

# Findings on Foundation Program 2005-2007: Enrolled Act 1001

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## **Key Changes in Foundation Program:**

1. Changes in Foundation Grant options:
  - Elimination of Minimum Guarantee option
  - If per-pupil revenue difference is less than \$50, then Foundation Grant =  $\$4,517 * CI * \text{Adjusted ADM}$
  - If per-pupil difference exceeds \$50, then corporation is in transition to Foundation Grant. Per-pupil difference is phased in over 6 years (\$50 per-pupil minimum change)
    - Transition down (-): Corporation would lose more than \$50/pupil
    - Transition up (+): Corporation would gain more than \$50/pupil
  - Maximum decline in Foundation Grant capped at 1% (“variable grant”)
2. Increase in Foundation Level to \$4,517 (in 2006) per pupil and \$4,563 (in 2007).

**Source of Target Revenue for 292 Indiana School Corporations, 2000 – 2007**

	<b>Foundation Grant</b>	<b>Variable Grant</b>	<b>Minimum Guarantee</b>	<b>In Transition</b>
<b>2000</b>	46%	24%	31%	0%
<b>2001</b>	55%	7%	37%	0%
<b>2002</b>	20%	20%	61%	0%
<b>2003</b>	38%	13%	49%	0%
<b>2004</b>	17%	4%	79%	0%
<b>2005</b>	15%	7%	78%	0%
<b>2006</b>	15%	27%	0%	40%+ 19%-
<b>2007</b>	26%	28%	0%	39%+ 7%-

**Impacts of Recent Changes in School Funding in Indiana**

1. Slower growth in per-pupil revenues
  - Increase in current dollars (\$150 million/year)
  - Slight decline after adjusting for inflation
  - 130+ school corporations will see declining per-pupil revenues in 2006
2. State share of funding declines in 2006, 2007
  - Growth in property tax revenues higher than growth in state support
3. Notable progress towards equity in school funding
4. Dollars still do not always “follow the child” due to rehosting, transition to foundation grant, and continued use of variable grant



## Outside Provisions

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- Indiana has periodically allowed school corporations to either transfer dollars across funds or raise additional dollars locally.
- These are known as outside provisions, and previous CEEP reports have always included these dollars in the calculations.
- CEEP has previously examined the impact of removing outside provisions from calculations.
- Find that outside provisions have little impact in 2006 and 2007.



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## List of Outside Provisions

2002 & 2003: General Assembly authorized a maximum transfer amount from other local funds to the General Fund.

2004: General Assembly authorized transfers from utility and insurance funds to the General Fund. In addition, there was a reduction in the teacher retirement fund.

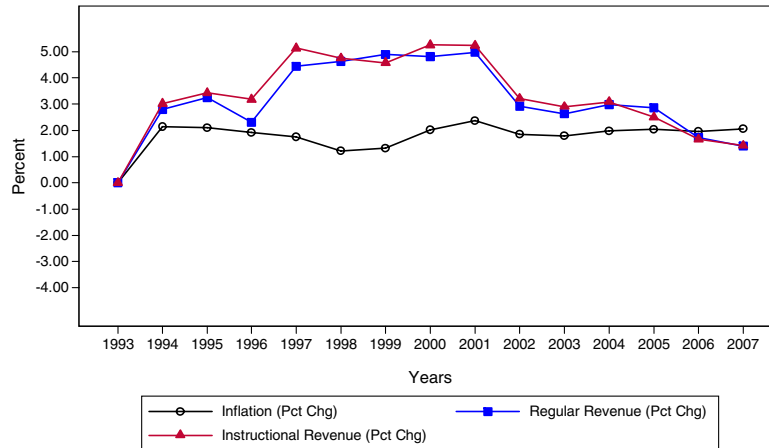
2005: Transfers permitted from Capital Projects Fund to the General Fund and there was a reduction in the teacher retirement fund.

2006 & 2007:

1. Additional free textbook relief (covers any unreimbursed amount from the Debt Services Fund).
2. Additional Capital Projects Fund Transfer (0.75% per year increase in authority to cover property insurance and utility costs from Capital Projects Fund).
3. Referendum Adjustment (Authority to move pre-2002 referendum levies outside school formula)
4. Additional Teacher Retirement Fund Contribution Rate Relief. (Incremental payroll savings generated by TRF changes).

## Annual Percentage Changes in School Funding

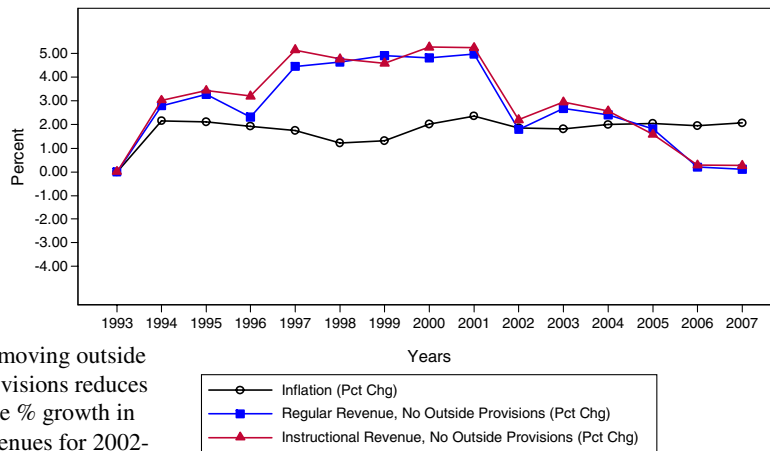
Yearly percent changes in inflation (black), regular revenue per pupil (red), and instructional revenue per pupil (blue), 1993 to 2007.



## Annual Percentage Changes in School Funding

### No Outside Provisions

Yearly percent changes in inflation (black), regular revenue per pupil (red), and instructional revenue per pupil (blue), 1993 to 2007.

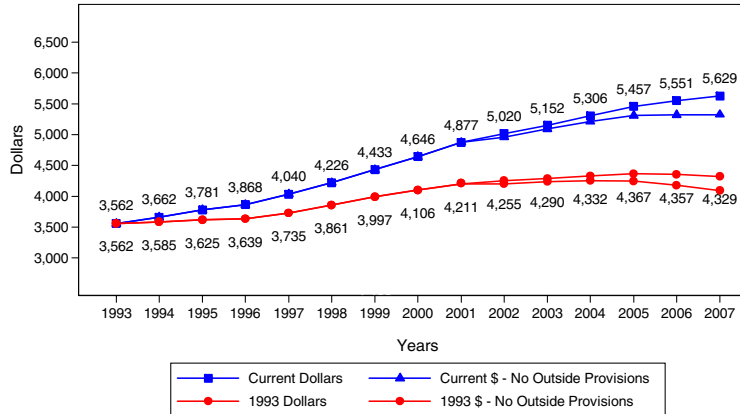


Removing outside provisions reduces the % growth in revenues for 2002-2007

# Trend in Regular Revenue per Pupil

## With and Without Outside Provisions

Regular Revenue per Pupil. Current dollars (top line) and 1993 dollars. 1993-2007.



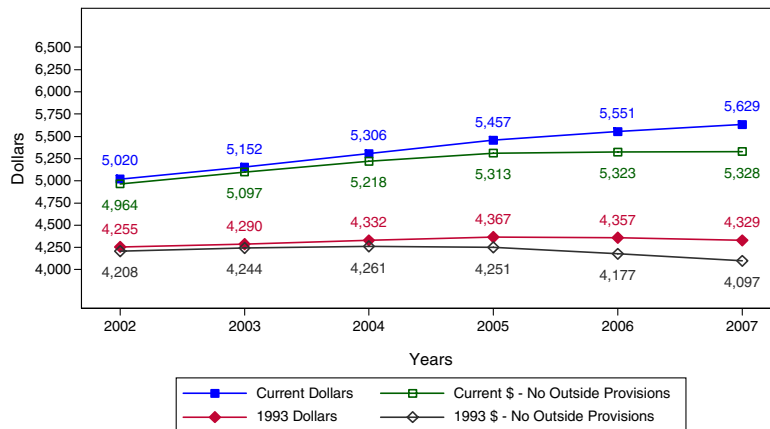
Indiana School Corporation Averages (N = 292)



# Trend in Regular Revenue per Pupil

## Outside Provisions vs. No Outside Provisions

Regular Revenue per Pupil. Current dollars and 1993 dollars. 2002-2007.



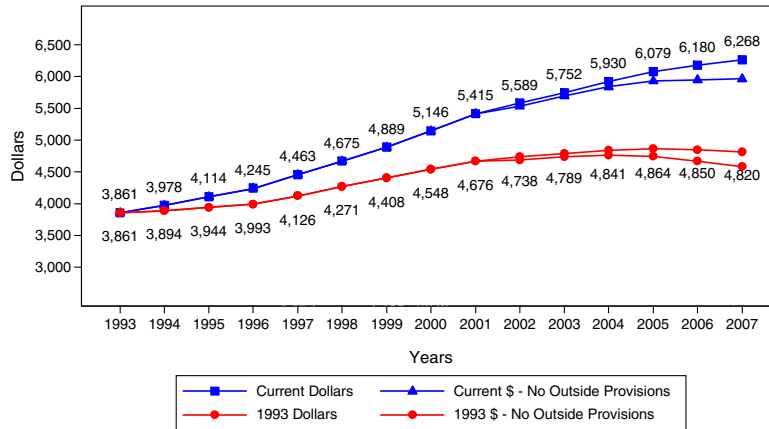
Indiana School Corporation Averages (N = 292)



# Trend in Instructional Revenue Per Pupil

With and Without Outside Provisions

Instructional Revenue per Pupil, current dollars and 1993 dollars, 1993 – 2007.



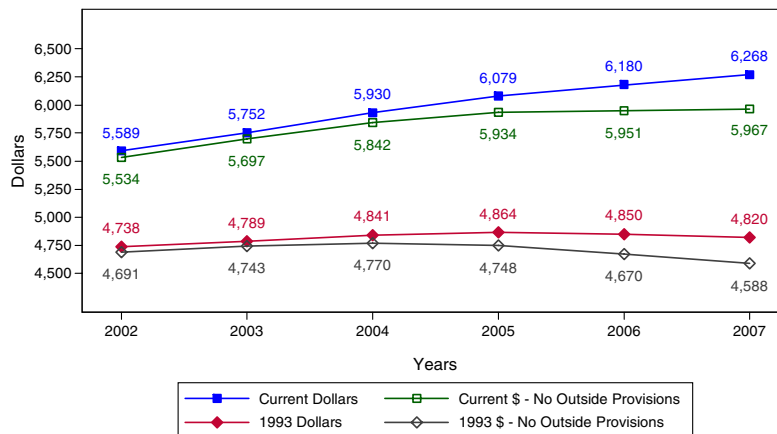
Indiana School Corporation Averages (N = 292)



# Trend in Instructional Revenue Per Pupil

Outside Provisions vs. No Outside Provisions

Instructional Revenue per Pupil, current dollars and 1993 dollars, 2002 – 2007.

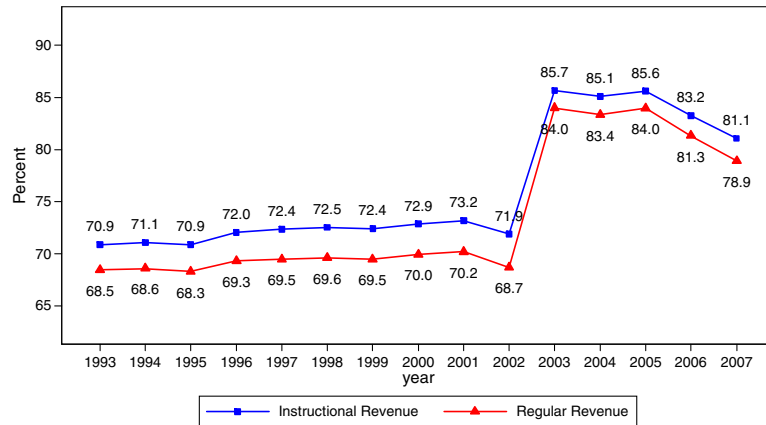


Indiana School Corporation Averages (N = 292)



# State Share of Educational Revenues

State Share of Revenue, 1993 to 2007.



292 Indiana School Corporations



Slight reduction in share of state funding in 2006 and 2007.

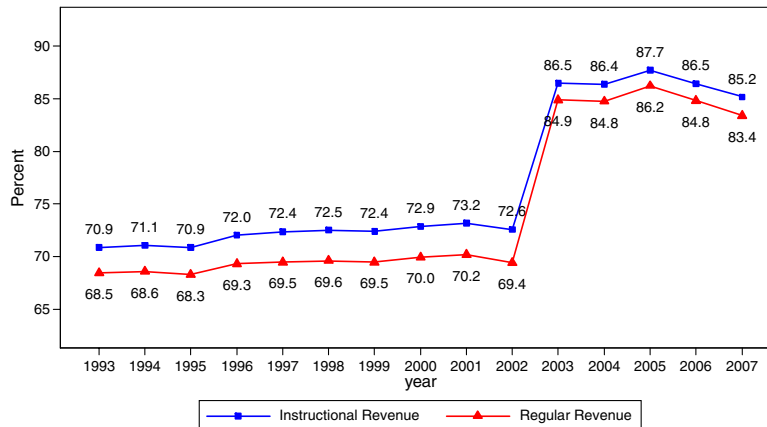
Note: State share includes PTRC.

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# State Share of Educational Revenues

No Outside Provisions

State Share of Revenue, 1993 to 2007.



292 Indiana School Corporations



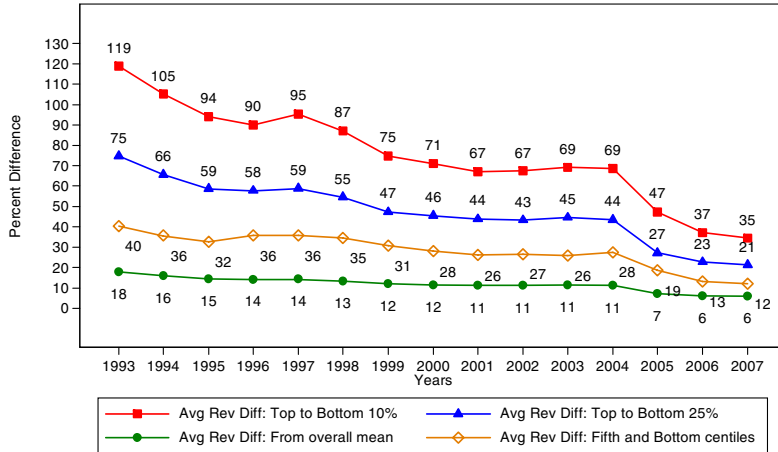
Removing outside provisions increases state share of funding.

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# Reward for Effort: 1993 to 2007

## With Outside Provisions

Reward for Effort Differences: 292 Indiana School Corporations 1993 to 2007.



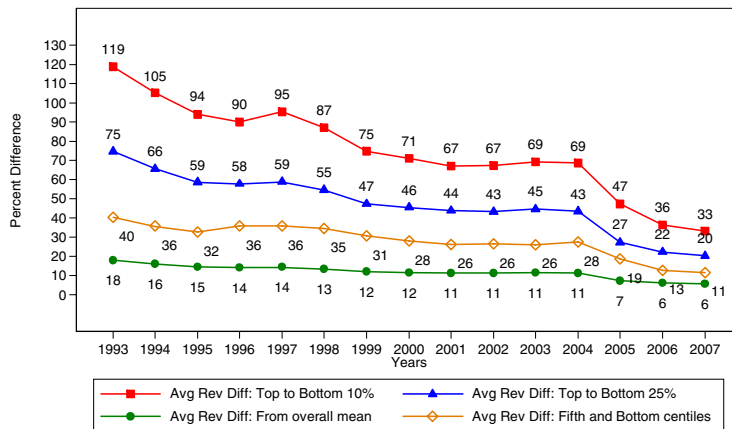
Continued improvement in reward for effort

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# Reward for Effort: 1993 to 2007

## No Outside Provisions

Reward for Effort Differences: 292 Indiana School Corporations 1993 to 2007.



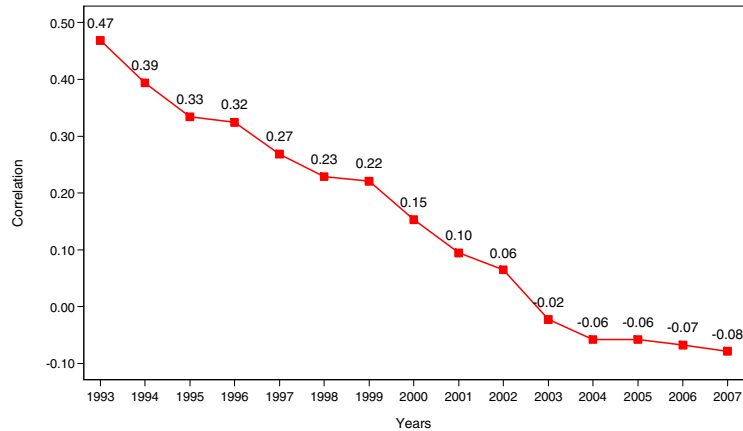
Continued improvement in reward for effort not affected by inclusion of outside provisions.

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# Dependence of Revenue on AV

## With Outside Provisions

Correlation of Regular Revenue per-Pupil with Assessed Valuation per-Pupil, 292 Indiana School Corporations 1993 to 2007.



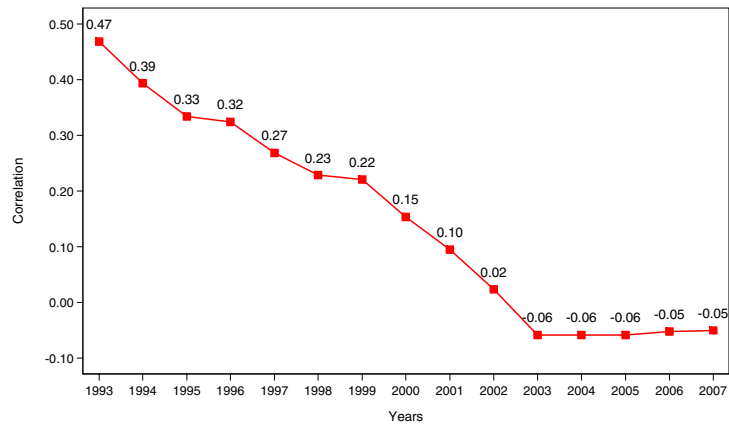
No linear relationship between property values and financial resources used for public K-12 education

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# Dependence of Revenue on AV

## No Outside Provisions

Correlation of Regular Revenue per-Pupil with Assessed Valuation per-Pupil, 292 Indiana School Corporations 1993 to 2007.



Fiscal neutrality not affected by inclusion of outside provisions

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# Vertical Equity Indicators

1. Correlations of PP revenues with each component of Complexity Index
2. Correlation of PP revenues with overall index
3. Percent of variation in PP revenues explained by Complexity Index
4. Partial effects of CI components on PP revenues

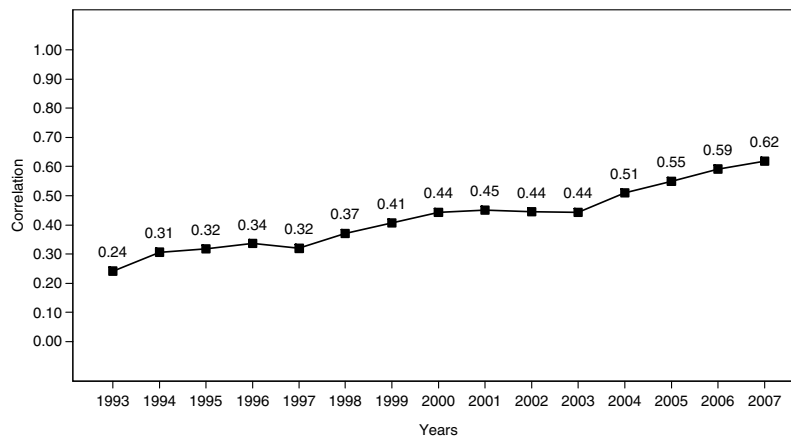
*As correlations, partial effects, and % variation explained increase, vertical equity is said to improve.*



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## Vertical Equity Indicators: Complexity Index

Correlation between **Regular Revenue** per-Pupil and At-Risk Index (1993-2003) or Complexity Index (2004-2005), Indiana Public School Corporations, 1993 to 2007.



292 Indiana School Corporations



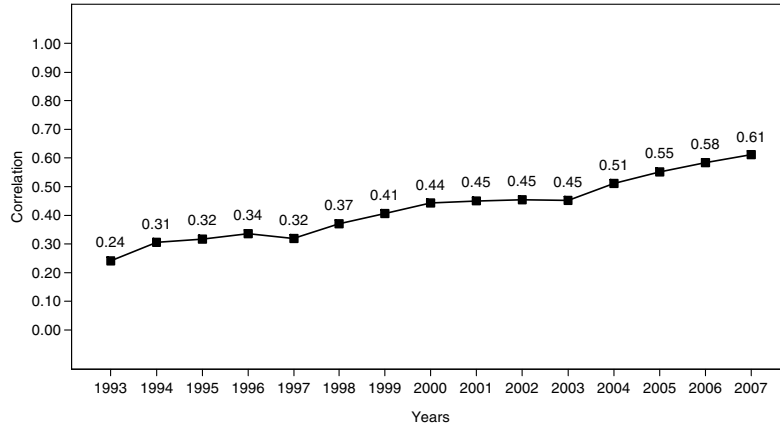
An increase in the correlation suggests an improvement in vertical equity

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## Vertical Equity Indicators: Complexity Index

### No Outside Provisions

Correlation between **Regular Revenue** per-Pupil and At-Risk Index (1993-2003) or Complexity Index (2004-2005), Indiana Public School Corporations, 1993 to 2007.



292 Indiana School Corporations

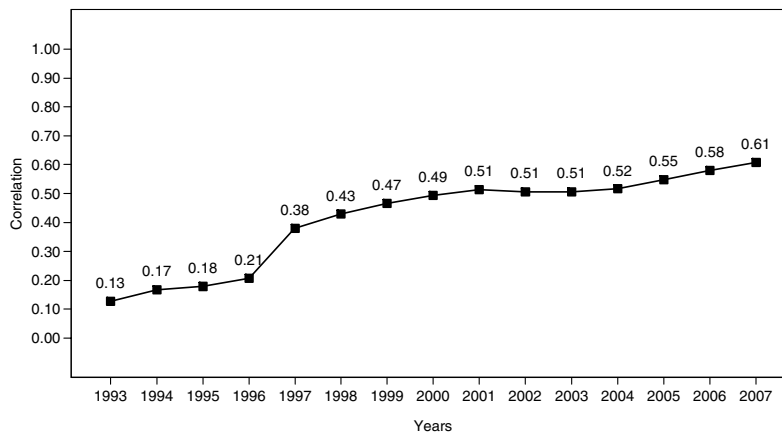


Similar trend in correlations with and without outside provisions.

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## Vertical Equity Indicators: Poverty

Correlation: **Regular Revenue** per-Pupil and Percent Families with Dependent Children and Income Below Poverty Level, Indiana Public School Corporations, 1993 to 2007.



292 Indiana School Corporations



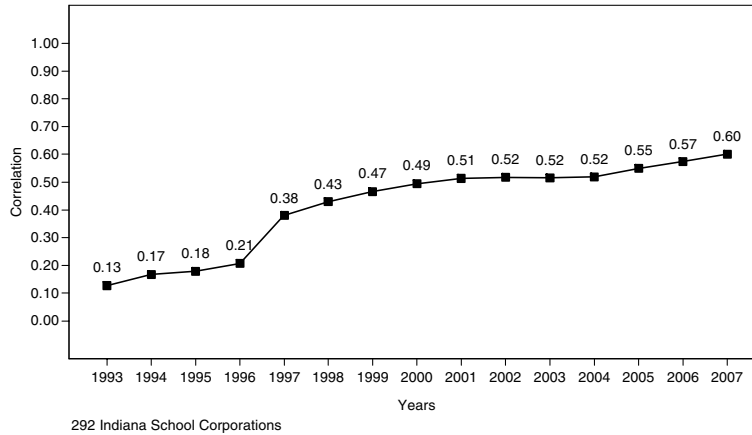
An increase in the correlation suggests an improvement in vertical equity

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## Vertical Equity Indicators: Poverty

### No Outside Provisions

Correlation: **Regular Revenue** per-Pupil and Percent Families with Dependent Children and Income Below Poverty Level, Indiana Public School Corporations, 1993 to 2007.



Similar changes in correlation regardless of whether outside provisions are included.

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## Vertical Equity Indicators: Partial Effects<sup>1</sup> of CI Components

<i>CI Component</i>	<i>Partial Effect in 1993</i>	<i>Partial Effect in 2003</i>	<i>Partial Effect in 2005</i>	<i>Partial Effect in 2007</i>
% No High School	- 12.51***	- 3.95	+ 3.10	+ 4.07
% 1-Parent Families	+18.33***	- 2.29	+ 9.49*	+ 6.98
% Poverty	+ 2.56	+28.04***	+26.88***	+26.97***
% Free Lunch	+10.01***	+ 9.28**	+ 8.22**	+10.08***
% LEP	+25.05**	+ 5.06	- 8.33	- 9.46**

<sup>1</sup>Partial effects show how changes in each factor affect **INSTRUCTIONAL** per-pupil revenues holding other factors constant.

\*\*\*p<.01, \*\*p<.05, \*p<.10. A positive (+) and significant (\*) partial effect means progress is being made towards vertical equity for this factor holding other factors constant.

## Vertical Equity Indicators: Partial Effects<sup>1</sup> of CI Components (NOP)

<i>CI Component</i>	<i>Partial Effect in 1993</i>	<i>Partial Effect in 2003</i>	<i>Partial Effect in 2005</i>	<i>Partial Effect in 2007</i>
% No High School	- 12.51***	- 3.35	+ 3.06	+ 3.21
% 1-Parent Families	+18.33***	- 1.80	+ 9.14*	+ 7.80*
% Poverty	+ 2.56	+28.25***	+26.63***	+25.94***
% Free Lunch	+10.01***	+ 9.51**	+ 8.04**	+ 8.51***
% LEP	+25.05**	+ 4.36	- 8.29	- 6.92

<sup>1</sup>Partial effects show how changes in each factor affect **INSTRUCTIONAL** per-pupil revenues (no outside provisions) holding other factors constant.

\*\*\*p<.01, \*\*p<.05, \*p<.10. A positive (+) and significant (\*) partial effect means progress is being made towards vertical equity for this factor holding other factors constant.

## Horizontal Equity Indicator

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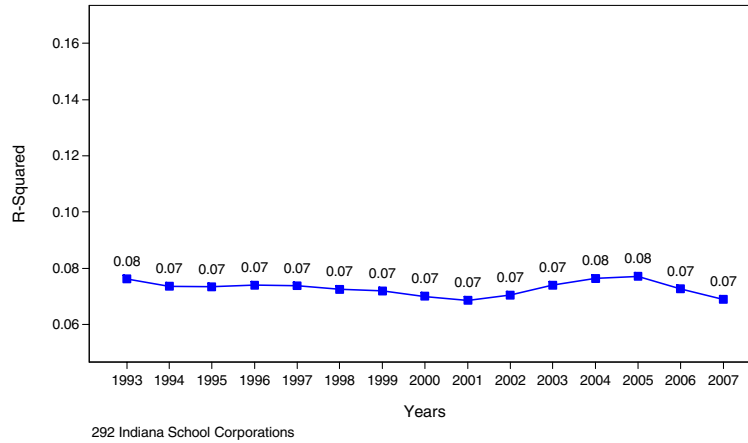
Coefficient of variation (CV) of the error term

- Based on variance in PP revenues not explained by Complexity Index
- Standard error divided by average PP revenues
- As CV decreases, horizontal equity is said to improve (less unexplained variation)
- Can increase or decrease as vertical equity changes



## Horizontal Equity Indicator: Coefficient of Variation

Coefficient of Variation: **Instructional Revenue** per-Pupil with Five Components of the Complexity Index, Indiana Public School Corporations, 1993-2007.



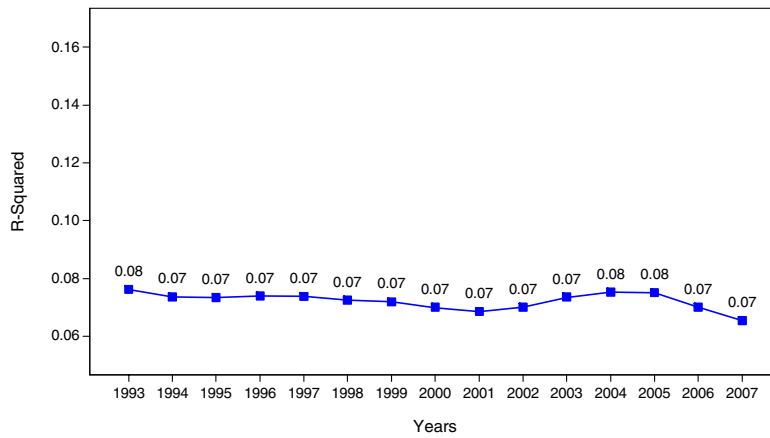
As CV decreases, progress is being made towards horizontal equity

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## Horizontal Equity Indicator: Coefficient of Variation

No Outside Provisions

Coefficient of Variation: **Instructional Revenue** per-Pupil with Five Components of the Complexity Index, Indiana Public School Corporations, 1993-2007.



As CV decreases, progress is being made towards horizontal equity

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# Summary

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1. Slower growth in revenues per-pupil
  - ADM growth and inflation outpace funding growth
2. Inclusion of outside provisions does not have a material impact on findings
3. Property taxes pay larger share of education costs, but variations across communities continue to decline
  - Still no relationship between AV and per-pupil revenues
4. Funding becomes more equitable – horizontal and vertical equity
  - Dollars more closely tied to need (CI and most components)
  - Not many gains in partial effects
  - Smaller unexplained variations in PP funding

