

An Overview of Indiana's School Foundation Program

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Center for Evaluation
& Education Policy
(CEEP)

What is CEEP?

The Center for Evaluation and Education Policy (CEEP) provides nonpartisan research and analysis for K-12, human services, and non-profit organizations.

The Center has been recognized for its work on K-12 education policy. In particular, the Center has extensive research capacity in the K-12 education policy areas of:

- Math, science, and technology evaluation;
- Literacy and reading program evaluation and research;
- Education policy analysis; and,
- School finance analysis.



CEEP and School Finance

- Since 1993, CEEP has worked with Indiana's School Finance Group (SFG) to analyze how the State provides funding to public schools.
- The SFG is comprised of representatives from the four Legislative caucuses, Budget Agency, LSA, DLGF, and INDOE.
- CEEP issues annual reports on Indiana's school finance system, analyzes impacts of proposed changes in State's funding formula, and conducts research on emerging issues in school finance affecting Indiana.



3

Outline of Presentation

1. Provide an explanation of how Indiana's K-12 school finance system works
 - Focus on intuition behind each part of the system
2. Examine goals associated with Indiana's K-12 school finance system
3. Briefly mention CEEP work-in-progress on K-12 school finance issues



4

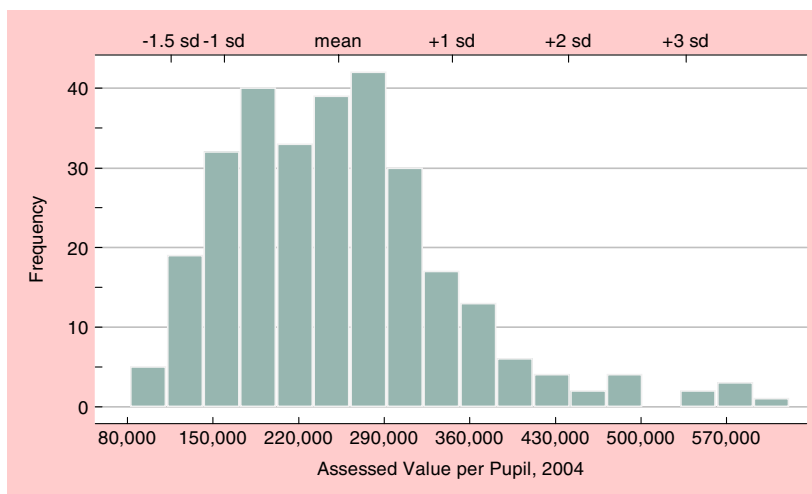
Background of School Finance in Indiana

- Until the 1970s, school districts in most states raised revenues for K-12 education almost exclusively through property taxes.
- Problem: Wealthier communities could raise more money than poorer communities could raise for education.
- *Lake Central v. State of Indiana* (1993) argued that the State's funding mechanism for public education was unconstitutional.



5

Figure 1. Distribution of Assessed Valuation per Pupil, 292 Indiana School Corporations, 2004



Four Periods of IN School Finance

1. Pre-1973: All revenues for public K-12 schools were raised through local property taxes
2. 1973 to 1992: Indiana provided one-third of education revenues to school corporations.
3. 1993 to 2002: Indiana provided two-thirds of revenues to school corporations.
4. 2003 to present: Indiana's share of revenues increases to over 80% due to Property Tax Replacement Credit (PTRC)



7

What Is a Foundation Program?

- Indiana relies on a *Foundation Program* to provide revenues to public school corporations.
- This is a series of interrelated formulas that determine how much revenue corporations should receive for providing basic services, and what portions should be funded locally and by the state
- Formulas rely on corporation-level data (ex., ADM), and parameters (ex., foundation level per-pupil)
- Over 40 states currently use Foundation Programs.



8

Figure 4. Depiction of Indiana’s Foundation Program.

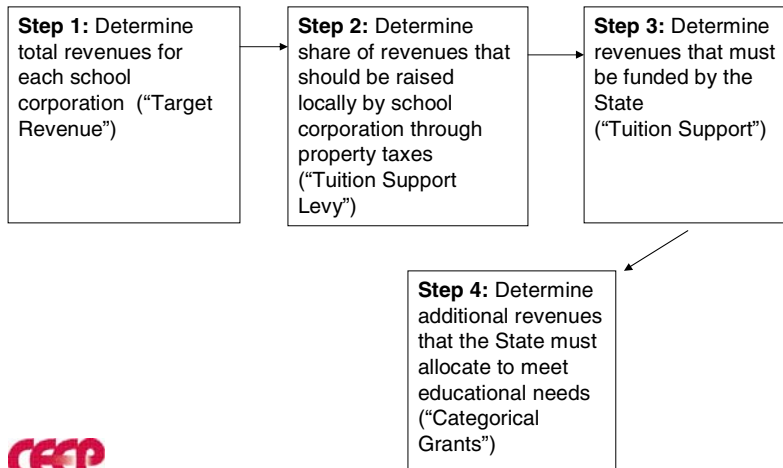
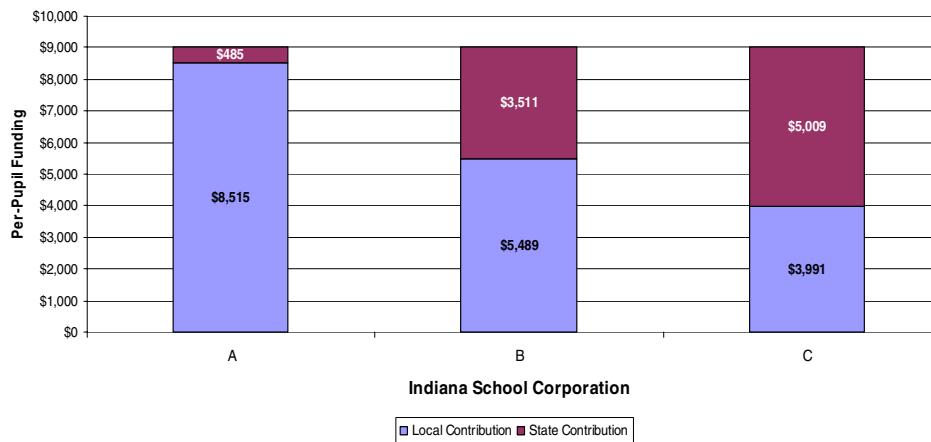


Figure 2. Illustration of Public School Foundation Program for Three Hypothetical School Corporations.

Example of Foundation Program



Example: Each corporation receives \$9,000/pupil for education, and should be able to raise 2 cents per \$100 AV

Common Variations in Foundation Programs

- Foundation Programs can be modified in a number of ways, including:
- Weight enrollments based on grade level and/or socioeconomic status
- Provide safeguards to protect corporations from large revenue fluctuations
- Vary local tax rates based on unique circumstances
- States may also “work backwards” by first determining how much money they can allocate to K-12 education, and then adjust the Foundation Program.



11

Target Revenue

- Target Revenue = Revenues allocated for basic education services in each corporation
- Three options for corporations (choose maximum \$):
 1. Foundation Grant = The number of students times the adjusted per-pupil support level.
 2. Variable Grant = Last year's Target Revenue per-pupil times the current enrollment.
 3. Minimum Guarantee Grant = Last year's Target Revenue increased by a specific Amount.



12

Foundation Grant

Three pieces of information needed:

- Enrollment level (“ADM”) adjusted for recent growth or decline;
- Per-pupil support level (“foundation aid per-pupil”), and
- Index reflecting the socioeconomic status of the corporation’s community (“Complexity Index”)

Corporations using this option tend to have lower socioeconomic status

Foundation Grant is capped -- cannot change by more than $\pm 2\%$ from previous year



13

Adjustments to ADM

- *Rehosting*: ADM is adjusted upward when enrollments are falling, and adjusted downward when enrollments are rising.
- Reduces revenue decline for corporations with falling enrollments
- Reduces revenue gain for corporations with rising enrollments



14

Complexity Index

An index that is designed to capture differences in student populations that may impact costs.

Five components:

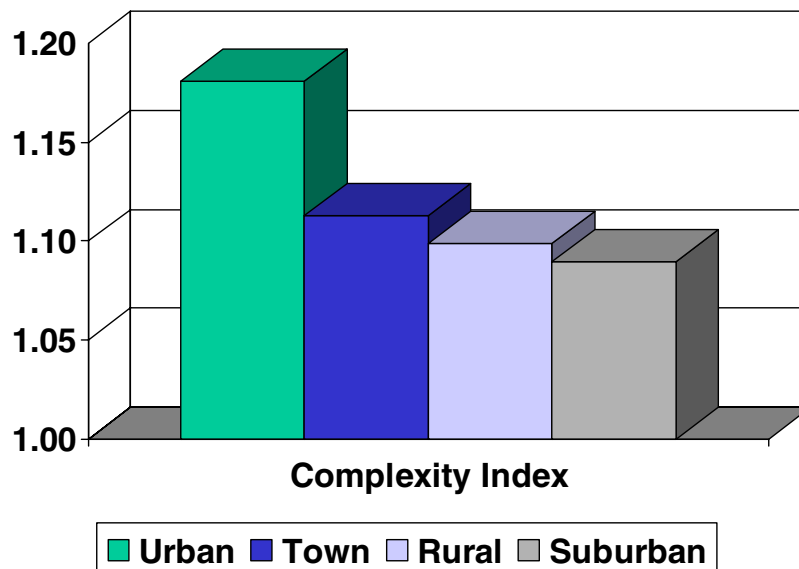
1. % population 25+ with 12th grade ed or less (A)
2. % students eligible for free lunch (B)
3. % students with limited English proficiency (C)
4. % single-parent families (D)
5. % families with incomes below poverty level (E)

$$\text{Complexity Index} = 1.00 + .2221A + .2747B + .0984C + .1213D + .0755E$$

Weights based on work by CEEP investigating the relationships of components to student performance.

See Bull and Michael (2003), *An Examination of Indiana's Complexity Index*.

Average Complexity Index by Type of Corporation



Other Target Revenue Options

2. Variable Grant = Multiply last year's target revenue per pupil by current ADM
 - Corporations using this option tend to have rising enrollments and/or higher socioeconomic status
3. Minimum Guarantee Grant = Increase last year's target revenue by a set percentage (1% in 2004).
 - Corporations using this option tend to have falling enrollments



17

Table 12. Source of Target Revenue for 292 Indiana School Corporations, 2000 - 2004

	Foundation Grant	Variable Grant	Minimum Guarantee
2000	45.5%	23.6%	30.8%
2001	55.5%	7.2%	37.3%
2002	19.5%	19.9%	60.6%
2003	37.7%	13.7%	48.6%
2004	14.5%	4.5%	81.0%

Significant increase in the number of corporations relying on the Minimum Guarantee Grant.

Table 14. Total Target Revenue for 292 Indiana School Corporations by Grant Type, 2004

	Grant	Total	Maximum - Option
	Maximum of Three Options	\$5,088,270,640	-----
Option 3:	Minimum Guarantee	\$5,065,724,230	\$22,546,410
Option 2:	Variable Grant	\$5,018,572,355	\$69,698,285
Option 1:	Foundation, with Caps	\$4,982,392,345	\$105,878,295
	Foundation, no Caps	\$4,834,241,268	\$254,029,372

Total dollars designated for general education expenses if each option was used exclusively.

Tuition Support Levy

Money raised through local property taxes to fund education.

Local contribution = General Maximum Fund Tax Rate x AV

- Poorer communities with lower property values would contribute less to cover their educational expenses
- Using a more uniform rate reduces variations among communities in tax rates needed to fund education
- In 2004, tax rate = 63.7 cents plus adjustments for corporations that lost revenue due to building new facilities.
- PTRC designated revenues from additional 1 percent sales tax to help offset local property tax rates



Tuition Support

- Tuition support = amount of funding provided by the State to help cover Target Revenue. Equals Target Revenue minus:
 - Tuition support levy
 - Other local taxes (motor vehicle, commercial vehicle, financial institutions)
- Poorer communities receive more money from the State to cover general education expenses



21

Categorical Grants

- Foundation Program provides corporations with additional revenues to help cover expenses associated with supplemental services:
- Together comprise about one-sixth of total State support for school corporations
- State budget bill also includes other categorical grants that are not part of the Foundation Program (ex., full-day Kindergarten, textbook reimbursement)



22

Categorical Grants

1. Enrollment Growth Grant = Revenues to help growing school corporations (affected 20 corporations in 2004)
2. Academic Honors Diploma Grant = Revenues to help offset costs of providing Academic Honors Diplomas
3. Supplemental Remediation Grant = Revenues to help corporations with low student performance on ISTEP+ test



23

Categorical Grants

4. Special Education Grant = Offset costs of providing special education services
5. Vocational Education Grant = Offset costs of providing vocational training
6. Prime Time Grant = Offset costs of Prime Time education programs



24

Basic Grant

- *Basic Grant* represents the total amount of funding supplied by the State through Foundation Program to public school corporations.

- Basic Grant = Tuition Support + Categorical Grants



25

Breakdown of Basic Grant

Table 18. Basic Grant for 292 Indiana Public School Corporations, Calendar Year 2004		
Source	Amount	Percent
Tuition Support	\$3,020,780,959	82.36%
Enrollment Growth	\$9,662,821	0.26%
Honors Diploma	\$15,095,988	0.41%
Supplemental Remediation	\$14,096,355	0.38%
Special Education	\$412,751,487	11.25%
Vocational Education	\$69,408,325	1.89%
Prime Time	\$126,077,758	3.44%
Basic Grant	\$3,667,873,693	100.00%



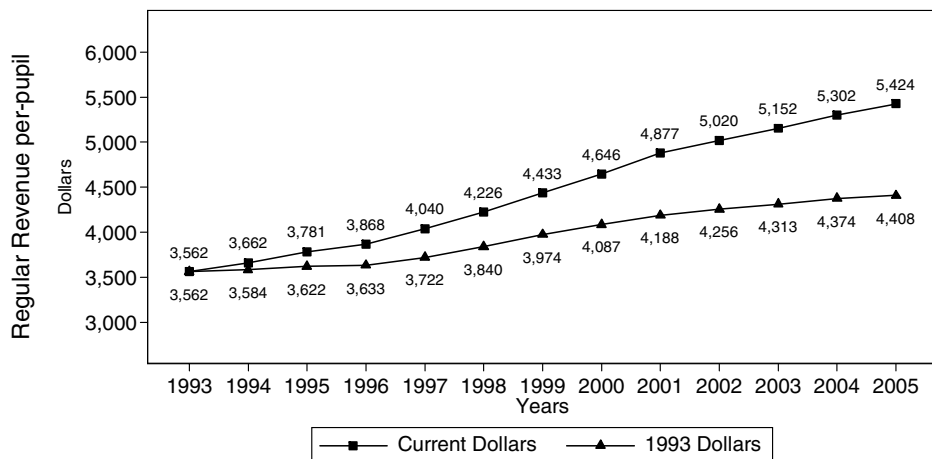
26

Goals* of Indiana's Foundation Program

- Increase funding per pupil
- Increase the state's share of school revenue
- Make funding per pupil more dependent on school corporation complexity
- Break the dependence of funding per pupil on property wealth per pupil
- Make General Fund property tax rates dependent on regular education funding per pupil
- Reduce variability in funding per student across corporations
- Limit increases in property tax rates
- Equalize property tax rates across school corporations

*Goals were developed by Indiana School Finance Group in 1993

Indiana has steadily increased funding per pupil

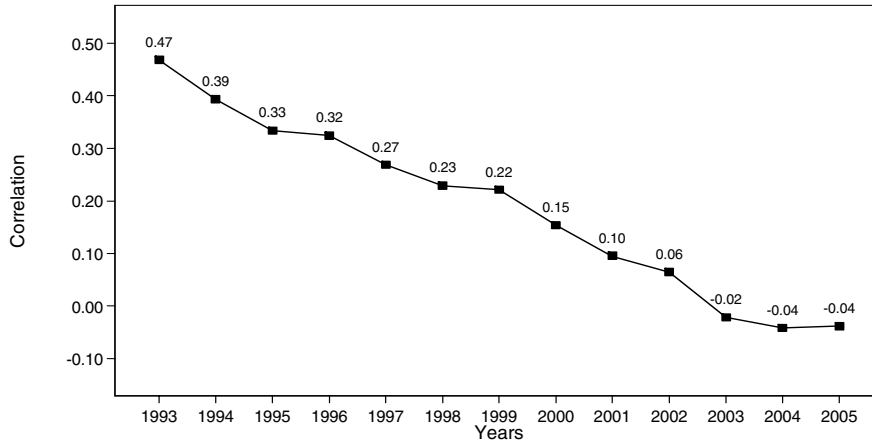


Indiana School Corporation Averages (N = 292)

Annual % increase in current \$: 3.6%

Annual % increase in constant \$: 1.8%

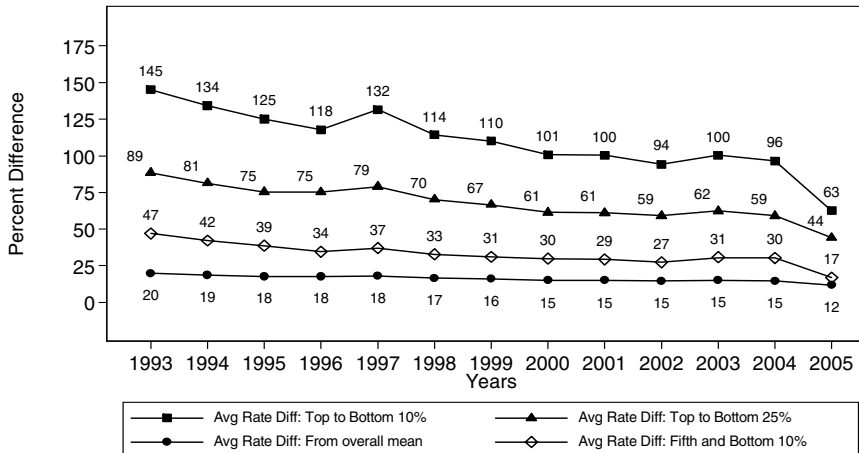
Indiana has eliminated the relationship between property wealth and revenues per-pupil



Correlation between assessed valuation per pupil and regular revenues per-pupil

29

Property tax rates have become more equalized across school corporations in Indiana



Measures of variability in tax rates

30

Summary of Progress Towards 1993 Indiana School Funding Goals

Goal	Progress
1 Increase funding per-pupil.	Steady
2 Increase the state's share of school revenue.	Steady
3 Make funding per-pupil more dependent on school corporation complexity.	Mixed
4 Break the traditional dependence of funding per-pupil on property wealth per-pupil.	Achieved
5 Make General Fund property tax rates more dependent on regular revenue per-pupil.	Steady
6 Reduce variability in funding per-pupil across school corporations.	Mixed
7 Limit increases in property taxes.	Steady
8 Reduce variability in property tax rates across school corporations.	Steady



31

CEEP Work-in-Progress

1. Develop new measures of equity in school funding and apply to Indiana.
2. Create model that allows for simulations of impacts of changes in Foundation Program on goals.
3. Examine relationships between school finance measures and student outcomes
4. Work with Finance Group to revise goals for Indiana's Foundation Program



32

Suggested Readings

Toutkoushian, R., and Michael, R. (2004). *Indiana's School Funding Formula Impact Study for 2003*. Bloomington, IN: Center for Evaluation and Education Policy.

Indiana Department of Education (2004). *Digest of Public School Finance in Indiana, 2003-2005 Biennium*.

Bull, B., and Michael, R. (2003). *An Examination of Indiana's Complexity Index*. Bloomington, IN: Center for Evaluation and Education Policy.



33

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34