

Description and Analysis of Indiana's School Foundation Program

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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 the school funding formula, and conducts research on emerging issues in school finance affecting Indiana.



Work for Task Force

1. Prepare a report describing how Indiana's K-12 school finance system works
 - Focus on intuition behind each part of the system.
2. Review work by CEEP on examining goals associated with Indiana's K-12 school finance system.



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Background of School Finance in Indiana

- Until the 1970s, school districts in most states raised revenues for K-12 education primarily 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.



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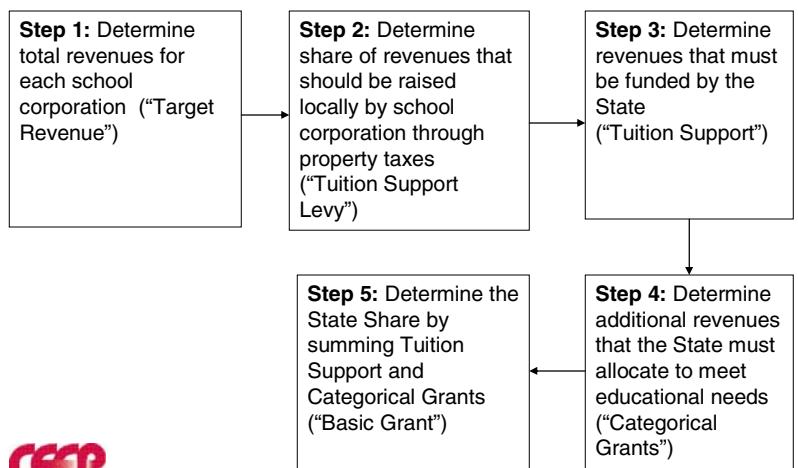
What Is a Foundation Program?

- Since 1949, Indiana has relied 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.



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Figure 4. Depiction of Indiana’s Foundation Program.



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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.



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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.

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 (per \$100) 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. PTRC and Homestead Credits effectively cover two-thirds of local property taxes.



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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.



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Categorical Grants

- Foundation Program provides corporations with additional revenues to help cover expenses associated with six supplemental areas.
- Together, these categories 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).



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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%



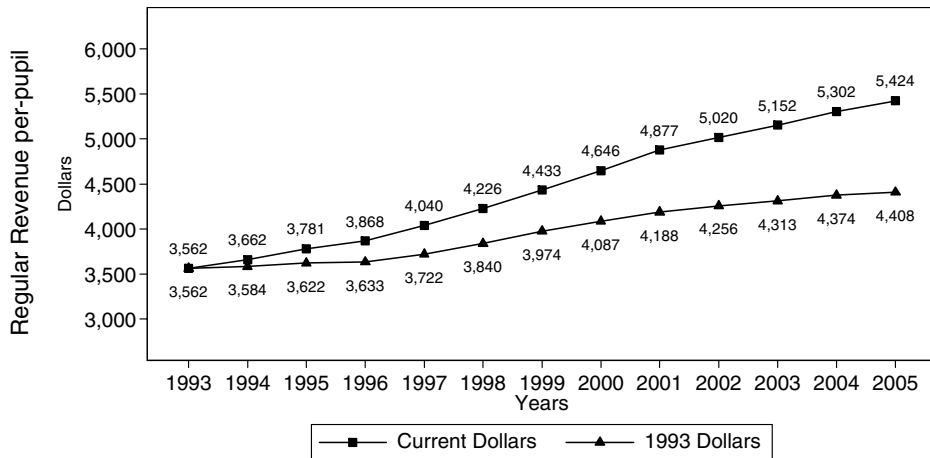
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Summary of Progress Towards 1993 Indiana School Funding Goals

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



1. Indiana has steadily increased funding per pupil

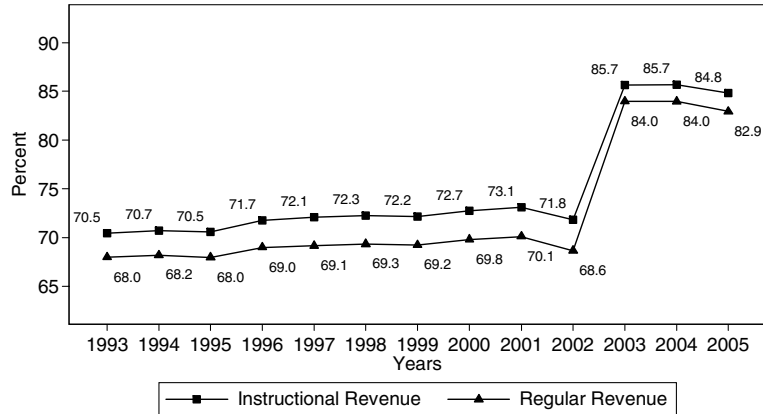


Indiana School Corporation Averages (N = 292)

Annual % increase in current \$: 3.6%

Annual % increase in constant \$: 1.8%

2. Increase the state's share of school operating revenue



Indiana School Corporations (N = 292)

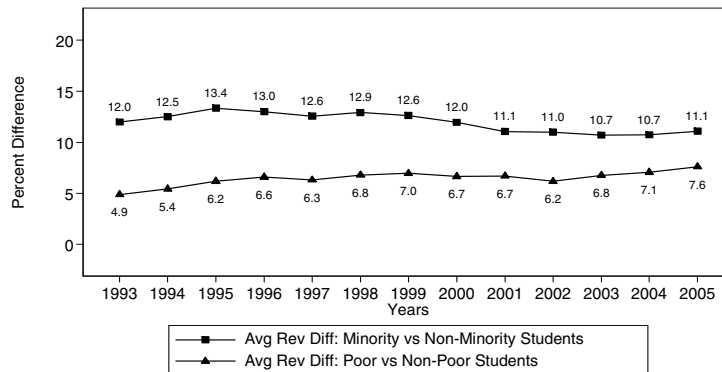
- After dropping slightly in 2002, the state share increases dramatically due to PTRC.



- The state currently provides about five-sixths of school operating revenue, with the remaining sixth coming from local sources.

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3. Make funding per pupil more dependent on school corporation demographics

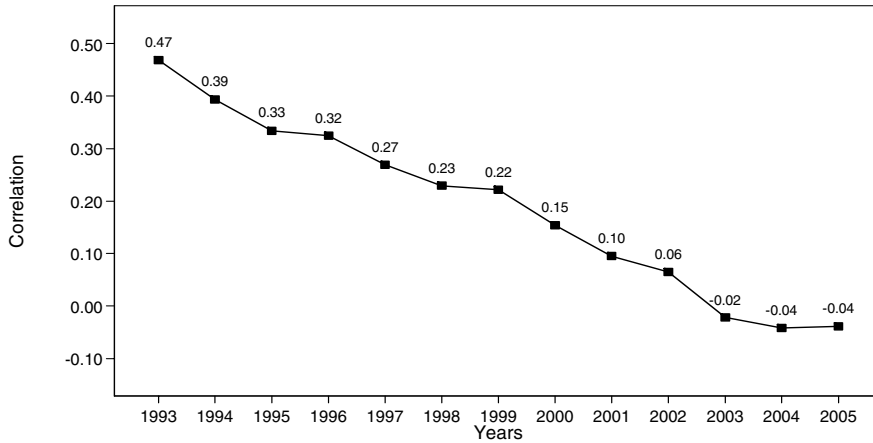


- An upward slope is interpreted as an improvement in “vertical equity”
- Mixed results: Some improvement for poor vs. non-poor students, slight decline in variability of funding by race/ethnicity



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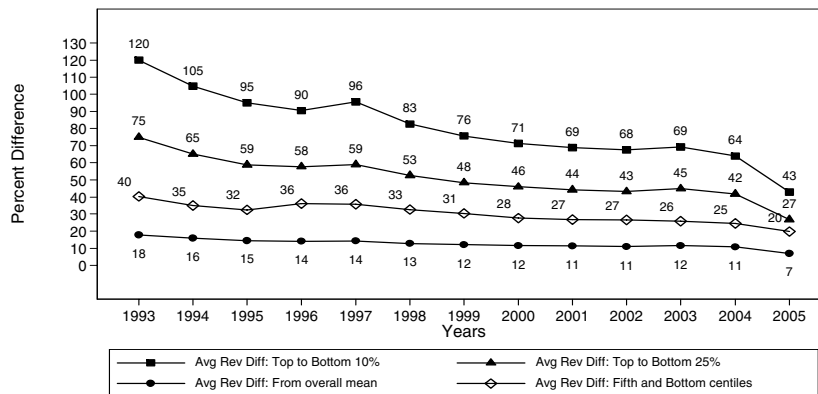
4. Indiana has eliminated the relationship between property wealth and revenues per-pupil



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



5. Make General Fund property tax rates dependent on regular revenues per pupil

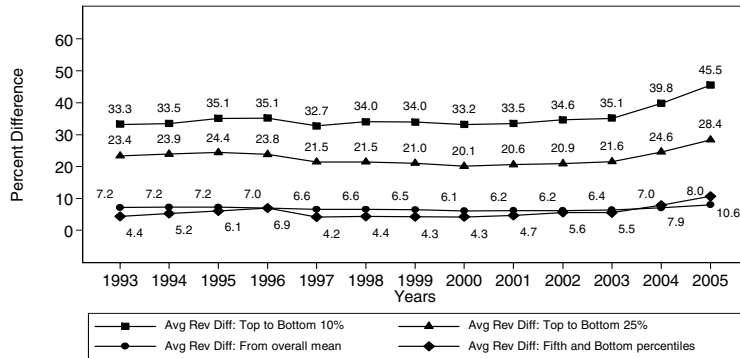


Ratio of regular revenue per-pupil to adjusted General Fund tax rate.

The state has dramatically decreased differences between school corporations in the amount of revenue received per student for their property tax effort.



6. Reduce variability in funding per student across school corporations



292 Indiana School Corporations

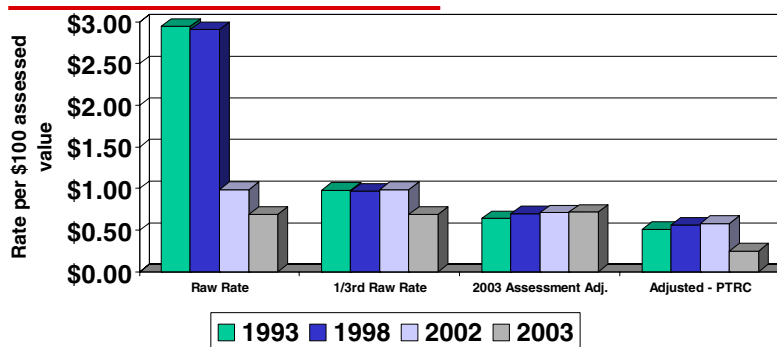
- Compared to other states, Indiana has one of the more equitable school funding systems in the nation.
- A slight increase in variability in funding across corporations is projected.



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7. Limit increases in property tax rates

Average General Fund Tax Rates for 292 Indiana School Corporations, Selected Years

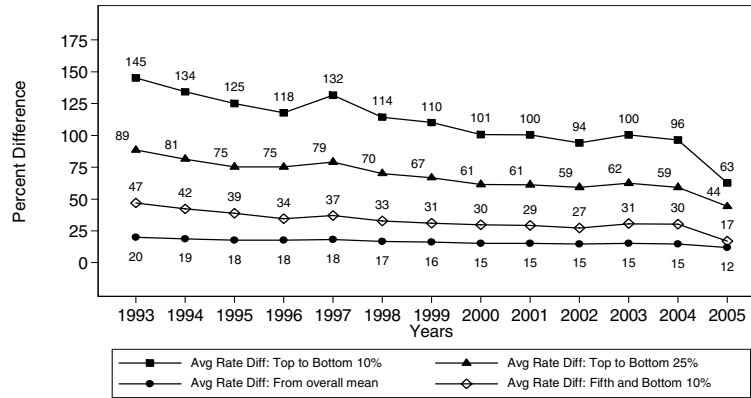


- From 1993 to 2002, effective property tax rates rose slowly but steadily.
- Decrease in average rates in 2003 after taking into account the increased reliance on property tax replacement credit.



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8. Equalize property tax rates across school corporations



By all measures, property tax rates have become dramatically more equal in the past 10 years.



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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.



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