Indiana's Foundation Program
A Conceptual Introduction

Robert K. Toutkoushian, Ph.D.

Robert S. Michael, Ph.D.

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CENTER FOR EVALUATION & EDUCATION POLICY

509 East Third Street
Bloomington, Indiana 47401
www.ceep.indiana.edu

Jonathan A. Plucker, Ph.D.
Director

812-855-4438
800-511-6575
Fax:812-856-5890
ceep@indiana.edu

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1 Introduction and Background

Individual states have a long tradition of providing financial support for their public K-12 schools. This support reflects the state's constitutional requirement to educate its citizens.[1] However, states vary widely in both the amount of funding provided to public schools, and the distribution of funding among schools.[2] The fundamental observation underlying discussions of school finance is that communities vary in the amount of wealth they possess, and that this can affect the financial resources dedicated to providing K-12 education. The most commonly-used indicator of community wealth related to education funding is the assessed valuation of individual and business property within the community.

Because communities vary greatly in the amount of taxable property per-pupil, significant variations existed across communities in revenues that could be raised for education. In 2004, for example, the least wealthy corporation in Indiana only had $81,903 dollars of taxable property per-pupil compared to $595,747 per-pupil in the wealthiest corporation, an amount that is over seven times as large (Table 1).

TABLE 1. Amount of Taxable Property per-pupil for 292 Indiana School Corporations, 2004[3]

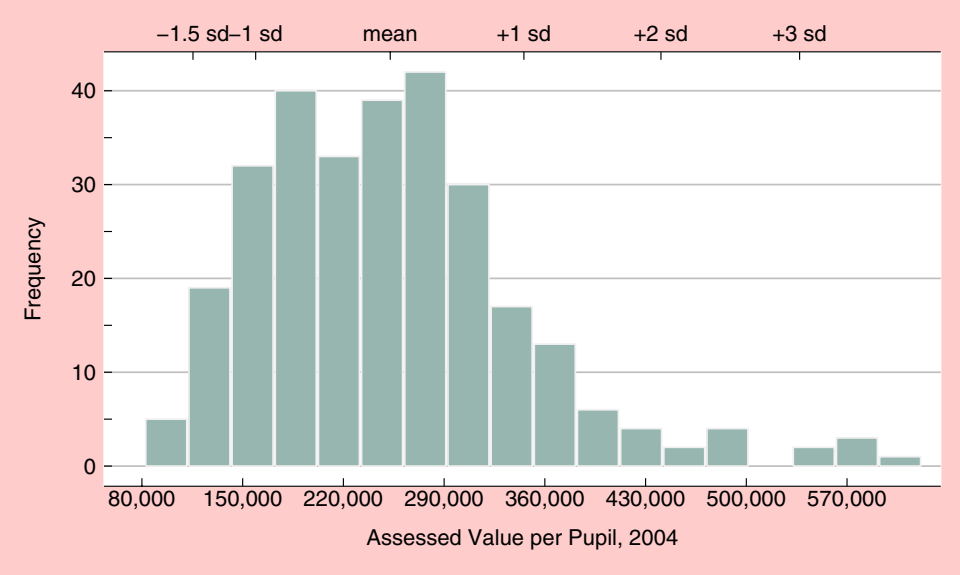
Year	Mean[a]	Standard Deviation	Minimum	Maximum	Range
2004	$ 252,560	$ 92,301	$ 81,903	$ 595,747	$ 513,844

a. [Data Retrieved November 12, 2004 from http://dew4.doe.state.in.us/htbin/sas1.sh].

1. Article 8, Section 1 of the Indiana State Constitution:. "Knowledge and learning, general diffused throughout a community, being essential to the preservation of a free government; it should be the duty of the General Assembly to encourage, by all suitable means, moral, intellectual scientific, and agricultural improvement; and provide, by law, for a general and uniform system of Common Schools, wherein tuition shall without charge, and equally open to all." [Retrieved November 30, 2004 from http://www.law.indiana.edu/uslawdocs/inconst/art-8.html#sec-1].
2. Park, Jennifer (Fall 2004). More different than alike: State strategies for funding education. *The Journal of School Business Officials*, Vol 16(2), 14-26.
3. Prairie Township School Corporation is excluded from all calculations in this paper.

These variations are displayed graphically in Figure 1. While two out of three corporations have taxable property per-pupil that falls between $159,026 and $345,449, the distribution is highly skewed with a few corporations having very high ratios of assessed property values per-pupil. The concern among policymakers is that communities with low ratios of assessed value to pupils have difficulty raising sufficient dollars to provide an adequate education for its citizens.

FIGURE 1. Distribution of Assessed Valuation per-pupil, 292 Indiana School Corporations, 2004



Dating back to 1949, Indiana has used a *Foundation Program* to provide funding for public school corporations, although the details of the Foundation Program have changed dramatically over time. Generally speaking, in a Foundation Program the state guarantees school corporations a specific amount of per-pupil funding for education, which is known as the foundation level, provided that the corporation raises a designated share of revenues through local property taxes. Five distinct periods exist in the history of Indiana public school finance.[4]

Period 1. Prior to 1973, school districts in Indiana were required to levy a minimum tax rate in exchange for support from the state to meet their foundation level. According to this formula, corporations obtained approximately two-thirds of their revenues for education through local property taxes. Because corporations were permitted to raise additional revenues locally for education, and wealthier corporations found it easier than their counterparts to impose these tax increases, wealthier communities had more financial resources dedicated to K-12 education.

Period 2. As part of the state's tax reform measures of 1973, the Indiana General Assembly modified the state's Foundation Program by controlling the growth in property tax levies for education, and requiring school corporations to seek a referendum from voters in order to impose higher property tax rates for education. In addition to these controls, the state also implemented what is known as a Property Tax Replacement Credit, whereby the state agreed to cover 20 percent of each taxpayer's property tax bill as calculated by the Foundation Program. Over the next twenty years, these changes led to a gradual increase in the state's share of education funding. By the late 1980s and early 1990s, the State of Indiana was providing approximately two-thirds of the revenues for K-12 education through the Foundation Program.

Period 3. While these changes were intended to limit growth in the general fund property tax for schools, it did not necessarily eliminate inequities in property taxes nor in school revenues that existed in 1973. In 1986, the state increased funding for the school corporations receiving the lowest amount of revenues per-pupil by establishing a per-pupil floor of $2,700. This action was referred to as *bottom up equalization.* The bottom up equalization was effective inreducing variations in revenues per-pupil across corporations, but only

4. Readers who are interested in the history of education finance in indiana are referred to the following studies: Stoneburner, William E. (1940) *A History of Public School Finance in Indiana.* Unpublished doctoral dissertation, Indiana University, Bloomington, IN. DeBoer, Larry. (1992). *Is 1991 Indiana School Spending Still Influenced by the 1973 Property Tax Levy?* Paper prepared for the House Select Committee on Primary and Secondary Education. Indiana Education Policy Center (1994). *Education in Indiana: An Overview* (Chapter 8). Bloomington, IN: Indiana Education Policy Center. Lehnen, Robert, and Johnson, Carlyn (1989). *Financing Indiana's Public Schools: Update 1989*. Indianapolis, IN: Indiana University School of Public and Environmental Affairs.

benefitted a small number of corporations and did not alter the differentials in property tax rates across corporations.

Period 4. In 1987, the Lake Central School Corporation initiated a lawsuit (*Lake Central v. State of Indiana*, 1993) raising concerns that the state's funding mechanism was still unconstitutional due to persisting inequities in funding. To correct this situation, in 1993 the General Assembly made a number of modifications to the state's Foundation Program. The new program

- continued the bottom up equalization of setting a minimum expenditure per-pupil target for each corporation,
- specified that local property tax rates should be the same for corporations with similar levels of expenditures,
- mandated that property tax rates could not exceed specified ceilings, and
- allowed the foundation level per-pupil to be adjusted upward for school corporations with lower socioeconomic status.

Period 5. Finally, in 2003, the General Assembly designated revenues from an additional one percent sales tax to be used to offset local property taxes. This Property Tax Replacement Credit (PTRC), together with the Homestead Credit, replaced approximately two-thirds of local property tax revenues and in the process increased the state's contribution to funding of K-12 education. It is important to note, however, that this replacement is not part of the Foundation Program and occurs after the state and local shares of education funding are calculated for each corporation.

A number of goals were established in 1993 for the state's Foundation Program. These goals are outlined in Table 2.

TABLE 2. Original Goals for Indiana's 1993 Foundation Program

Goal of Indiana's Foundation Program
● Increase per-pupil funding.
● Increase the state's share of school corporation revenue.
● Make per-pupil funding more dependent on school corporation complexity (i.e., provide higher funding to school corporations with more disadvantaged students).

Goal of Indiana's Foundation Program

- Break the traditional dependence of per-pupil funding on property wealth per-pupil.
- Make General Fund property tax rates more dependent on regular revenue per-pupil.
- Reduce variability in per-pupil funding across school corporations.
- Limit increases in property taxes.
- Reduce variability in property tax rates across school corporations.

These goals[5] pertain to various aspects of the inequities in funding and tax rates across corporations, and were established through discussions among the members of the Indiana School Finance Group — which includes individuals from the four legislative caucuses, the State Budget Agency, the Legislative Services Agency, the Department of Local Government Finance, the Indiana Department of Education, and the Indiana Education Policy Center (now The Center for Evaluation and Education Policy, or CEEP). For the past ten years, CEEP has helped the state monitor the performance of the Foundation Program in meeting these goals, and the results have shown that overall these inequities have been reduced.

This report offers a conceptual explanation of Indiana's current Foundation Program for public K-12 school corporations. As will become apparent, the state's Foundation Program consists of a series of interlocking formulas that are responsive to the wealth, size, and socioeconomic complexity of each school corporation, and the Foundation Program is also dependent upon decisions of the legislature regarding the relative emphases to be placed on different aspects of the Program. This report provides information to a general audience on the internal workings of the manner in which the state provides resources for education to school corporations.

5. The eight goals are not listed in any specific order. See Toutkoushian, R., and Michael, R. (2004). *Indiana's School Funding Formula Impact Study for 2003*. Bloomington, IN: Center for Evaluation and Education Policy, for data and analysis regarding the extent to which Indiana's Foundation Program is meeting these eight goals.

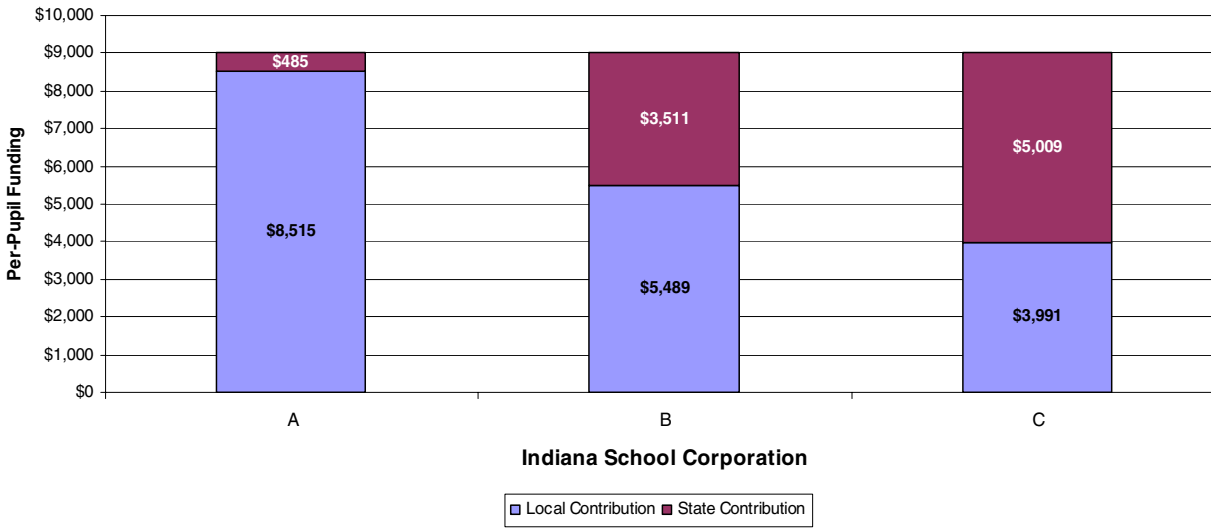
2 Overview of Foundation Programs

The most frequently used method for distributing revenues to schools — and the method currently used in Indiana — is known as a *Foundation Program*. According to Carey (2002),[6] forty states use some variation of a Foundation Program to determine how much financial support to provide to school corporations. Under a Foundation Program, the state first determines the total amount of funding deemed necessary for school corporations in order for them to fund their regular operations. Second, the portion of these revenues that can be raised locally to support education (primarily through local property taxes) is determined. Finally, the portion of revenues that cannot be covered by local sources is designated as the level of state support needed by each corporation. The manner in which a Foundation Program calculates local and state portions of revenue depends on a number of formulas. For example, the share of revenues to be raised locally might be determined by multiplying a specific tax rate by the assessed value of taxable property in the corporation's district.

The general model of a Foundation Program is depicted in Figure 2 for three hypothetical corporations in Indiana (A, B, and C). Suppose that the Foundation Program has determined that each corporation requires $9,000 per-pupil for basic education services, and that each corporation should be able to impose a tax of 2 cents for each $100 of assessed property value for education. As a result, corporation A would be responsible for raising $8,515 per-pupil locally, corporation B should be able to raise $5,489 per-pupil through local sources, and corporation C can only raise $3,991 per-pupil locally. Accordingly, the state would provide subsidies of only $485 per-pupil to corporation A, $3,511 per-pupil to corporation B, and $5,009 per-pupil to corporation C.

6. Carey, K. (2002). Overview of K-12 education finance. Washington, D.C.: Center on Budget and Policy Priorities. [Retrieved 04 November 8 from http://www.cbpp.org/11-7-02sfp2.pdf].

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



More complex Foundation Programs may adjust the levels of required revenues for corporations based on factors such as the size and socioeconomic characteristic of the corporation. It is also common for states to provide supplemental funding to school corporations to meet additional educational expenses. Examples include supplemental funding for schools that provide Prime Time education and special education services.

To fund its share of the Foundation Program, states rely on an array of taxes, including income tax, sales tax, and statewide property taxes. The tax revenues received from state and federal sources are then distributed by the state for various needs including K-12 and postsecondary education, correctional facilities, Medicaid, highways, and other public goods and services. Table 3 provides information on how tax revenues are distributed in the State of Indiana for the 2003-05 biennium. The state allocates over $40.8 billion in this biennium to a variety of uses, with K-12 education receiving close to one-fourth ($9.6 billion) of the total.

TABLE 3. Distribution of State and Federal Funds in Indiana for 2003-2005 Biennium by Use

Use of Funds[a]	Amount	Percent
Human Services	$ 12,810,663,519	31%
K-12 Education	$ 9,665,756,045	24%
Tax Reduction, Dist. & Res.	$ 5,000,441,479	12%
Transportation	$ 4,252,379,229	10%
Higher Education	$ 3,046,508,755	7%
Economic Development	$ 2,484,465,418	6%
Public Safety	$ 1,926,594,729	5%
Environment	$ 575,969,939	1%
General Government	$ 468,826,181	1%
Regulation	$ 276,158,219	1%
Justice	$ 246,522,751	1%
Cultural and Information Res.	$ 82,030,193	< 1%
Total	$ 40,836,316,457	100%

a. Data are from the Indiana State Budget Agency [Retrieved 04 November 15 from http://www.in.gov/sba/budget/2003_budget/as_passed/pdfs/ap_2003_prog_summary.pdf].

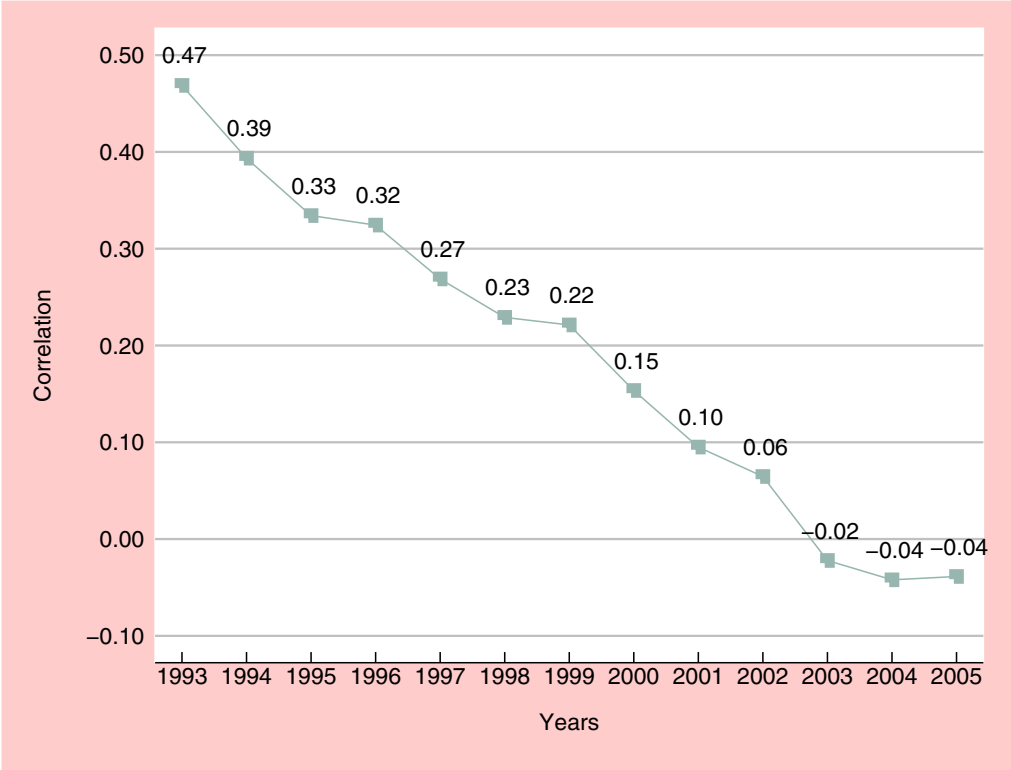
In practice, the tax revenues available to a state are usually insufficient to fund fully all of the demands that they face. Accordingly, states that use a Foundation Program for education may begin by identifying the level of resources that the state can provide for K-12 education, and then make adjustments in the parameters and formulas in the Foundation Program so that the proposed outlays do not exceed available revenues. For example, if Indiana had determined that it can only provide $8 billion over this period to support K-12 public schools, then the property tax rate used in the Foundation Program might be increased so as to increase the share of revenues to be raised locally by $1.6 billion.

3 Overview of Indiana's Foundation Program

Since 1949, Indiana has relied on a Foundation Program to determine the level of financial support to provide for K-12 education, and to distribute these revenues among public school corporations. As noted earlier, the Foundation Program was modified in 1993 to reduce the real and perceived inequities of funding across school corporations. Due to various aspects of the state's Foundation Program prior to 1993, a direct relationship existed in Indiana between the wealth of the community and the level of financial resources used by the community for education. Similar findings in other states led to lawsuits claiming that the methods in those states used to fund education were also inequitable.

The modifications that occurred in Indiana's Foundation Program in 1993 have been very successful at breaking this connection between wealth and educational resources. Figure 3 shows how the correlation between property wealth per-pupil and educational revenues per-pupil changed from 1993 to 2003. Note that in 1993 there was a positive and fairly substantial relationship (correlation = +0.47) between these two measures, suggesting that on average communities with higher property values (an often-used measure of a community's wealth) had more financial resources for education than other communities. By 2003, however, the correlation between property wealth and education revenues was essentially zero, meaning that a linear relationship between these two measures no longer existed.

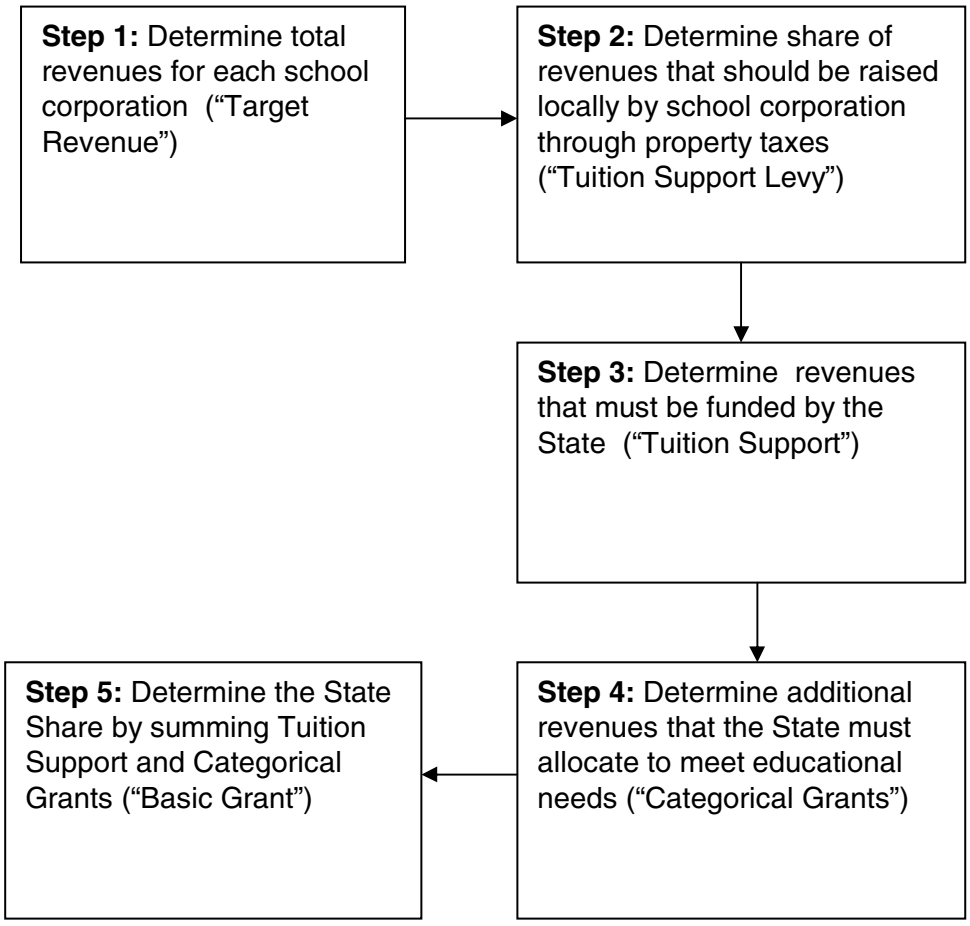
FIGURE 3. Correlation of Regular Revenue per-Pupil with Assessed Valuation per-Pupil, 292 Indiana School Corporations, 1993 to 2005.[7]



Indiana's version of the Foundation Program is very similar to the general, illustrative model depicted in Figure 2. The Indiana program differs from other state's programs in terms of the specific formulas used, how the formulas are interrelated, and the terms used to describe different parts of the Foundation Program. An overview of Indiana's program is shown in Figure 4.

7. Data supplied by Legislative Services Agency.

FIGURE 4. Depiction of Indiana's Foundation Program



Under Indiana's Foundation Program, the amount of money allocated to each corporation to fund its regular education programs is referred to as the *Target Revenue*. Likewise, the phrase *Tuition Support Levy* represents the portion of a corporation's Target Revenue that must be raised by local property taxes. The remaining revenues supplied by the state to compensate corporations for the difference between Target Revenue, Tuition Support Levy and other local taxes earmarked for education is known as *Tuition Support*. The Foundation Program also identifies additional revenues to be allocated to school corporations to meet supplemental needs under what are known as *Categorical Grants*. Finally, the *Basic*

Grant given to each school corporation from the state is then the sum of the Tuition Support Levy plus the Categorical Grants.

4 Details of Indiana's Foundation Program

There are many details involved in the calculations of the aggregate categories of funding described in the preceding section. These details can be found in the publication *Digest of Public School Finance in Indiana, 2003-2005 Biennium*, which is available from the Indiana Department of Education.[8] The remainder of this document describes how each of these aggregate quantities is determined, and in the process focuses on the intuition behind the various calculations. The first part explains the various components of Indiana's funding for general education purposes, and the second part turns to the calculation of categorical grants that are intended to cover supplemental education needs.

4.1 Target Revenue

The Target Revenue for a corporation represents the total amount of funding that the Foundation Program suggests the corporation should have to cover its basic operations. To determine this figure, three independent calculations are made for each corporation, and Target Revenue is set equal to the maximum outcome of these three calculations. Consequently, each corporation uses the approach that is most favorable to their situation. The three calculations, or options, are described briefly as follows:

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 enrollments.**
3. **Minimum Guarantee Grant = Last year's Target Revenue increased by a specific percentage.**

4.1.1 Foundation Grant

To calculate the Foundation Grant for each corporation, three pieces of information are required:

8. The *Digest* can be accessed electronically on the Indiana Department of Education's website at http://www.doe.state.in.us/publications/financedigest.html

1. **the enrollment level adjusted for recent growth or decline;**
2. **the per-pupil support level ("foundation aid per-pupil"), and**
3. **the index reflecting the socioeconomic status of the corporation's community ("Complexity Index").**

Once these three parts are known, they are multiplied together to give the estimated amount of money for school corporations to use in providing basic education services.

4.1.1.1 Enrollment Adjustments

A corporation's enrollment level represents the number of students who are in attendance on a specific date. This is known as the (unadjusted) *Average Daily Membership or ADM*. However, several adjustments are made to each corporation's ADM prior to being used in the Foundation Program calculations. A corporation's adjusted ADM differs from the unadjusted ADM in that the enrollment total is increased by a specific amount when the corporation is experiencing declining enrollments, and decreased by a specific amount when the corporation is experiencing rising enrollments. This process is referred to as *reg-hosting* in the Indiana Foundation Program. The adjustments are as follows:

If current ADM is *less than* the ADM's for the previous four years, then:

Adjusted ADM (year t) = ADM(t) + 0.80*(ADM(t-1) – ADM(t))
+ 0.60*(ADM(t-2) – maximum [ADM(t-1) to ADM(t)])
+ 0.40*(ADM(t-3) – maximum [ADM(t-2) to ADM(t)])
+ 0.20*(ADM(t-4) – maximum [ADM(t-3) to ADM(t)])

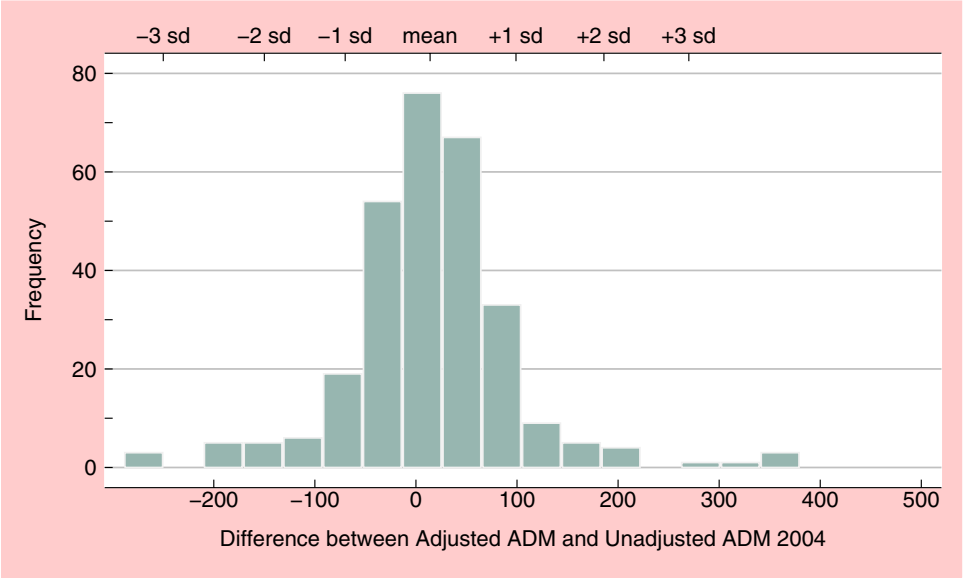
This formula is used for corporations with *declining* enrollments. The result of the formula is that the enrollment count for the district is *adjusted upward* based on a weighted average of the amounts by which enrollments have declined over the previous five years.

If current ADM is *more than* the ADMs for the previous four years, then:

Adjusted ADM (year t) = ADM(t-1) + (ADM(t) – ADM(t-1))
***(lesser of 0.75 or [.002*(ADM(t) – ADM(t-1)])**

Both of these adjustments are intended to reduce the effects of large fluctuations in enrollments on the revenues targeted to public school corporations under Indiana's Foundation Program. The reghosting process provides a financial benefit to corporations with falling enrollments because the enrollment figures used to calculate their financial need is higher than would be true if unadjusted enrollments were used in the subsequent formulas. Figure 5 shows the magnitude of the variations in adjusted versus unadjusted ADM's across Indiana's public school corporations. Table 4 lists the summary values for these data.

FIGURE 5. Difference Between Adjusted and Unadjusted ADM, 291 Indiana School Corporations, 2004[9, 10]



9. Excludes Indianapolis Public Schools. The adjusted ADM for IPS is 892 pupils larger than the unadjusted ADM. The next largest difference is 380 pupils.
10. Calculations from CEEP School Funding Formula Simulation Program. [Data Retrieved November 01, 2004 from http://dew4.doe.state.in.us/htbin/sas1.sh].

TABLE 4. Adjusted and Unadjusted Average Daily Membership for Indiana Public School Corporations, 2004

	Mean[a]	Standard Deviation	Minimum	Maximum	Range
Adjusted ADM	3,345	4,361	174	44,062	43,888
Unadjusted ADM	3,328	4,337	134	43,170	43,036
Difference (Adjusted - Unadjusted)	17	99	-289	892	1,181

a. Calculations from CEEP School Funding Formula Simulation Program. [Data Retrieved November 01, 2004 from http://dew4.doe.state.in.us/htbin/sas1.sh].

Note that the average difference between the adjusted and unadjusted ADM counts for Indiana's public school corporations is relatively small — 17 students, or 0.5% of the mean. However, the standard deviation is almost 6 times a large as the mean, indicating that some school corporations experienced relatively large enrollment adjustments due to the reghosting process. The differences range from -289 pupils (Penn-Harris-Madison School Corporation) to +892 (Indianapolis Public Schools). However, approximately five out of six school corporations had adjustments of less than 100 students to their enrollment count.

TABLE 5. Distribution of Corporations Based on Differences between Adjusted and Unadjusted Average Daily Membership for Indiana Public School Corporations, 2004

Enrollment Adjustment (absolute values)	Adjusted ADM is Less than Unadjusted ADM[a]	Adjusted ADM is Greater than Unadjusted ADM
over 301	0	5
201 to 300	4	2
101 to 200	13	20
76 to 100	8	18
51 to 75	16	32
26 to 50	29	48
0 to 25	55	42
Total	**125**	**167**

a. Calculations from CEEP School Funding Formula Simulation Program. [Data Retrieved November 01, 2004 from http://dew4.doe.state.in.us/htbin/sas1.sh].

4.1.1.2 Complexity Index

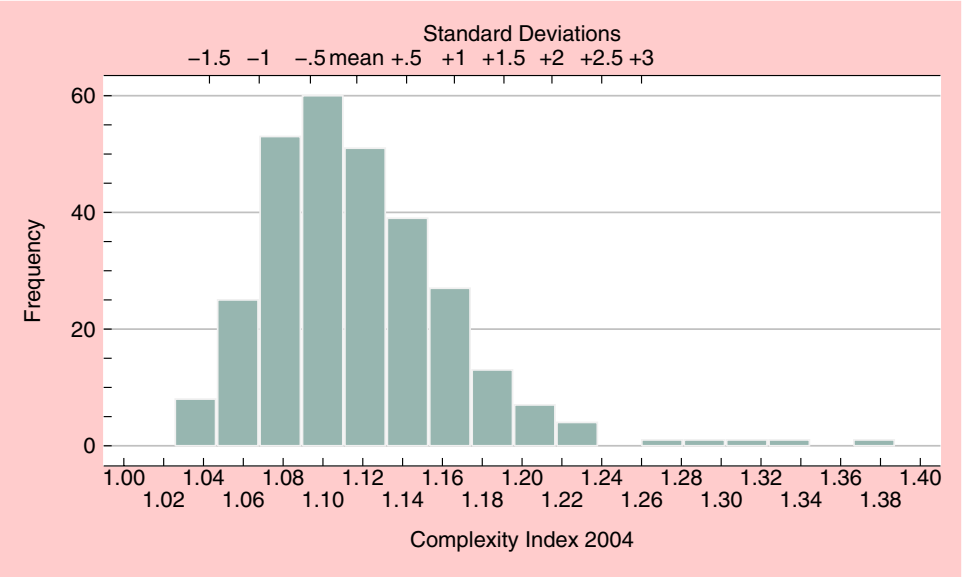
The Complexity Index is intended to be a measure that represents the socioeconomic status or complexity of the school corporation's community. The 2005 Complexity Index is defined as one plus a weighted average of five components:

1. **Percent families with a single parent in 2000 (weight = .1213)**
2. **Percent population aged 25+ years with less than a 12th grade education in 2000 (weight = .2221)**
3. **Percent families below poverty level and with dependent children under 18 in 2000 (weight = .0755)**
4. **Percent students eligible for free school lunches in 2003 (weight = .2747)**
5. **Percent students with limited English proficiency in 2003 (weight = .0984)**

The Complexity Index is constructed in such a way that communities with lower socioeconomic status will have higher values of the Index. Between 1993 and 2003, the state's Foundation Program relied on the At-Risk Index,[11] which was a weighted average of the first three components of the Complexity Index. Beginning in 2004, however, the Index was expanded and renamed to take into account the effects of the number of children eligible for free lunch and/or children with limited proficiency in English. The first three values are obtained from the U.S. Census, and thus can only be updated once every ten years. The fourth and fifth items are obtained annually from each school corporation. These five variables are intended to represent the wealth, educational attainment, family status, and English language proficiency of students within the corporation. The weights for each of these components are based on the relationships between each item and student performance on the state's ISTEP+ test, and are meant to reflect the premise that more money is needed by school corporations to provide education to more complex student populations.[12] Figure 6 shows the distribution of Complexity Index values across Indiana's public school corporations:

11. Vesper, N. (1995). *Options for Indiana's At-Risk Index*. Bloomington, IN: Indiana Education Policy Center.
12. See Bull, B. & Michael, R. S. (2003). *An Examination of Indiana's Complexity Index*. Bloomington, IN: Indiana Education Policy Center.

FIGURE 6. Complexity Index Values for 292 Indiana Public School Corporations, 2004[13]



Note that the Complexity Index ranges from a low of 1.025 to a high of 1.387, and that there are a few corporations with relatively high Complexity Index values. This can also be seen when school corporations are grouped according to their degree of complexity. Table 6 lists four levels of complexity with the corresponding range of Complexity Index values, and the number of corporations in each group. Table 7 presents descriptive statistics for the Complexity Index for all public school corporations in Indiana.

TABLE 6. Complexity Index Categories, 292 Indiana School Corporations, 2004

Complexity Index Grouping	CI Range	Number of Corporations[a]
Highest Complexity Group	1.15 to 1.39	59
Second Highest Group	1.12 to 1.14	59
Third Highest Group	1.09 to 1.11	84
Lowest Complexity Group	1.03 to 1.08	90

a. [Data Retrieved November 01, 2004 from http://dew4.doe.state.in.us/htbin/sas1.sh].

13. [Data Retrieved November 01, 2004 from http://dew4.doe.state.in.us/htbin/sas1.sh].

TABLE 7. Descriptive Statistics of the Complexity Index for 292 Indiana Public School Corporations, 2004

	Mean	Standard Deviation	Minimum	Maximum	Range
Complexity Index	1.1178	.04876	1.0253	1.3874	.3621

4.1.1.3 Foundation Grant Calculation

Once these two pieces of information are determined for each corporation, the Foundation Grant is calculated as follows:

Foundation Grant = Foundation Level * Adjusted ADM * Complexity Index

This formula is intended to provide a per-pupil amount of revenue to each corporation after making adjustments for the socioeconomic composition of the community. School corporations with lower levels of wealth, educational attainment, and English proficiency will have higher values for the Complexity Index and thus will be entitled to higher levels of funding under this formula. The Foundation Level is a per-pupil dollar amount established by the General Assembly. It is normally increased by a specific amount every year. For example, the Foundation Level for 2004 is $4,350, and in 2005 is slated to increase to $4,368. Corporations that receive their Target Revenue through this option tend to have rising enrollments and/or lower socioeconomic status (i.e., higher Complexity Index values). Table 8 shows how the Foundation Grant per-pupil is distributed across all public school corporations in Indiana in 2004.

TABLE 8. Foundation Grant (Restricted) Statistics, 292 Indiana School Corporations, 2004

	Mean[a]	Std Dev	Minimum	Maximum	Sum
Foundation Grant	$17,062,987	$23,892,545	$1,356,577	$262,538,623	$4,982,392,344
Grant per-Pupil	$5,114	$545	$4,506	$10,124	n/a

a. Calculations from CEEP School Funding Formula Simulation Program. [Data Retrieved November 01, 2004 from http://dew4.doe.state.in.us/htbin/sas1.sh].

It is important to note that the Foundation Grant is restricted and not permitted to vary by more than 2 percent above or below the previous year's Target Revenue per adjusted ADM times the current year's ADM. The net effect is that the Foundation Grant revenues per-pupil in corporations with dramatic changes in their ADM — up or down — will not be in proportion to changes in their enrollments. This restriction provides an added benefit for school corporations with falling enrollments because the lower cap limits the extent to which revenues can fall. At the same time, the upper cap works against corporations with rising enrollments because the formula does not provide additional revenues in proportion to their growth. In 2004, there were 178 corporations that would have been affected by this restriction if they had received their Target Revenue from the Foundation Grant option. However, most of these corporations (164 out of 178) would have been subject to the lower cap restriction.

4.1.2 Variable Grant Calculation

The second option for calculating a school corporation's Target Revenue is the Variable Grant formula. Based on this formula, the Target Revenue is calculated by multiplying the previous year's Target Revenue per adjusted ADM by the current year's adjusted ADM. Corporations that receive their Target Revenue through the Variable Grant option tend to have high socioeconomic status and/or rising enrollments. Table 9 shows how the Variable Grant revenues would be distributed across all of Indiana's public school corporations in 2004.

TABLE 9. Variable Grant Statistics, 292 Indiana School Corporations, 2004

	Mean[a]	Std Dev	Minimum	Maximum	Sum
Variable Grant	$17,186,892	$24,176,825	$1,272,205	$268,129,393	$5,018,572,354
Grant per-Pupil	$5,143	$536	$4,528	$9,494	n/a

a. Calculations from CEEP School Funding Formula Simulation Program. [Data Retrieved November 01, 2004 from http://dew4.doe.state.in.us/htbin/sas1.sh].

4.1.3 Minimum Guarantee Grant Calculation

Finally, the Minimum Guarantee Grant option simply increases the Target Revenue from the previous year by a specific amount that is established by the legislature. In 2004-05, the increase is set equal to 1 percent. Because it guarantees that a corporation will not experience a decline in Target Revenue, corporations with falling enrollments are more likely than others to receive their Target Revenue through the Minimum Guarantee. Table 10 shows how the Minimum Guarantee Grant per-pupil would be distributed across all public school corporations in 2004:

TABLE 10. Minimum Guarantee Grant Statistics, 292 Indiana School Corporations, 2004

	Mean[a]	Std Dev	Minimum	Maximum	Sum
Minimum Guarantee Grant	$17,348,371	$24,539,148	$1,344,159	$274,751,029	$5,065,724,230
Grant per-Pupil	$5,213	$579	$4,561	$10,031	n/a

a. Calculations from CEEP School Funding Formula Simulation Program. [Data Retrieved November 01, 2004 from http://dew4.doe.state.in.us/htbin/sas1.sh].

After these three grant calculations are computed for each corporation, the Target Revenue is set equal to the *maximum* of the three. This precaution was built into the Program to ensure that corporations would not be adversely affected by any one of these options, and helps provide stability in revenues for funding education. At the same time, however, this design reduces the extent to which education dollars change when enrollments change, and reduces the state's ability to redistribute revenues towards growing school corporations and school corporations with decreasing socioeconomic status. Among the goals of the Indiana Foundation Program is the notion that a corporation's Target Revenue should not be affected by the wealth of the community. In this regard, the state's Foundation Program has been very successful. The formulas used in computing the Variable Grant and Minimum Guarantee Grant options deliberately do not include any measures of a community's wealth, and the Foundation Grant option would provide more Target Revenue for lower socioeconomic communities.

Table 11 shows the distribution of the source of Target Revenue for all public school corporations in Indiana for 2004. The label "Foundation Grant Restricted" refers to corporations that received their Target Revenue based on the Foundation Grant, but were subject to the upper or lower cap restriction. Table 12 shows the distribution of corporations in 2000 through 2004 according to the option used to find Target Revenue. Note that prior to 2004, the Foundation Grant category includes all corporations that received their Target Revenue through this option regardless of whether their funding was restricted by the upper or lower cap.

TABLE 11. Source of Target Revenue for 292 Indiana School Corporations, 2004

	Foundation Grant (Unrestricted)[a]	Foundation Grant (Restricted)	Variable Grant	Minimum Guarantee	Sum
Count	19	24	13	236	292
Percent	6.5%	8%	4.5%	81%	100%

a. Calculations from CEEP School Funding Formula Simulation Program. [Data Retrieved November 01, 2004 from http://dew4.doe.state.in.us/htbin/sas1.sh].

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

	Foundation Grant[a]	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%

a. Prior to 2003 the Foundation Grant was referred to as the "Bottom Up Grant." Calculations from Legislative Services Agency and CEEP School Funding Formula Simulation Program.

Note that in 2004 about 8 out of 10 corporations receive their Target Revenue according to the Minimum Guarantee Grant. This is a substantial change from previous years, when the percent of corporations funded by the Minimum Guarantee Grant was usually below

50 percent. Table 13 shows the total levels of Target Revenue that would be allocated to corporations in 2004 under each grant option:

TABLE 13. Total Target Revenue Distributed by Type of Grant, 292 Indiana School Corporations, 2004

Grant	Corporations	Sum[a]	Percent of Sum
Minimum Guarantee	236	$3,608,841,733	70.9%
Variable Grant	13	$521,057,737	10.2%
Foundation	19	$524,439,905	10.3%
Foundation, Lower Cap	22	$281,632,556	5.5%
Foundation, Upper Cap	2	$152,298,709	3.0%
Total	**292**	**$5,088,270,640**	**100.0%**
All Foundation Grants	43	$958,371,170	18.8%

a. Calculations from CEEP School Funding Formula Simulation Program. [Data Retrieved November 01, 2004 from http://dew4.doe.state.in.us/htbin/sas1.sh].

This table shows that over 70 percent of the Target Revenues for school corporations are distributed according to the Minimum Guarantee Grant, with the Foundation Grant accounting for less than 20 percent and the Variable Grant option the remaining 10 percent.

Table 14 shows what the total Target Revenue would be for public school corporations if they were funded solely on the basis of each option, and how these totals compare to the current practice. If only the Foundation Grant were used (but with the upper and lower caps remaining in place), the total Target Revenue for the state's corporations would be $4,982,392,345. If the caps were eliminated, the total amount for all 292 school corporations would decrease to $4,834,241,268, which is $148,151,077 less than with the two percent cap in place. This reduction occurs because the lower cap applies to many more corporations than the upper cap. Likewise, if all corporations were funded by the Variable Grant, the total Target Revenue assigned to school corporations would be $5,018,572,355. Finally, when the Minimum Guarantee Grant is used for all corporations, the total rises to $5,065,724,230.

TABLE 14. Total Target Revenue for 292 Indiana School Corporations if Funded by Each Grant Type, 2004

	Grant	Sum[a]	Maximum - Option
	Maximum of Three Options	$5,088,270,640	
Option 1:	Foundation Grant (Restricted)	$4,982,392,345	$105,878,295
	Foundation Grant (Unrestricted)	$4,834,241,268	$254,029,372
Option 2:	Variable Grant	$5,018,572,355	$69,698,285
Option 3:	Minimum Guarantee Grant	$5,065,724,230	$22,546,410

a. Calculations from CEEP School Funding Formula Simulation Program. [Data Retrieved November 01, 2004 from http://dew4.doe.state.in.us/htbin/sas1.sh].

Table 14 shows that the practice of assigning Target Revenues on the basis of the maximum of the three options results in an increase in Target Revenue for school corporations of between $22 million and $105 million per year.

4.2 Tuition Support Levy

After the Target Revenue has been determined for each corporation, the Indiana Foundation Program turns to the question of how to raise the required funds. Essentially, the Target Revenue can be paid from local government sources and state government sources. While the primary vehicle for raising funds from local government sources is property taxes, other local sources of revenue used in Indiana include taxes raised locally on motor vehicles and financial institutions. state government sources of funding are likewise derived from state taxes, including sales and income taxes.

The Tuition Support Levy determines the share of a corporation's Target Revenue that must be funded through local property taxes. This quantity is found by multiplying the maximum General Fund Tax Rate by the current assessed value of taxable property in the district. In 2004, the maximum General Fund Tax Rate was set equal to 63.7 cents per $100 plus an adjustment based on the difference between a corporation's Foundation Grant and Target Revenue and any revenue losses incurred from P.L. 874 and the con-

struction of new facilities. The intention here is that variations in local shares of education funding should be driven mainly by variations in property wealth and not tax rates. There has been great concern among policymakers that variations in the local tax rates used for education should be minimized. One of the ways in which this has been accomplished has been with the development of the Property Tax Replacement Credit (PTRC). The PTRC was intended to reduce the local burden on property taxes for funding education by covering a portion of these revenues with dollars from the state. Table 15 shows the current variations in local tax rates for education across communities, and how they have changed over time. These variations have been affected by three factors. First, Indiana has conducted two major reassessments of property values in 1996 and 2003. Second, in 2002 property values in Indiana were revalued to full market value as compared to one-third of market value. The reassessment and revaluation of property values changes tax rates but does not necessarily change the amount of local revenue that is raised. Thus, pre- and post-reassessment and revaluation rates must be adjusted, or else changes in rates due to these factors may lead to the incorrect inference that more revenue is also being raised. The third variation that affects local tax revenues is that the level of the Indiana PTRC has varied over time.

The first row in Table 15 lists the unadjusted tax rates from 1993 to 2005. The second row shows the rates reduced by a third for the years 1993-2001. The third row contains the rates adjusted on the basis of the 2003 reassessment of property values, and the last row reflects the application of the Property Tax Replacement Credit. In 1993, school corporations in Indiana levied general fund property tax rates that averaged $0.64 per $100 of reassessed property value. In 2003 the general fund rate averaged $0.72 per $100, but the PTRC reduces the adjusted, average General Fund tax rate by about 47 cents to 25 cents per $100 of reassessed property value, or a reduction of about 66 percent. This represents the effective maximum rate, in 2003 adjusted terms, at which local property is taxed for the General Fund.

TABLE 15. Average General Fund Tax Rates for 292 Indiana School Corporations, 1993 to 2005.

	Category	1993	1994	1995	1996	1997	1998	1999
1	Unadjusted Rate	$2.9478	$2.9446	$3.0010	$2.7715	$2.7841	$2.9107	$2.8699
2	1/3rd Unadjusted Rate	$0.9826	$0.9815	$1.0017	$0.9238	$0.9271	$0.9702	$0.9566
3	1/3rd Adjusted Rate	$0.6371	$0.6369	$0.6497	$0.6648	$0.6688	$0.6978	$0.6884
4	1/3rd Adjusted - PTRC	$0.5089	$0.5101	$0.5250	$0.5358	$0.5410	$0.5646	$0.5563
	Category	**2000**	**2001**	**2002[a]**	**2003**	**2004**	**2005**	
1	Unadjusted Rate	$2.8971	$2.9166	$0.9881	$0.6856	$0.7283	$0.7228	
2	1/3rd Unadjusted Rate	$0.9657	$0.9722	$0.9881	$0.6857	$0.7283	$0.7228	
3	1/3rd Adjusted Rate	$0.6952	$0.7000	$0.7117	$0.7181	$0.7629	$0.7566	
4	1/3rd Adjusted - PTRC	$0.5605	$0.5656	$0.5750	$0.2495	$0.2641	$0.2609	

a. Unadjusted tax rates no longer divided by three. The actual annual general fund property tax rates per $100 of assessed valuation in 1999, 2000, 2001, 2002, and 2003 were $2.87, $2.90, $2.91, $0.99, and $0.69 respectively. In order to compare property tax rates over time, this report adjusts pre-2002 tax rates based on 2003 assessed valuations.[Data supplied by Legislative Services Agency].

To determine the maximum General Fund Tax Rate for each corporation, a series of complicated formulas are used. These formulas are described in detail in the *Digest of Public School Finance*. The magnitude of the increase to the 63.7 cent base tax rate is intended to compensate corporations for revenues that they have lost due to having a large difference between their Foundation Grant amount and Target Revenue, or lost revenue due to the construction of new facilities or P.L. 874.

4.3 Tuition Support

The Tuition Support represents the amount of state funding each corporation receives to cover that portion of the Target Revenue that cannot be met by local sources. The local sources of financial support include not only the amount raised from local property taxes (Tuition Support Levy), but also the Financial Institutions Tax (FIT), Motor Vehicle Excise Tax (MVET), and Commercial Vehicle Tax (CVT). Accordingly, corporations that are expected to cover a relatively large share of Target Revenue through local taxes would

receive relatively less financial support from the state. The Tuition Support is found by subtracting all sources of local support from the corporation's Target Revenue:

Tuition Support = Target Revenue – Tuition Support Levy – FIT – MVET – CVT

Table 16 shows the breakdown of the sources of revenues used to cover the Target Revenue of public school corporations in Indiana. On average, 36 percent of Target Revenue is covered by local property taxes, 0.20 percent by FIT, 3.8 percent by MVET, 0.28 percent by CVT, and, before further adjustments, 59.8 percent by the state. It is important to reiterate that variations in local taxes have no impact on the total amount of funding (Target Revenue) that corporations use to fund education.

TABLE 16. Sources of Support for Target Revenue, 292 Indiana School Corporations, 2004

Target Revenue[a]	Tuition Support Levy	Financial Institution Tax	Motor Vehicle Excise Tax	Commercial Vehicle Tax	Tuition Support
$5,088,270,640	$1,851,660,608	$9,943,576	$191,620,618	$14,264,879	$3,020,780,959
Share of Total	36%	0.20%	3.77%	0.28%	59.8%

a. Calculations from CEEP School Funding Formula Simulation Program. [Data Retrieved November 01, 2004 from http://dew4.doe.state.in.us/htbin/sas1.sh].

4.4 Categorical Grants

All of the quantities shown above pertain to school funding for basic education services. These are referred to as *non-categorical grants* because the funding is not identified to meet particular educational needs for programs that may lead to additional costs for the corporation. This section of the report examines the various categorical grants that are included in Indiana's Foundation Program. There are also categorical grants such as full-day kin-

dergarten that are funded by the state but are not included in the state's Foundation Program.

4.4.1 Enrollment Growth Grant

Due in part to the reghosting process discussed earlier, school corporations with rapidly-growing enrollments may have difficulty securing enough funding to adequately cover the educational expenses associated with these students. The Enrollment Growth Grant is intended to help growing corporations by providing them with some supplemental funding. In order to receive funds through the Enrollment Growth Grant, the ADM growth in the past year for the corporation must exceed either 5 percent or 250 students. The Grant amount is determined based on the following formula:

Grant = (change in ADM) * (Target Revenue per adjusted ADM) / 3

The formula therefore provides supplemental funding in the amount of one-third the per-pupil Target Revenue for each of the additional students enrolling in the past year (as long as the enrollment growth in the corporation exceeds the minimum threshold described above). In 2004, the amount of funds provided by the State of Indiana for this grant was $9,662,821.[14]

4.4.2 Academic Honors Diploma Grant

Indiana's Foundation Program includes a supplemental grant to provide school corporations with an additional $963 for each Academic Honors Diploma that they awarded in the previous year. The supplemental grant is intended both to provide an incentive to school corporations to award more of these types of diplomas, and to compensate corporations for the additional expenses that they incur from operating this program. In 2004 the amount of funds provided by the State of Indiana for this grant was $15,095,988.

14. Values for categorical grants were retrieved November 15, 2004 from http://dew4.doe.state.in.us/htbin/sas1.sh.

4.4.3 Supplemental Remediation Grant

The Supplemental Remediation Grant is designed to provide additional funding to help particular public school corporations increase the proportion of students who demonstrate adequate performance on Indiana Statewide Testing for Educational Progress (ISTEP+). The formula provides $97.50 for each student in the corporation who did not pass the ISTEP+ in the previous year, and is intended to cover some of the costs of providing additional remediation services for these students. In 2004, the amount of funds provided by the State of Indiana for this grant was $14,096,355.

4.4.4 Special Education Grant

Indiana's Foundation Program provides additional revenues to corporations to help offset the cost of providing education to students with special needs. The current amounts provided under this grant are $8,246 per-pupil with severe disabilities, $2,238 per-pupil with moderate disabilities, and $531 per-pupil with communications disorders. In 2004, the amount of funds provided by the State of Indiana for this grant was $412,751,487.

4.4.5 Vocational Education Grant

Another form of supplemental funding for school corporations is to help cover the cost of providing vocational education services. The Foundation Program provides funding for credit hours taught, with the amounts varying by the demand and wages for the field in which training is provided. Table 17 shows the various amounts of per-credit hour funding:

TABLE 17. Per-Credit Hour Funds Distributed to School Corporations for Vocational Education

	Demand for Field		
Wages in Field	**High Labor Need**	**Moderate Labor Need**	**Low Labor Need**
High Wage	$450 / credit hour	$350 / credit hour	$300 / credit hour
Medium Wage	$375 / credit hour	$300 / credit hour	$225 / credit hour
Low Wage	$300 / credit hour	$225 / credit hour	$150 / credit hour

The list of classes that qualify for each category are maintained by the Indiana Department of Workforce Development,[15] and school corporations submit information to the state on their enrollments in these courses. In addition, the state's Foundation Program gives school corporations $250 per-pupil enrolled in other vocational education programs and $150 per-pupil involved in area participation. All together, in 2004 the amount of funds provided by the State of Indiana for this grant was $69,408,325.

4.4.6 Prime Time Grant

The final supplemental grant category included in Indiana's Foundation Program is for the Prime Time education programs. These dollars are designated to help districts cover the expenses associated with Prime Time education programs. Corporations receive the *smallest* of the following two calculations for this purpose:

1. **The estimated dollar value of K-3 teachers funded through Prime Time**
2. **The previous year's Prime Time funding increased by a specific amount (7.5 percent)**

The State of Indiana provided $126,077,758 of funding for Prime Time in 2004.

4.5 Basic Grant

The Basic Grant for each corporation represents the total amount of funding received for meeting the general and supplemental education services in the school corporation.

15. http://www.in.gov/dwd/

Accordingly, the Basic Grant is equal to the Tuition Support plus all of the Supplemental Grants described in the previous section. Table 18 provides a breakdown of the Basic Grant according to the source of funding

TABLE 18. Basic Grant, 292 Indiana School Corporations, 2004

Source	Amount[a]	Percent
Tuition Support	$3,020,780,959	82.69%
Enrollment Growth	$9,662,821	0.26%
Academic Honors Diploma	$15,095,988	0.41%
Supplemental Remediation	$14,096,355	0.39%
Special Education	$412,751,487	11.30%
Vocational Education Grant	$69,408,325	1.90%
Prime Time	$126,077,758	3.05%
Basic Grant	$3,667,873,693	100.00%

a. Calculations from CEEP School Funding Formula Simulation Program. [Data Retrieved November 01, 2004 from http://dew4.doe.state.in.us/htbin/sas1.sh].

Almost five out of every six dollars provided to school corporations for education are in the form of Tuition Support, with Special Education funding being the largest single Categorical Grant. Table 19 (page 34) shows how this distribution of funds has changed since 1993. Specifically, note that Tuition Support represented 79 percent in 1993 and rose to over 82 percent in 2004. The Enrollment Growth Grant, added in 1997, was $4,891,215. The Academic Honors Diploma Grant, added in 1998, was $6,571,740. Both amounts are inflation adjusted and expressed in 1993 dollars.

TABLE 19. Basic Grant, 292 Indiana School Corporations, 1993 and 2004

Source[a]	1993 Amount	Percent	2004 Amount	Percent
Tuition Support	$1,062,094,605	79.03%	$2,492,243,420	82.36%
Enrollment Growth[b]			$7,972,144	0.26%
Academic Honors Diploma[c]			$12,454,686	0.41%
Supplemental Remediation[d]			$11,629,955	0.39%
Special Education	$172,046,391	12.80%	$340,533,521	11.30%
Vocational Education Grant	$38,154,491	2.84%	$57,264,146	1.90%
Prime Time	$71,611,615	5.33%	$104,018,288	3.05%
Basic Grant	$1,343,907,102		$3,026,116,161	100.00%

a. Data provided by Legislative Services Agency and all values are expressed in 1993 dollars.
b. Enrollment Growth Grant added in 1997.
c. Academic Honors Diploma Grant added in 1998.
d. Supplemental Remediation fund added in 2004.

4.6 Summary

This report provides an overview of the main parts of Indiana's Foundation Program for K-12 education. Rather than focus on the details of the calculations of the Foundation Program, this report describes the purpose of the different parts of the Foundation Program. Readers who are interested in more of the details behind the various calculations presented here are referred to the *Digest of Public School Finance*, produced by the Indiana Department of Education. As shown here, Indiana's Foundation Program is actually a series of interrelated formulas that are subject to change depending on decisions made by the Indiana Legislature. These changes can affect not only the total amounts of funds given to schools for various purposes, but also how these funds are distributed among corporations.