

Iowa law requires the Legislature to set the growth rate for public schools and area education agencies (AEAs) within 30 days of the submission of the governor’s budget. Since the governor’s budget is typically released in late January, the Legislature should act on the FY 2016 growth rate (funding) for schools and AEAs by the end of February. The point/counterpoint provided below will help you counter arguments made by recently by legislators to help them understand why they must set the FY 2016 funding rate this legislative session.

**Legislators’ Point:** The following table shows significant investment in State Aid over the last four years.

Budget Year	School Year	Growth Percentage	State Aid Increase
FY 2012	11/12	0% Allowable Growth *	\$178 million
FY 2013	12/13	2% Supplemental State Aid	\$30 million
FY 2014	13/14	2% Supplemental State Aid + 2% one-time payment	\$65 million + \$57 million
FY 2015	14/15	4% Supplemental State Aid	\$170 million
		<b>Total</b>	<b>\$443 million + \$57 million</b>

*(\* 0% growth was a \$178 million increase in state funds because the school aid formula had been purposely underfunded by over \$156 million the previous year by the state)*

**Schools/AEAs’ Counterpoint:** This investment seems large when totaled over several years, however, our position nationally is still sinking. Iowa expenditures per student rank 37th in the nation, now over \$1,600 per student below the national average. The \$178 million increase in FY2012 was to replace both underfunded state aid and federal state fiscal stabilization funds which helped to keep the state afloat during the recession. Had the legislature not provided the \$178 million, property taxes would have been even higher due to budget guarantee and schools would have laid-off more teachers and other staff.

Underfunding is preferable to no funding. ATB cuts preserve spending authority and allow schools to continue to pay for contracts already signed with staff (schools are prohibited from laying off staff mid-year.) The across-the-board cut is preferable to the alternative of a lower per pupil amount in the first place since spending authority is preserved.

**Legislators’ Point:** The offer on the table from the Senate is to increase school funding by 6% for the 2015-16 school year, the year that starts in a year and a half. The proposal would cost the state an additional \$200 million. The problem we have with approving that amount is that with the current revenue trends for the state, combined with all of the other commitments the legislature made last year (education reform, property tax reform, mental health reform) the growth in state revenues required to sustain that increase is far above the historical average. So we’d be staking the fiscal health of the state on the HOPE that revenue growths exceed expectations and historical trends. House Republicans consider that a dangerous move.

**Schools/AEAs’ Counterpoint:** Current revenue trends are solid, with the conservative Revenue Estimating Conference (REC) keeping the 2015 estimate at a 4.5% growth rate. That is above the historical average. (FYI, about half of the estimates are above the average and half below by definition.) Schools already suffered the lower per pupil rates when revenue estimates were below average (average of two percent over the last four years). The only way we catch up is to set a higher rate when estimates are above average. If the revenue future was so uncertain, why did the legislature commit to long term property tax relief? The education reform funds are dedicated – schools must hire additional staff/staff time with dedicated funds. Schools can’t use those monies to balance the budget. It’s time

our schools received average funding for ongoing operations. Lastly, unlike FY 2010 through FY 2012, the state coffers are full. With surpluses, economic emergency funds and cash reserve funds at the maximum, there is a cushion against the unexpected downturn. You've already planned for and put into place a security blanket should the economy go south in stark contrast to the reasonable and conservative REC projections.

**Legislators' Point:** The House Republicans, and the Governor, over the past several years have advocated for changing the law on Supplemental State Aid (formerly allowable growth). It's one we argue that isn't helping to produce positive results for the state's fiscal health. Over the past decade it's become evident that setting an increase in state aid to schools two years out with no certainty of incoming revenue the following year is not lending itself to stable budgets. It has been a lesson learned the hard way. Most recently, in 2010, when the state overpromised with a high Allowable Growth figure nearly two years out, an economic downturn caused the Governor to issue a 10% across the board cut, devastating not only school budgets, but the budgets of cities, counties, and every agency.

**Schools/AEAs' Counterpoint: The current law is still the law.** The legislature should follow it. The problem isn't setting the state aid amount in advance, the problem is committing to further tax cuts, tax credits, and taking on more of the cost of the foundation formula on the state's back with less local revenue. The reason for setting school aid in the prior year is because Iowans believe education is the priority.

Also, **ATB reductions** are the only option available to the governor once a legislature is not in session. An ATB cut may be reversed by legislative action, either by dedicating reserve funds, increasing revenue or altering the reductions based on priorities. Between 1981 and today, there have been ATB orders in eight of the 33 years. Six ATB cuts were during republican administrations (2 in 1981 by Governor Ray and 2 in 1992 by Governor Branstad) and four during democrat administrations. If the per pupil cost was set lower to avoid the ATB cut, the competitive funding position of Iowa schools would be even lower than our current 37<sup>th</sup> in the nation ranking. Where should we be? A good measure is close to our ranking in per capita personal income, which has been above the national average for three years running. Although the state budget has recovered, school budgets haven't.

**Legislators' Point:** Here's a brief history of the budget instability:

- ✓ FY02 – Across the Board Cut
- ✓ FY03 – School Aid appropriation was underfunded by the state
- ✓ FY04 – Across the Board Cut
- ✓ FY09 – Across the Board Cut and School Aid appropriation was underfunded by the state
- ✓ FY10 – Across the Board Cut and School Aid appropriation was underfunded by the state
- ✓ FY11 – Legislature delayed setting Allowable Growth (SF 2045) to the next year

It was in FY12 that the legislature began setting two-year budgets, which included setting Allowable Growth for those two years as well. This was again repeated in FY14, with two years of Supplemental State Aid being set.

**Schools/AEAs' Counterpoint: Regarding budget instability:** School districts responses to ATB cuts vary but instability regarding an ATB cut is more about cash than about budgets: some schools reduce expenditures, some use excess cash reserve to keep on doing business, and some use cash reserve and then replenish the cash reserve with property taxes. Those in the last category tend to slowly replenish the cash reserve over several years to cushion the impact to property tax payers. Recent history of property tax rates proves the point. Property tax rates have gone down consistently since 2011, so there

was no real shift in 2012 as this response suggests. School property tax rates per \$1,000 of net, assessed taxable valuation (low, medium/average, high) by fiscal year follow:

Fiscal Year	Low	Medium	High
FY2011	\$8.34	\$15.18	\$23.63
FY2012	\$8.34	\$15.03	\$23.30
FY2013	\$8.33	\$14.49	\$23.06
FY 2014	\$7.54	\$14.02	\$23.05

**Legislators' Point:** It was in FY12 that the legislature began setting two-year budgets, which included setting Allowable Growth for those two years as well. This was again repeated in FY14, with two years of Supplemental State Aid being set.

**Schools/AEAs' Counterpoint:** The FY 2012 year is a poster child for the consequence of delaying the decision of setting the state cost per pupil. Districts had to publish their budgets and begin collective bargaining without knowing their funding level. They had to build high school schedules and determine courses without knowing funding. School district leaders spent extraordinary amounts of time planning budget scenarios. Teachers received pink slips since contracts couldn't be renewed without the commitment of funding. Schools would appreciate a true two year budget, but this plan which requires setting the cost per pupil in the first 30 days of the odd number session is too late for adequate school planning. To be good stewards of the tax dollar and deliver great outcomes for students, schools need more than 2-3 weeks to plan a budget which spends billions annually.

**Legislators' Point:** House Republicans have abided by a few budgeting principles over the last three years that have led to make Iowa one the best run states in the nation. We feel it's important that we honor our funding commitments and ongoing expenses should only be covered by ongoing revenue sources. These two in particular are put in danger by the current school aid growth law.

**Schools/AEAs' Counterpoint:** Predictability and adequacy are of equal importance to schools, perhaps even more important than stability. Frankly, we don't understand why the revenues are known well enough in the odd number year to set the budget for both years, the one beginning in a few months and the one beginning in 18 months, when the rationale for not setting the 2015-16 rate this year is lack of information.