pupil. District A has the “average” taxable valuation while District B has a taxable valuation per-pupil 50 percent higher than District A. District B generates nearly 50 percent more uniform levy per-pupil which means state aid falls by a corresponding amount.

**Figure 11**



The equalization of funding of the per-pupil cost with the uniform levy and state foundation aid is the basis of school district funding under the formula. Other funding is built upon these two sources.

Under the formula, each school district is entitled to a minimum level of state foundation aid of \$300 per-pupil unless the sum of the uniform levy per-pupil and state foundation aid of \$300 per-pupil exceeds the district cost per-pupil. In that case, the school district is only entitled to the difference between the uniform levy per-pupil and the district cost per-pupil. Given the current level of the state foundation percentage and uniform levy rate, no district is under the \$300 minimum aid per-pupil. IOWA CODE § [257.1\(2\)](#).

By law, school districts receive state foundation aid monthly beginning on or about September 15 and ending on or about June 15 each year. State foundation aid is only required to be paid if the funds are on hand in the state treasury. IOWA CODE § [257.16](#). The total amount of state foundation aid is reduced each year by the amount paid to area education agencies in the prior year for education services provided to students living in an approved or licensed shelter care home, in an approved juvenile detention home or in a licensed child foster care facility or in a facility that provides residential treatment. The remaining state aid is prorated among all the school districts. IOWA CODE §§ [282.19](#), [282.30](#), [282.31](#). State foundation aid may be reduced or withheld if the school district fails to comply with state requirements. For example, state foundation aid may be withheld for failure to comply with the School Budget Review Committee. IOWA CODE § [257.31\(11\)](#). Also, state foundation aid may be reduced to school districts that begin school prior to the day allowed by law without the DE's approval. IOWA CODE § [257.17](#).

The important thing to remember about state foundation aid is that it is designed to equalize funding on a per-pupil basis up to 87.5 percent of the state cost per-pupil for the regular program and special education program.

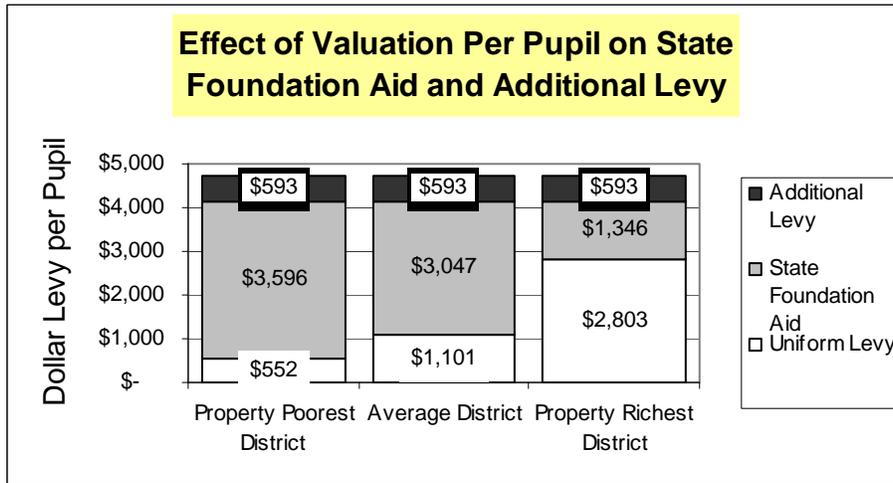
### **Additional Levy**

Two of the three components funding the combined district cost, the uniform levy and state foundation aid, fund the per-pupil cost in a school district so that each school district receives at least 87.5 percent of the state cost per-pupil for the regular program. To fully fund its district cost per-pupil, whether its district cost per-pupil is equal to or greater than the state cost per-pupil, the school foundation formula causes an **additional property tax levy**. This is sometimes referred to as the “second-effort levy.” IOWA CODE § [257.4](#).

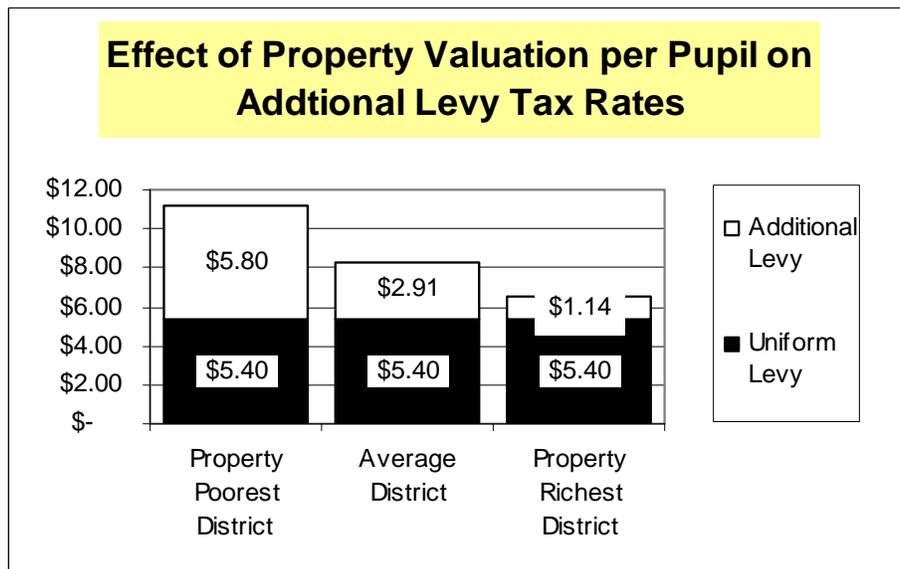
Under the formula, variances in property tax rates among school districts are partially due to the additional levy. To fully fund its district cost per-pupil, the school district levies property tax. A larger

increase in property tax is needed for a lower taxable valuation school district to fully fund its district cost per-pupil than in a higher valuation district. The effect of taxable valuation on the additional levy in a school district is illustrated in **Figures 12A and 12B**, which show the funding of the combined district cost for low, average and high taxable valuation school districts with a district cost per-pupil equal to the state cost per-pupil.

**Figure 12A**



**Figure 12B**



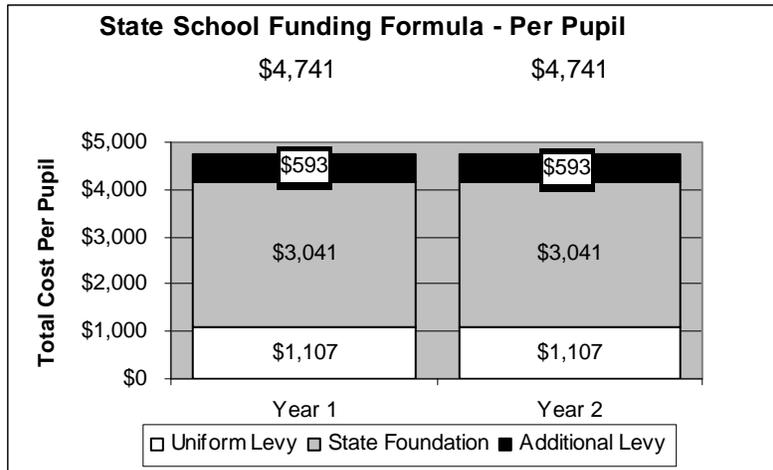
The chart also illustrates equalized funding up to 87.5 percent of the state cost per-pupil for the regular program using the uniform levy and state foundation aid. It also illustrates the funding at 100 percent of the district cost per-pupil using the additional levy.

One important thing to remember about the additional levy is that it is used as part of the foundation formula to fund the difference between the foundation percentage and 100 percent of the district cost per-pupil.

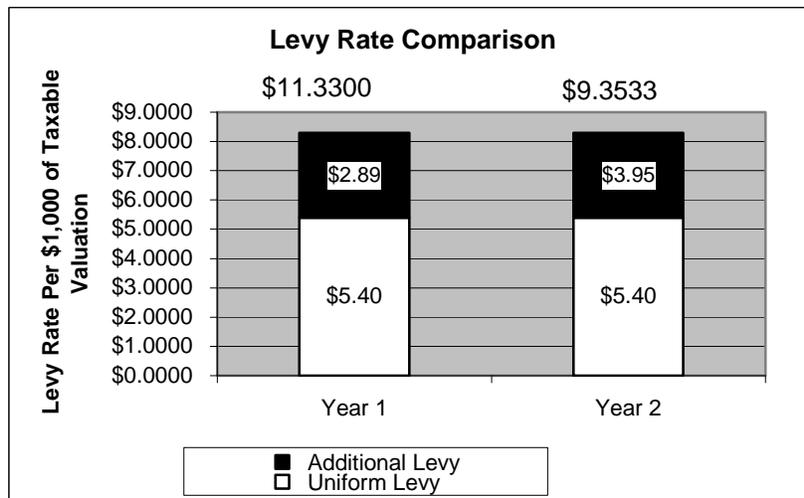
Given a state cost per-pupil of a given figure, the additional levy amount per-pupil will always be 12.5 percent of that number. Therefore, regardless of the relative property wealth of a district, the amount the additional levy will generate on a per-pupil basis will be the same.

However, as you can see from the **Figure 13A** and **13B** below, District B has an additional levy rate one-third less than District A. As you recall, District B had a property tax valuation per-pupil 50 percent larger than District A. This caused a uniform levy per-pupil 50 percent larger than District A's. However, because the taxable valuation per-pupil in District B is higher, the less **additional levy rate** had to be applied to get the same *number* of dollars.

**Figure 13A**



**Figure 13B**



There are two important things to remember about the combined district cost, often called the controlled budget:

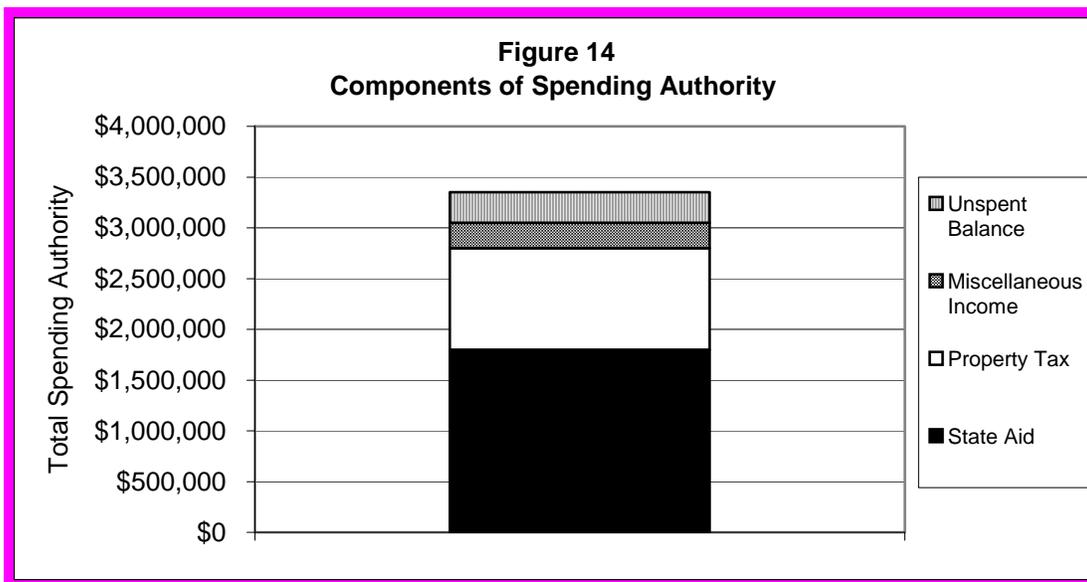
- The amount of the combined district cost is determined by multiplying the district cost per-pupil by the school district's weighted enrollment.
- The combined district cost is funded by the requirements of the formula. These are the uniform levy of \$5.40 per \$1,000 taxable valuation; state foundation aid to equalize the funding up to 87.5 percent of the state cost per-pupil and the additional levy to fund the district cost per-pupil at 100 percent. As illustrated in **Figures 12A and 12B** the relative mix

in property tax and state foundation aid in any district is due to the property value per-pupil in that district.

## Miscellaneous Income

A school district's total spending authority is determined by three elements: combined district cost, miscellaneous income and unspent balance. This section covers the miscellaneous income element of total spending authority. Even though many types of revenue qualify as miscellaneous income, it is an easy concept. **Figure 14** helps illustrate the components of spending authority.

**Miscellaneous income** is any general fund revenue that is not part of the combined district cost. In other words, if general fund revenue received by a school district is not from the uniform levy, state foundation aid or the additional levy, it is miscellaneous income. IOWA CODE § [257.2\(9\)](#). Unspent balance is not miscellaneous income because it is leftover spending authority and not income. In calculating a school district's unspent balance, actual miscellaneous income rather than budgeted miscellaneous income must be used. If a school district receives more miscellaneous income than the amount included in its budget, it may amend the certified budget to permit the expenditure of this money. It is not necessary to amend the certified budget to receive the additional miscellaneous income. IOWA CODE §§ [24.9](#); [257.7\(2\)](#).



Some payments from the state have the appearance of state foundation aid, but are accounted for as “miscellaneous income”. Some examples are the moneys received for Phase I, and II, teacher quality class size/reading initiative, and for transportation reimbursements. IOWA CODE §§ [294A.22](#); [285.2](#). One way to differentiate these payments from state foundation aid is that they usually come in a payment separate from the school district's state foundation aid. Miscellaneous income state moneys are generally defined as such in the statute.

Other examples of miscellaneous income include, but are not limited to, federal moneys, state grants, instructional support programs, educational improvement programs, and SBRC supplemental aid grants and authorizations to spend unexpended cash balance, and interest. IOWA CODE §§ [257.2\(9\)](#), [257.19](#), [257.29](#), [257.31\(5\)](#), [31\(7\)](#); [279.54](#). Each is discussed below.

Miscellaneous income in the form of federal moneys and state grants is very straightforward. Moneys from the federal government are miscellaneous income to the school districts under the formula. Moneys

received for a special grant from the state are miscellaneous income. These funds are generally available for only the use stated by the federal government or the state grant. IOWA CODE § [279.51](#).

### ***Instructional Support Program***

An **instructional support program** (commonly referred to as the instructional support levy or ISL) provides additional funding for school districts. Receipts from an instructional support program are miscellaneous income. This program is funded by state moneys and a combination of property tax or property tax and income surtax. These moneys are deposited in the general fund and may be used for any purpose allowed under that fund. The school board may specify the purposes for which the instructional support programs moneys may be used. However, instructional support program moneys may not be used for dropout prevention programs, talented and gifted programs, physical plant and equipment levy uses, management levy uses and special education negative balances. IOWA CODE § [257.19](#).

The total funding for the instructional support program must not exceed 10 percent of the regular program district cost. IOWA CODE §§ [257.18-27](#). The portion of the funding to be received in instructional support state aid and received from property tax or property tax and income surtax is calculated as illustrated in Figure 14. However, beginning in FY 1994, the total amount of instructional support state aid available to school districts was fixed at the amount of instructional support state aid paid in FY 1993 (\$14.8 million statewide). This amount is insufficient to pay the instructional support state aid each year, so the instructional support state aid is prorated among all the school districts with instructional support programs. IOWA CODE § [257.20\(2\)-\(3\)](#). The amount of funding from property tax, income surtax and instructional support state aid varies from year to year because the state and district valuation per-pupil changes each year. The state valuation per-pupil for a fiscal year may be obtained by contacting the Department of Management. In FY 2003, districts received approximately 35 percent of the state aid amount specified under the ISL formula if the state match was fully funded. Districts may not make up the state aid shortfall through property taxes. Because the state match portion is not fully funded, districts will not receive the full 10 percent of regular program district cost. Depending on the relative property valuation per-pupil, districts may receive between 6.5 percent and 9.4 percent of their regular program district cost. Districts must calculate Section 10 of their Aid and Levy Worksheet to come up with the closest possible estimate of funds received.

If the school district chooses to fund the instructional support program with property tax and instructional support state aid, the funding is available to the school district in the fiscal year in which the funding was included on the budget. For example, a school district certifying a property tax for an instructional support program on April 15, 2005, for FY 2006 will receive the funds in FY 2006. The instructional support state aid will be received monthly in FY 2006 beginning around Sept. 15 and ending around June 15. A school district choosing to fund its instructional support program with instructional support state aid and a combination of property tax and income surtax for FY 2006 will receive the state aid and property tax in FY 2006, but the income surtax funds will not be paid to the school district until FY 2007. This is because the budget is certified for FY 2006 but the income surtax will be calculated on taxes paid in April 2006, for the calendar year 2005. The funds will not be received by the school district until December 2006, and February 2007. Income surtax is required to be paid December 1 and February 1 each year. A school board that chooses to use a combination of income surtax and property tax must determine the percent of income surtax in full percentage points (e.g. 4.0%, 6.0% ). IOWA CODE §§ [257.20-27](#); [298.14](#).

The income surtax rate in a school district for all programs cannot exceed 20 percent. The income surtax for a school district and an emergency medical services district cannot exceed 20 percent. If a school district has no income surtax and an emergency medical services district has no income surtax, then the school district may have a 20 percent income surtax for the instructional support program (within the constraint if not exceeding the 10 percent regular program limitation). However, if the school district has an income surtax of 5 percent in place for the PPEL and an emergency medical services district has an

income surtax of 1 percent, the instructional support income surtax cannot exceed 14 percent. IOWA CODE §§ [298.14](#); [422D](#). The surtax is an income tax based on multiplying Iowa individual income tax liability (not income) times a rate (e.g. 8%). If someone has a \$50,000 gross income and owes \$2,000 in state individual income tax, a 10 percent income surtax will cost \$200 (\$2,000 X .10) not \$5,000 (\$5,000 X .10).

School districts may participate in the instructional support program by taking the following steps:

1. Adopt a resolution stating its intention to participate in the program. The resolution of intent should state the following:
  - a. The proposal to participate in the instructional support program including:
    - (1) The amount, not to exceed 10 percent of the total regular program district cost, including the budget adjustment pursuant to § [257.14](#) for the budget year.
    - (2) The purposes within the general fund for which the moneys will be used.
  - b. The method used to fund the program, including one of the following:
    - (1) Instructional support state aid and instructional support property tax; or
    - (2) Instructional support state aid and instructional support property tax and income surtax.
  - c. The date of the public hearing and direction to the board secretary to publish notice of the public hearing.
2. Publish notice of a public hearing in a newspaper no less than 10 and no more than 20 days prior to the public hearing date. The newspaper must meet requirements one and two of an official newspaper.
3. Hold the public hearing and announce the date when the school board will take one of the following actions. This action should take place no earlier than the day following the public hearing.
  - a. Adopt a resolution of participation within 30 days to participate in the program for no more than five years; or
  - b. Direct the county commissioner of elections to call an election to participate in the program for no more than 10 years. This election may be the next regular school election in September or a special election. During general election years, the election cannot be held on the first or second Tuesday preceding or following the general election.
4. If the school board adopts a resolution of participation under step 3(a), the school district will participate in the instructional support program unless a petition is filed within 28 days of the resolution of participation adoption date. The petition must be signed by the greater of 30 percent of the number of voters at the last preceding regular school election or 100 eligible electors. If a valid petition is filed, the school board can choose to rescind its resolution of participation or hold an election for the time period stated in the resolution of participation. If the school district wishes to exceed the time period in the resolution of participation, it must rescind its original action and begin the process again for an election in the same manner as 3(b) above. The school district should allow sufficient time for the 28-day period to expire prior to the April 15 certification date and to permit publication of the budget incorporating the ISL within the 10-20 day publication timeline specified in the *Code of Iowa*.
5. If the school board holds an election and the program is approved, the school board must adopt a resolution of participation stating its participation in the program and certify the results of the

election to the Department of Management. If the election fails, the school board must wait 120 days before holding another election or adopting the program by board resolution.

6. The levy will continue for the period determined. At the end of the period, it may be continued for a like period by following the same steps set forth above. IOWA CODE §§ [257.18-.27](#); [298.14](#).

If the board adopted a resolution to participate and a petition is filed, the school district is responsible for examining it to ensure it contains the required number of signatures and that it appears valid. The petition must be returned to the petitioners if it lacks the required number of signatures. The petition is valid unless a written objection is filed with the board secretary within five days after the petition was filed. The current process requires objections to be considered by the board president, board secretary and a board member selected by ballot within two working days. IOWA CODE §§ [277.5](#), [277.7](#).

The instructional support program can be levied by board action or by voter approval. When a levy is subject to approval of the voters, the procedure required by law for submitting the matter to the voters must be followed with care. Numerous court decisions have held that legislative requirements for action on public measures are mandatory. In *Honohan v. United Community School District*, 137 N.W. 2d 601 (Iowa 1965), an election was set aside because the resolution adopted by the school board was different from the question submitted to the voters. In the area of finance and taxation, it is clear that a governing body cannot create new powers for itself. *Scott County Conservation Board v. Briggs*, 229 N.W. 2d 126 (Iowa 1975).

### ***Educational Improvement Program***

When the formula was revised effective 1991-92, the **educational improvement program** was designed to provide additional funding to the school districts that had a FY 1992 district cost per-pupil greater than 110 percent of the FY1992 state cost per-pupil and had approved the instructional support program. The law placed no limit on the amount a qualifying school district could raise. School districts may no longer qualify for the educational improvement program under these requirements because the election needed to be held prior to February 1, 1991. *See* 1989 IOWA ACTS 135.29.

During the 1992 legislative session, the law was changed to also allow school districts with an enrichment surtax, adopted prior to July 1, 1992, for 15 percent of the district cost per-pupil to adopt the educational improvement program levy after the expiration of the enrichment surtax and after adopting the instructional support program. The law does not require the school district to have the maximum instructional support program in place. School districts meeting these criteria are limited to an educational improvement levy amount of no more than 5 percent of the regular program district cost. The property tax or a combination of property tax and income surtax from an educational improvement program is miscellaneous income. The moneys are deposited in the general fund and may be used for any purpose allowed under that fund.

### ***Teacher Educational Excellence Program— Phase I, II, III***

The educational excellence program for teachers generates funding for teacher excellence. **Phase I** of the program is intended to aid in the recruitment of quality teachers. Phase I raised the minimum salary of teachers to \$18,000. In FY 1988, a school district received enough funds to raise each teacher's salary to \$18,000. Each subsequent year, the school district receives the same amount to support its salary schedule. However, if the school district reduces the number of full-time equivalent teachers, the amount is reduced accordingly. IOWA CODE §§ [294A.4-6](#).

**Phase II** generates funding to help retain qualified teachers. Beginning in FY 1991, school districts received a per-pupil dollar amount based on its enrollment. Each year, the per-pupil amount is increased by the state percent of growth. These funds are subject to collective bargaining unless the school district

does not have a teacher bargaining unit. In school districts that do not bargain collectively, the school board determines how these funds are to be distributed. IOWA CODE §§ [294A.2\(1\)](#), [294A 8-10](#).

**Phase III** provided funds to enhance the quality and effectiveness of teachers through the use of supplemental and performance-based pay. Beginning in FY 1991, school districts received a per-pupil dollar amount based on its enrollment. The per-pupil amount was increased each year by the state percent of growth for school districts with Phase III plans containing a performance-based pay component. The 2003 General Assembly eliminated the Phase III program and funding.

**Phase I Supplement** raised the minimum salary of teachers to \$23,000. In FY 1999, a school district received enough funds to raise each teacher's salary to \$23,000. Each subsequent year, the school district receives the same amount to support its salary schedule. However, if the school district reduces the number of full-time equivalent teachers, the amount is reduced accordingly. IOWA CODE §§ [294A.4-6](#).

### ***Teacher Compensation***

The 2001 Legislature created the Student Achievement and Teacher Quality act. This act dealt with setting teacher standards, teacher salaries, evaluations, mentoring and professional development. All districts and AEA's were required to participate by July 1, 2002.

Instead of continuing to approach those targets, the initial minimums have been maintained. First and second year teachers, \$24, 500; third year teachers \$ 25,500; all other career teachers \$26,500. [Click here](#) for a calculator to determine teacher salary minimums for your school district.

Implementation of the two-day professional development requirement is delayed until the fourth year of district participation in the program (2004-05 at the earliest) rather than the second year.

Scheduled minimum salary increases originally intended to continue until beginning teacher pay reached \$28,000 and career teacher pay reached \$30,000 have also been postponed. This bill maintains the minimum of \$24,500 for first- and second-year teachers. A second-year teacher becoming a third-year teacher in 2002-03 will receive \$1,000 increase (up to the \$30,000 career minimum) and career teachers who received a \$2,000 bonus this year will maintain that level.

### ***Professional Development***

Beginning July 1, 2005, the Legislature appropriated up to \$10 million for the addition of the equivalent of one day of professional development to teacher compared to the contract in place during a district's first year of participation in the teacher quality program. Another \$6.6 million was appropriated for professional development, salaries, or both, as determined by the school district. Distribution of the \$6.6 million is subject to bargaining.

### ***Official Newspaper***

Many types of miscellaneous income revenue sources require a notice be published in a newspaper prior to their adoption. The publication requirements for the variety of miscellaneous income revenue sources differ from one revenue source to another. It is important that a school district meet the appropriate requirements. While each revenue source does not require the publication to be in an official newspaper, many do. An official newspaper must meet the following requirements:

1. A newspaper of general circulation issued at a regular frequency that has been published within the area and regularly mailed through the post office of entry for at least two years.

2. A newspaper with a list of subscribers who have paid, or promised to pay, at more than a nominal rate for copies to be received during a stated period.
3. A newspaper that devotes at least 25 percent of its total column space in more than one-half of its issues during any 12-month period to information of a public character other than advertising.
4. A newspaper paid for by at least 50 percent of the persons or subscribers to whom it is distributed. IOWA CODE § [618.3](#).

### ***Additional Miscellaneous Income***

Action of the SBRC can generate miscellaneous income for a school district. This includes supplemental aid grants and authorizations to spend unexpended cash balance. Supplemental aid grants as a source of miscellaneous income are almost nonexistent. Very little money, if any, is appropriated for them. IOWA CODE §§ [257.31\(5\)](#).

The SBRC may grant school districts the authority to spend a reasonable and specific amount of their **unexpended cash balance**. The authorized amount approved is miscellaneous income to the school district. The funds may only be used for the purpose requested and approved. Any excess funds revert to their status as unexpended cash balance. The unexpended cash balance may not be used for recurring costs. The unexpended cash balance may be used only for the following purposes:

Furnishing, equipping and contributing to the construction of a new building or structure for which the voters of the district have approved a bond issue or a physical plant and equipment levy.

The costs associated with the demolition of an unused school building, or the conversion of an unused school building for community use, in a school district involved in a dissolution or reorganization, if the costs are incurred within three years of the dissolution or reorganization. IOWA CODE § [257.31\(7\)](#). Traditionally, the SBRC has allowed school districts to use unexpended cash balance for purchasing structural type equipment but not for classroom equipment such as computers. IOWA CODE §§ [298.3\(3\)](#), [3\(11\)](#).

There are six important things to remember about miscellaneous income:

- Only actual miscellaneous income received may be used to determine a school district's unspent balance and to determine a school district's actual certified budget.
- It is one element of the total spending authority.
- Miscellaneous income includes any funds that are not from the uniform levy, state foundation aid or the additional levy (combined district cost).
- Miscellaneous income can be from many sources such as interest income, property tax, income surtax, state funds, federal funds and local funds. Each source may have different requirements to be met before it may be obtained.
- Generally, miscellaneous income may be used for any general fund purpose unless the funds received were to be used for a specific purpose.
- Unless the source of funds is guaranteed to be continuing from year to year, miscellaneous income should only be used for one-time expenditures.

### ***Unspent Balance***

The last element of a school district’s total spending authority is the **unspent balance**. Unspent balance is sometimes referred to as unspent budget authority or carryover balance. The title “unspent balance” is somewhat misleading since it seems to indicate that funds “in hand” were not spent when, in fact, it may only mean that total spending authority was unspent. **Spending authority** is the maximum amount a school district may budget as well as spend. **Unspent balance** is the difference between spending authority and actual expenditures.

In the case of an across-the-board state aid reduction or the failure of a property owner to pay property tax, districts will not receive the cash associated with the spending authority, but their spending authority will remain at the level as if all funds were received.

The unspent balance is included as part of the total spending authority of a school district each year. IOWA CODE § [257.7\(1\)](#). Unspent balance from one year is added to the unspent balance the next year. In other words, once a school district receives spending authority, the only way to use it is to fund it and spend the funds. If spending authority is not funded or is funded but the funds are not spent, the unused spending authority carries forward each budget year as unspent balance to the next year. When unspent balance is funded, it may only be spent one time. Once a portion or the entire unspent balance is spent, it is gone forever. Unspent balance should only be used for one-time expenditures.

The district below in Figure 14 has a combined district cost (property tax and state aid) equal to \$1.1 million. Actual miscellaneous income is \$100,000 for a total spending authority of \$1.2 million. If the district actually had general fund expenditures of \$900,000, the unspent balance is equal to the difference in total spending authority and actual expenditures, or \$300,000.

The next year, the district spends \$1.2 million out of a total spending authority of \$1.35 million. As you can see from the example following, utilizing unspent balance is truly one-time in nature. Once a dollar of unspent balance is funded and spent, it cannot be spent again. **Figure 15**.

<b>Figure 15</b>				
<b>Unspent Balance Calculation</b>				
		<b>Fiscal Yr 1</b>	<b>Fiscal Yr 2</b>	<b>Fiscal Yr 3</b>
	Combined District Cost	\$1,100,000	\$1,000,000	\$1,000,000
<b>Plus</b>	Actual Miscellaneous Income	\$100,000	\$50,000	\$50,000
<b>Plus</b>	Prior Year Unspent Balance	-	\$300,000	\$150,000
<b>Equals</b>	Total Spending Authority	\$1,200,000	\$1,350,000	\$1,200,000
<b>Less</b>	Actual Expenditures	\$900,000	\$1,200,000	\$1,175,000
<b>Equals</b>	Unspent Balance	\$300,000	\$150,000	\$25,000

Unspent balance is not the same as cash on hand. Generally, a school district’s cash balance is not equal to its unspent balance. To use the unspent balance, funds must be generated by some source. One method of funding (i.e., backing with cash) an unspent balance is through the cash reserve levy.

**Cash Reserve Levy**

To the extent funds are available, unspent balance can be used for one-time expenditures. While the unspent balance may not be backed by cash on hand, a school district can generate funds for spending its unspent balance by levying for cash reserve. This is called the **cash reserve levy**.

The cash reserve levy has two purposes. First, like any business, a school district needs sufficient working capital or cash in reserve for unforeseen events. The general accounting rule of thumb has traditionally been that a business should have sufficient cash on hand equal to three months' operating expenditures. This means a school district should have accessible cash available for operating the school district for three months without borrowing money or stamping warrants. This was particularly important when state foundation aid was delayed.

The second purpose of the cash reserve levy is to fund unspent balance.

School districts may authorize a cash reserve levy by:

Including the amount of the levy on the school district's aid and levy worksheets (part of certified budget process).

Certifying the tax to the county auditor as part of the school district's budget.

Even though school boards and their local constituents are their own best monitors when it comes to property tax levies, the law does provide a check on the cash reserve levy. The SBRC annually reviews each school district's cash reserve levy. School districts may have unusual expenses or needs in a particular year that require a cash reserve levy at a higher level than usual. School districts with a year-end cash balance in excess of 25 percent of the expenditures for the budget year two years prior are investigated. If the SBRC determines that a school district's cash reserve levy is "unreasonably high," the SBRC has the authority to direct the director of the Department of Management to reduce the school district's tax levy the following budget year. IOWA CODE § [257.31\(15\)](#). Clear documentation of the school board's action will assist the school district in explaining its purpose if questioned about its cash reserve levy.

There are four important things to remember about unspent balance:

It is spending authority that was not spent.

It may or may not be backed by cash on hand.

Unspent balance should not be used for recurring expenditures since it may only be spent one time.

Unspent balance may be funded using the cash reserve levy.

## **Summary**

In this chapter, the funding and the calculation of the total spending authority for a school district were discussed. The total spending authority is comprised of the combined district cost, miscellaneous income and unspent balance. These are the major elements of the general fund. There are many important things to remember about the total spending authority and each of its elements. They are:

Total spending authority is a maximum amount that a school district may spend. The school board determines the level of funding. It is illegal for a school district to spend more than its total spending authority. IOWA CODE § [257.7](#).

The combined district cost supplies a majority of a school district's funding and is the largest element of the total spending authority. The combined district cost is funded by the requirements of the state foundation formula. These are the uniform levy of \$5.40, state foundation aid to equalize per-pupil funding at the foundation percentage of 87.5 percent of the state cost per-pupil for the regular program and the additional levy to fund the district cost per-pupil at 100 percent.

School districts with a higher taxable valuation per-pupil will have less state foundation aid than school districts with a lower taxable valuation per-pupil. Districts with a lower taxable valuation per pupil will experience a higher property tax rate to raise the same per pupil funds.

Miscellaneous income, the second element of the total spending authority, includes funds that are not part of the combined district cost (state aid and property tax).

- Miscellaneous income comes from many sources, such as interest earnings, income surtax, categorical state funds, federal funds and local funds. School districts must meet the necessary requirements for each funding source. Unless the miscellaneous income is guaranteed to continue from year to year, it should be used only for one-time expenditures.

Unspent balance is the third and final element of total spending authority. It is spending authority from prior years that has not been spent, but it may or may not have been funded (backed with cash). Unspent balance may only be funded and spent one time.

Unspent balance should not be used for recurring expenses. Unspent balance that is not backed by cash may be funded using the cash reserve levy.

# **CHAPTER VI**

## **FACILITY-RELATED LEVIES**

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**Principle 4:** School districts are authorized to levy taxes for building and maintaining schoolhouse facilities for the education program. The school board may authorize some of these taxes while others require voter approval. The physical plant and equipment levy and the public education and recreation levy are funded by property tax or, if the law allows, a combination of property tax and income surtax. The moneys received under these levies may be used only for the purposes stated in the law or approved by the voters. With approval of 60 percent of the voters, school districts may lease-purchase facilities or issue general obligation bonds. School districts may levy property tax to repay the principal and to pay the interest on the bonds.

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The levies related to building and maintaining schoolhouse facilities for the education program are discussed in this chapter. The revenues generated by these levies may only be used for purposes stated in the statute.

### ***Physical Plant and Equipment Levy***

The **physical plant and equipment levy** (PPEL) is a property tax levy comprised of two levies—the regular physical plant and equipment levy (\$0.33 per thousand) and the voter-approved physical plant and equipment levy (\$1.34 per thousand). The maximum amount of the joint levies may not exceed \$1.67 per \$1,000 of taxable valuation. The funds and interest earned on the funds raised under both the regular and voter-approved physical plant and equipment levies may be used for asbestos projects and for the following purposes:

The purchase of grounds, which includes the legal costs relating to the property acquisition, costs of surveys of the property, costs of relocation assistance under state and federal law and other costs incidental to property acquisition.

The improvement of grounds, which includes grading, landscaping, paving, seeding and planting of shrubs and trees; constructing sidewalks, roadways, retaining walls, sewers and storm drains, and installing hydrants; surfacing and soil treatment of athletic fields and tennis courts; exterior lighting, including athletic fields and tennis courts; furnishing and installing flagpoles, gateways, fences and underground storage tanks which are not parts of building service systems; demolition work; and special assessments against the school district for public improvements, as defined by law.

The construction of schoolhouses or buildings and opening roads to schoolhouses or buildings.

The purchase, lease or lease-purchase of of a single unit of equipment or technology exceeding \$500 in value.

The payment of debts contracted for the erection or construction of schoolhouses or buildings, not including interest on bonds.

Procuring or acquisition of library facilities.

Repairing, remodeling, reconstructing, improving or expanding the schoolhouses or buildings and additions to existing schoolhouses.

Expenditures for energy conservation.

The rental of facilities under Chapter 28E.

Purchase of transportation equipment for transporting students.

The purchase or lease-purchase option agreements for school.

Equipment purchases for recreational purposes.

Asbestos removal.

Payment of city tax increment finance bonds. IOWA CODE §§ [279.52](#); [298.2](#), [298.3](#), [403.19](#)

### ***Regular Physical Plant and Equipment Levy***

School districts may use the regular physical plant and equipment levy by:

Including the amount of the levy, (by board action) not to exceed 33 cents per \$1,000 taxable valuation on the school district's certified budget, and

Certifying the tax to the county auditor, the Department of Management and the Department of Education by April 15.

The regular physical plant and equipment levy has no legal provision for petition of the levy by the community. Citizens questioning the levy should follow board policy regarding presentations to the school board or the budget protest provisions of the law. IOWA CODE §§ [24.27-32](#).

### ***Voter-Approved Physical Plant and Equipment Levy***

The voter-approved physical plant and equipment levy replaces the former schoolhouse levy of 67.5 cents per \$1,000 of taxable valuation. School districts may use the voter-approved physical plant and equipment levy by:

Determining the amount of, and the period (not to exceed 10 years), for the tax. The amount may not exceed the amount that could be raised by a levy of \$1.34 per \$1,000 taxable valuation for up to 10 years.

Directing the county commissioner of elections to call an election to approve the levy for the amount and period determined by the school board. This election may be the next regular school election in September or a special election. Upon approval of a majority of the voters voting, the levy may be levied for the amount and the period approved by the voters. IOWA CODE § [278.1](#).

Determining the method of funding the levy by choosing one of the following:

- Property tax up to \$1.34 per \$1,000 taxable valuation;
- Combination of income surtax, not to exceed a maximum surtax of 20 percent, and property tax. This amount may not exceed the amount that can be raised by a \$1.34 property tax; or
- Property tax up to \$1.34 cents per \$1,000 taxable valuation for lease arrangements or loan agreements.

Certifying the tax to the county auditor and the DOM by April 15 as part of the school district's budget.

Under the current law, the board is required to levy the tax at the school board's next regular meeting if the tax was authorized in a special election after the budget was certified. It allows a school board that received the results of the election after April 15 to certify a voter-approved physical plant and equipment levy up to two weeks after the April 15 budget certification date. IOWA CODE §§ [277.2](#); [298.9](#).

If the school board chooses to fund the voter-approved physical plant and equipment levy with property tax for FY 2006, the funding will be received in FY 2006. If the school board chooses to use a combination property tax and income surtax, the property tax will be received in FY 2006. The income surtax will be available in FY 2007. The income surtax will be calculated on taxes paid in April 2006 for the calendar year 2005.

The income surtax funds will be paid to the school district in December 2006 and February 2007. A school board that chooses to use a combination of income surtax and property tax must determine the percent of income surtax as full percentage points each fiscal year. IOWA CODE §§ [298.2](#), [298.3](#), [298.14](#). See also page 36.

### ***Lease Arrangements***

School districts wanting to use the physical plant and equipment levy to enter into rental or lease arrangements may use only the voter-approved physical plant and equipment levy for this purpose. The length of the arrangement may not exceed the length of the levy. IOWA CODE §§ [279.26](#); [298.2\(5\)](#).

### ***Loan Agreements***

School districts may borrow money and enter into loan agreements to make the proceeds of a voter-approved physical plant and equipment levy available immediately to the school district. Loan agreements allow school districts to use the funds generated by the voter-approved physical plant and equipment levy prior to actual receipt. Only the property tax dollars raised under the voter-approved physical plant and equipment levy may be used to fund a loan agreement. IOWA CODE §§ [279.48](#); [297.35](#), [297.36](#); [298.2\(5\)](#).

Loan agreements are established by following these steps:

Approving the voter-approved physical plant and equipment levy.

Entering into a loan agreement or loan agreements with a bank, investment banker, trust company, insurance company or insurance group to borrow money. Each loan agreement must meet the following requirements:

- The maturity date of the loan agreement is within the period approved by the voters;
- The interest rate of the loan agreement is within the limits of the law. IOWA CODE ch. 74A.

Adopting a school board resolution providing for the annual levy of property taxes to pay for the principal and interest due each year until maturity.

Filing a certified copy of the resolution with the county auditor. The filing of the resolution makes it the duty of the county auditor to levy the property tax until the loan agreement is paid in full.

## ***Property Rental and Lease***

School districts may enter into extended time rental or lease-purchase option contracts for up to 20 years to supplement existing schoolhouse facilities with the approval of 60 percent of the voters. This option is rarely, if ever, used because most districts would utilize a debt levy in its place. School districts may use lease-purchase by adopting the voter-approved physical plant and equipment levy as outlined above, except that the levy must be approved by 60 percent of those voting and that the period to be approved may not exceed 20 years. IOWA CODE § [278.1](#).

There are two important things to remember about the physical plant and equipment levy:

It may only be used for the purposes specified in the statute.

There are two levies: the regular physical plant and equipment levy, which may be levied by board action for up to 33 cents per \$1,000 taxable valuation annually, and the voter-approved physical plant and equipment levy, which may be levied after approval by a simple majority of those voting for up to \$1.34 per \$1,000 taxable valuation in property tax or a combination of property tax and income surtax. In the case of a real estate lease-purchase option contract, the voter approval required is 60 percent, and the approved period may be up to 20 years.

## ***Public Education and Recreation Levy***

The public education and recreation levy is commonly referred to as PERL, or the playground levy. The public education and recreation levy may be levied by school districts to establish and maintain public recreation places and playgrounds in the public school buildings and grounds and support adult and community education. Once a public education and recreation levy is in place, the levy continues until the school board or the voters vote to discontinue it by a simple majority.

A public education and recreation levy may be established by following these steps:

Directing the county commissioner of elections to call an election to approve a public education and recreation levy not to exceed 13.5 cents per \$1,000 taxable valuation. This election can be the next regular school election in September. However, a special election must be held within 60 days if a petition is submitted by the voters requesting the levy, and if it is more than three months until the next regular school election.

Certifying the tax in the school district's budget if a simple majority of those voting approve the levy. IOWA CODE ch. 300.

There are two important things to remember about the public education and recreation levy:

A simple majority of those voting must approve the levy.

The levy continues until the school board or the voters discontinue it.

## ***Library Levy***

A school district in which there is no free public library may contract with a free public library for free use of that library by the residents of the school district. During the contract period, the school district must levy the amount necessary to pay the contract. The levy may not exceed 20 cents per \$1,000 of taxable valuation. School districts using the library levy the year prior to reorganization may continue to levy the library levy against the property in the former school district after reorganization. To discontinue the library levy, an election must be requested by a petition signed by the residents of the former school district and filed with the board secretary 75 days prior to the next school election. The number of signatures required is the greater of 100 or 30 percent of those voting in the last school election. The

library levy will be discontinued if a majority of those voting in the former school district approve discontinuing the library levy. IOWA CODE §§ [277.5](#); [277.7](#); [298.7](#).

## ***Bonded Indebtedness Levy***

The school district may issue bonds, contract indebtedness and levy property tax to pay the principal and interest on bonded indebtedness for a period not to exceed 20 years. The levy is made against all property in the school district. The proposition to issue bonds, contract indebtedness and levy property tax to pay the principal and interest on the bonded indebtedness may be submitted to the voters at the regular school election or at a special election. The proposition must be approved by 60 percent of those voting. The levy may not exceed \$2.70 per \$1,000 taxable valuation in any one year unless the voters approve a one-time election to set the maximum at \$4.05 per \$1,000 taxable valuation in a year. This additional levy is approved if 60 percent of the total votes cast are in favor of the additional levy. If either election fails, the school board must wait six months from the date of the election before holding another election. School districts considering issuing bonded indebtedness and approving this levy should contact legal counsel. IOWA CODE §§ [75](#); [76](#); [298.18](#).

There are two important things to remember about bonded indebtedness:

The issuance of bonds is a complicated procedure requiring the assistance of experts.

Bonds may be issued only if 60 percent of those voting approve the ballot proposition.

## ***School Infrastructure Local Option Tax***

The School Infrastructure Local Option Tax (SILO) is comprised of a maximum 1-cent tax on all non-exempt goods and services sold in the county in which the tax has been approved. Exempt goods and services include unprepared food, automobiles, motor fuel, prescription drugs, lottery tickets, hotels, Department of Transportation equipment, and agricultural and farm machinery and equipment, resale items, or any other sales exempted from state of Iowa sales tax collection in IOWA CODE §§[422.45](#).

A SILO tax can be adopted by:

Determining the amount of, not to exceed 1 cent, the time period, not to exceed 10 years, and the purposes for which the tax will be used in one of the following ways:

1. One or more school boards equal to one-half of the county's population; or
2. The board of supervisors by motion; or
3. The public through a petition signed by eligible voters equal to 5 percent of those voting in the last general election submitted to the board of supervisors.

Directing the county commissioner of elections to call an election to approve the levy for the amount and the length of time determined by the school boards, board of supervisors or the petition. The board of supervisors must direct the election within 30 days of receiving a petition. The election is held at the state general election or a special election any time other than at the time of a city special election, but likely not during a regular school district election since precincts for school district and county elections don't match.

Upon approval of a majority of the voters voting, the tax is collected for the amount and the time period approved by the voters, not to exceed 10 years.

Repealing, increasing or reducing the tax must follow the same manner as the adoption and any outstanding bonds must be provided for prior to repeal.

Certifying the tax, as approved by the voters, to the county auditor and Department of Management by April 15 as part of the school district's budget.

### ***Uses for SILO Tax Funds***

Uses for LOSS tax funds and interest are limited to infrastructure purposes, including:

Construction, reconstruction or repair.

Purchasing or remodeling schoolhouses, stadiums, gyms, field houses and bus garages.

Procurement of schoolhouse construction sites and making of site improvements.

Payment or retirement of bonds issued for school infrastructure purposes.

Payment of 10-year negotiable interest-bearing bonds issued by school board action.

Any PPEL or PERL purpose.

Property tax relief for PPEL or PERL levies.

School districts approving the SILO tax will receive funds from the Department of Revenue and Finance in monthly installments, with 95 percent of estimated revenues received prior to August 31 each year, and the final reconciliation payment made prior to November 10 of the following fiscal year. The department's director may revise estimated revenue monthly. The funds are distributed among school districts in the county based on the county of residence for a school district's actual enrollment divided by total county resident enrollment. Revenues stay with the resident district and do not follow the student out of the district. Taxes may initially be collected beginning on January 1 or July 1, a minimum of 90 days following voter approval.

During the 2003 Legislature, Iowa lawmakers adopted two separate bills addressing local option tax issues.

### ***SF 445 – School Infrastructure Local Option (SILO) Sales Tax Equity***

This bill established the policy for long-term local option equity. State funding for equity was proposed in a separate bill, HF 683, passed by the House and Senate on June 4, 2003, during the special legislative session. The policy provisions for distributing the local option equity appropriations are contained in SF 445. This bill requires counties that pass a local option sales tax for school infrastructure in the future to participate in a statewide pool and allows for state funds collected from above-average sales revenues to supplement counties below the statewide average. The statewide per-pupil sales revenue average was estimated to be \$575 per-pupil for 2003-04 and was to be recalculated annually. The Legislature hasn't recalculated the average which should be \$608 in 2004-05. Since enrollment across the state is declining and retail sales grow annually, the number will likely increase every year. The following provisions impact counties with existing SILO before July 1, 2003:

Counties above the statewide average with a SILO enacted prior to April 1, 2003, receive the revenues they would otherwise have received. If voters approve continuation of their SILO, the future revenues will contribute to the pool, guaranteeing the district at least the statewide average per-pupil at that time.

Counties below the statewide average with a SILO enacted prior to April 1, 2003, are automatically placed in the pool and eligible to receive supplemental funds up to the statewide average if appropriated. Once a district is eligible for a supplemental, they may never exceed the statewide average per-pupil out of the fund.

Corrective language in HF 683, which amends SF 445, allows a district with below-average revenues approving a SILO before April 1, 2003, a one-time opportunity to pass a resolution and opt out of the pool. The opt-out request is not reversible.

If supplemental payments are made from either state appropriations or revenues recouped from above-average counties, the supplemental funds are required to be spent to lower bonded indebtedness or physical plant and equipment levy property taxes absent a simple majority vote of the district approving a revenue purpose statement for another purpose.

Counties below the statewide average, approving a SILO between April 1 and June 30, 2003, are eligible for a supplemental payment and may use the revenue for any lawful infrastructure purpose.

The following provisions impact counties with a SILO election after July 1, 2003:

Counties voting on the SILO after July 1, 2003, are guaranteed at least what their county local option brings in per-pupil, not to exceed the statewide average at the time. Any revenue in excess of the statewide average will be contributed to the pool to fund supplemental payments to districts below the average.

The bill includes additional flexibility language, allowing physical plant and equipment levy (PPEL) and public education and recreation levy (PERL) expenses to be paid with local option revenues, in addition to demolition, construction, reconstruction, repair, and payment of property taxes for bonded indebtedness.

Each school district in the county may submit a Revenue Purpose Statement to the county commissioner of elections at least 60 days prior to the election. The statement may be more specific than the ballot language and may include property tax relief for debt or the physical plant and equipment levy (PPEL). The statement must be made available at the polling place and published in a newspaper of general circulation no sooner than 20 days and no later than 10 days prior to the election.

A change-of-use election may be undertaken to change the intended revenue purpose for a specific school district following the same procedures and timelines as a SILO election. The change-of-use election is, however, a school district rather than county wide election. A simple majority of voters in the district is required to approve a change-in use-election.

The bill eliminated the requirement that bonds be issued against a SILO for a maximum of 10 years, allowing a county to pass a continuation of an existing SILO tax before the first SILO expires, or perhaps even enact two consecutive SILO taxes on the same ballot. Either option creates a long-term funding stream to fund bonds for a 20-year infrastructure plan.

### ***HF 683 – Iowa Values Fund Appropriations***

HF 683 includes the appropriations necessary for the Iowa Values Fund, created in HF 692. The bill includes appropriations of \$150 million for school infrastructure equity with annual appropriations of up to \$15 million beginning July 1, 2004. The bill also contains corrective provisions allowing a school district to pass a resolution before October 1, 2004, to opt out of participating in the pool. A district currently below the state average, but anticipating revenues above the state average in the future, might benefit from such a decision. The opt-out provision is not reversible. Another technical correction to SF 445 clearly defines the distribution formula if appropriations and revenues to the fund are not sufficient to guarantee all participating districts receive the statewide average per-pupil. The bill also changed the

definition of the statewide sales revenue per-pupil to be \$575, reviewed annually by the legislature, instead of a true average calculated by dividing total state sales revenue by the total students enrolled in public schools. During the 2005 session, the Legislature eliminated the \$5 million annual appropriation, retroactive to the FY 2004-05 school year.

## **Summary**

There are many important things to remember about the facility-related levies:

The money generated by the facility-related levies may only be used for the purposes authorized in the statute or the purpose stated by the voters. Each levy has different requirements to be met. It is essential that school districts ensure the particular requirements for each levy are met prior to implementing the levy.

The physical plant and equipment levy (PPEL) consists of a levy authorized by board action and a levy requiring voter approval. A voter-approved physical plant and equipment levy allows a school district to enter into real property lease-purchase option contracts, lease arrangements, loan agreements or loan agreements to lease-purchase equipment. Loan agreements allow school districts to use property tax revenues of the voter-approved physical plant and equipment levy before the funds are actually generated. Funds generated by the voter-approved physical plant and equipment levy may only be used for the purpose authorized by the voters.

School districts may levy for public recreation areas and playgrounds upon the approval of the voters. The levy continues until the board or the voters rescind it.

Bonded indebtedness is a complicated procedure that requires the assistance of legal experts. Bonds may be issued for up to 20 years for the amount approved by 60 percent of the votes cast at the election.

School Infrastructure Local Option tax is assessed on a countywide basis, not a school district-wide basis, providing revenue per-pupil to districts in the county.

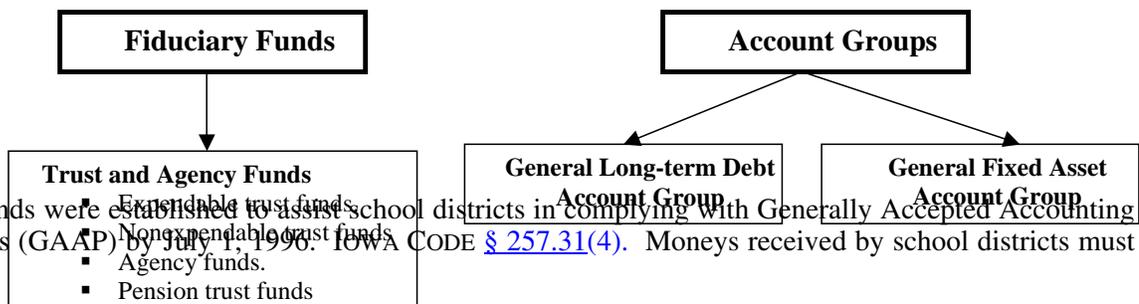
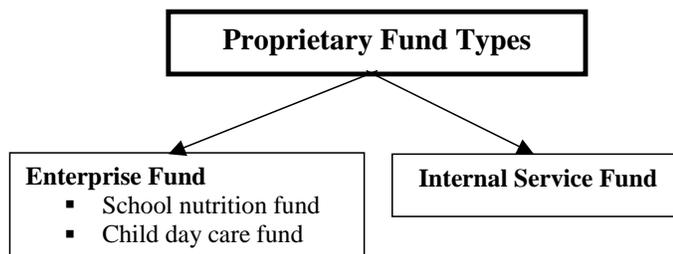
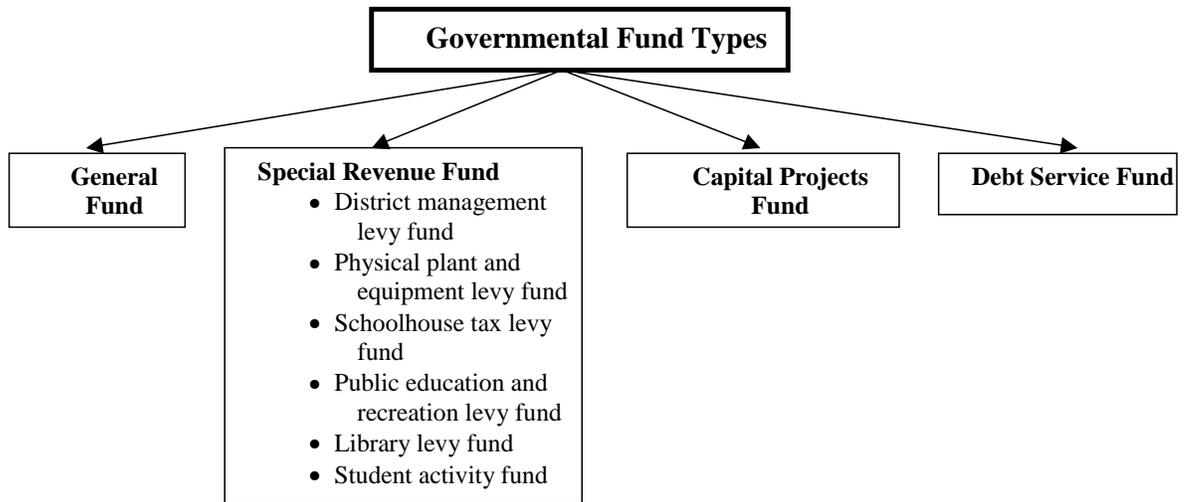
# CHAPTER VII

## SCHOOL DISTRICT ACCOUNTING FUNDS

**Principle 5: Iowa school districts receive and disburse moneys from a variety of funds. The state foundation formula pertains only to the general fund.**

Iowa school districts are created by law and have only those powers specifically granted by statute. IOWA CODE §§ [274.1-274.2](#). This applies to the manner in which Iowa school districts receive and disburse money. Iowa law creates several funds for school districts. These funds are categorized beginning on the next page into different types as follows:

GASB 34



These funds were established to assist school districts in complying with Generally Accepted Accounting Principles (GAAP) by July 1, 1996. IOWA CODE § [257.31\(4\)](#). Moneys received by school districts must

be deposited in the appropriate fund and may only be spent in accordance with the law. The funds included in the governmental fund types use modified accrual basis of accounting. **Modified accrual** means revenues are recognized when they become both “measurable” and “available” to finance expenditures of the current accounting period. Revenues are considered “measurable” if the amount can be reasonably determined.

Revenues are considered “available” when they are collectible within the current accounting period or soon enough after to be used to pay liabilities of the current accounting period. Under the modified accrual basis, expenditures are generally recognized when the related fund liability is incurred. School districts should work with the office of the state auditor, the DE and their local auditor to ensure funds in the governmental fund types are properly accounted for.

## **GENERAL FUND**

Moneys received by a school district from taxes and all other sources must be accounted for in the general fund, except moneys required by law to be accounted for in another fund.

The general fund is primarily used to provide the education program for the school district. This is the only fund that receives state moneys in the form of state foundation aid under the state foundation formula and state moneys for miscellaneous income to the school district. The major revenue source in the general fund is the state foundation formula. The foundation formula is discussed in detail in **Chapters III through V**.

## **SPECIAL REVENUE FUNDS**

Special revenue funds are used to account for moneys legally restricted to a specific use. The law sets out eight special revenue funds for school districts.

### **Management Levy**

The **management levy** is accounted for in a separate special revenue fund. IOWA CODE § [298A.3](#). It is a tax that can be levied annually by the board. There is no maximum rate limit or dollar limit on the amount levied, however the management levy can only be used for the specific purposes listed in the statute. The management levy may be used for an early retirement program, unemployment compensation, tort liability and insurance by meeting the statutory requirements for each of these areas. The amount of the levy is the amount deemed necessary by the school board to meet the obligations allowed under the levy. IOWA CODE § [298.4](#).

Citizens questioning the levy should follow board policy regarding presentations to the school board or the budget protest provisions of the law. IOWA CODE §§ [24.27-.32](#). School districts may use the management levy by:

Including the amount of the levy on the school district’s budget, and

Certifying the tax to the county auditor as part of the school district’s budget.

School districts without a management levy may pay the expenses authorized under the management levy from the general fund. IOWA CODE § [670.7](#). The management levy allows costs to be moved from the general fund to the management levy, freeing up moneys in the general fund for other uses. This also

means an increase in property tax if the levies in the general fund are not decreased for the amount of costs transferred from the general fund to the management levy.

The insurance may be purchased against all or any part of liability that might be incurred by the school district or its officers, employees and agents. School districts may adopt a self-insurance program including, but not limited to, the investigation and defense of claims, the establishment of a reserve fund for claims, the payment of claims and the administration and management of the program to cover liabilities. School districts may use management levy funds for equipment breakdown insurance and may join and pay funds into a local government risk pool to protect against liability. In addition, school districts can enter into insurance agreements for any of these insurance programs to make payments beyond the current fiscal year. IOWA CODE §§ [298.4\(2\)-\(3\)](#); [670.7-10](#). The costs of an authorized insurance program must be paid from the management levy if the school district has a management levy. If the school district does not use the management levy, the general fund may be used for these purposes.

School districts may also use the management levy to pay the cost of insurance agreements to procure or provide for an insurance policy, a self-insurance program or to establish and maintain a local government risk pool to protect the school district from tort liability, loss of property, environmental hazards or any other risk associated with the operation of the school district. IOWA CODE §§ [296.7](#); [298.3](#).

The law is very specific about when the management levy may be used in a self-insurance program for an employee benefit plan. An “employee benefit plan” includes, but is not limited to, benefits for hospital and surgical, medical expense, major medical, dental, prescription drug, disability or life insurance costs or benefits. An employee benefit plan that includes a specific or aggregate excess loss coverage or a program that self-insures only a per-employee or per-family deductible for each year and that transfers the risk remaining beyond this deductible is not a self-insurance program but is instead an insurance program. IOWA CODE §§ [296.7\(2\)](#), [.7\(6\)](#).

School districts may contract indebtedness and issue general obligation bonds for payment beyond the current budget year for these purposes, except for an employee benefit plan that is an insurance program. Taxes levied for the payment of the principal, premium or interest on the bonds for an insurance policy or agreement, a self-insurance program or a local government risk pool levied in excess of any tax limitation set out in the statute and the taxes are required to be included in the management levy. School boards may restrict the use of moneys in a fund reserved for uninsured liability or a self-insurance program and are required to keep the funds restricted until the school board removes the restriction. This money can be accounted for in the general fund or in an internal service fund. If the school board decides to remove the restriction on the moneys, the restriction will remain until the next fiscal year or until the obligations of the restricted funds have been satisfied, whichever occurs later. IOWA CODE § [296.7](#). *See also* 1992 Op. Att’y Gen. 176.

The management levy may also be used to pay a judgment or settlement relating to liability and interest on the judgment. IOWA CODE §§ [298.4\(2\)](#), [.4\(4\)](#); [298.16](#); [613A.10](#). These levies for judgment and settlement are available if a school district’s tort liability insurance is insufficient or if the funds under a self-insurance program or risk pool are insufficient. Each school district should review its tort liability insurance or other insurance program periodically to be certain it provides adequate coverage for the school district.

The management levy also allows school districts to levy for an early retirement program. The early retirement program may be used for employees age 55 to 65 who notify the school board prior to April 1 of their intention to retire no later than the next June 30. However, the age within the 55-65 year range at which employees may be eligible for early retirement in a particular school district is determined at the discretion of the board. The board determines which of the following are to be paid from the management levy: the total estimated accumulated cost to the school district of the health or medical

insurance coverage, bonus, or other incentives for early retiring employees. Prior to 1998, there was a provision in the *Code of Iowa* requiring districts to calculate a savings to the district resulting from the early retirement in order to use management levy funds. That savings provision was eliminated by the legislature during the 1998 legislative session. The IOWA CODE §§ [279.46](#); [298.4\(5\)](#). See 1992 Op. Att’y Gen. 176. See also 1994 Op. Att’y Gen. (94-1-3(L)).

Important things to remember about the management levy are:

The levy may only be used for the purposes stated in the statute.

The levy is authorized by board action.

### ***Physical Plant and Equipment Levy Fund***

The physical plant and equipment levy (PPEL) is accounted for in a special revenue fund. A physical plant and equipment levy fund must be established in any school corporation that levies the 33-cent regular or \$1.34 voter-approved physical plant and equipment levy. The moneys in the physical plant and equipment levy fund may only be used for the purposes authorized by law. IOWA CODE §§ [298A.4](#); [298.2](#), [298.3](#). For a detailed discussion of the physical plant and equipment levy, see Chapter VI, Facility-Related Levies. PPEL

[<Click here to go to Chapter VI - PPEL>](#)

### ***Schoolhouse Tax Levy Fund***

The schoolhouse tax levy is accounted for in a special revenue fund. A schoolhouse tax levy fund must be established in any school corporation that levies the tax. IOWA CODE §§ [278.1\(7\)](#) (1989) and [298A.5](#). The 67.5-cent schoolhouse tax was replaced with the 67-cent voter-approved physical plant and equipment levy. (The 67-cent physical plant and equipment levy was later increased to \$1.34 in 1998.) School districts that had the 67.5-cent schoolhouse levy in place July 1, 1992, may continue to levy until it expires or is replaced with the voter-approved physical plant and equipment levy. 1989 IOWA ACTS ch. 135, §§ 71, 72, 125, 137, 142. The schoolhouse tax levy fund continues until all the tax has been collected and the moneys have been spent for the purposes originally authorized by the voters.

### ***Public Education and Recreation Levy Fund***

The public education and recreation levy (PERL) is accounted for in a special revenue fund. A public education and recreation levy, commonly referred to as the playground levy or recreation levy, must be established in any school corporation that levies the tax. IOWA CODE §§ [298A.6](#); [300.2](#).

[<Click here to go to Chapter VI - PERL>](#)

### ***Library Levy Fund***

The library levy is accounted for in a special revenue fund. A library levy fund must be established in any school district that levies this tax. IOWA CODE §§ [298.7](#); [298A.7](#).

[<Click here to go to Chapter VI – Library Levy Fund>](#)

### ***Student Activity Fund***

Student activity moneys must be accounted for in the student activity fund, which is a special revenue fund. Moneys from student-related activities, such as admissions, activity fees, student dues, student fund-raising events or other student-related co-curricular or extracurricular activities are deposited in this fund. Moneys in this fund may only be used to support the co-curricular program of the school district. IOWA CODE § [298A.8](#).

### ***Capital Project Funds***

A capital project fund must be established by a school district that issues bonds or other authorized indebtedness for capital projects, initiates a capital project or receives grants or other funds for capital projects. A capital project fund may be established for each capital project. The remaining balance in a capital project fund after the project is completed can be handled in several ways. A remaining balance may be transferred by board resolution to the debt service fund, the physical plant and equipment levy fund or another fund from which the surplus originated. The remaining balance could also be transferred to the general fund with a simple majority approval of the voters at the regular school board election. IOWA CODE § [298A.9](#).

### ***Debt Service Fund***

A debt service fund must be established in school districts that issue bonds or other authorized indebtedness. The moneys in the debt service fund are used to pay the interest and the principal when due on the bonds or other authorized indebtedness. Moneys available to service this debt, and received from other sources, are transferred to the debt service fund, and the payment of the debt is made from this fund. Funds remaining in the debt service fund after payment of all outstanding debt, in accordance with the original purpose of the indebtedness, may be transferred by board resolution to the physical plant and equipment levy fund or to the general fund with a simple majority approval of the voters. IOWA CODE §§ [298A.10](#); [278.1\(5\)](#).

## ***PROPRIETARY FUNDS***

The funds included in the proprietary fund types use the accrual basis of accounting.

**Accrual** means accounting transactions are recognized when they occur regardless of the timing of related cash flows. Revenues are recognized in the accounting period in which they are earned and become measurable. Revenue is earned when the school district has provided the service. **Measurable** means the amount can be accurately determined. Under the accrual basis of accounting, expenses should be recognized in the period incurred, if measurable.

### ***Enterprise Fund***

There are two types of proprietary funds, the enterprise fund and internal service fund. The enterprise fund accounts for operations financed and operated similar to private business. The intent of the school district is that the cost of providing the service on a continuing basis be financed or recovered primarily

through user charges. An enterprise fund is also used for operations where the school district has decided that determining operating income is appropriate. Enterprise funds include the school nutrition fund and the child day care fund.

### ***School Nutrition Fund***

School districts operating a school breakfast or lunch program on a non-profit basis for their students must establish a school nutrition fund. This fund is an enterprise fund. IOWA CODE §§ [298A.11](#); [283A](#).

### ***Child Care Fund***

The childcare fund is an enterprise fund. The fund must be established by school districts that operate a child day care program. IOWA CODE §§ [279.49](#); [298A.12](#).

### ***Internal Service Fund***

The second type of proprietary fund is an internal service fund, which is used to account for the financing of goods or services provided by one department to other departments on a cost reimbursement basis. For example, a school district may decide to charge back the costs of printing to each school facility or department or account for the self-insurance program in an internal service fund.

## ***Fiduciary Funds Trust and Agency Funds***

Trust and agency funds are fiduciary funds used to account for assets held by a school district as a trustee or agent for individuals, private organizations, other governments and/or other funds. A trust or agency fund is used by a school district to account for gifts it receives which are to be used for a particular purpose. This type of fund would also be used to account for money and property received and administered by the school district as trustee or custodian or in the capacity of an agent. IOWA CODE § [298A.13](#).

### ***Expendable Trust Funds***

Expendable trust funds are used to account for trusts where both principal and earnings on principal may be spent for the trust's intended purpose. Expendable trust funds are also used to account for the spendable resources of nonexpendable trust funds. Expendable trust funds use a modified accrual basis of accounting. An example of this type of fund is a scholarship fund in which the principal and interest can be spent.

### ***Nonexpendable Trust Funds***

Nonexpendable trust funds use an accrual basis of accounting and are used to account for trusts where the principal may not be spent. An example of this type of fund is a scholarship fund in which only the interest can be spent.

### ***Agency Funds***

Agency funds are used to account for assets held for individuals, private organizations, other governments and/or other funds. These funds are held solely in a custodial capacity. Agency funds typically involve only the receipt, temporary investment and remittance of assets to their rightful owners. Use of agency funds is generally limited to situations where the school is merely a custodian and not an owner. PTA funds and booster club funds are examples of agency funds.

## **Other Funds**

A school district may establish other funds as needed in accordance with generally accepted accounting principles (GAAP) and may certify other taxes to be levied for the funds as provided by state law. The status of each fund must be included in the annual report to the board. The treasurer is required to keep a separate account for each fund and to not pay an order that fails to state the fund upon which it is drawn and the specific use to which it is to be applied. IOWA CODE [§ 298A.14](#).

## **Accounting Method**

School districts are required to maintain their accounts in accordance with generally accepted accounting principles (GAAP) beginning in FY1997. There is no requirement for school districts to budget on a GAAP basis. School districts may continue to budget on a cash basis. IOWA CODE § [257.31\(4\)](#).

Under the accrual method, GAAP-related revenues are matched with related expenses and reported in the same accounting period. This matching concept can be demonstrated with the following example: a service performed in year one and paid for by the customer in year two is reported as revenue for year one even though both events did not occur in the same financial period. School district audits will begin to report on the overall financial position of the district based upon GASB 34 standards. This is a significant departure from the reporting of recent years.

## **What is GASB?**

GASB is the acronym for the Governmental Accounting Standards Board. The GASB is an independent organization that establishes and improves financial accounting and reporting standards for local governments. The GASB is not part of the federal government, but is controlled by Financial Accounting Foundations. GASB rules are required to be followed in order for a school's report to be presented under GAAP. The GASB issues statements (36 to date) describing the rules that governmental units must follow to receive an unqualified (clean) audit opinion on their annual financial report. Statement 34 is also known as the "financial reporting model." The statement, generated in 1999, is more than 400 pages long with a few of the basics mentioned here. This section will answer some of the common questions regarding GASB 34.

### ***When does a school district have to comply with GASB 34?***

The phase in took place over three years, depending upon the size of the school district's revenues for the 1998-99 school year.

Revenues \$100 million or more – June 30, 2002 (4 Iowa districts)

Revenues \$10 - \$100 million - June 30, 2003 (74 Iowa districts)

Revenues less than \$10 million – June 30, 2004 (292 Iowa districts)

### ***Who cares about governmental financial reporting?***

Local citizens invest a great deal of tax funds in their local schools and are interested in the cost of services.

Companies making decision on where to build facilities or new plants are interested in the financial health of all government bodies in the communities under consideration.

Bond raters and financial analysts use financial statements as a major part of the decision about bond ratings, which translate to higher/lower interest rates paid on construction projects.

### ***What is different under GASB 34?***

The changes are comprehensive, and many will require changes to accounting processes within the school, including but not limited to the following:

A consolidated financial statement with one column for governmental activity and one column for proprietary activity.

Inclusion of long-term assets (including infrastructure such as roads, and sidewalks) in the new combined financial statements. This will include charges for depreciation. The traditional rationale is to allocate the cost of these assets over their useful lives. The government-wide financial statements will not show capital expenditures but the fund-based statements will. It will be necessary to research the historical cost of capital assets. This may be accomplished a number of ways, all of which are time consuming and potentially costly. One option is to contract with commercial firms to complete this requirement.

Presentation of “major funds” instead of summarization by fund type. The general fund is reported as a “major fund” with other funds also being identified as “major funds” if they meet the following criteria:

- Total assets, liabilities, revenues or expenditures of the individual fund are at least 10 percent of the corresponding total (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds).

AND

- Total assets, liabilities, revenues, or expenditures of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all Governmental and Enterprise Funds combined.

A budget to actual statement for funds requiring a budget that includes the original budget, final budget and actual results.

A new section called “Management Discussion and Analysis” (MD&A) will be required. It is intended to be an “easy to read” assessment of the financial results and changes for the prior year. This section will be subject to review by the district’s auditors, providing some assurance to financial statement users that the fiscal situation is accurately represented. For a few schools, this new MD&A requirement may not pose a significant additional work element, and for others it will be an involved task. Due to the addition of a government-wide statement (and other required topics), the scope (and related work effort) will certainly increase. As this is now a required part of the basic financial statements, audit costs will likely increase.

Notes to the Financial Statements, already long and complex, consider deleting editorial, and will have to become even more detailed to meet the new model’s disclosure requirements.

### ***Will the school district’s finances look better or worse?***

This will depend on the unique circumstances of each school district. At the fund level, it should make little difference. At the government-wide level showing infrastructure assets on the balance sheet, it may improve the equity position in some cases. For others, the inclusion of long-term debt and other liabilities may reduce equity. For most districts, it is likely to be no better or worse, just different.

### ***So what’s the big deal?***

Under GASB 34, school district’s financial statements will become longer and more complex, and thus more difficult to prepare and audit. This will be especially true during the first years when converting to the new model.

This increased complexity translates directly into increased costs both one-time during implementation and ongoing thereafter for staff resources, as well as audit fees and consultant services.

GASB 34 is a requirement for all school districts that is complex and potentially costly.

School district business managers and financial administrators will require considerable training and assistance to comply with the new standards. (A training series has been provided by the Iowa

Association of School Business Officials to respond to this need. A majority of school districts have been represented at this training.)

Though compliance is involved, the intent of the process is to provide consistency and integrity to the fiscal reporting process.

## ***Summary***

There are six important things to remember:

School districts have only the powers granted to them by the General Assembly. This is commonly referred to as Dillon's Rule (all actions are prohibited except for those expressly allowed). This is different from counties and municipalities operating under home rule (all actions are allowed except those that are prohibited).

School district funds, and the purposes for which the moneys in the funds may be used, are set by law.

Only the general fund relates to the state foundation formula and receives state foundation aid.

The management levy allows a school district to levy for tort liability, unemployment compensation, early retirement, and insurance by board action.

Governmental fund types and an expendable trust fund use modified accrual accounting.

Proprietary fund types, nonexpendable trust fund and an agency fund use accrual accounting.

## **CHAPTER VIII**

# **SCHOOL BUDGET REVIEW COMMITTEE**

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The **School Budget Review Committee (SBRC)** has been mentioned several times in this manual. This section discusses SBRC membership, its functions and the funding it can provide to school districts.

The SBRC is under the umbrella of the DE. The SBRC was created in 1967 following a period of school district consolidation. State policy makers were concerned that some school districts could have unusual or unique circumstances requiring special attention as a result of the consolidations. The SBRC was created to address issues of equity in opportunity and equity in finance.

The SBRC has five members. Two of the members are state government officials—the director of the DE, who serves as the chairperson, and the director of the Department of Management, who serves as secretary. The remaining three members are appointed by the governor and serve staggered three-year terms. The appointed members must be approved by the Iowa Senate. They receive necessary expenses and a per diem of \$50. IOWA CODE § [7E.6\(2\)](#). The appointed members are required to be knowledgeable in Iowa school finance or public finance issues. Under the law, one of the appointed members also must possess either a master’s or doctoral degree with school finance, economics or statistics as an integral component, or the member must have equivalent experience in an executive, administrative or senior research position in the education or public administration field. IOWA CODE § [257.30](#).

The SBRC meets as often as necessary to carry out its duties and has adopted a schedule of a minimum of four meetings per year. They are held on the second Monday of September, December, March and May. 289 I.A.C. 6.2. The SBRC adopts its own rules of procedure and is required to adopt reasonable and uniform policies in compliance with the goals of the state foundation formula to serve as the basis for its decisions. The goals are stated in the introduction to this manual. IOWA CODE §§ [257.30](#); [257.31\(10\)](#). See page 1. Decisions made by the SBRC under its policies must be in writing. Changes in the district cost, budget and tax levy of a school district because of the SBRC’s decision are made by the SBRC. IOWA CODE § [257.31\(9\)](#). Failure of a school district to appear or provide information to the SBRC can financially hurt the school district. Many appearances of school district officials at recent SBRC meetings have been allowed over the Iowa Communication Network (ICN) to save time and travel costs. The SBRC has the authority to instruct the Department of Management to withhold state foundation aid to the school district until the SBRC’s inquiries are satisfied completely. IOWA CODE § [257.31\(11\)](#). The law requires that legislators be notified of hearings concerning a school district in their legislative districts. IOWA CODE § [257.30](#).

The SBRC may review and make recommendations regarding anything that affects school district accounting and budgeting. The SBRC may direct the Department of Management or the DE to investigate or study school costs of any school district. IOWA CODE § [257.31\(1\)](#). The SBRC may also recommend a school district share or jointly employ the services of any school personnel, classrooms, laboratories, equipment and facilities. IOWA CODE § [257.31\(13\)](#).

The SBRC reviews each school district’s budget annually and may suggest changes. IOWA CODE § [257.31\(3\)](#). The SBRC may approve or modify the initial base year district cost of a school district that changes accounting procedures. IOWA CODE § [257.31\(8\)](#).

Annually, the SBRC also reviews each school district’s cash reserve levy. If the SBRC determines that a school district’s cash reserve levy is “unreasonably high,” the SBRC directs the director of the

Department of Management to reduce the school district's tax levy the following budget year. A cash reserve levy for the budget year shall not exceed 25 percent of the general fund expenditures for the year previous to the base year minus the general fund unspent cash balance for the year previous to the base year. IOWA CODE § [257.31\(15\)](#); 289 I.A.C. 6.5(3).

The SBRC is required to report annually to the legislature regarding its activities for the year, the cash reserve levies made by school districts, other information the SBRC deems advisable and any recommendations for changes in school laws. IOWA CODE § [257.31\(2\)](#).

## ***SBRC Funding to Local Schools***

The SBRC may grant funding to school districts either from appropriations made to it or by allowing school districts to levy for additional funds. To obtain these funds, school districts must make a request and justify it with written documentation. In some cases, the school district may be required to make a presentation to the SBRC. 289 I.A.C. 6.3. The funding may be supplemental aid, modified allowable growth in the form of permanent or additional allowable growth or expenditure of unexpended cash balance.

### ***Supplemental Aid and Permanent and Additional Allowable Growth***

Supplemental aid is a grant to a school district from the SBRC. The grant is usually made for a specific purpose. The funds are miscellaneous income to the school district. Supplemental aid generally refers to a grant from the SBRC for a unique and unusual situation affecting the school district.

Because there have been no supplemental aid appropriations for many years, the SBRC has awarded modified allowable growth in lieu of supplemental aid to school districts with unique or unusual situations. Modified allowable growth can be additional allowable growth or permanent allowable growth. Additional allowable growth is a lump sum that increases a school district's total district cost for one year. Permanent allowable growth has not been granted by the SBRC since prior to the revision of the formula July 1, 1990.

If the SBRC approved permanent allowable growth today, it would be added as a lump sum to a school district's total district cost each year, permanently increasing a school district's total spending authority.

Unique or unusual situations that qualify a school district for permanent allowable growth, additional allowable growth or supplemental aid include:

- Any unusual increase or decline in enrollment.

- Unusual natural disasters.

- Unusual initial staffing problems.

- The closing of a nonpublic school, wholly or in part.

- Substantial reduction in miscellaneous income due to circumstances beyond the control of the school district.

- Unusual necessity for additional funds to permit continuance of a course or program that provides substantial benefit to pupils.

- Unusual need for a new course or program that will provide substantial benefit to pupils if the school district establishes the need and the amount of necessary increased cost.

- Unusual need for additional funds for special education or compensatory education programs.

Year-round or substantially year-round attendance programs that apply toward graduation requirements including, but not limited to, trimester or four-quarter programs. Enrollment in such programs shall be adjusted to reflect equivalency to normal school year attendance.

Unusual need to continue providing a program or other special assistance to non-English speaking pupils after the expiration of the three-year period.

Circumstances caused by unusual demographic characteristics.

Other unique problems of school districts.

IOWA CODE § [257.31\(5\)](#).

Returning dropouts and dropout prevention programs may be funded with additional allowable growth. Applications for additional allowable growth for these programs must be submitted by November 1 each year. While the SBRC is generally the exclusive grantor of additional allowable growth, the DE grants additional allowable growth for these programs. The SBRC is notified and reviews the amount of additional allowable growth granted to each school district for these programs. The maximum amount of additional allowable growth granted for these programs is three-quarters of the total cost. One-quarter is required to come from district cost. IOWA CODE §§ [257.41](#); [257.42](#); [257.45](#); [257.46](#).

### ***Negative Special Education Balances***

The SBRC also grants additional allowable growth to school districts with negative special education balances. A school district with a negative special education balance must notify the SBRC to instruct the Department of Management to increase its allowable growth by the amount of state aid not paid in supplemental aid for the negative balance and the property tax portion of the negative balance. The school district must also certify to the SBRC that it will fund the allowable growth with unexpended cash balance or cash reserve levy over and above an existing cash reserve levy. IOWA CODE § [257.31\(14\)](#).

### ***Unexpended Cash Balance***

The SBRC may grant a school district the authority to spend a reasonable and specific amount of its unexpended cash balance. The funds may only be used for the purpose requested and approved by the SBRC. Any excess funds revert to their status as unexpended cash balance. IOWA CODE § [257.31\(7\)](#). Traditionally, the SBRC has allowed school districts to use unexpended cash balance for purchasing structural type equipment, but not for classroom equipment such as computers. IOWA CODE §§ [298.3\(3\)](#), [3\(11\)](#).

### ***Special Education Weighting***

Special education weighting is reviewed by the SBRC. This weighting allows a single pupil to be counted at a value greater than one because of the increased cost to provide an education program for the pupil. The special education weighting is generally reviewed and set by the SBRC each December. IOWA CODE § [256B.9\(4\)](#).

## ***Summary***

In this section, many of the functions of the SBRC have been discussed. The SBRC has far-reaching power in the area of school finance. The SBRC is available to school districts for additional funding sources and for overseeing any matter regarding school finance. The SBRC is a source for school districts having any type of financial need. School districts should contact the SBRC before discontinuing or failing to start a program, project or other activity because of lack of funds. Agendas, rulings and information about the SBRC can be found on the Department of Education website at <http://www.state.ia.us/educate/fis/sft/sbrc/index.html>.



# **CHAPTER IX**

## **BUDGET PROCESS**

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The budget process is ongoing throughout the year. It is important to remember the budget is not etched in stone and may need to be modified throughout the fiscal year. Living within the school district's revenues, offering a quality education program and maintaining good financial health are worthy goals of the budget process. School districts must constantly monitor actual expenditures against the certified budget to ensure overspending does not occur.

School districts certify a budget each fiscal year. IOWA CODE §§ [24.17](#); [257.7\(1\)](#). For school districts, the budget certification process is completed each fiscal year on April 15. A key date for the school district budget process is the day the state percent of growth and state allowable growth are set by the legislature. This is generally completed by March 1 of each year prior to the budget year. Another important date is the third Friday in September, when the student headcount is taken to determine actual enrollment. Until these figures are set, a school district has difficulty determining its actual total spending authority.

School districts considering an election for the renewal or first-time use of a levy (instructional support, PPEL, etc.) must plan well. Voter approval of a new revenue source is successful most often when the community is involved early and is thoroughly informed. School districts proposing a ballot issue to raise revenue must be careful not to use school district funds to encourage voting for or against a ballot issue. Generally, early planning and the development of a community group willing to bear the costs of promoting the ballot issue will prevent challenges against the school district. IOWA CODE ch. 56.

Careful financial planning is essential for other reasons as well. First, the 100 percent budget guarantee was available only through FY 2004. It guaranteed 100 percent of the prior year's regular program budget for the fiscal year. It is likely that school districts qualifying for the guarantee may experience a substantial decrease in funds as the budget guarantee is phased out over the FY 2005-FY 2014 time period.

School districts planning to raise revenues requiring voter approval must be aware of the timelines affecting regular and special elections. Ballot questions for the regular September school election ballot must be advised to the county commissioner of elections 40 days prior to the election. This is the same day the board nomination papers are due. IOWA CODE § [277.4](#). Ballot questions for a special election must be delivered to the county commissioner of elections 32 days prior to the election. IOWA CODE § [47.6](#).

School districts planning a special election in a general election year will have five fewer Tuesdays available to them. No special election can be held two weeks prior to or two weeks after a general election. IOWA CODE § [39.2](#). These timelines are important to remember when planning for a voter-approved revenue source.

### ***Monthly Budget Process Activity***

Under the formula, school districts must meet the requirements of the previous step in the budget process in order to qualify for the next. It is recommended school districts begin the budget process early each year.

Developing a timetable to illustrate the sequence of events and to establish the ground rules and deadlines for decision making is one of the first steps for a successful budget process. This timetable should include the deadlines and responsibilities for each individual involved in the process. The following sample month-by-month budget process timetable follows the fiscal year and is simply a guideline for school districts to consider.

## **July**

In the past, school districts received any state foundation aid that was delayed from the prior fiscal year in July.

School districts considering adopting an instructional support program for up to 10 years at the September school election should have begun the process prior to this date. School districts wanting to levy the instructional support program by board resolution for five years or less and hold the election at the September election, if petitioned, should be well into the process. However, during a general election year, the election cannot be held on the first or second Tuesday preceding or following the general election. IOWA CODE § [39.2](#).

School districts that need or wish to request additional allowable growth from the SBRC should begin to plan for this in July. While additional allowable growth or permission to use the unexpended cash balance can be obtained anytime, timelines must be met to be placed on the SBRC's agenda prior to budget certification.

July is also a key month for determining whether the school district would like to place any other proposition on the regular school election ballot in September, such as a voter-approved physical plant and equipment levy or a public education and recreation levy. It is likely that the July before a September election is too late to begin planning for a successful election for these levies.

In July, school districts must begin to complete their year-end financial reports and the certified annual report (CAR).

## **August**

Proposals for the September school election must be finalized very early in this month. Board nomination papers and other ballot issues must be delivered to the commissioner of elections 40 days prior to the election date. IOWA CODE § [277.4](#).

## **September**

The regular school election is held in September. Orientation for new board members should be held as soon as possible to ensure their maximum effectiveness in preparing the school district budget. On September 15, the first of 10 monthly state foundation aid payments is scheduled to be paid to school districts. IOWA CODE § [257.16](#).

On the third Friday of September, each school district conducts its headcount of enrolled students. Enrollment is a key element for calculating a school district's regular program district cost for the budget year. IOWA CODE § [257.6](#).

## **October**

October 1 is the last day for a school district to file its headcount with the DE. IOWA CODE § [257.6](#). These reports are audited by the school district's auditor each year. IOWA CODE § [11.6\(1\)\(a\)](#).

In October, school districts generally receive a large payment of property tax.

October may also be the month the school district receives its audit report from the auditor. When the report is received, it is a good time to calculate the school district's financial solvency ratio and any other

ratios used to review the financial position of the school district. Charting these ratios to develop trend lines can be very informative in the budget process in November.

### **November**

November may be used to work on a December election, if any is planned. It is also a good time for the school district to review financial options that may still be available.

November may also be the month the school district receives its audit report from the auditor. When the report is received, it is a good time to calculate the school district's financial solvency ratio and any other ratios used to review the financial position of the school district. Charting these ratios to develop trend-lines can be very informative in the budget process.

On November 1, the special education headcount is completed in each school district. IOWA CODE § [257.6\(3\)](#). The amount of funds generated for special education is determined after the SBRC's meeting in December at which the SBRC sets the special education weighting for the budget year

### **December**

Around December 1, school districts with income surtax as a revenue source will receive one-half of their income surtax. IOWA CODE § [298.14](#).

### **January**

In mid-January, the Department of Management electronically mails the Operating Fund School Budget Aid and Levy Worksheet to each school district for calculating its total spending authority for the budget year. This worksheet is the key document used by a school district to determine the majority of its revenue sources for the upcoming fiscal year. Completing this document as soon as possible assists the school district in its financial planning.

Each school district's unspent balance (unspent spending authority) for the prior fiscal year is available from the Department of Management and the DE in January. Also in January, each school district's new taxable valuation to calculate its property tax for the budget year is available from the county auditor in each county in which the school district is located.

The amount of state income tax paid two years ago by the residents of the school district is also available from the Department of Management. For example, the amount of income tax paid by the residents of the school district community in 2005 is available in January 2007. This information is used by school districts to estimate the amount that could be generated by an income surtax. In using an income surtax as a revenue source, the total of all the income surtaxes in a school district and an emergency medical services taxing district may not exceed 20 percent. IOWA CODE § [298.14](#).

### **February**

Each school district should be reviewing its near-final certified budget in February. The budget is completed on forms obtained from the county auditor and the Department of Management. The budget estimate must include the following:

The amount of income for each fund from sources other than taxation.

The amount proposed to be raised by taxation.

The amount proposed to be expended in each fund and for each general purpose during the next fiscal year.

A comparison of the amounts proposed to be expended with the amounts expended for like purposes for the two preceding years. IOWA CODE § [24.3](#).

In February, school districts considering participation in the Iowa Schools Cash Anticipation Program (ISCAP) should attend the informational meetings.

### **March**

By March 1, the state allowable growth is to be set by legislation applicable to the school year following the year for which budgets are currently being prepared (one year from the July 1 following the legislative session). Allowable growth for the upcoming school year was established by the previous legislature. This is one of the most important elements for calculating a school district's budget, particularly its anticipated revenues.

School districts are required to submit a budget estimate to the board secretary on March 26, 20 days prior to budget certification date. Requests for additional allowable growth or supplemental aid from the SBRC should be completed in order to enter the amount on the budget.

### **April**

Notice of the public hearing for the school district budget must be made no later than 10 days prior to the date of the public hearing. April 15 is the last day the public hearing may be held. The notice of the public hearing must include the proposed budget, time, date and place of the public hearing. Publication of the notice should be in a newspaper of general circulation. IOWA CODE §§ [24.9](#); [618.3](#). The public hearing should be held in accordance with school board policy. Each school district must certify its budget to its county auditor and the DE by April 15.

Should the public hearing on the school district budget need to be rescheduled due to an "act of God," such as severe weather, the school district must follow several steps to meet the requirements of the law. First, the public hearing must be rescheduled as soon as possible to meet the April 15 certification date. In rescheduling the public hearing, the school district should give as much notice as possible. This includes posting the notice in the school district community and using public service announcements on the local radio or television stations. Once the public hearing is convened, the minutes should state the reason for the departure from the 10-day notice requirement. Following this public hearing, the school board should adopt the budget. The school district must also republish the budget, set a new public hearing date no earlier than 10 days after the publication date, hold a public hearing on the published budget and complete an amendment to the budget. In fact, there will be no amendment, but the budget will be before the school board in compliance with the 10-day notice requirement. IOWA CODE §§ [24.9](#), [24.10](#); [24.24](#).

Also in April, school districts generally receive a large payment of property tax. Each school district should carefully review its budget and year-to-date expenditures in April to determine if the school district may receive more miscellaneous income, spend more than was certified on the budget or need to certify an unspent balance. IOWA CODE §§ [24.9](#); [257.7](#). If it is determined that one or more of these will happen, the school district must amend its certified budget. Planning for the amendment and accompanying public hearing should begin.

During April, school districts can begin to plan for the instructional support program and voter-approved levies they wish to put in place for the following budget year.

### **May**

May 31 is the last day of the fiscal year for amending the school district certified budget to allow time for a protest hearing and decision prior to June 30. Notice of a hearing regarding the amendment must be made by publication in the same manner as the original budget-10 days prior to the date of the hearing. The notice for the hearing must include the proposed budget amendment, time, date and place of the hearing. The amended budget must also be certified to the county auditor and the DE. IOWA CODE § [24.9](#).

During May, school districts can begin to plan for the instructional support program and voter-approved levies they wish to put in place for the following year.

### ***June***

In June, school districts are scheduled to receive the last state funding payments for all state payments for the fiscal year, including state foundation aid. June is also the month in which school districts should begin to compute final expenditure and revenue figures in preparation of completing the Certified Annual Report (CAR).

### ***Summary***

This chapter reviewed the major dates of the budget process. There are several important things to remember about the budget process for a fiscal year:

School districts must be very careful about committing revenues to recurring expenses.

School districts should be aware of the important dates for submitting requests to the SBRC, certifying budgets to the state, adopting motions by the school board and holding elections for generating revenue.

# **CHAPTER X**

## **AREA EDUCATION AGENCIES**

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Iowa has 12 area education agencies (AEAs) serving Iowa's K-12 school districts. Each AEA is governed by a board of directors. The AEA board is elected by school board members of the school districts located in the AEA. IOWA CODE § [273.8\(2\)](#). AEAs were created to provide an effective, efficient and economical means of identifying and serving children from birth through 21, who require special education, and any other children requiring special education as required by law. AEAs also provide for media services and educational services, such as professional development for their members. The AEA is required to serve special education students regardless of enrollment in public or nonpublic schools. These types of programs require a large number of pupils to be financially feasible. The creation of the AEAs provided a way to finance and avoid duplication of programs and services provided by school districts. AEAs may also contract with a school district to provide services to the school district. IOWA CODE § [273.1](#).

Each school district is a political subdivision of the state with the power to levy property tax. Each AEA is a political subdivision, but it may not levy a property tax. The AEAs are funded primarily by the state foundation formula through the school districts. Their funding is calculated as part of each school district's combined district cost. AEA funding "flows through" the school district budget. AEA funding from the district budget is commonly referred to as the **AEA flowthrough**. IOWA CODE § [273.9](#). The amount of funding provided to the AEA serving a school district is determined by the formula. A school district cannot change the amount of, or withhold, the funds from the AEA serving it. The Department of Management pays the AEAs directly from the school district's state foundation aid. IOWA CODE § [257.35](#).

The FY 2005 AEA special ed per-pupil costs to school districts ranged across the state from \$209 to \$231 per-pupil. The variance is due to inclusion of services to nonpublic students at the time the per-pupil costs were set. The rates were determined by dividing the total AEA special education expenses by the number of public students served by the AEA. For example, in AEA #1, the proportion of nonpublic special education students served was greater than in AEA #11, so the per-pupil (actually per "public" pupil) cost is higher in AEA #1 and lower in AEA #11.

The special education support services provided by AEAs are funded with property tax and state foundation aid. AEAs are required to provide the following special education support services:

- Properly identify children requiring special education.

- Ensure that each child requiring special education in the area receives an appropriate special education program or service.

- Assign appropriate weighting for each child requiring special education programs or services as provided by law.

- Supervise special education support personnel.

- Provide each school district within the area served, and the DE, with a special education weighting enrollment count, including the additional enrollment because of special education for November 1 each year.

- Submit to the DE timely special education instructional and support program plans and applications.

Coordinate the special education program for the area.

IOWA CODE § [273.5](#).

The media and educational services are funded with revenues other than state foundation aid. The AEA is responsible for maintaining an extensive media center including, but not limited to, a lending library of print and non-print materials, a professional library, a curriculum laboratory, production capability of media-oriented instructional materials, qualified media personnel, appropriate physical facilities and other materials and equipment deemed necessary. IOWA CODE § [273.6](#). The educational services provided by an AEA include services requested by the school districts if 60 percent of the school boards in the area make a written request for the educational service. IOWA CODE §§ [273.7](#), [.7A](#).

## ***Summary***

AEAs provide many important services, particularly special education support services, to Iowa school districts. The number, the structure and the services provided by AEAs are reviewed by the DE as required by the legislature.

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Unexpended Cash Balance ..... 62  
Uniform Levy..... 3, 28, 29  
Unspent Balance ..... 2, 28, 40

**W**

Weighted Enrollment ..... 2, 9, 12, 16

## Glossary

<b>Term</b>	<b>Description</b>
<b>Accrual</b>	Accounting transactions are recognized when they occur regardless of the timing of related cash flows.
<b>Base Year</b>	The fiscal year in which a school district is operating, the current fiscal year.
<b>Basic Enrollment</b>	Another name for actual enrollment.
<b>Budget</b>	A document prepared by each school district that includes the calculation of the school district's total spending authority, an itemized list of the school district's expenditures and revenues, and the method the school district will use to fund its spending authority.
<b>Budget Enrollment</b>	The amount of spending authority a school district receives in next year's budget is due to cost per child times the number of children.
<b>Budget Year.</b>	The subsequent fiscal year that is being planned.
<b>Certified Budget</b>	Is the result of the school district's Budget and Spending Authority calculations, and must be filed with the county auditor no later than April 15 each year.
<b>Class of Property</b>	Property in Iowa is divided into one of five classifications for purpose of valuation. Property can be valued as residential, agricultural, commercial, industrial, and utilities.
<b>Equalization</b>	Process by which the Department of Revenue and Finance reviews the assessments made by local assessors. The process occurs in odd-numbered years. Because of the operation of the school finance formula, where reduced valuations result in increased state aid, the state has an interest in making sure valuations are accurate. The state has the authority to order an equalization (increase or decrease in value to a single class of property in a county (or city, if they have their own assessor). For example, the state may find an undervaluing of residential property in an individual county and order that all residential property values in the county be increased by 6 percent. If the Department of Revenue and Finance determines the actual value to be between 95 and 105 percent of what was set by the local assessor, they will not set an equalization order.
<b>Fiscal Year</b>	School districts operate on a fiscal year which begins each July 1 and ends the following June 30.
<b>Measurable</b>	The amount that can be accurately determined. Under the accrual basis of accounting, expenses should be recognized in the period incurred, if measurable.
<b>Modified Accrual</b>	Revenues are recognized when they become both "measurable" and "available" to finance expenditures of the current accounting period. Revenues are considered "measurable" if the amount can be reasonably determined.
<b>Modified Allowable Growth</b>	School districts may be provided allowable growth beyond the state allowable growth because the school district's allowable growth, as determined by the state allowable growth, is modified by the Department of Management or the DE to reflect factors peculiar to the individual school district.

Term	Description
<b>Regular Program District Cost per-pupil</b>	Provides the amount of your <b>total</b> regular program district cost for the upcoming fiscal year.
<b>Rollback</b>	The process by which the state limits the increase in taxes by controlling the rate of valuation increase. The rollback is set annually by the Department of Revenue and Finance and may apply to any class of property.
<b>Special Education Headcount</b>	The amount of weighting a school district can generate in its spending authority is determined on November 1 each year.
<b>Special Education Weighting.</b>	Allows a pupil to be counted at a value greater than one because of the increased cost to educate the pupil.
<b>Spending Authority</b>	The maximum amount a school district could spend if it chose to fund that amount.
<b>State Allowable Growth</b>	Refers to the dollar allowable growth increase in the state cost per-pupil.
<b>State Cost per-pupil</b>	The basis for calculating state foundation aid.
<b>State Foundation Cost per-pupil.</b>	The amount of the state foundation cost per-pupil is determined by the regular program foundation percentage.
<b>State Percent of Growth</b>	Refers to the percentage of allowable growth increase in the state cost per-pupil.
<b>Supplementary Weighting</b>	Falls into one of five main groups, district-to-district sharing, district-to-community college sharing, at-risk programs, alternative schools and regional academies, and English language learner (ELL) programs
<b>Taxable Value</b>	The value of the property to which you apply the tax rate. Taxable values are always less than or equal to assessed values.
<b>Taxing Authority</b>	An entity having the ability to levy a tax. Taxing authorities include cities, counties, K-12 school districts, community colleges, etc.
<b>Taxing District</b>	The smallest geographic entity to which a common tax rate is applied. In other words, it is a physical area containing all types property. Taxing districts are the building blocks, from a geographic perspective, of all taxing authorities. Because taxing authorities do not respect each other's boundaries (for example, school districts can cross county lines), it is necessary to be able to split them into smaller geographic units. There are 99 counties, 950 cities and 365 school districts, not considering the sanitary sewer, water and other special-purpose districts. These combinations result in over 9,000 taxing districts statewide.