

Current Issues in Funding Indiana's Public Schools

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Robert K. Toutkoushian, Ph.D.
Associate Professor
Educational Leadership & Policy
Studies
Education 4220
Indiana University
rtoutkou@indiana.edu
Ph: (812) 856-8395

Center for Evaluation
& Education Policy
(CEEP)

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.



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 use of variable grant



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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.
- 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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3 Main Steps in Foundation Programs

1. Estimate the amount of money needed by corporations for basic education (“foundation level”)
2. Estimate share of foundation level each community should be able to raise through a common tax rate
3. States fund the difference between what is needed and what can be raised locally



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Calculating Target Revenue

Prior to 2005, three options in Indiana’s formula:

1. Foundation Grant = Foundation level x adjusted ADM x Complexity Index
2. Minimum Guarantee Grant = Last year’s target revenue increased by specific percent
3. Variable Grant = Last year’s revenue per pupil times this year’s ADM

Formula then sets target revenue equal to the maximum of these three.

Helps protect school corporations from large declines in school funding.

Complexity Index Weights

$$CI = 1 + .2256*NoHS + .1233*OneP + .0768*Pov + .2747*FreeL + .1001*LEP$$

- Larger weights can increase the dollars allocated to school corporations for these components.
- Weights are subject to change each year, and are set by the Legislature in the budget.
- Weights are calculated by dividing dollar amount per component by the per-pupil foundation level

| <i>CI Component</i> | <i>Weight</i> |
|---|-------------------------------|
| % population 25+ with less than 12th grade education (NoHS) | \$1,019 / \$4,517 = 0.2256 |
| % single-parent families (OneP) | \$557 / \$4,517 = 0.1233 |
| % families with children < 18 and incomes below poverty level (Pov) | \$347 / \$4,517 = 0.0768 |
| % students eligible for free lunch (FreeL) | \$1,260 / \$4,517 = 0.2747 |
| % students with limited English proficiency (LEP) | \$452 / \$4,517 = 0.1001 |

Key Changes in Foundation Program:

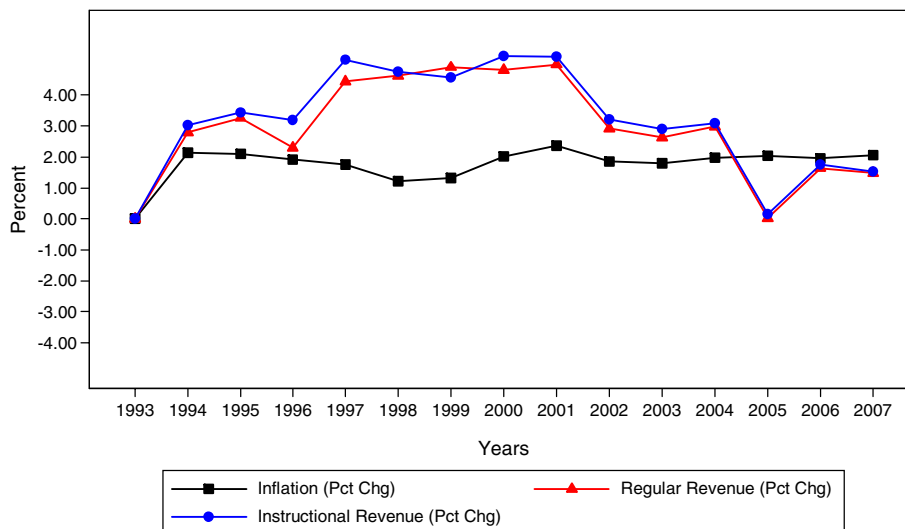
1. Changes in Foundation Grant options:
 - Elimination of Minimum Guarantee option
 - If per-pupil revenue difference is less than \$50, then Foundation Grant = \$4,517 * CI * Adjusted ADM
 - If per-pupil difference exceeds \$50, then corporation is in transition to Foundation Grant. Per-pupil difference 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%
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

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

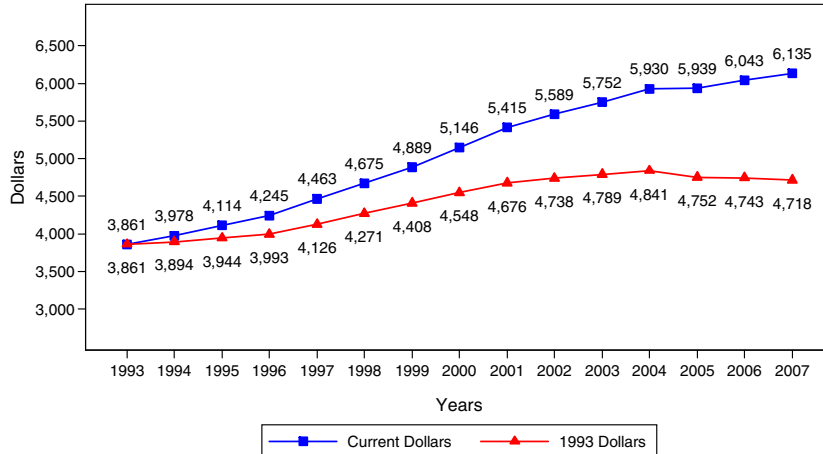
Annual Percentage Changes in School Funding

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



Trend in Instructional Revenue Per Pupil

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

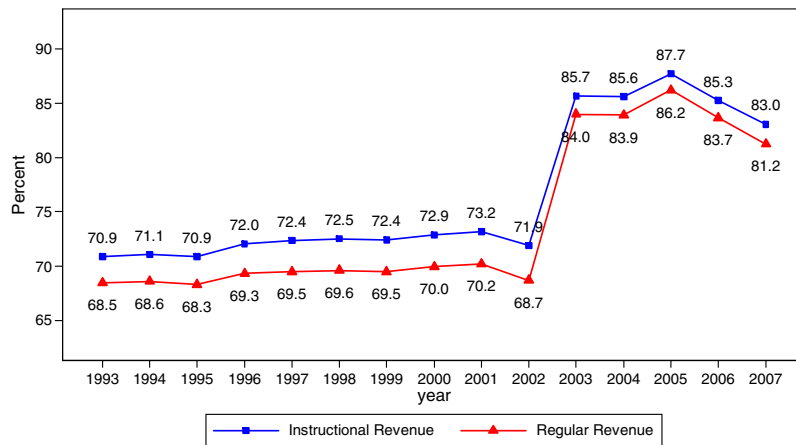


Indiana School Corporation Averages (N = 292)



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State Share of Educational Revenues



292 Indiana School Corporations

Local government responsible for a larger share of state funding for education in 2006 and 2007.



Note: State share includes PTRC.

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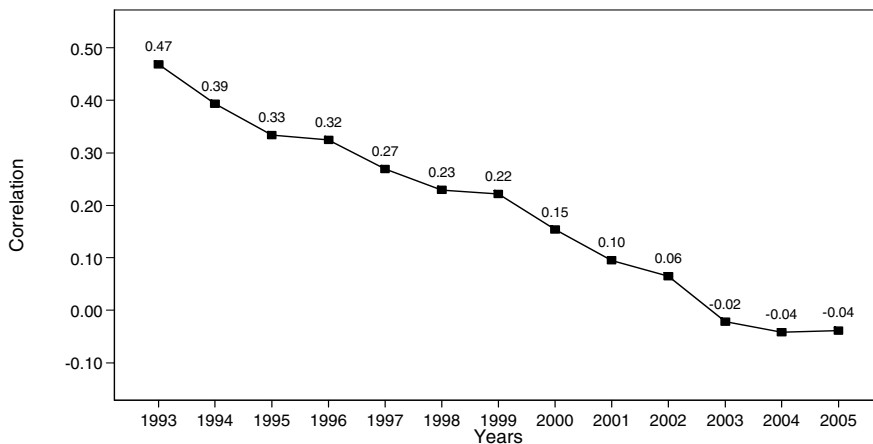
Equity in School Funding

Three concepts of “equity”:

1. Funding should be unrelated to a community’s wealth (“fiscal neutrality”)
2. Similar school corporations should receive similar funding (“horizontal equity”)
3. School corporations with greater need should receive more funding (“vertical equity”)



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

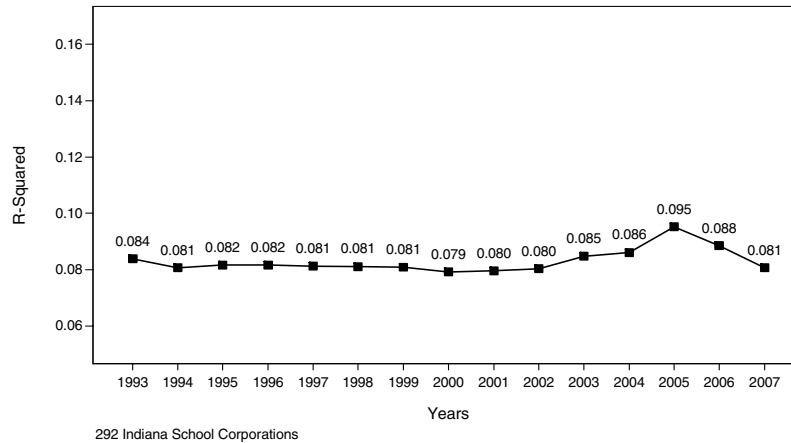


Correlation between assessed valuation per pupil and regular revenues per-pupil



Horizontal Equity: “Equal Funding of Equals”

Coefficient of Variation: Inflation-adjusted Regular Revenue per-Pupil with Five Components of the Complexity Index, Indiana Public School Corporations, 1993-07.

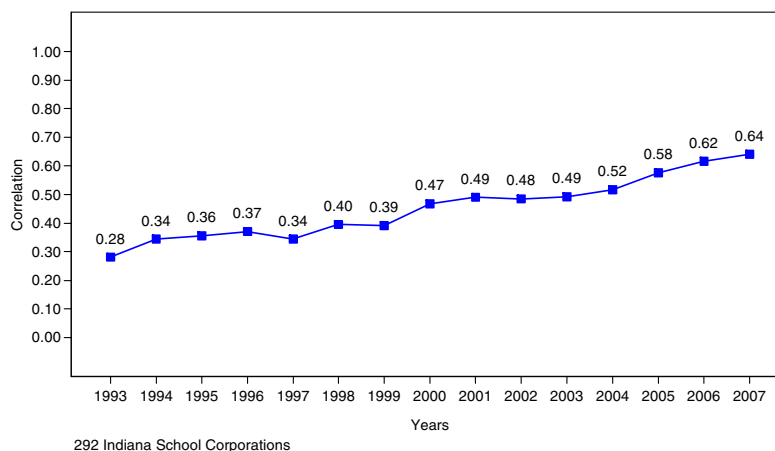


As indicator decreases, funding for “similar” corporations becomes more equal

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Vertical Equity: “Unequal Funding of Unequals”

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



An increase in the correlation suggests an improvement in vertical equity

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Issues and Questions

- Is the level of funding for public schools adequate?
 - Challenge: Lower-performing corporations spend more than other corporations.
 - Question: Do they need even more money for education?
- Can the state save money by consolidating smaller school corporations?
 - Hard to isolate spending on central office expenditures
- Is the Foundation Program allocating enough dollars to lower-socioeconomic corporations?
 - What are the effects of safeguards in the Foundation Program?
 - Should the Complexity Index be changed, and if so, how?
- How should the Basic Grant be divided between categorical funding and tuition support?
- Should corporations be permitted to move dollars across funds more easily?
 - Could help pay for items in the General Fund
 - Risk not being able to pay for Debt Service, Capital Projects, etc.

Contact Information

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Indiana University
rtoutkou@indiana.edu

