CEEP Center for Evaluation & Education Policy

Education Policy Brief

Changes in Indiana School Funding

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INTRODUCTION

Indiana's school funding formula, the long-standing mechanism created to distribute tax revenues to fund public education in the state, has received renewed criticism from local education leaders despite the documented progress of the system in producing a more equitable distribution of funds to schools over time. With the passage of the school funding formula for the 2009-2011 biennium, leaders from urban and suburban school corporations alike have expressed disappointment with the funding levels they will receive for the next two years. In fact, the consternation level of leaders is so high in the Hamilton Southeastern Schools (one of the fastest growing school corporations in the state) that they are contemplating litigation against the state on the grounds that the formula does not produce an adequate level of funding to meet the learning needs of their students.

Changes to school funding in Indiana have been substantial in the last few years, and when coupled with the economic recession experienced by Indiana and the nation, school corporations are faced with new and sometimes challenging financial management decisions.

This Education Policy Brief will examine the recent changes implemented to Indiana's school funding system, with emphasis on the provisions of the two-year state budget adopted by the legislature via House Enrolled Act 1001-2009. Variance in per-pupil funding by the locale type of the school corporations will also be explored. Finally, the issues of school funding equity and adequacy will be revisited from previous reports issued by the Center for Evaluation & Education Policy.

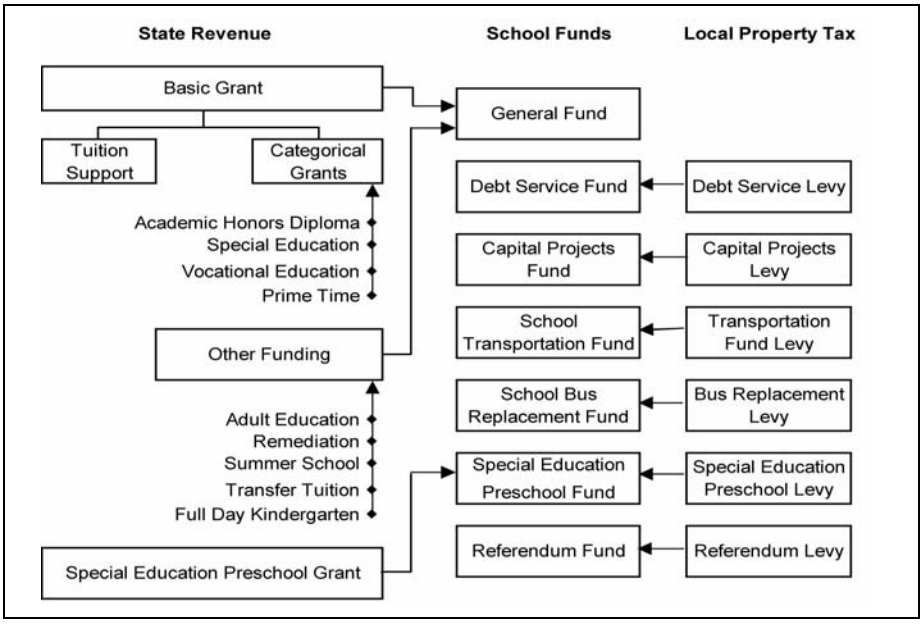
PUBLIC SCHOOL FINANCE IN INDIANA

Since 1949 the funding mechanism used in Indiana to calculate General Fund revenue for each school corporation has been the Foundation Program. The state uses this program to calculate for each local school corporation a specific per-pupil dollar amount for the funding that supports classroom instruction directly. Although the Foundation Program requires numerous discrete pieces of information for calculation, at the beginning of the program the three essential items are the student count, known as the adjusted Average Daily Membership (ADM); the Complexity Index, which is based on the percentage of students eligible for free- or reduced-lunch; and the Foundation Level.

The Foundation Level is the dollar amount established by the Indiana General Assembly during each biennial budget session, and it is the minimum dollar amount the Foundation Program can generate for each student ($4,825 per pupil in 2009). The Complexity Index may adjust the Foundation Level amount upward depending on the demographic composition of students residing within the school corporation's boundaries (e.g., the percentage of students receiving free- or reduced-price lunches). In 292 of Indiana's 293 school corporations the Complexity Index calculation increased funding above the minimum Foundation Level in 2009.

Toutkoushian and Michael (2005) present a detailed explanation of the workings of the Foundation Program. In this policy brief, only a few aspects of the Foundation Program that garner ongoing attention from policymakers are discussed. First, an overview of school funds and revenue sources is presented in Figure 1. The middle column, labeled "School Funds," shows the major revenue funds available to Indiana school corporations. The left column, labeled "State Revenue," shows state dollars flowing to the seven school funds. The box labeled "Basic Grant" includes the dollars

Figure 1. State and Local Sources for School Funds



generated by the Foundation Program calculation (i.e., "Tuition Support") and dollars from the categorical grants as listed. The right hand column, labeled "Local Property Tax," shows local dollars raised for the school funds.

Most of the dollars available to school corporations reside in the General Fund, and it is the Foundation Program that calculates the dollar amount for the General Fund. Revenues from this fund are used to pay teacher and administrator salaries, to purchase supplies for instruction, and other classroom uses. The *Public School Corporations Manual* contains the complete listing of revenue and expenditure categories and may be viewed on the State Board of Accounts website (SBOA, 2009). Discussions of school funding usually focus, tacitly, on revenues in the General Fund only, and this convention is followed here.

During odd calendar years, the legislature reconsiders the provisions of the Foundation Program as part of deliberations on the state's biennial budget. As a result, the Foundation Program has changed dramatically since its inception. One recent change revolves around the role of the local property tax. Prior to 2009, revenues from local property taxes contributed to the General Fund, but now (as shown in Figure 1) dollars generated from the local property tax no longer flow into the General Fund.

Legacy of the Local Property Tax

For decades one of the primary sources of revenue for the General Fund was the local property tax. In 2008, the Indiana General Assembly passed Public Law 146 to eliminate property tax levies as a General Fund revenue source of school corporations. The lost revenues were replaced with an increase in the state sales tax. Although the local property tax is no longer a source for General Fund revenues, a case can be made that changes adopted many years ago in local property taxes continue to influence, indirectly, the amount of funding a school corporation receives today.

In 1974, a new system of property tax controls was adopted for local units of government, including school corporations. Prior to this change each local school corporation had virtually complete control over its own General Fund tax rates. After 1973 the degree to which a school corporation could increase or decrease its tax rates was limited by the General Assembly. The title of DeBoer's (1992) paper, "Is 1991 Indiana school spending still influenced by the 1973 property tax levy?" captured the concern held by some policymakers in the state.

School corporations that "... collected a relatively large amount of property taxes immediately before the controls were imposed" (DeBoer 1992, p. 2) were thought to have higher revenue in subsequent years compared to school corporations that collected a relatively smaller amount of local tax revenue prior to imposition of tax controls. Based on his analysis, DeBoer concludes, "The amount of property taxes levied by school corporations in 1973... still affected school spending in 1991. Those corporations that had high tax levies then tend to spend more now. Those that had low tax levies then tend to spend less per pupil now" (p. 7).

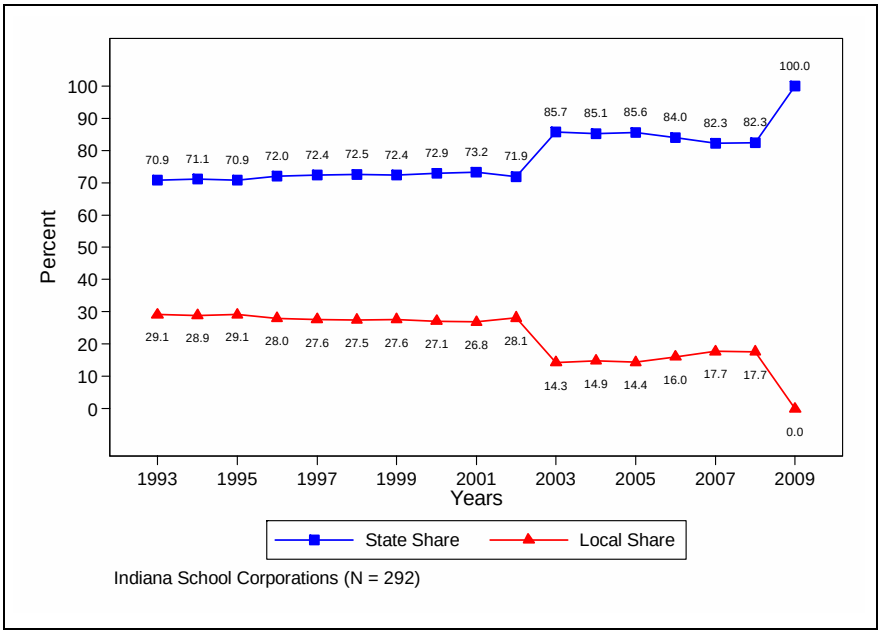
One reason for the difference DeBoer observed is that the dollar amount the Foundation Program calculates for a school corporation in any given year is not independent of the dollar amount the Foundation Program calculated for the school corporation in the prior year. DeBoer's study contends that factors influencing the Foundation Program calculation in previous years has an effect that extends across several years. The continued effect of the 1973 property tax levy on 1998 school funding was also examined by Theobald and Michael (1999).

Until 2009 local property taxes generated a sizeable portion of the revenue for local schools, as shown in Figure 2. The differing amounts of local taxes raised led some policymakers to question whether *horizontal equity*—the degree to which similar students across school districts generate similar per-pupil funding—could ever be achieved. Further, taxpayer equity across different school corporations remained an issue, even though the Foundation Program guarantee of a specific per-pupil dollar amount was contingent upon the local school corporation raising a designated share of dollars through local property taxes.

Despite these concerns, the design of the Foundation Program did succeed in reducing the variability of property tax rates across school corporations and did reflect movement towards reducing variability in per-pupil funding across school corporations (see Toutkoushian & Michael [2008a] for analysis). However, the issue of funding equity as traditionally conceived—which at the most elemental level is a concern about variations in community wealth—was rendered moot when the Indiana General Assembly decided that all General Fund revenues would originate at the state level and that local property taxes would no longer be used as a revenue source for the General Fund of school corporations (Figure 2).

An alternative view maintains that although the increased state sales tax does provide state revenue to replace property tax revenues, the issue of taxpayer equity is merely dispersed among a larger group of individuals and the association between wealth and tax is simply not readily identifiable. Previously, the wealth of a school corporation's taxpayers could be identified by its assessed valuation. The local

Figure 2. State and Local Share of General Fund Revenue, 1993-2009



property tax rate for the General Fund was also known and school corporations with differing combinations of wealth and tax rates could be compared. Shifting the General Fund tax burden to the state sales tax eliminates the identity of the previous relationships among a school corporation's wealth, tax rate, and General Fund revenues. Thus, the issue of taxpayer equity may recede somewhat in prominence.

This major change in school funding prompted some educators and policymakers to express concern about the potential consequence of the shift of the tax burden to the state sales tax, which is a consumption tax. Such taxes may be characterized by greater fluctuations in revenue generation. Property taxes are historically among the most stable of taxes, generating a relatively reliable revenue stream regardless of economic vicissitudes. Revenue generated by a sales tax is more susceptible to economic changes. Some point to the fiscal experiences of states such as California and Arizona as examples of reduced revenues for education while others express concern about the consequences that follow the loss of local control.

Legacy of the Minimum Guarantee

Although the Minimum Guarantee provision of the school funding formula was dropped in 2005, nonetheless it is one reason the Foundation Program did not achieve an improved degree of horizontal equity. Prior to 2005 the Foundation Program was not the sole—and in some years not even the primary—mechanism for funding Indiana school corporations.

For several years three separate calculations were made for each school corporation; the Foundation Program calculation: the Variable Grant calculation, and the Minimum Guarantee calculation. The factor driving the Variable Grant calculation was student enrollment growth. This calculation consisted of multiplying the previous year's revenue per pupil by the current year's adjusted Average Daily Membership. Thus, the Variable Grant calculation yielded the largest dollar amount, compared to the other two calculations, for the small number of school corporations experiencing rapid student enrollment growth.

Conceptually, the Minimum Guarantee calculation started with the previous year dollars received by the school corporation and added a percentage increase as specified by the General Assembly. The effect of using the Minimum Guarantee was that no consideration was given to enrollment changes or composition of the student body. After these three calculations were made, the school corporation received the highest amount generated by the three calculations (Toutkoushian & Michael, 2005).

Table 1 shows the source of funding for school corporations for the years 2000-2004. The percentage of school corporations funded through the Minimum Guarantee calculation increased during this period to over 80 percent of all school corporations.

What were the consequences arising from 80 percent of school corporations being funded by the Minimum Guarantee? First, in contrast to the Foundation Program that is based on a per-pupil foundation level, the Minimum Guarantee was based at the school corporation level. For a large portion of the state in 2004, revenue dollars "followed the school corporation" rather than "followed the student." Second, changes in enrollment became irrelevant because of the Minimum Guarantee. A school corporation could experience declining enrollment and yet, if funded by the Minimum Guarantee, receive more dollars than it did the year before. Clearly, dollars were not following students. Third, the Minimum Guarantee virtually assured that similarly situated students in different school corporations would not receive similar per-pupil funding, thereby making horizontal equity an unachievable goal. Likewise, any relationship between taxpayer equity and school corporation revenue weakened.

Although the Minimum Guarantee was abolished in 2005, its effect may still be felt today. Recall that, in one sense, the starting point for the calculation of the Foundation Program is the amount of General Fund revenue received the previous year. By definition, school corporations funded in the past by means of the Minimum Guarantee received more dollars than the Foundation Program calculation provided. Now that the Minimum Guarantee is no longer an option, many of those school corporations face a downward, multi-year transition, descending toward the amount calculated by the Foundation Program. This transition is still in process.

TABLE 1. Source of Funding for 292 Indiana School Corporations, 2000-2004

Year	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%

Complexity Index Changes

Students are required to attend schools operated by the school corporation within whose boundaries they are legal residents, with a primary exception being students who enroll in a public charter school. The communities in which Indiana school corporations are situated differ noticeably in wealth (assessed valuation) and on other socio-economic indicators, such as the percentage of families headed by a single parent, percentage of adults without a high school education, percentage of families below the federally established poverty level, the percentage of students with limited proficiency in English, and the percentage of students eligible for free school lunches.

Following the Coleman Report in 1966, many investigators have demonstrated a statistical relationship between student achievement on academic tests and a community's socio-economic status. This relationship is so reliable that, for example, the Education Policy Center (EPC) at Michigan State University suggested that Michigan's assessment program might be a better measure of community poverty (or wealth), than it is of student achievement attributable to educational opportunities provided by the school corporation (EPC, 2000). Hyperbole aside, the EPC's statement underscores the necessity of taking community background variables into account.

Indiana and other states have attempted to "level the playing field" by directing more funding to students with impoverished economic, language and/or family backgrounds. Children from relatively impoverished communities, it is hoped, will exhibit improved academic performance following the infusion of additional dollars to the school corporation.

For over three decades Indiana policymakers have worked on implementing a school funding system that distribute revenues in a way that takes such differences into account. The result is school corporations with more traditionally disadvantaged students receive more dollars—additional dollars that are intended to boost the academic performance of these students. At the same time it is important to note that sending additional dollars to a school corporation is not the same as boosting community wealth.

To grasp the magnitude of the problem that is intended to be overcome by additional funding, consider the findings of Hart and Risley (1995). They examined verbal interactions between parents and children by analyzing monthly tape recordings made from the age of 10 months to 3 years. The 42 families in the study were grouped into those headed by professionals (i.e., college professors), working families, and families who were on welfare. By age three, the observed cumulative vocabulary for children in the professional families was about 1,100; for the working class families, about 750; and for welfare families, just above 500.

In professional families children heard an average of 2,153 words per hour; in working class families 1,251 words per hour and in welfare families only 616 words per hour. Extrapolating to four years of experience means 11 million words would be heard by a child in a professional family, 6 million for a child in working class family and 3 million for a child in a welfare family. Such differences are thought by many to be related years later to differences in academic performance. Hemphill and Tivnan (2008), for example, found that vocabulary was the best predictor of reading comprehension at the end of second and third grades. The persisting question for policymakers remains, "Are such differences likely to be overcome by sending additional dollars to school corporations?" This question reflects a recurring debate among scholars and policymakers who believe, on the one hand, that schools can provide programs that overcome childhood deficits such as those depicted by Hart and Risley (1995), and, on the other hand, that such learning deficits originating outside the classroom require community intervention (Dobbie & Fryer, 2009).

The additional funds provided by the Complexity Index, and its predecessor, the At-Risk Index, are based on the assumption that the additional dollars will provide the means to compensate for a linguistic and/or cultural deficit such as that described by Hart and Risley (1995) and raise student performance levels.

Accordingly, in 1993 the legislature revised the Foundation Program to provide additional revenues to school corporations located in lower socio-economic areas. A corporation's per-pupil funding level was established by multiplying the foundational level by the At-Risk Index.

The At-Risk Index was a value calculated by multiplying each of three factors by weights and then summing. The index was developed as part of Indiana's 1987 A+ school reform law (P.L. 390-1987, Section 36) which specified that the At-Risk Index consist of the following three factors:

- The percentage of adults with less than a high school education residing within the school corporation's boundaries,
- The percentage of single parent families residing within the school corporation's boundaries, and
- The percentage of families with dependent children living in poverty and residing within the school corporation's boundaries.

These factors and their original weights were selected and developed by Gridley and Peters (1987) based on the correlations, or relationships, between these factors and measures of student performance. The original weights were intended to reflect the strength of the relationships between student performance and each factor, as represented by the attendance rate, the graduation rate, the average ISTEP score, and the average cognitive skills index for students attending the school corporation. Because the values for several of these variables were obtained from the United States Census, they could be updated only once every decade.

In 2003, the At-Risk Index was replaced by what is known as the Complexity Index. This index differed from the At-Risk Index in that two more factors were added to its calculation: the percentage of children in each school corporation eligible for free lunch, and the percentage of children in each school corporation with limited English proficiency.

These factors were added to the Index because their values could be obtained annually from school corporations and thus reflected demographic changes more quickly than the first three factors. Policymakers viewed the English proficiency of students as an important factor that might affect student performance and that was not reflected in the other four factors.

The Complexity Index was calculated as the sum of each of these five factors multiplied by its corresponding weight and added to one. An additional upward adjustment occurs when the resulting value of the Complexity Index for a school corporation exceeds 1.25. School corporations with larger values of the five factors have higher Complexity Index values and therefore receive more money per pupil for general education.

For the 2007-2009 biennium, and continuing through the 2009-2011 biennium, the Complexity Index was simplified and now consists of only one factor, the percentage of students eligible for free- or reduced-school lunch. This change is consistent with findings reported by Toutkoushian and Michael (2006) that free lunch accounted for almost 57 percent of the variations in student performance across school corporations and was, by far, the most important of the five Complexity Index fac-

tors. The U. S. Census poverty indicator was dropped because of its strong correlation (ρ = 0.81) with free lunch. Limited English Proficiency, parent without high school diploma, and single parent family were dropped due to the goal of simplifying the Complexity Index, and these variables contributed much less to the explanation of ISTEP+ pass rates.

Because the effect of the Complexity Index is often misunderstood, its impact is explicated in the following paragraphs. The General Assembly allocates a specific dollar amount ($2,400 in 2009) for each free- or reduced-lunch eligible student. This amount divided by the Foundation Level ($4,825) yields a weight (0.4974) that is multiplied by the proportion of free- or reduced-lunch eligible students in the corporation. All Indiana school corporations, except Prairie Township (with an ADM of 37), have some eligible students. Thus, the original Foundation Level is increased for each school corporation except Prairie Township. This increased amount due to the Complexity Index calculation is known as Foundation Funding. In 2009, Foundation Funding ranged from $4,923 to $8,067 with an average of $5,678. In other words, Foundation Funding ranged from $98 to $3,243 higher than the Foundation Level and averaged $853 higher.

To illustrate the impact of the Complexity Index, consider its effect on a hypothetical school corporation of 100 students with various proportions of students qualifying for free- or reduced-lunch. For simplicity, in this example rounding and the additional supplement for Complexity Index values greater than 1.25 are omitted. The first row of Table 2 shows that if no free- or reduced-lunch eligible students reside within the school corporation boundaries, the Foundation Level ($4,825 in 2009) is the Foundation Funding. The second row shows the effect of the Complexity Index calculation when 25 percent of the students are eligible for free- or reduced-lunch. The Complexity Index calculation (((0.25*0.4974)+1)*4825) yields a Foundation Funding per pupil of $5,425, or $600 higher than the Foundation Level of $4,825. The hypothetical school corporation of 100 students with 25 percent eligible receives a total of $542,500 (100*5425) in state Foundation Funding.

Although the Complexity Index formula in the preceding paragraph facilitates calculation, it may obscure conceptual understanding. Table 2 shows, conceptually, how the Complexity Index works. Recall that in this hypothetical example the number of students in the school corporation is 100. The column labeled "Foundation Level: $4,825 per Student" shows that every student in the school corporation receives the Foundation Level, regardless of the percentage of students eligible for free- or reduced-lunch. In the column labeled "Pct FRL" the percentage of eligible students varies across rows, from low to high. The column labeled "$2,400 per FRL Student" shows the dollars generated from multiplying $2,400 times the number of eligible students. In row 2, the 25 eligible students generate $60,000; in row 3, the 50 eligible students generate $120,000, and so on. The "Corporation Total" column is the sum of the "Foundation Level: $4,825 per Student" and the "$2,400 per FRL Student" columns. The last column, "Foundation Funding" is the Corporation Total divided by the number of students. Note that the calculation formula in preceding paragraphs yields exactly the same Foundation Funding amount.

TABLE 2. Dollars Generated by Complexity Index for Hypothetical School Corporation with 100 Students and Various Percentages of Free- or Reduced-Lunch Eligible Students

Pct FRL	Students	Foundation Level $4,825 per Student	$2,400 per FRL Student	Corporation Total	Foundation Funding
0%	100	$482,500	$0	$482,500	$4,825
25%	100	$482,500	$60,000	$542,500	$5,425
50%	100	$482,500	$120,000	$602,500	$6,025
75%	100	$482,500	$180,000	$662,500	$6,625
100%	100	$482,500	$240,000	$722,500	$7,225

TABLE 3. Dollars Generated by Complexity Index for School Corporation with 100 Students and Mean Percentages of Free- or Reduced-Lunch Eligible Students (FRL) for Four Types of Indiana School Corporations

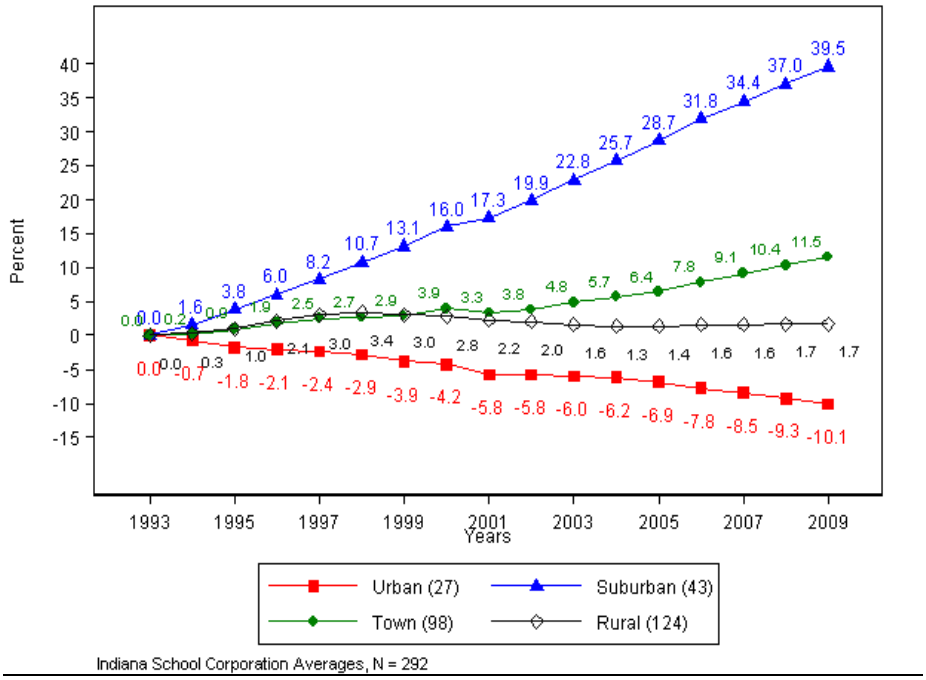
	Pct FRL	Total Students	Foundation Level $4,825 per Student	$2,400 per FRL Student	Corporation Total	Foundation Funding
Suburban	26%	100	$482,500	$62,400	$544,900	$5,449
Rural	33%	100	$482,500	$79,200	$561,700	$5,617
Town	42%	100	$482,500	$100,800	$583,300	$5,833
Urban	48%	100	$482,500	$115,200	$597,700	$5,977

The usefulness of Table 2 is that it separates, for sake of illustration, the dollars generated by the Complexity Index ("$2,400 per FRL Student") from the dollars generated by the Foundation Level. With 25 percent of students eligible, the Complexity Index generates an additional $60,000 for the school corporation.

The third row of Table 2 shows that when half of the students in the hypothetical school corporation are free- or reduced-lunch eligible, the Foundation Funding rises to $6,025 per pupil, or $1,200 higher than the Foundation Level. The fourth row in Table 2 shows that when 75 percent of students are eligible for free- or reduced-lunch, the Foundation Funding rises to $6,625 per pupil and the Complexity Index generates an additional $180,000 for the school corporation. The last row of Table 2 shows that if all students in the hypothetical school corporation were eligible, Foundation Funding is equal to the amount allocated for each eligible student plus the Foundation Level (2,400 + 4,825 = $7,225).

The ideas underlying this hypothetical example can be applied to the actual mean percentages of students eligible for free- or reduced-lunch in each of the four school corporation locale types: suburban, rural, town, and urban. Using the Indiana Department of Education (IDOE) classification of school corporations based on the 2000 census, 61 school corporations are considered "suburban." The mean percentage of students eligible for free- or reduced-lunch in suburban corporations is 26 percent, as shown in the first row of Table 3, and for 26 eligible students, the Complexity Index generates $62,400. The Foundation Funding is $5,449 per pupil. The second row of this table shows the mean for rural school corporations is 33 percent and Foundation Funding is $5,617 per pupil. The third row of the table shows the mean for town school corporations is 42 percent and Foundation Funding is $5,833 per pupil. The last row of Table 3

Figure 3. Cumulative Percent Changes in ADM by Corporation Type, 1993-2009



shows the mean for urban school corporations is 48 percent and Foundation Funding is $5,977 per pupil. As the percentage of eligible students increases, the Complexity Index increases the Foundation Funding per pupil. It is not possible, at this point in the formula calculations, for a school corporation with a higher percentage of eligible students to have a lower Foundation Funding per pupil compared to a school corporation with a lower percentage of free- or reduced-lunch eligible students.

Examination of the "Corporation Total" column shows that the total dollars the corporation receives increases because the percentage of eligible students increases. This is evident in this example because the number of students is held constant. With actual school corporations, the number of students varies and this variation obscures the impact of the Complexity Index—not to mention the obscurity added by the Transition to Foundation calculation that occurs later.

In summary, the Foundation Program generates more dollars per pupil for corporations with poorer students and fewer dollars per pupil for school corporations with fewer students eligible for free- or reduced-lunch.

Dollars Follow the Student

Many of the changes made to the Foundation Program during the past five years may be summarized by the objective of making "dollars follow the student."

Both the Variable Grant and the Minimum Guarantee were eliminated, leaving the Foundation Program as the sole funding mechanism. Although the Complexity Index generates additional per-pupil funding, under the Foundation Program the primary factor that generates the total amount of General Fund revenues a school corporation receives is the number of students in the school corporation.

Figure 3, from Toutkoushian and Michael (2008a), is based on the 1990 census demographic groupings, and this figure shows the cumulative percentage change in ADM from 1993 to 2009. The only decline (-10.1 percent) occurs in the urban school corporations' student count. The rural school corporations show the smallest increase (1.7 percent); school corporations in towns increased by 11.5 percent; and suburban corporations show the largest cumulate percentage increase (39.5 percent). Because the student count is the primary factor in determining the total dollars a school corporation receives, if this enrollment pattern continues, decreases in total school corporation funding are likely to occur in the urban school corporations and increases are likely to occur in suburban school corporations.

A school formula simulation run for the 2009-2011 biennium is posted on the website of the Indiana Association of School Business Officials (IASBO). Actual values will not be available until the ADM count occurs in the third week of September. Nonetheless, the estimated values from the simulation can be used to show approximately how dollars follow the student. First, a note about the special terminology contained in the simulation run printout. The phrase *state regular* designates the dollar amount generated by the Foundation Program. It does not include the categorical grants (cf. Figure 1). The dollar amount designated as *state regular* on the simulation run is referred to elsewhere as "Total Regular Program" (Section C, Line 25 in the 2009 Basic Grant Worksheet) and as "Tuition Support" (Section J, Line 1 in the 2009 Basic Grant Worksheet). The words *funding* or *funding amount* as used on the simulation printout means the state regular amount plus the categorical grants. In the conventional usage depicted in Figure 1, *funding* is the Basic Grant.

The largest school corporation in Indiana is the Indianapolis Public Schools system. According to the school formula simulation, the *state regular* amount for 2011 declines by $38,428,679 from the 2009 level. After the Restoration Grant (see page 9 for more information) and the categorical grants (special education, vocational education, Prime Time, and Academic Honors Diploma) are added, *funding* in 2011 is $20,322,410 less than 2009. IPS is estimated to have 3,895 fewer students in 2011 than in 2009. The per-pupil dollars for the *state regular* amount in 2009 was $7,822 and is estimated to decline to $7,558 in 2011. The *funding* amount per pupil in 2009 was $8,580 and increases to $9,014 in 2011.

The *state regular* amount is generated by the Foundation Program calculations and reflects the size of the ADM, the percentage of free- or reduced-lunch, the effect of the Transition to Foundation calculation, and the small school supplement. The *funding* amount includes not only the Foundation Program calculations but also the amounts for the categoricals (i.e., special education, vocational education, prime time, academic honors diploma, and restoration grant). Although the total IPS funding decreases by about 6.95 percent, and student count decreases by 11.43 percent, per-pupil funding increases by 5.06 percent.

Compare IPS to a rapidly growing school corporation such as Hamilton Southeastern. According to the simulation printout, the *state regular* amount for 2011 is $2,727,201 more than for 2009. After the Restoration Grant and the categorical grants are added, funding in 2011 is $8,140,363 more than 2009.

(continued on page 8)

Digest of House Enrolled Act 1001-2009
K-12 Education Funding Provisions

Summary of Major Components:

- Specifies a school funding formula. Average increase of 1.1 percent in FY 2010 and .3 percent in FY 2011.
- Provides that if actual receipts for the state fiscal year ending June 30, 2010, exceed the adjusted state revenue forecast, 50 percent of the excess revenue is appropriated to the Indiana Department of Education (IDOE) to be used as a special one-time tuition support distribution to increase the foundation amount for each school corporation eligible for a tuition support distribution.
- Adds requirements concerning money available under the American Recovery and Reinvestment Act for: (1) Title I grants; and (2) special education funding.
- Eliminates the local government tax control board and the school property tax control board.
- Delays the implementation of fiscal year budgeting for school corporations one year. Repeals a provision requiring the calculation of a state average assessment ratio. Provides that a school corporation is to receive its proportionate share of any delinquent property taxes paid that are attributable to a year in which the school corporation did not receive 100 percent of its General Fund distribution because of unpaid taxes.
- Provides that the Department of State Personnel shall allow a school corporation to elect to provide coverage of health care services for active and retired employees of the school corporation under a state employee health plan. Provides that if a school corporation elects to cover employees under a state employee health plan, all employees covered under a prior policy must be covered under the state employee health plan.
- Provides that a charter school or conversion charter school that has received an advance for operational costs from the Common School Fund does not have to make principal or interest payments during the state fiscal years beginning July 1, 2009, and July 1, 2010. Provides that the Senator David C. Ford Educational Technology Fund may be used for a school technology program developed by the IDOE. Provides that a charter school may receive technology funds. Requires the IDOE to develop a charter school facilities incentive grant program before January 1, 2010, using priority criteria set forth in federal law. Provides that the IDOE shall establish a pilot program to provide funding for a statewide total of up to 200 students who attend virtual charter schools in the school year ending in 2010 and 500 students who attend virtual charter schools in the school year ending in 2011. Specifies that the pilot program shall focus on children who have medical disabilities or circumstances that prevent them from attending school or for whom a virtual charter school is a better alternative than a traditional school. Provides that the funding amount is the virtual charter school's ADM multiplied by 80 percent of the statewide average basic tuition support. Requires the IDOE to adopt rules to govern the operation of virtual charter schools.
- Amends the circuit breaker levy replacement grant for school corporations. Permits the IDOE to provide for data retrieval of timely student test numbers beginning in 2010. Requires a school corporation to notify a teacher that the governing body will consider nonrenewal of the teacher's contract for the next school term before June 1 in an even-numbered year or the later of June 15 or the date a state budget is enacted by the Indiana General Assembly in an odd-numbered year. Provides that a school corporation's expenditures from its Capital Projects Fund for utility services or property or casualty insurance may not in 2010 and in 2011 exceed 3.5 percent of the school corporation's 2005 calendar year distribution.
- Specifies that if federal rules, regulations, or directives require the use of collective program results of tests to evaluate educators in order to qualify for those federal funds, collective program results of tests used by any school corporation that would receive federal funds may be used as a factor, but not the sole factor, to evaluate educators. Provides that if collective testing results are used as a factor in evaluations by a school corporation, they must be applied to all educators in that school corporation.
- Authorizes a city or county in which a riverboat is docked or located or gambling games are located to enter into one or more agreements or leases with a school corporation or another public or private entity to provide for the construction or renovation of a school building that will be used by the school corporation.
- Requires the legislative council shall establish a two-year study committee to study issues related to the school funding formula.
- Requires the Budget Agency to review the costs of providing employee health, vision, and dental insurance for state employees and employees of school corporations and public universities.
- Creates a School Scholarship Tax Credit. Provides that a taxpayer that makes a contribution to a scholarship granting organization for use by the scholarship granting organization in a school scholarship program is entitled to a credit against the taxpayer's state tax liability in the taxable year in which the taxpayer makes the contribution. The amount of a taxpayer's credit is equal to 50 percent of the amount of the contribution made to the scholarship granting organization for a school scholarship program.

continued from page 6)

Hamilton Southeastern is estimated to have 1,603 more students in 2011 than in 2009. The per-pupil dollars for the *state regular* amount in 2009 was $5,057 and declines to $4,757 in 2011. The *funding* amount per pupil in 2009 was $5,762 and decreases to $5,701 in 2011. Total funding increases by about 8.65 percent, student count increases by 9.82 percent, while per-pupil funding decreases 1.06 percent.

The increases and decreases seen in these two school corporations—one an urban corporation with declining enrollment and a large percentage (81 percent) of free- or reduced-lunch eligible students, and the other a suburban corporation with increasing enrollment and about eight percent of free- or reduced-lunch eligible students—reflect the impact of the two primary factors in the Foundation Program; namely, the student count and the Complexity Index. Changes in ADM drive total funding for the school corporation while the Complexity Index drives the level of per-pupil funding. Thus, both the student count and total funding dollars to IPS decrease during the biennium while the funding per-pupil increases by $434, due in part to an estimated increase in the percentage of students eligible for free- or reduced-lunch. In Hamilton Southeastern, both student count and total funding dollars increase, but the funding per pupil decreases by $61 per pupil. To be sure, other factors are at work in the Foundation Program and must be taken into consideration for a complete explanation, but for a basic understanding of the Foundation Program these statements concerning the role of student count and Complexity Index are informative.

While it is not possible to examine the changes in all school corporations until the data become available, historical patterns do exist. Table 3.2 in Toutkoushian and Michael (2008a, p. 32), displays the revenue per-pupil by school corporation type, from 1993 to 2009, based on the 1990 census classification. For every year from 1993 to 2009 the per-pupil amount in urban corporations was the highest amount. Rural school corporations had the second highest amount.

Changes for the 2009-2011 Biennium

While many features of the Foundation Program for the 2009-2011 biennium are consistent with the Foundation Program from the 2007-2009 biennium, some changes were enacted by the legislature during the special session that concluded on June 30, 2009. As is always the case, specific values, e.g., the dollar amount for the Foundation Level, changed. Table 4 lists some of these changes, based on a preliminary reading of the House Enrolled Act 1001-2009, the state budget bill.[1]

Adjusted ADM. The Average Daily Membership is the student count used in financial calculations. As the table shows, the Adjusted ADM in 2009 was either the five-year average ADM or the 2009 ADM, whichever was larger. For the 2009-2011 biennium, the Adjusted ADM is either the three-year average ADM or the current year ADM, whichever is larger.[2] This change increases the likelihood that a larger number of school corporations will use the current ADM as their Adjusted ADM.[3] The number of "ghost" students, created by using the larger averaged ADM in place of actual ADM, will decrease.

Divisor for Free or Reduced Lunch. In the 2007-2009 biennium, the percentage of "free- or reduced-lunch eligible" students within a school corporation was calculated by using the ADM as the divisor. Page 385 of the current budget bill states the "annual pupil enrollment count" is the divisor. Whether this phrase is to be interpreted as the ADM or the larger enrollment count is unclear. If it is the enrollment figure, then the percentage will be lower and the Complexity Index lower.[4]

The Foundation Level per pupil was $4,825 in 2009, falling by $275 to $4,550 in 2010, and by an additional $45 to $4,505 in 2011. The 2009 to 2010 decrease is 4.7 percent and the 2010 to 2011 decrease is 0.99 percent in current dollars.

Complexity Index. The dollar allowance for students eligible for free or reduced lunch is also reduced ($2,400 in 2009, $2,263 in 2010, and $2,241 in 2011) so that the Complexity Index value remains constant (0.4974) across years. The Complexity Index cutpoint for an additional supplement remains at 1.25. The rules governing calculation of the Complexity Index and Foundation Funding appear unchanged from the 2007-2009 biennium. However, the specific values for the Foundation Level and the allowance for free- or reduced-lunch percentage have changed.

Transition to Foundation Calculation. The purpose of this calculation is to move each school corporation either upward or downward, as needed, along a multi-year glide path from its current Foundation Funding level towards a targeted level based on its Adjusted ADM and Complexity Index.

In the 2007-2009 biennium the basis for this calculation was the difference between the previous year "Foundation Amount per Adjusted ADM" subtracted from the current year Foundation Funding per pupil and divided by three. The size of the difference was, generally speaking, the trigger for one of three types of adjustments. Some school corporations were at the target level and required no adjustment.[5]

For the 2007-2009 biennium, the Transition to Foundation Calculation contained an explicit "Flat Grant Adjustments" section that, generally speaking, restored some dollars to school corporations with an ADM of 3,600 or less. If a school corporation met this requirement, $150 per ADM was added. School corporations not meeting the previous requirement and whose 2009 Foundation Funding was at least 3.5 percent less than their previous year revenue, received an additional $150 per student. If a corporation met neither of these two requirements and yet one-third of the difference between 2009 Foundation Funding and last year revenue was negative, the school corporation received the lesser of two values: the actual absolute value or $100 per pupil. The effect was to restore some of the funding removed by the Transition to Foundation Calculation.

TABLE 4. Some Features of the Foundation Program, 2009-2011

	2009	2010	2011
Maximum State Distribution	5,829,900,000	6,548,900,000	6,568,500,000
Adjusted ADM	Max (5yr Avg, or 2009 ADM)	Max (3yr Avg, or 2010 ADM)	Max (3yr Avg, or 2011 ADM)
Free/Reduced Allowance	2,400	2,263	2,241
Foundation Level	4,825	4,550	4,505
Complexity Index	0.4974	0.4974	0.4974
Complexity Index Supplement Point	1.25	1.25	1.25

Although not explicitly labeled as such, the 2007-2009 Foundation Program contained a "small school adjustment" for school corporations of 1,700 ADM or less. If the Complexity Index for such a corporation were greater than 1.2, the school corporation received an additional $300 per ADM. If the Complexity Index were greater than 1.1 and less than or equal to 1.2, then the school corporation received $100 per pupil.[6]

The concepts of "restoration" and "small school" assistance are made explicit in the 2009-2011 biennium with the addition of a new and separate chapter (Section 343. IC 20-43-12) to the Indiana Code. Chapter 12 is named "Restoration Grants," while section 12.1 is named "Small School Grants."

The **Restoration Grant** lists 15 discrete steps for calculation but a simple explanation guiding the steps is not presented. In general terms, the Basic Tuition Support for 2009 is used as the baseline for comparison and restoration.

The Restoration Grant limits the dollars per pupil to a range of plus or minus $25 in 2010 and plus or minus $75 in 2011, based on the dollars per ADM in the 2009 worksheet. Even with such upper and lower limits in place, some school corporations may still experience more than a 3 percent reduction in dollars. Those corporations could receive a Flat Grant of up to $200 in 2010 and up to $350 in 2011. The Restoration Grant may well produce unintended effects such as impacting horizontal equity adversely (Toutkoushian & Michael, 2007a; Toutkoushian & Michael, 2008b).

Small School Grant. The 2009-2011 Small School Grant operates in a manner similar to that in the 2007-2009 biennium. The values are lower and the calculation slightly more complex but the effect will likely be similar. The major change may be that the Small School Grant implicit in the 2007-2009 biennium is now explicit.

NEW FEDERAL DOLLARS FOR INDIANA

Through the American Recovery and Reinvestment Act of 2009 (ARRA), enacted on February 17, 2009, Congress and President Obama have committed $787 billion in spending and tax relief to stimulate the U.S. economy and create jobs (*Invest in Indiana*, n.d.). As part of this act, approximately $117 billion in funding and tax relief has been made available to strengthen the country's education systems by making one-time resources available to states to use to improve student achievement, increase school capacity, enhance productivity and effectiveness, and increase access to institutions of higher education (USDOE, n.d.).

Arne Duncan, U.S. Secretary of Education, announced on May 18, 2009, that $765 million in new funds have been made available to Indiana through the ARRA (Abrevaya, 2009). Indiana had already received $228 million in education stimulus funds (primarily for Title I and special education programs), and the state is eligible to apply for an additional $242 million in the fall. The combined $1.2 billion in stimulus funding Indiana is eligible to receive represents the largest single boost in federal education funding in the state's history.

This education stimulus money is in addition to the federal funding the state receives annually for education. In 2008, Indiana received $657 million from the federal government for K-12 education (USDOE, 2009). However, federal sources of funding comprise a relatively small portion of the more than $11.5 billion the state of Indiana spent on education in 2008 (IDOE, n.d.).

The largest proportion of Indiana's recently released education stimulus funds, $626 million, will be designated for the State Fiscal Stabilization Fund. Title I will receive $84 million and special education funding will be boosted by $131 million. Specifically, funding for the Individuals with Disabilities Education Act (IDEA) Part B is allocated $127 million, and IDEA Part B preschool grants will receive a $4.6 million increase.

The primary use of the stimulus funding is to restore and stabilize education spending to prerecession levels and ensure a stable workforce in public education. Of the funds that have recently been released (which comprise two-thirds of the new funding) and the funds that Indiana is eligible to receive in the fall (the final one-third of funding), the education portion of the State Fiscal Stabilization Fund for Indiana totals $823 million and accounts for 81.8 percent of the total stabilization money made available through stimulus funding (L.V. Rhodes, personal communication, July 2, 2009). A total of $579 million of the state's education portion of the stabilization fund allocation will be used to restore the level of state support for elementary and secondary education in FY 2010, $44 million will be used to restore the level of state support for public institutions of higher education (IHEs) in FY 2010, and $53 million will be used to restore state support for public IHEs in FY 2011. It is estimated that $147 million will remain after restoring state support of elementary, secondary, and post secondary education in FY 2010 (Office of the Governor, 2009, pp. 10-11). The other $183 million, or 18.2 percent, of State Fiscal Stabilization Funds are delegated for government services. At the time of application the uses of the Government Services Fund were undetermined (Office of the Governor, 2009, p. 12). Potential uses for the money may include enhancing technology, capital projects for school modernization, and establishing systems to improve data gathering and use (USDOE, 2009, p. 2).

The funding provided for by ARRA allows Indiana to maintain funding levels for education at a time when reductions in spending or marginal funding increases were being considered by the legislature. Maintaining education funding levels is a requirement of the Maintenance of Effort Assurance component of Indiana's Application for Initial Funding under the State Fiscal Stabilization Fund Program, which was approved by the U.S. Department of Education on May 18, 2009. Specifically the Maintenance of Effort Assurance requires that Indiana will maintain state support at least at the level of support provided for in FY 2006, for elementary and secondary education as well as IHEs in FY 2009, 2010, and 2011 (USDOE, 2009, p. 4). This funding provision should help maintain the current staffing levels of local education agencies (LEAs), without drastic reductions in force.

In addition to the Maintenance of Effort Assurance, the state is required to provide assurances for other areas of educational reform including achieving equity in highly qualified teacher distribution between high and low poverty schools, enhancing collection and use of data, improving standards for academic content and student academic achievement, and supporting low-performing schools (USDOE, 2009, pp. 2-3). The U.S. Department of Education also requires Indiana to report the number of jobs saved as a result of ARRA funding, the amount of tax increases averted, and how the funding will be used (Abrevaya, 2009).

In determining how education stimulus funds should be spent, the federal guidance on ARRA suggests that states ask whether the use of the funds will drive results for students, increase school capacity to serve students, accelerate educational reform, enable schools to circumvent funding shortfalls, and increase improvement and productivity (USDOE, 2009, p. 2). Examples of ways funding may be used to meet these aims include: training teachers and principals to use data to drive classroom instruction, redesigning teacher and principal compensation systems to incentivize effectiveness, aggressively restructuring the lowest performing school in a district, increasing student participation in advanced coursework such as Advanced Placement or International Bacca-

laureate, and offering dual enrollment courses to expose students to college and career options (USDOE, 2009, pp. 2-7).

Despite the additional money the federal government is making available to school districts, education officials are still faced with difficult decisions as to how to spend the available funds. Secretary of Education Arne Duncan has encouraged education leaders to use the opportunity created by the stimulus funds to take bold action and create broad education reform. Some education officials are concerned that with prevailing budget constraints the majority of the funding will be needed to preserve programs and maintain operational spending. While nationwide, approximately half of the education funding in the stimulus package, $48.6 billion, is designated for State Fiscal Stabilization Funds to restore education funding levels, the other half of the education funding available has the potential to enhance education outcomes and foster educational reform (Klein, 2009).

INDIANA SUPREME COURT RULING ON SCHOOL FINANCE

On June 2, 2009, the Indiana Supreme Court issued a ruling for the school funding case *Joseph and LaTanya Bonner, et al v. Mitch Daniels, et al.* This case marked the first instance of court review of the constitutionality of Indiana's legislatively-established public school funding formula. The previous class action lawsuit, *Lake Central School Corporation, et al. v. State of Indiana, et al* (1987), which challenged the fairness of education funding in Indiana, was withdrawn after Indiana agreed to revise its funding system (National Access Network, 2008). Prior to the Bonner case, as of 2007 Indiana was one of only seven states in which there had been no court ruling regarding the constitutionality of school funding.

In 2002, Augenblick and Myers, Inc. conducted a funding adequacy study for the Indiana State Teachers Association (ISTA). The study defined the provision of an adequate education to be when schools were rated as either commendable or exemplary based on having 80 percent of students pass the grade level tests of the Indiana Statewide Testing of Educational Progress Plus (ISTEP+). Through utilizing the professional judgment approach, the study found that "recent Indiana spending is less than that estimated to be needed to provide an adequate education" (Augenblick and Myers, Inc., 2002). As a result of the study, ISTA estimated that the state would need to spend an additional $1,500 per public school student each year. Given the state's public school enrollment of 1 million students at the time, according to the ISTA estimate the state would need to spend an addition $1.5 billion each year (School study, 2002). Augenblick and Meyers, Inc. have conducted similar studies for other states which have been used in lawsuits and as part of the legislative process to determine school funding amounts. The Indiana study provided the empirical basis for the plaintiffs' complaint in the Bonner case.

In *Bonner v. Daniels*, the plaintiffs contended that the State's school funding formula is insufficient to provide an adequate education to all students, and is thus in violation of the Education Clause (Article 8, Section 1), the Due Course of Law Clause (Article 1, Section 12), and the Equal Privileges and Immunities Clause (Article 1, Section 23) of the State Constitution.

The trial court dismissed the plaintiffs' complaint on the grounds that the case did not satisfy the requirement of an enforceable duty on the state government to provide a standard of quality education (trial court citation?). The Indiana Court of Appeals reversed the lower court's holding and the case was transferred to the Indiana Supreme Court (*Bonner v. Daniels, 2008*).

In determining whether to dismiss the complaint, the Indiana Supreme Court turned to the precedent set in *City of New Haven v. Reichhart*. To establish if there is an enforceable duty on the state, the court asked the question, should it find all of the claims of the plaintiff to be true, would the plaintiff be entitled to relief? *City of New Haven v. Reichhart* established that if the answer is no, the plaintiff would not be entitled to relief, then the court has sufficient grounds to dismiss the case (Indiana Supreme Court Case, 2001).

The Indiana Supreme Court looked to the Education Clause (Article 8, Section 1) of the State Constitution to determine the existence of an enforceable duty on the state to provide an adequate quality education. Article 8, Section 1 outlines the requirements of the State to provide free public education for its citizens:

> Knowledge and learning, generally diffused throughout a community, being essential to the preservation of a free government; it shall be the duty of the General Assembly to encourage, by all suitable means, moral, intellectual, scientific, and agricultural improvement; and to provide, by law, for a general and uniform system of Common Schools, wherein tuition shall be without charge, and equally open to all.

In writing the majority opinion of the Indiana Supreme Court, Justice Dickson stated that the education clause, "speaks only of a general duty to provide for a system of common schools and does not require the attainment of any standard of educational quality." Thus there is no judicially enforceable duty for the state to provide an adequate education and the plaintiffs are not entitled to relief.

The plaintiffs also claimed that the state's system of school financing deprives students of a fundamental right to education protected under the Due Course of Law Clause (Article 1, Section 12). The plaintiffs further asserted that the financing system provides an adequate education to some students while denying it to others, and is thus a violation of the Equal Privileges and Immunities Clause (Article 1, Section 23). However, both of these claims are premised on the presumption that the state Constitution guarantees the right to an adequate education. The court found that "absent such a constitutional right, these other constitutional claims lack merit."

The Majority Opinion in the 4-1 decision of the Indiana Supreme Court concluded that even if the facts alleged by the plaintiffs were true, they would not be sufficient to establish an enforceable duty on the state and support the relief they request. The court granted the defendants' motion to dismiss.

While in agreement with the majority decision, Justice Boehm articulated slightly different reasoning in his concurring opinion. Justice Boehm found that Article 8, Section 1 of the Indiana Constitution creates a judicially enforceable standard to provide "a general and uniform system of Common Schools." However, there is not an enforceable standard with regard to adequacy. Thus the plaintiffs' narrow complaint is not one that has judicial enforceability. Furthermore, Justice Boehm found the plaintiffs' choice to sue the Governor and Superintendent of Public Instruction to be problematic, because the relief the plaintiffs' seek in the form of an education system that meets their standards is more than the defendants can deliver. For these reasons, Justice Boehm concluded that the complaint must be dismissed.

In his lone dissenting opinion, Justice Rucker asserted that "the duty to provide for a general and uniform system of open common schools without tuition" is a justiciable issue. Rucker suggested that the majority's reading of the plaintiffs' complaint as pertaining only to educational adequacy is much too narrow and rather should be looked at more generally as it relates to the general and uniform system of common schools statement of the education

clause (Article 8, Sect. 1). In this light, the case should be allowed to proceed and only then will it be established whether the plaintiffs' complaint has the merits to prevail.

The court's ruling has generated some controversy among education advocates throughout the state. In the blog article, "Wanted: Public ed Supporters," Karen Francisco, editorial writer for the Fort Wayne Journal Gazette, expressed disappointment in the court ruling in the Bonner case. Francisco interprets the Supreme Court's decision to imply the following: "Put simply: We believe the state's founders wanted to establish schools, but didn't intend for all of them to be good schools." Francisco also demonstrated concern that this decision will continue to widen the gap between the haves and have nots in Indiana (Francisco, 2009).

The court's decision elicited a similar reaction from the Indiana State Teachers Association (ISTA). Dan Clark, ISTA Deputy Executive Director for Programs, noted, "[a]s a result of the decision, Indiana becomes one of the minority of states in which no constitutional right to a quality education has been established" (D. Clark, personal communication, July 15, 2009). Furthermore, ISTA expressed concern about the ruling on its website stating, "ISTA has long maintained that the state's school funding formula is unfair in light of mandatory standards," and "[d]espite this setback, ISTA will continue to fight for a quality education for all Indiana students" (G. Zeheralis, personal communication, July 15, 2009).

CONCLUSIONS AND RECOMMENDATIONS

Conclusion

As described in this Policy Brief review, the General Assembly modifications for the 2009-2011 biennium add a modest number of changes to the Foundation Program, which has undergone numerous changes since its inception in 1949. Despite the 2009-2011 changes, the core structure of the program remains in place. Overall, the total school corporation funding generated by the Foundation Program will continue to decrease or increase depending upon the school corporation's decrease or increase in Average Daily Membership. The change from a five-year average to a three-year average for adjusted ADM reduces the number of "ghost" students that generate funding dollars. School corporations with declining enrollments will need to react more rapidly because of this change.

The continuation of the Complexity Index insures that higher per-pupil dollars are generated for school corporations with higher proportions of students eligible for free- or reduced-lunch. The amount allocated for each eligible student is adjusted as the Foundation Level changes so that the weight remains a constant 0.4974 across the biennium.

Discounting for the moment other provisions of the formula, keeping the weight constant is predicted to keep vertical equity at its current level. However, other factors in the formula may cause unanticipated fluctuations.

The revision of the Restoration Grant provision makes the Transition to Foundation glide path more gradual and adds upper and lower limits, while the Small School Grant provides additional funding for smaller school corporations. Toutkoushian and Michael (2008, p. 47) write, "As the relationship strengthens between revenues per-pupil and the corresponding vertical equity and cost-related factors, the variations in per-pupil revenues decrease, reflecting an improvement in horizontal equity." The introduction of the Restoration Grant's upper and lower limits along with the small school supplement may result in increased fluctuations in revenue among students in similarly situated school corporations and, if so, a decline in horizontal equity may be evident.

Recommendations

1. Monitor Fiscal Neutrality

A school business official or superintendent working for a particular school is, naturally, interested primarily in how many dollars the Foundation Program generates for that particular school corporation. Such interest is to be expected. At the same time, state officials must be concerned about how the Foundation Program performs across all 293 school corporations. One goal for school funding programs is fiscal neutrality, meaning that the dollars generated by the Foundation Program are not related to community wealth. Indiana has been exemplary in achieving fiscal neutrality and the question is whether this will continue. In 1993 the correlation between Tuition Support per pupil and assessed valuation per pupil was [rho]=0.47, a moderately strong relationship, meaning that school corporations with higher assessed valuations tended to receive higher revenues from the Foundation Program. However, by 2003 the correlation had declined to -0.02 which, for all practical purposes, represents no relationship at all. Since 2003 the inverse correlation has increased slightly to [rho]=-0.09 in 2009. This means that school corporations with lower assessed valuations tend to receive more dollars from the Foundation Program. In order to maintain fiscal neutrality, the performance of the Foundation Program in the 2009-2011 biennium should be monitored.

2. Monitor Vertical Equity

Vertical equity refers to the idea that students who are said to be more expensive to educate receive more funds. Recall that the Complexity Index generates more funds for these students. Because the Complexity Index weight (0.4974) remains unchanged across the biennium, large changes in vertical equity are not expected but nonetheless may occur.

3. Monitor Horizontal Equity

Horizontal equity refers, as mentioned on page 2, to the degree to which similar students receive similar dollars. Horizontal equity has been observed to deteriorate when upper and lower limits are imposed on the amount the Foundation Program generates. Such limitations may also impact vertical equity. Both should be monitored.

A unique feature of this Education Policy Brief is the inclusion of commentary and perspectives on the K-12 education funding provisions of House Enrolled Act 1001-2009 shared by seven representatives of statewide education associations. These individuals were invited to share their views concerning the pros and cons of the budget because of their firsthand knowledge and expertise on the legislation. We hope you enjoy reading their personal insights. Their comments do not represent, nor are they endorsed, by CEEP.

Dr. Frank Bush, Executive Director of the Indiana School Boards Association (ISBA)

The Indiana state budget (HEA 1001 SS) as passed by the General Assembly on June 30, 2009, includes multiple education-related concepts. Many of the concepts will assist school boards in facilitating compliance with statutory responsibilities. But there are a few that the Association did not support. Herein lies the problem of assessing the budget because there are pluses and minuses of the act based on our perception. It may be more appropriate to assess the state budget as a "catalyst for change" rather than a final product.

It appears as if there are many statutory requirements in the budget that will necessitate future General Assembly consideration, which is seemingly a departure from previous budgets. But HEA 1001 SS was a product of amending several concepts from other bill(s) into the budget rather than adhering to a budget's predominant focus of financing state government. This resulted in many positive changes, which may not be specifically related to funding schools, that impact on public education such as moving the fiscal year budget implementation to 2011, a revenue forecast "trigger", local budget advertising/adoption date changes, public official advocating on controlled projects, reduction of staff date changes, employee evaluation using test results for ARRA compliance and a school funding formula study. However, there are also funding issues that were addressed, e.g., distribution of 2008 taxes received in 2009, biennium school funding that delivered increases to public schools, gaming dollars used for school construction, Covington and Brown County schools financial relief and circuit breaker replacement grants. And further on the school funding issue, because the second year of the biennium was funded at .3% statewide average, the General Assembly will be able to assess state revenue in the future and potentially improve the funding in light of the fact that 160 school corporations out of 292 received the same or less funding for the second year.

So, in retrospect, the General Assembly funded the public schools based on the potential for state revenue to support the funding resulting in Indiana becoming one of the few states, if not the only state, that increased public school funding for the biennium during these challenging economic times. But what should the budget have not included?

The ISBA testified and suggested that the pilot for virtual charter schools should not have passed but should have been assigned to a study committee for more analysis. And the passage of Tax Scholarship Credits was not supported by school officials because, aside from using public dollars to support private education, it was inserted in the budget during a financial crisis. This was not the time to add new programs. It would have been more acceptable to appropriate the $2.5M to full-day kindergarten funding than approve a new initiative.

As the budget is implemented, there will be a need for the General Assembly to fine tune the statute during the short session because of the fluidity of change that was inserted. But, in summary, the budget passage did provide a modicum of state funding for public services, prevented a state shutdown and provides an opportunity for future debate on certain topics. If these and other concepts were the purpose of the state budget, they were accomplished with a budget that may be best endorsed as a "catalyst for change."

Dennis Costerison, Executive Director of the Indiana Association of School Business Officials (IASBO)

From the very beginning of the 2009 session in January, it was evident that revenues would be extremely tight. The revised state revenue forecast in late May made a bad situation even worse. Finding new dollars for the school distribution formula would be difficult. The Governor proposed a flat-line budget in January and essentially a flat-line budget for schools at the beginning of the special session. When the smoke cleared on June 30, legislators found a way to provide an increase in the school formula for the biennium of a little over $160 million. Indiana ASBO greatly appreciates the efforts of all legislators who secured these new dollars. The formula mechanism does present challenges to many school corporations who will receive less dollars in 2010 than were received in 2009. This issue grows as over half of the districts will receive less total dollars in 2011 than will be received in 2010. HEA 1001(ss) does call for a school funding study committee to review how educational funding is distributed. IASBO supports this study, and will strive to assist in the creation of a fair formula mechanism.

HEA 1001(ss) does contain several positive issues that IASBO worked on during the session. These would include the continued use of Capital Projects Fund monies for utilities and property insurance, a one-year delay in the implementation of fiscal year budgeting for schools, revised dates for advertising and adopting school budgets, elimination of the School Property Tax Control Board, and the distribution revision for 2008 delinquent property taxes. There are numerous issues in this bill that I will not mention, but one glaring negative was the passage of tuition tax credits. IASBO has opposed this issue in the past and time will tell the true impact of including this provision in the budget bill.

The majority of the categorical funding (summer school, full-day kindergarten, testing and remediation, etc.) for the next biennium was straight-lined. Unfortunately, professional development funding was cut or totally eliminated. Again, considering the current economic conditions, keeping the categorical programs at these funding levels was a positive. There is no doubt that HEA 1001(ss) could have been worse for K-12 schools, but it could have been better in some areas. The budget debate is over, and now is the time to move forward and meet the challenges of educating Indiana's public school students.

John Ellis, Executive Director of the Indiana Association of Public School Superintendents (IAPSS)

The budget which resulted from the special session of the Indiana General Assembly was an improvement from the school funding outlook pre-session. After facing flat lined revenue, many schools saw nominal increases in funding as they looked toward increases in expenditures due to utilities, health insurance, and teacher increments. This economy was not the time to address programmatic needs such as delivering on the promise of full day kindergarten and helping Indiana catch up to the rest of the country in providing pre-kindergarten instruction, particularly for those children in poverty. Most disappointing was to see tuition tax credits sold to many members of the general assembly as a means to make money for Indiana. These refundable tax credits essentially send government checks to families to subsidize private school tuition, providing a voucher system. As the Education Policy Research Unit at the University of Colorado found in their report entitled "Unsubstantiated and Inaccurate Reports Misleadingly Boost Neovouchers," tax-credit voucher advocates claims of saving state dollars are "largely groundless and frequently at odds with established research." The researcher recommends that "policymakers should look beyond the seductive promises of increased fiscal savings and efficiency, which are unsubstantiated and inaccurately estimated in these reports."

Chuck Little, Executive Director of the Indiana Urban Schools Association (IUSA)

The newly adopted budget punishes and undermines all Indiana public schools, regardless of location, size, or student population. This budget is destructive and without thought to Indiana's future. It was a well executed plan to have capitalism override democracy. A tuition tax credit became law, thus moving public money into the private sector, likely at the expense of church/state separation. More study was needed to address and understand the educational needs of students living in poverty, regardless of where they are physically located. Study was needed to consider the needs of growing corporations and service delivery. It was not a time to introduce new resource uses at the expense of students everywhere. The haste to adjourn produced a plan that undermines a bedrock institution in our state.

Gerald W. Mohr, Executive Director of the Indiana Association of School Principals (IASP)

The vote to approve the state budget came not a moment too soon, as the current budget neared its expiration date, and Governor Daniels prepared to shut down nonessential services. The $28.7 billion, two-year state budget only meets the fundamental condition laid out by the Governor. Despite being one of the few states increasing funding to K-12 education, many school districts serving low-income, rural, and minority students will have their funding cut over the next two years. Compromise on all sides leaves many educators scratching their heads as they prepare to provide quality education programs with fewer resources. Our hope is there is a huge turnaround in the economy and education receives the promised additional state funds and stimulus.

Sally Sloan, Executive Director of the Indiana Federation of Teachers (IFT)

There is little in HEA 1001 that is a positive for public schools; it says a lot about the tenor of those who flaunt opinion over research-based evidence regarding public schools and the positive results coming out of them. Of course, there is room for improvement; there always will be.

What's bad about HEA 1001? Where is expanded full-day kindergarten? Where is professional development? Why are public tax dollars being "credited" and issued as vouchers to private and parochial schools? If "Race to the Top" dollars are so important, why was it an afterthought to include educator evaluations tied to test scores and prevent public testimony on that? And lest I forget, let's spend $3,277,000 on virtual schools and have the IDOE develop governance after the fact.

Yes, it's good and right to fund growing schools at 100%. When would it ever be wrong? Yes, it's good that districts can use CPF money to help with property/casualty insurance and utilities. But tell us again where the part is about the state of Indiana putting kids first.

Gail Zeheralis, Public Education Policy Coordinator, Indiana State Teachers Association (ISTA)

When I was in grade school many years ago, along the right hand side of our report cards (opposite our subject matter grades) were listed certain specific behaviors and skills other than those related directly to academics for which students were given grades for achievement: "S" for satisfactory, "NS" for not-satisfactory, and "I" for improving.

The enacted version of HB 1001(SS) took me back to those days because my inclination has been to characterize this budget and school funding formula with at least a duo of new "I's"—for inadequate and inconsistent.

I am not going to succumb to giving further explanation regarding the adequacy/inadequacy issue herein. Perhaps, that is destined to be one of those "eye of the beholder" things—but a discussion of this by thoughtful policymakers and relevant constituent groups needs to occur. The ISTA largely single-handedly tried to engage this state in that discussion by way of our courts, calling on Indiana to take a moment to examine the adequacy of its school funding formula. Indiana's top jurists found a way to punt on first down. Case closed.

And so we end up with this latest incarnation of a school funding formula and education budget as the General Assembly clock ticked away—garnering enough votes from enough legislators fearful of a government shutdown—and embedded with, at best, serious inconsistencies in our public school public policy commitment:

- Take pride in Indiana's world class standards, yet cut funding to over 90 school districts in year 1 of the biennium (many more in year 2)—risking learning opportunities to reach those standards for children in those districts.
- Cede millions in new tax revenue to a tax credit bonanza aimed at aiding private school enrollment, yet demand that a $1 billion state surplus of Indiana's existing tax revenue (much of which is, ironically, tuition reserve) go unused.
- Allocate millions to create new pet programs and virtual "schools" while flat-lining a half-way rolled out full-day kindergarten program and cutting millions more from professional development grants that were part and parcel of the standards and accountability laws passed in 1999.

Sure, there are some positives to mention—the Capital Projects Fund transfers are maintained, full-funding for growing districts is embraced, some of Indiana's 300 school districts may not experience cuts, a study committee on the school formula will be convened, and the federal stimulus dollars were used—but contained therein is an abundance of adversity for many of Indiana's public schools.

The deal is that Indiana's public school employees will do what they have always done when faced with adversity—roll up their sleeves and continue with the hard work of teaching and helping the children who walk through their public school doors. As I write, they are the ones who have earned the "S".

ENDNOTES

1. Budget bill retrieved July 2, 2009, from http://www.in.gov/legislative/bills/1092/PDF/HE/HE1001.1.pdf
2. Here is a taste of the actual language in the budget bill.

   The following paragraph intends to say "Calculate a three-year-average ADM using values from the current year and the two preceding years." The bill expresses this simple statement as follows:

   > STEP ONE: Determine the sum of the following: (A) The school corporation's ADM for the year preceding the current year by two (2) years divided by three (3). (B) The school corporation's ADM for the year preceding the current year by one (1) year divided by three (3). (C) The school corporation's ADM of the current year divided by three (3). [pages 383-384]

   We leave it to the reader to grade the clarity and succinctness of this paragraph—not to mention, from a numerical analysis perspective, the inappropriateness of making three divisions and summing instead of summing first and making only one division.
3. (Values cited here are from a preliminary study and subject to revision). Using 2009 Basic Grant Worksheet data, school corporations were divided into categories based on their years of continuous ADM decline. Charter schools were excluded from this analysis.

   Thirty-five school corporations experienced five years of continuous decline. In all of these school corporations, the five-year average ADM was larger than their respective 2009 ADM. Fifty-seven school corporations experienced three years of continuous decline. In 49 of these school corporations the five-year average ADM was larger than their 2009 ADM. For the remaining eight school corporations, the 2009 ADM was larger than their five-year average. Over all 293 school corporations, the use of the five-year average ADM when it was the larger, "added" 16,305 students, compared to the 2009 actual ADM. Multiplied by the Foundation Level of $4,825, the product is $78,671,625.
4. The 2008-2009 Average Daily Membership for all Indiana school corporations and charter schools is 998,569. The enrollment figure is 1,046,263 students, or 47,694 more students than the ADM.
5. Based on the 2009 Basic Grant Worksheet data, seven school corporations were at their target funding level and needed no Transition to Foundation Calculation. The remaining 286 school corporations triggered one of the three Transition to Foundation Calculation conditions and funding was adjusted upward or downward.
6. Of the 293 school corporations, 115 received a small school supplement. Thirty-seven were in the category of "2008-2009 ADM less than 1,700 and Complexity Index greater than 1.2." Thirty of these school corporations, nonetheless, used Adjusted ADM based on the larger five-year average, while the small school supplement is based on the actual 2009 ADM. Some corporations benefitted from both the five-year average and the small school supplement. An ongoing study will examine whether these benefits were sufficient to offset the Transition to Foundation Calculation.

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WEB RESOURCES

Public School Corporations Manual
http://www.in.gov/sboa/2405.htm

U.S. Department of Education: American Recovery and Reinvestment Act of 2009
http://www.ed.gov/policy/gen/leg/recovery/index.html

Indiana Department of Education Stimulus Package Information
http://www.doe.in.gov/stimulus/

Center for Evaluation & Education Policy School Finance Research
http://ceep.indiana.edu/finance/

Digest of Public School Finance
http://www.doe.in.gov/publications/financedigest.html

State Budget Bill
http://www.in.gov/legislative/bills/1092/PDF/HE/HE1001.1.pdf

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