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Indiana's New and (Somewhat) Improved K-12 School Finance System

Prepared By:
Dr. Susan L. Aud

July 2005

School Choice for Indiana: Many agree with the concept. Some disagree. And some simply want more information. As the public debate continues to grow louder about how best to provide a quality education to all Indiana children, it is critical to know the facts about school choice, and to have an understanding of how school choice programs have had an impact on communities, parents and students around the country. All of this analysis is done with one goal in mind: The best possible education for all of Indiana's children.

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About the Author

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Executive Summary

Education finance policy has become an urgent concern in many state legislatures. Demands for greater equity and accountability have forced states to review, and in many cases to revise, the method by which schools are funded. This study, conducted by Friedman Foundation Senior Fellow Susan Aud, sheds light on Indiana's financing of public K-12 education by providing a clear explanation of the components of its funding formulas, including the revisions just enacted by the state legislature, and comparing the system's key features to those of school funding systems in neighboring Midwest states.

While the recent changes made by the legislature are an improvement on the previous funding formula, Indiana's school finances are still needlessly complex and obscure. During the most recent legislative session, two of the most basic components of the funding formula – the way the state counts students and the way it determines the amount of revenue for each student – were somewhat simplified. Nonetheless, serious problems of transparency, accountability, and equity remain to be addressed.

Key findings of this study include:

- The system continues to require the calculation of needlessly confusing multi-step formulas, the excessive accumulation of data and the use of potentially outdated Census data to determine per-student funding.
- Information on the school finance system is still hard to obtain, and is unnecessarily presented in a difficult format that prevents the public from using it easily and efficiently.
- Equity problems are still inherent in Indiana's school finance system. Because funding is not generally student-centered, students who are especially expensive to teach often don't get additional funding, putting them at a disadvantage relative to more privileged students.
- By continuing to rely on multi-year student counts, Indiana insulates school districts from the need to adjust their expenses to declines in student enrollment.
- Nearby states are doing a better job of providing school finance that is as clear, simple and fair as possible – Indiana legislators should continue their efforts to refine and improve the school funding formula.

Introduction

One of the most pervasive problems in U.S. education is the unnecessary complexity and obscurity of the system by which it is funded. Once, funding schools required nothing more complicated than local community leaders pooling local funds for a schoolhouse. Under these conditions, school finance was relatively transparent and accountable. But over the last century we have developed an increasingly complex system of education financing formulas, administered predominately by state-level bureaucrats. Fewer and fewer people actually have any knowledge of school finance, and those who do understand their own state's system often lack an equal understanding of other states' systems, and thus have little basis on which to form a judgment of whether their own state's system is good or bad.

As a result, education finance policy often is made in the dark. No one can accurately predict the effect any particular change in education policy will have on total appropriations. It is also extremely difficult for parents and other education consumers to know what they are getting for their tax dollars. Local districts are being held to higher standards of accountability and reporting requirements in academic matters, but financial accountability remains weak to nonexistent in most states.

Finally, there is a growing consensus that, just as one size does not fit all when it comes to academic programs, the amount of money spent on each student should be more closely aligned with that student's characteristics. This student-centered approach to financing also facilitates school choice programs, with each student's funding following that student to the school parents choose.

This study examines K-12 education finance in Indiana, both on its own and in relation to five other states in the Midwest region. Indiana is a typical state, not only in the number of schools it operates and the number of students it serves, but also because its school finance system is needlessly complex and obscure. Recent changes have reduced the complexity, but have not made the system as straightforward as possible. Information on the system is not easily obtainable and is presented in a format that hinders rather than facilitates ease of use. Much of the funding is not student-centered, so students with particularly expensive needs often do not generate more funding than students without such needs. Additionally, comparisons with neighboring states—states that Indiana competes with in economic development—show that Indiana still has work to do in creating a clear, simple and fair school funding formula, which will lead to an improved education system for Hoosier families.

Indiana Public School Finance

In 2002-03 the Indiana public education system served over one million students in kindergarten through 12th grade.[1] Of these students, approximately 18% were minority students, less than half the national average; 4.2% were English Language Learners (ELL), again less than half the national average; and about 33% were low-income, roughly equal to the national average. In 2001-02, the latest year for which comparable financial data are available for all fifty states, total revenue for education in Indiana was slightly less than $9 billion, or about 2% higher than the national average.[2]

Table 1[3]

Demographics at a glance (2002-03)	Indiana	National Average Per State
Total Number of Schools	1,988	1,883
Total Students	1,003,875	945,143
Total Minority Students	178,082	381,194
Percent	17.7%	40.3%
Total English Language Learner Students	42,629	80,181
Percent	4.2%	8.5%
Total Low-income Students	325,856	331,510
Percent	32.5%	35.1%
Pupil-Teacher Ratio	16.9	14.7
Finances at a glance (2001-02)	**Indiana**	**National Average Per State**
Local Revenue	$3,764,554,325	$3,499,346,547
Intermediate Revenue	$85,432,232	$25,361,228
State Revenue	$4,544,603,589	$4,055,303,767
Federal Revenue	$542,645,907	$650,719,975
Total Revenue	$8,937,236,053	$8,230,731,517
Total State Revenue per Student	$4,527	$4,291
Total Revenue per Student	$8,903	$8,708

As in most states, state revenue in Indiana represents approximately half the total education revenue. The largest category of state revenue, over $3.5 billion in 2002-03, comes from the tuition support distribution.[4] This is the student funding formula category, determined by applying a formula to the count of students in each district (known as "corporations" in Indiana) or charter school, and indicates the equalized amount of money that the state has determined should be allocated to each district.[5] This is a common component of most state education finance systems and is often referred to as "foundation," "formula" or "base" funding. After calculating the total amount for each district, a local share is determined based on property wealth, or the assessed valuation of the property within the district's geographic area. In Indiana, determining the amount of tuition

support for a given district is an extremely complex process, requiring the accumulation of substantial data to calculate the many components.

In fact, prior to the changes made in the 2005 legislative session, the total amount was calculated by using three separate methods, and then the highest result was used. In most cases, the simplest method resulted in the greatest number. The components of the recently amended formula are similar, although the outcome is intended to be more equitable.

Analysis of New Funding Formula

Average Daily Membership Counts

The state has determined an amount per student ($4,517 in FY 2006) that is the basis of the revised formula. The goal of the revision is to have all districts migrate towards using this per-student amount, adjusted for community socioeconomic characteristics. This method, previously referred to as the *foundation* method, is derived by using a count of the average daily membership (ADM) of each district. This count is taken twice annually within each district, with kindergartners counted as one-half of a student, and the two counts are then averaged. The ADM is then adjusted by calculating a five-year moving average of the yearly ADM. The five-year moving average is simply the average annual enrollment over the previous five years. The purpose of using a five-year moving average is to allow districts time to adjust to enrollment changes. Enrollment growth is accommodated by adding 75% of the difference between current-year enrollment and the five-year moving average to the five-year moving average.

The Complexity Index

The adjusted ADM is then multiplied by a Complexity Index, which is a composite score based on the percentage of a school district's population in one of the following categories – 25 years old without a high school diploma, children who qualify for free or reduced-price lunch, ELL, single-parent families and families living below the poverty line. Multiplying each of these percentages by a proportion of the per-student funding amount and adding up the resulting decimals produces each district's Complexity Index. For example, the percentage of students in the district that qualify for free or reduced-price lunch is multiplied by $452/$4,517, or 10%. In other words, this one component of the index represents 10% of the percentage of low-income students. If the total index is greater than 1.25, it is increased further based on the number of low-income families. Although this index is designed to direct additional resources to districts with populations that may be more difficult to educate, the computation relies on Census data and a formula whose theoretical basis and derivation are difficult to understand. Finally, the adjusted ADM, multiplied by the Complexity Index, is multiplied by the foundation amount.

Prior to FY 2006, the foundation method often produced a result that was lower than the amount calculated under one of the two other per-student funding formulas that were required, and thus the foundation method was not used by most districts. The latest budget, however, has prioritized the use of this method. To accomplish this, a multi-step formula with three possible outcomes was developed.

The foundation calculation is the first possible outcome. The second possible outcome is calculated by comparing each district's prior-year revenue per student to the foundation calculation per student. The difference between the foundation calculation and the prior year's revenue per student is divided by six, and this reduced difference is then applied to the prior year's revenue per student, up to a maximum of $50 higher or lower per student. For example, if the foundation calculation is $120 higher than the prior year's revenue, $20 per student is added to the prior year's revenue, but if the foundation calculation is $400 higher, only $50 per student (the maxi-

mum) is added to the prior year's revenue. For the third possible outcome, the formula calculation is measured as a percentage of the prior year's revenue per student; if the formula calculation is less than 99% of the prior year's revenue, the prior year's revenue per student is reduced by only 1%.

Therefore, under the new funding formula, the revenue per student for the current year is the highest of the three possible amounts – (1) the formula calculation ($4,517 times the Complexity Index), (2) prior-year revenue per student increased or decreased by one-sixth of the difference from the formula calculation (up to $50) or (3) prior-year revenue decreased by 1%. Over time, ideally, all districts will move towards the foundation calculation.

To show how the funding formula works, the calculations were performed for six hypothetical districts (see Table 2). The first three districts have a relatively low Complexity Index of 1.08. This assumes 10% of the population fall into each of the five categories of the index – (1) older than 25 with less than a twelfth grade education, (2) students eligible for free or reduced-price lunch, (3) ELL students, (4) families with a single parent and (5) families with children less than eighteen years of age who have a family income below the poverty level. The second three districts assume 50% for each category, resulting in a Complexity Index of 1.4. The districts are further subdivided by three different prior year per-student funding amounts - $4,500, $5,500 or $6,500.

Table 2

	District 1	District 2	District 3	District 4	District 5	District 6
District Characteristics						
At-risk population	10%	10%	10%	50%	50%	50%
Prior per-student funding	$4,500	$5,500	$6,500	$4,500	$5,500	$6,500
Formula Components						
(1) Current-year adjusted ADM	1,000	1,000	1,000	1,000	1,000	1,000
(2) Complexity Index	1.08	1.08	1.08	1.4	1.4	1.4
(3) Prior-year total funding	$4,500,000	$5,500,000	$6,500,000	$4,500,000	$5,500,000	$6,500,000
(4) Prior-year ADM	1,000	1,000	1,000	1,000	1,000	1,000
Formula Calculation						
Step One (1) * (2) * $4,517	$4,878.36	$4,878.36	$4,878.36	$6,323.80	$6,323.80	$6,323.80
Step Two						
A. (3)/(4)	$4,500.00	$5,500.00	$6,500.00	$4,500.00	$5,500.00	$6,500.00
B. A. - Step One	-$378.36	$621.64	$1,621.64	-$1,823.80	-$823.80	$176.20
C. B. /6	-$63.06	$103.61	$270.27	-$303.97	-$137.30	$29.37
D. Max allowed increase or decrease	-$50.00	$50.00	$50.00	-$50.00	-$50.00	$29.37
E. A. +/- C.	$4,828.36	$4,928.36	$4,928.36	$6,273.80	$6,273.80	$6,353.17
Step Three Step Two * 99%	$4,455.00	$5,445.00	$6,435.00	$4,455.00	$5,445.00	$6,435.00
Step Four Greatest of Step One, Two or Three	$4,878.36	$5,445.00	$6,435.00	$6,323.80	$6,323.80	$6,435.00
Step Five Step Four * (1)	$4,878,360	$5,445,000	$6,435,000	$6,323,800	$6,323,800	$6,435,000

Determining the Local Share of Funding

To determine the local share of the total tuition support, a property tax rate of $0.72 (FY 2006), plus any additions if the district qualifies for revenue above foundation funding, is applied to the assessed valuation of each district divided by 100.[6] This amount is then subtracted from the gross tuition support amount, as are the additional local revenue sources of the motor vehicle excise, the commercial vehicle excise and the financial institutions tax. The result is the state aid for each district.

What is referred to as the *basic grant* in Indiana includes the state portion of tuition support, as well as several types of categorical funding, including an academic honors grant, prime time grant, special-education funding and vocational funding.[7] The academic honors grant gives districts $900 for each student who received an academic honors diploma in the prior year. Although this is a reduction of $63 per student from the previous budget, the grant money now comes with the stipulation that it must be spent on expenses directly related to the honors diploma program or the gifted and talented program. The prime time grant is provided to reduce teacher/student ratios to their targets for each district, between 15 and 18 pupils per teacher.[8] The formula divides the number of K-3 students by this target to determine the number of teachers that need to be funded at a rate of $69,811 annually.[9]

Special-Education Funding

Specialeducation funding is determined by counts of students in each of three special-needs categories.[10] Those with severe disabilities are granted $8,246 each on top of their regular funding, while those with mild and moderate disabilities are granted $2,238, and students who receive services for communications disorders receive $531. These students are counted as duplicates if they are also in one of the other special-needs categories. In addition to the special-education funding that is included in the tuition support calculation, Indiana provides $30 million for tuition reimbursement to districts for students whose disabilities exceed the capability of the public education system, and $27 million for special-education programs in preschools.

Vocational-Education Funding

Like other parts of Indiana's education finance system, vocational education requires a rather lengthy computation, based on data whose source is not obvious. However, the current legislative session did not alter the formula. Using wage levels and labor market demand, additional money for vocational students (above tuition support) is calculated by dividing the programs into eleven categories according to whether the wage is high, moderate or less than moderate, and whether the labor market demand is high, moderate or less than moderate. The result is an additional $150 - $1,350 per vocational student, depending on the number of hours per week the students are in the programs.

In addition to the basic grant, there are several dozen other categories of state education revenue in Indiana. Table 3 lists some of the larger categories in terms of funds allocated. As the table indicates, the majority of the revenue is tied to the tuition support portion of the Basic Grant. The second largest category is for distributions from the Teachers' Retirement Fund. These two categories comprise nearly 95% of the budget.

Table 3

Indiana Budget	FY 2005-06 (millions)
Tuition Support	$3,757.40
Teacher's Retirement Fund	$555.20
Testing/Assessment	$40.10
Special-Education Tuition	$30.00
Special-Education Preschool	$27.20
Professional Development	$20.40
Textbook Reimbursement	$19.90
Summer School	$18.40
Marion County Desegregation	$18.20
Adult Education	$14.00
Full-Day Kindergarten	$8.50
State Department of Education	$8.30
Technology	$7.10
Alternative Schools	$6.40
Gifted and Talented	$5.80
Food Assistance	$5.40
Early Intervention	$3.70
Center for School Improvement	$2.70
Education Service Centers	$1.70
Vocational Education	$1.40
Motorcycle Operator Safety	$1.00
Advanced Placement	$0.90
English Language Learners	$0.70
Other	$1.65
	$4,556.05

While it appears that Indiana is a typical public school system in terms of size and spending, it is also necessary to place Indiana's public education finance system in context by comparing it to other states in the Midwest region. This will indicate whether it is typical on a more detailed level, particularly in terms of organization and complexity. In addition, a closer inspection of funding for categorical programs, such as special needs, ELL, low-income and remedial students could provide insight into how Indiana is targeting revenue to those students who may need additional services. The following section will compare Indiana to its neighbors according to each component of the public school finance system.

Indiana: A Regional Comparative Analysis

To better understand how Indiana compares to the other states in the Midwest region it is necessary to first examine some basic demographics and finances. Table 4 lists the same characteristics as Table 1, but includes Illinois, Ohio, Kentucky, Michigan and Minnesota. As was previously mentioned, Indiana is close to the national average in size. It is also roughly in the middle for its region. Illinois, Ohio and Michigan are nearly twice as large, while Kentucky and Minnesota are somewhat smaller. Minnesota, it is interesting to note, has 25% more schools than Indiana even though it has 15% fewer students.

Table 4[11]

	Indiana	Illinois	Ohio	Kentucky	Michigan	Minnesota
Demographics at a glance (2002-03)						
Total Number of Schools	1,988	4,402	4,017	1,462	4,042	2,503
Total Students	1,003,875	2,084,187	1,838,285	660,782	1,785,160	846,891
Total Minority Students	178,082	869,864	365,865	86,856	492,550	159,900
Percent	17.7%	41.7%	19.9%	13.1%	27.6%	18.9%
Total English Language Learner Students	42,629	168,727	25,782	6,343	59,912	51,275
Percent	4.2%	8.1%	1.4%	1.0%	3.4%	6.1%
Total Low-Income Students	325,856	741,954	535,072	434,012	553,124	113,573
Percent	32.5%	35.6%	29.1%	65.7%	31.0%	13.4%
Pupil-Teacher Ratio	16.9	15.9	14.7	16.3	19.9	16
Finances at a glance (2001-02)						
Local Revenue (thousands)	$3,764,554	$10,899,404	$8,500,726	$1,387,763	$4,928,529	$2,425,252
Intermediate Revenue (thousands)	$85,432	$0	$54,358	$0	$3,337	$210,673
State Revenue (thousands)	$4,544,603	$6,319,443	$8,041,328	$2,772,395	$11,322,159	$4,894,185
Federal Revenue (thousands)	$542,646	$1,440,383	$1,048	$489,988	$1,280,080	$437,270
Total Revenue (thousands)	$8,937,236	$18,659,229	$17,643,929	$4,650,146	$17,534,105	$7,967,380
Total State Revenue per Student	$4,527	$3,032	$4,374	$4,196	$6,342	$5,779
Total Revenue per Student	$8,903	$8,953	$9,598	$7,037	$9,822	$9,408

Demographically, Indiana is also in the middle of the group. It has the second smallest percentage of minority students after Kentucky. On the opposite end, nearly half the student population in Illinois is minority. Similarly, Illinois has the highest percentage of ELL students; twice as many as Indiana. While Kentucky is on the low end as far as minorities and ELL students, it has substantially more low-income students than any other state in the region. Indiana, Illinois, Ohio and Michigan are all fairly similar, with about one-quarter to one-third of their student populations qualifying for free or reduced-price lunch, while Minnesota has a much smaller percentage.

Even though Indiana is representative demographically, it is the second from the bottom in terms of total revenue per student for the region. Ohio, Michigan and Minnesota all allocate 5-10% more per student than Indiana. On the state level, Michigan spends 48% more than Indiana, and Minnesota 35% more. Illinois spends less on the state level, but its high local spending, driven by high property taxes, makes its overall spending higher than Indiana's.

It is difficult, however, to draw many conclusions without understanding how the education finance systems of each state are constructed. Therefore, the following section will compare each of the six states according to the components of a typical student funding formula – the student count, student weights, the base or foundation amount and the formula.[12]

Counting Students

The first step in determining foundation funding is to count the number of students in each district. This seemingly straightforward number is counted in different ways in different states. One issue that is often debated is the determination of which year's count will be considered for the current year. Of these six Midwest states, only Ohio uses current-year counts for current funding. The remainder use prior-year data. Using prior-year data allows districts to receive funding for students even after they have left, which tends to benefit districts with declining enrollment. Additionally, since most states have provisions to adjust for enrollment growth, using prior-year data is nearly always financially beneficial for districts.

Table 5

	Student Count Method
Indiana[13]	Five-year moving average based on counts taken twice annually; Kindergartners =0.5; special needs students included; adjusted for declining or growing enrollment over the prior five years.
Illinois[14]	Prior year best 3 months average daily attendance for K-12; special needs students included.
Ohio[15]	Based only on current year; students counted in resident district, not attending district; Kindergartners = 0.5; special needs students included.
Minnesota[16]	Number of pupil-days enrolled/total days in school year; greater of current year or 0.77 * current year + 0.23 * prior year; students are weighted by grade level and special needs.
Kentucky[17]	Prior year adjusted avg. daily attendance plus + % change [(current year 2nd month ADA- prior year 2nd month ADA)/prior year]
Michigan[18]	80% of current year fall attendance + 20% of prior year February attendance; general ed students only

Indiana uses current-year Labor Day counts for a budget that begins in January. Before the legislature's recent revisions, the funding formula adjusted each district's ADM for declining enrollment by adding the following to the current year's ADM: 20% of the smallest yearly enrollment decline over the previous four years, 40%

of the smallest yearly enrollment decline over the previous three years, 60% of the smallest yearly enrollment decline over the previous two years, and 80% of any enrollment decline over the previous year. This gave districts time to adjust their spending to enrollment changes.

Various revisions to this formula were considered during the 2005 legislative session. In one version of the budget bill, the formula was expanded to require forty-four separate steps. Fortunately, the final budget act reconsidered this change and instead adopted a five-year moving average approach. Specifically, the counts for each of the previous five years are multiplied by 20% and then summed. This number is compared to the current-year count. If the current-year count is higher, 75% of the difference is added to the five-year moving average. For example, in a district that had 9,000 students five years ago and had declined by 1,000 each year since then, the five-year moving average would be (9,000 * 0.2) + (8,000 * 0.2) + (7,000 * 0.2) + (6,000 * 0.2) + (5,000 * 0.2), or 7,000. Even with this simpler formula, Indiana has the most generous adjustment period for changing enrollments of the six states analyzed here.

Many states adjust their student counts by weighting students according to their characteristics, most commonly grade level and/or special needs. Table 6 indicates what student weights are applied in these six Midwestern states. Generally, this is a reasonable practice, as it accounts for the greater difficulty of educating some students. For example, the earliest grades tend to have the lowest teacher/pupil ratios, while high schools tend to offer more specialized courses, each likely to cost more than a basic elementary student. Indiana, interestingly, counts kindergartners as half a student, whether they attend half-day or full-day kindergarten, and then the state appropriates $10 million for full-day kindergarten programs, which works out to about $1,400 per full-day kindergarten student.

Table 6

	Student Weighting
Indiana	All 1-12 counted as 1.0; K counted as 0.5
Illinois	All K-12 counted as 1.0
Ohio	All 1-12 counted as 1.0; K counted as 0.5 Special-needs weights applied to foundation amount: Speech only - 0.2892 Learning Disabled, DH, other minor - 0.3691 Hearing or Visually Impaired, SBH - 1.7695 Major, Orthopedic - 2.3646 Multiple disabilities - 3.1129 TBI, Autism, Deaf, Blind - 4.7342
Minnesota	Pre-Kindergarten - 1.25 Kindergarten-Disabled - 1.0 Regular Kindergarten - 0.557 Grades 1 through 3 - 1.115 Grades 4 through 6 - 1.06 Grades 7 through 12 - 1.3
Kentucky	All K-12 counted as 1.0 Free lunch students - 0.15 Low incident (less common, i.e. more severe) disabilities - 2.35 Moderate incident disabilities - 1.17 High incident disabilities - 0.24
Michigan	All K-12 counted as 1.0; General Education only

Similarly, special-needs students are often much more expensive to educate depending on their particular needs. This higher cost is either accounted for by applying higher weights to the foundation amount or through separate categorical funding, both of which are done in Indiana. The weightings are normally broken into several categories, according to the level of students' needs. In most cases, these weights are applied as add-ons to the foundation amount.

Foundation Funding

Once the appropriate student counts have been determined by a state and adjusted for growing enrollment, declining enrollment or student weights, the result usually becomes the basis for the calculation of the foundation funding for each district. Most states determine a foundation, or base, amount that is incorporated into the formula as well. Of these six states, only Ohio provided any readily available information as to how the base amount is determined. In that state, a successful schools model is applied, based on expenditures of school districts that have attained certain standards of performance.[19]

The foundation amounts of the six states vary between $3,066 per student for Kentucky to $6,700 per student for Michigan (see Table 7). At least part of the variation is due to some differences in what categories of spending are included in the base amount. For example, Ohio, Illinois and Kentucky fund transportation separately, while it is included in Minnesota and Michigan's base amount. Indiana was on the low end of this group for 2003-04, with a base amount of $4,350 per student, but has raised is foundation amount for the next budget cycle.

Table 7

	2003-2004 Foundation Amount	2003-2004 Base Funding Formula
Indiana[20] (2005-06)	$4,517.00	[Greatest of (Adjusted ADM * Foundation Amt * Complexity Index) or (Current Yr Revenue/ADM +/- One-sixth of the difference between prior year and current year [up to a maximum increase or decrease of $50]* Adjusted ADM) or (Prior Yr Revenue Decreased by 1%)] - Local Effort
Illinois	$4,964.00	Districts that can provide < 93% of Foundation Level (FLEVEL)/ADA = (FLEVEL - Available Local Sources) * ADA; Districts that can provide 93%-175% of FLEVEL = FLEVEL * ADA * 0.07 - (([local percentage - 0.93]/0.82) * 0.02); Districts that can provide > 175% of FLEVEL = ADA * $218
Ohio	$5,058.00	[Foundation Amount * Weighted ADM * Cost of Doing Business (CODB)] - Local Effort
Minnesota	$4,601.00	[Formula allowance * Adjusted Marginal Pupil Units (weighted ADM)] - Local Effort
Kentucky	$3,066.00	[((Basic SEEK (Prior year Adjusted ADA Plus Growth) + At Risk + Home/Hosp. + Exceptional Children) * Foundation Amount) + Transportation] - Local Effort
Michigan	$6,700.00	[General Education Membership Pupils * Lesser of $8,000 or District's Foundation Allowance] - Local Effort

It should be pointed out that while the base amount is usually intended to cover most of the current operating costs of educating a student, it tends to be equal to roughly half of total spending per student. This has important implications for student-centered funding policies. If only half of education revenue is based on the number of students in a district—and therefore follows students when they enter, leave or move between districts—then districts are not being asked to manage their expenditures very closely.

The funding formulas that use the adjusted weighted student counts and foundation amounts generate the most criticism of state public education finance systems. As can be seen in Table 7, these formulas can be complicated. For example, Indiana has three separate calculations, with the highest result being used for each district. These formulas are often manipulated by successive legislatures in a state to resolve funding equity issues.

Most of the student funding formulas have some component whereby the number of students is multiplied by the foundation amount. This total may be adjusted, as is the case in Ohio, where the cost of doing business is used as a multiplier to account for differences in the local cost of living. Kentucky adjusts its base calculation by adding transportation to the total.

In all cases, a portion of the total amount allocated to a particular district is considered to be the responsibility of the local district. This mandatory local effort is generally dependent upon the amount of property wealth in each district. For example, in Illinois the assessed property value per student is calculated and this amount is compared to the base amount of $4,964. Districts that have a property value per student that is 93% of the base ($4,617 per student) or less receive the full foundation level per student, minus a percentage of the property value (2.3% for elementary school districts, 1.05% for high school districts or 3.0% for unit districts). Districts that can fund more than 93% of the foundation level receive less than the full foundation amount, down to a minimum of $218 per student. Overall, Illinois and Ohio have the highest required local effort at 2.3% (or more) of the total value, followed by Michigan at 1.8% and Minnesota at 1%-1.5%. Indiana and Kentucky have the lowest required amount, 0.72% and 0.3% respectively. The required local effort in Indiana, however, also includes revenue sources other than property taxes. In some states the required local effort is not a reflection of actual tax rates, which can be higher or lower.

Table 8

	Calculation of Local Share of Base Funding
Indiana	(Local tax rate * assessed valuation) + prior yr motor vehicle excise, commercial vehicle excise and financial institutions tax; Local tax rate: 0.72 + revenue above foundation funding divided by the greater of either [(36.30) or (assessed valuation per ADM divided by 10,000)] divided by 100
Illinois	Available Local Resource = (General State Aid Equalized Assessed Valuation * (2.3% for Elementary Districts/1.05% for High School Districts/3.05 for Unit Districts) + Corporate Personal Property Replacement Taxes)
Ohio	23 mills (23 * assessed value/1,000) times district recognized value; assessed value is from 2 yrs prior (2003 for FY2005); if the local share of the non-basic formula funding exceeds 3 mills, the state pays the difference; also, if there is a gap between what a district can raise and what the formula assumes, the state makes up the difference
Minnesota	Estimated Market Value * Class rate (e.g. residential 1.0%-1.25%, agricultural 1.05%, commercial 1.5-2.0%); this number is divided by the sales ratio (estimated market value/actual sales price) to get Adjusted Net Tax Capacity
Kentucky	Required local effort is 30 cents per $100 assessed value; districts can levy up to 15% above the base (equalized at 150% of statewide avg per-pupil assessed property value) and an additional 30% above the base + 15%, not equalized
Michigan	18 mills (18 * valuation/1,000) on assessed non-homestead property

Categorized Funding

Beyond foundation funding, states usually have several types of categorical funding. This is funding that is tied to particular programs. One of the largest categorical funding programs, if it is not in the base calculation, is special-education funding. In Indiana and Ohio, special-education funding is calculated according to the number of special-education students. In Illinois, Minnesota and Michigan, special education is funded according to the costs of the programs as submitted by the districts. In Kentucky, special education is funded through the SEEK base funding category.

In states that fund special education according to the number of students in each special-needs category, the revenue allocated varies somewhat. For example, students with severe disabilities receive approximately $12,600 in Indiana (the base amount plus $8,246), while in Ohio they receive $29,000 (base amount + (base amount * 4.7342)). Kentucky, on the other hand, funds these students at $10,300 (base amount + (2.35 * base amount)). Ohio, however, has six special-needs weighting categories, as opposed to three in Indiana and Kentucky. Generally, transportation for special-needs students is funded separately.

Table 9

	Special-Education Funding
Indiana[21]	$8,246 - severe disabilities (unduplicated) $2,238 mild or moderate disabilities (unduplicated) $531 communication disorder or homebound services (duplicated) plus $30 million for special-education tuition and $27 million for special-education preschool
Illinois[22]	Districts reimbursed through one of the categorical programs - private tuition reimbursement, extraordinary cost reimbursement for students served through the public schools, and orphanage reimbursement. In all cases the districts are reimbursed by the state, with some limits.
Ohio[23]	Special-needs category weight * base amount * state share of foundation amount (i.e. if the state funds 45% of the foundation amount, it will fund 45% of the special-ed amount); students receiving speech therapy are funded at a rate of $150 per students
Minnesota[24]	In addition to general revenue, districts are reimbursed for 68% of special-ed staff salaries, 47% of supplies and equipment, and 52% of contracted services; districts are also reimbursed for 100% of special-needs transport; revenue received is based on expenditures from second prior year
Kentucky[25]	Based on prior year Dec. 1 counts. These weights are an add-on factor and are multiplied times the basic SEEK foundation amount
Michigan[26]	Districts are reimbursed at 100% of foundation allowance for special-needs students or the state will reimburse 28.62% of total special-ed costs and 70.42% of special-ed transport - whichever is greater - plus the difference between 1996-97 categorical special-ed revenue minus the difference between the two amounts above

In addition to funding for special-needs students, states address other areas of need through numerous other categories. Indiana, for example, has dozens of categorical funding line items in its budget, ranging from textbook reimbursement to desegregation to gifted and talented programs to vocational education. This analysis, however, consider just three components of categorical funding in addition to special education. These are remedial funding, aimed at assisting those students that are at risk for not passing statewide exams; compensatory funding, for low-income students; and funding for ELL students. These can be some of the most difficult students to educate and have a direct impact on a state's ability to meet the requirements of No Child Left Behind. Consequently, states have an incentive to direct additional resources to these students.

Table 10

	Remedial Funding	Compensatory Funding	English Language Learner Funding
Indiana[21]	For 2005-06 the state allocated $31.4 million for testing and remediation.	Accounted for in the Complexity Index used to calculate the Basic Grant	$700,000 distributed statewide in 03-04, based on approx. 42,000 students ($17/ELL student)
Illinois[22]		Districts receive additional general state aid based on counts of low-income students. Districts with less than 15% concentration of poverty receive $355 per low-income student. Districts with more than 15% concentration receive, per low-income student, $294.25 + (2700 x concentration rate squared).	$62,500,000 allocated by the state in 2003-04 for 168,700 students ($370/ELL student)
Ohio[23]	$43.1 million in 2004 to help districts with extended day, extended year and before- and after-school programs to assist students who are most at risk of not passing the 4th grade literacy exam.	DPIA index: 5-yr avg of welfare familes/ 3-yr avg of ADM; this district % is compared to state % to get the index; districts w/index >1 or >17,500 students receive 1/2 of formula ($5,169) for each student in all-day kindergarten + districts w/index between 0.35 and 1.0 recieve $230 per welfare pupil + class size reduction	The state spent approximately $5 million in English Language Readiness in 2004 to reimburse districts ($300/ELL students).
Minnesota[24]		[Formula allowance ($4,601) - $415] * [(# free + 1/2 # reduced-price lunch count)] * [ratio of (free + 1/2 reduced-price lunch count) to 80% of total building enrollment] * [0.60]. Between $35 and $2,500 per FRPL student	$700 * eligible ELL avg. daily membership + $250 per ELL student for concentration revenue
Kentucky[25]	Extended School Services program funded by the state. Distributed to districts based on share of state ADM that meet certain requirements. Total for 2002-03 school year was $32.9M.	Prior-year average of free lunch students * 15% of base funding ($460)	
Michigan[26]	In FY 2003-04 state allocated $72.8M in School Readiness Grants.	11.5% of the foundation level for each FPL student, plus $3.7M per yr for teen health centers. Also, state reimburses districts for 6% of their federally mandated school lunch costs.	$4.2 million statewide, disbursed by district share of state ESL students ($70/ELL student)

Overall, Indiana falls a bit short in each of the three categories. It allocates approximately $50 to each student who scores below basic on the statewide test, ISTEP+. The state also allocates funds for alternative schools, early intervention, reading diagnostic assessment and graduation exam remediation. The total amount allocated for these additional categories was approximately $16.1 million in 2005-06, or an additional $40 per below-basic student.

Compensatory funding is accounted for through the use of the Complexity Index in the tuition support calculation. The revisions to the student funding formula will hopefully result in the Complexity Index having a greater impact. Ohio allocates a minimum of $230 per low-income student, Illinois' allocation is a minimum of $294.25, Kentucky's is $460, Michigan's is $680 and Minnesota's ranges from $35 to $2,500 per low-income student.

Finally, the over 40,000 ELL students in Indiana are allocated only $700,000, or $17 per student. This total amount remains flat through at least FY 2007. However, as mentioned above, the formula revisions should generate additional funds for districts with high numbers of ELL students through the use of the Complexity Index. By way of comparison, Minnesota allocates at least $700 per ELL student, Illinois $370, Ohio $300 and Michigan $70.[27] This indicates that Indiana is not focusing on improving the student-centeredness of its funding. This point, as well as several others, will be discussed in more detail in the following section, which evaluates these comparisons.

Evaluation

One of the great blessings of advancing technology is almost immediate and universal access to information and data that used to be the exclusive domain of "experts." We research our own diseases, validate the accuracy of media reports on our own and expect to be able to find any information we require for decision making. The corporate boardroom, the media and the government are all adjusting to this new level of scrutiny.

Likewise, the financing of our public schools is increasingly being examined to determine how the system is designed, whether it is fair and most importantly whether it is the best system to educate children for the demands of our society. Central to this examination is creating an understanding of the status quo. It is no longer acceptable to simply say that "it is complicated, so don't bother trying to figure it out." Governors and state legislatures are demanding to understand it, and Indiana is no exception. Clearly, it is not reasonable to try to fix or improve anything without this necessary first step.

This analysis will discuss the accountability of the current system in Indiana, it terms of access to information, the quality of this system relative to the other Midwest states and the equity of the current system, meaning the extent to which it is a reflection of the actual student costs.

Accountability

Public education finance has two very frustrating components – complexity and lack of consistency in the reporting of figures, with the second most likely fueled by the first. As there is very little public understanding of school finance, interest groups report revenue and expenditure data according to widely varying standards. Anti-tax groups tend to present very high numbers, while the teachers' lobby tends to present very low numbers for the same state. Parents, taxpayers, teachers and legislators have to decide which numbers they believe. Most states attempt to report their financial data directly to consumers via the state department of education web site. However, finding and understanding these data is generally not for the layman, particularly in Indiana where multi-step formulas are repeatedly used. While the legislature should be commended for attempting to simplify the ADM and revenue-per-ADM calculations, the resulting formulas remain unnecessarily complex (see Appendix A).

Indiana publishes two documents that primarily explain how the system functions – the *Digest of Public School Finance in Indiana 2003-2005 Biennium,* and the *Superintendent's Annual Financial Report.* The *Digest* does a commendable job of breaking down the spending by category and reporting state totals for each. Unfortunately, it does not contain a comprehensive list of the spending categories. A comparison to the Elementary and Secondary Budget for the state indicates that many of the categories are omitted from the Department of Education's *Digest*. The categories that are included are explained in paragraph form, regardless of their complexity and with no accompanying examples. Perhaps the report for the 2005-2007 budget cycle will have an improved format.

The *Digest*'s main problem is its lack of an accompanying report indicating the funding for each category by school district. The *Annual Report*, in fact, has only two paragraphs about finances and reports them at only the very highest levels – total state spending and total local spending. A consumer can access a summary financial report for each district, but it is not broken down into the same categories as the *Digest*, meaning that the state aid calculation cannot be ascertained for a particular district. Additionally, no statewide report is readily available. State aid projections for the next several years are on the web site, but cannot be accessed by the general public. It should be noted that it is possible to extract from the web site the forty-six pieces of data required to perform the state aid calculation. However, the user must extract the data into either an Excel file or a web page, which are unformatted, in order to see them, and must be fairly computer savvy to use or understand them. A user who is not already an expert on Indiana state finance will not be able to obtain any useful information this way.

As a comparison, *The Michigan School Aid Act Compiled and Appendices* explains each of Michigan's revenue categories in text, then lists the total state appropriations by the same categories for three years, then provides an additional description by legislative code section, with the appropriation, purpose, payment calculation and indication of who is eligible for payments. A separate appendix then gives sample calculations for the foundation program, special education funding and payment system, with a brief legislative history of each. There is even a multiple choice exercise at the end of this appendix to allow readers to make sure that they have attained sufficient understanding. The writing and layout make this a truly useful tool for anyone desiring to understand Michigan's system of public education finance. Additionally, the state of Michigan provides access to monthly state aid status reports for each district that mirror the funding categories of *The Michigan School Aid Act Compiled and Appendices,* including a state-wide report.

Many of the other states in this analysis also produce documents that give examples of district reports, walk readers through the formula calculations and provide audited annual data that correspond to the presentation of the financing system. Since Indiana has one of the most complicated student funding formula systems even after the latest revision, while Michigan's is fairly straightforward, Indiana has a responsibility to improve both the amount and quality of information provided to consumers such as parents or educators. Without that information, an accurate and informed discussion will not take place.

Equity

Generally, discussions of equity in education finance involve equalized spending across districts so that wealthier districts are not able to spend dramatically more than poorer districts. However, true equity should focus on ensuring that revenue is allocated to students in a way that reflects the cost of educating them. If students were allocated education revenue based on their unique characteristics, then whatever districts they attended should be able to manage the costs of educating them. From an accounting standpoint, such student-centered financing is the most appropriate approach, as it matches revenues to costs. However, most if not all of this revenue should follow the student to the place where that student is educated.

Indiana's current system of education finance is not particularly student-centered. For the tuition support program, all students are treated equally regardless of grade level. As a result, for example, some high school costs are likely subsidized with revenue generated by elementary schools. Additionally, educationally at-risk students, such as poor performers, low-income students and ELL students do not receive substantial additional funding beyond the base support, which does not reflect the additional classroom costs associated with these students. This should improve as the Complexity Index formula begins to kick in, but that could take several years, and because the Index relies on the decennial Census, the data for each district are only updated every ten years. Finally, by using student count data for as much as five years, Indiana has overly insulated public school districts from having to manage their expenses based on their current student populations.

Quality

Finally, the big question: what are Indiana taxpayers getting for their educational dollars? This is a difficult question, as achievement is often not directly tied to spending. However, given that Indiana is very typical in size and spending, with generally favorable demographic characteristics, it could be reasonably expected that its achievement would be roughly at or above the regional and national levels.

The No Child Left Behind Act dictates that states must each develop a standardized test to be administered every year, in order to show Adequate Yearly Progress across all types of students. Indiana has the Indiana Statewide Testing for Educational Progress Plus (ISTEP+) program. Comparing the results of this test for third graders and eighth graders in 2002-03 to the other Midwest states indicates that Minnesota, Kentucky and Michigan appear to outperform Indiana, while Illinois and Ohio come in behind it. These tests, however, are given in different years and reflect different content standards, making a direct comparison problematic.

Table 11

2003 Statewide Testing (% Below Basic)					
		Math		Reading	
Indiana[28]	ISTEP+	Grade 3	Grade 8	Grade 3	Grade 8
		33%	33%	27%	35%
Illinois[29]	ISAT	Grade 3	Grade 8	Grade 3	Grade 8
		24%	47%	38%	36%
Ohio[30]	4th/6th Grade	Grade 4	Grade 6	Grade 4	Grade 6
	Proficiency Tests	42%	48%	34%	36%
Minnesota[31]	MCA-3; BST-8	Grade 3	Grade 8	Grade 3	Grade 8
		25%	29%	24%	19%
Kentucky[32]	CATS	Grade 5	Grade 8	Grade 4	Grade 7
		31%	28%	13%	11%
Michigan[33]	MEAP	Grade 4	Grade 8	Grade 4	Grade 8
		9%	25%	7%	21%

A more accurate achievement comparison can be made with the National Assessment of Education Progress (NAEP) exam.[34] This exam, commonly referred to as "The Nation's Report Card," is given to a randomly selected group of students in each state every year. Comparing the results of the 2003 NAEP exam for the six states indicates that only Minnesota outperformed Indiana, while Ohio was roughly equivalent. Illinois, Kentucky and Michigan had higher percentages of students below the basic level than Indiana. While the NAEP results are definitely favorable for Indiana, they are not unexpected given its demographic characteristics.

Table 12

NAEP (2003) % Below Basic				
	Mathematics		Reading	
	Grade 4	Grade 8	Grade 4	Grade 8
Indiana	**18%**	**26%**	**34%**	**23%**
Illinois	**27%**	**34%**	**39%**	**23%**
Ohio	**19%**	**26%**	**31%**	**22%**
Minnesota	**16%**	**18%**	**31%**	**22%**
Kentucky	**28%**	**35%**	**36%**	**22%**
Michigan	**23%**	**32%**	**36%**	**25%**

Conclusion

This analysis has examined Indiana's public education finance system, both on its own and relative to its neighbors' finance systems. The overwhelming conclusion is that Indiana's system is unnecessarily complex and difficult to understand. As in many states, Indiana's legislature is trying to address the shortcomings of its public education finance system, but the political process makes this challenging. Some incremental improvements have been made. Yet, in comparison with its neighbors, Indiana still has substantial work to do.

A second conclusion is that the documentation provided by the state does not provide sufficient information to make the system accessible by consumers such as parents, teachers and legislators. It is imperative that Indiana broaden public understanding of the system if improvements are to be made. Using available technology, such as the internet, to reach consumers and educate them on the system should become a priority.

Finally, the system does not seem to accurately reflect the cost differences of various types of students. Focusing resources where they are needed is particularly critical when those resources are limited. Having the appropriate amount of revenue follow each child to his or her school will allow districts to better manage their expenses as well. Public elementary and secondary education finance has evolved into a very convoluted system. Redesigning that system to meet the needs of the current century is a daunting task. Expanding the availability of knowledge and data, however, should allow stakeholders to improve the system for the demanding years ahead.

Appendix A: Indiana Revised Per-Student Revenue Formula

Indiana Code 21-3-1.7-6.6 as Amended by HE 1001 Sect. 195
Effective January 1, 2006

STEP ONE: Determine the product of:
(A) four thousand five hundred seventeen dollars ($4,517) in 2006 and four thousand five hundred sixty-three dollars ($4,563) in 2007; multiplied by
(B) the index determined for the school corporation under subsection (a) or (b), as applicable.

STEP TWO: Divide the school corporation's previous year revenue by the school corporation's adjusted ADM for the previous year.

STEP THREE: Determine the difference of:
(A) the STEP ONE amount; minus
(B) the STEP TWO amount.

STEP FOUR: Divide the STEP THREE result by:
(A) six (6) in 2006; and
(B) five (5) in 2007.

STEP FIVE: A school corporation's STEP FIVE amount is the following:
(A) For a charter school that has previous year revenue that is not greater than zero (0), the charter school's STEP FIVE amount is the quotient of:
(i) the STEP SEVEN amount for the school corporation where the charter school is located; divided by
(ii) the school corporation's current ADM.
(B) The STEP FIVE amount for a school corporation that is not a charter school described in clause (A) is the following:
(i) The school corporation's STEP ONE amount, if the absolute value of the STEP THREE amount is less than or equal to fifty dollars ($50).
(ii) For 2007, the school corporation's STEP ONE amount, if the STEP ONE amount in 2006 equaled the STEP EIGHT amount in 2006.
(iii) The sum of the school corporation's STEP TWO amount and the greater of the school corporation's STEP FOUR amount or fifty dollars ($50), if the school corporation's STEP THREE amount is greater than fifty dollars ($50).
(iv) The difference determined by subtracting the greater of the absolute value of the school corporation's STEP FOUR amount or fifty dollars ($50) from the school corporation's STEP TWO amount, if the school corporation's STEP THREE amount is less than negative fifty dollars (-$50).

STEP SIX: Determine the product of:
(A) the STEP FIVE amount; multiplied by
(B) the school corporation's current adjusted ADM.

STEP SEVEN: Determine the greater of the following:
(A) The school corporation's STEP SIX amount.
(B) The amount determined under item (iii) of the following formula:
(i) Divide the school corporation's previous year revenue by the school corporation's previous year ADM.
(ii) Multiply the item (i) result by ninety-nine hundredths (0.99).
(iii) Multiply the item (ii) amount by the school corporation's current ADM.

STEP EIGHT: Determine the quotient of:
(A) the STEP SEVEN amount; divided by
(B) the school corporation's current adjusted ADM.

Appendix B: The Indiana State Budget for Elementary and Secondary Education

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Enrollment	995,438	1,001,937	1,010,680	1,021,243	1,030,788	1,038,698
Indiana Department of Education						
State Board of Education	4,812,088	3,389,368	3,152,112	3,152,112	3,152,112	3,152,112
Superintendent's Office	2,530,891	2,361,458	2,196,156	2,196,156	2,125,627	2,124,559
Deputy Superintendents Office	603,618	603,618	531,365	531,365	550,159	550,165
Administration and Financial Management	2,630,979	2,630,979	2,446,810	2,446,810	2,441,271	2,441,346
Total	**$10,577,576**	**$8,985,423**	**$8,326,443**	**$8,326,443**	**$8,269,169**	**$8,268,182**
Instructional Funding						
Tuition Support Distribution	3,417,253,000	3,532,653,000	3,656,750,000	3,698,500,000	3,757,383,333	3,751,575,000
General Fund	1,951,887,850	2,009,587,850	2,053,342,946	2,074,488,779	2,102,629,408	2,099,725,241
Property Tax Replacement Fund	1,465,365,150	1,523,065,150	1,603,407,054	1,624,011,221	1,654,753,925	1,651,849,759
Testing/Remediation	40,175,681	40,174,677	31,410,451	31,410,450	31,410,450	31,410,450
Special Education (S-5)	29,000,000	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000
Special Education Preschool	25,515,600	27,173,300	27,173,300	27,173,300	27,173,300	27,173,300
Textbook Reimbursement	17,800,000	19,900,000	19,900,000	19,900,000	19,902,550	19,902,644
Distribution for Summer School	21,600,000	21,600,000	18,360,000	18,360,000	18,360,000	18,360,000
Marion County Desegregation Court Order	18,200,000	18,200,000	18,200,000	18,200,000	18,200,000	18,200,000
Full Day Kindergarten	10,000,000	10,000,000	8,500,000	8,500,000	8,500,000	8,500,000
Alternative Schools	7,500,000	7,500,000	6,375,000	6,375,000	6,380,059	6,380,319
Gifted and Talented Education Program	6,859,129	6,859,129	5,649,354	5,649,354	5,836,337	5,836,340
National School Lunch Program	5,204,608	5,400,000	5,168,289	5,400,000	5,400,000	5,400,000
Technology Plan Grant Program			2,500,000	2,500,000	5,000,000	5,000,000
Computer Learning and Training	1,690,749	1,690,749				
Tech Prep Distribution	1,000,000	1,000,000				
Innovative School Improvements	819,590	819,590				
Graduation Exam Remediation	4,958,910	4,958,910	4,958,910	4,958,910	4,958,910	4,958,910
Early Intervention Program	4,000,000	4,000,000	3,707,000	3,707,000	3,720,000	3,720,000
Center for School Improvement and Performance	2,926,163	2,926,163	2,721,332	2,721,332	2,679,509	2,679,536
Educational Technology/Four R's Program	4,000,000	4,000,000	2,100,000	2,100,000	2,109,031	2,109,036
Education Service Centers	2,025,664	2,025,664	1,721,287	1,721,287	1,721,287	1,721,287
Vocational Education	1,485,997	1,485,997	1,381,977	1,381,977	1,358,911	1,358,937
Motorcycle Operator Safety Education Fund	761,621	761,621	1,021,061	1,021,061	1,024,480	1,024,484
Center for School Assessment	1,133,594	1,133,594	1,054,242	1,054,242	1,016,802	1,016,804
Reading Diagnostic Assessment	2,500,000	2,500,000	1,000,000	1,000,000	1,000,000	1,000,000
Accreditation System	1,047,314	1,047,314	974,002	974,002	960,937	960,942
AP Program	900,000	1,000,000	930,000	930,000	894,400	894,400
PSAT Program	800,000	800,000	744,000	744,000	717,449	717,449
Non-English Speaking Program	700,000	700,000	700,000	700,000	700,000	700,000
Research and Development	391,520	391,520	364,114	364,114	387,888	387,888
Special Education Excise	326,600	326,600	330,332	330,332	344,177	344,351
Center for Community Relations & Special Populations			319,904	319,904	313,455	313,459
School Traffic Safety	258,989	258,989	258,989	258,989	273,218	273,225
Prime Time	219,095	219,095	203,758	203,758	207,031	207,033
Drug Free Schools	71,320	71,320	71,230	71,230	72,453	72,453
Transfer Tuition (State Employee and Eligible MH children)	215,000	215,000	199,950	199,950	50,000	50,000
Riley Hospital	30,000	30,000	27,900	27,900	27,900	27,900
ADA Flat Grant Distribution	35,761,839	35,854,597	17,927,229			
Distribution for Transportation	25,690,268	25,801,954	11,997,909			
Transportation for Special and Vocational Education	9,570,000	9,570,000	4,450,050			
Performance Based Assessment and Awards	3,250,527	3,250,527				
School Library Printed Materials Grants	3,000,000	3,000,000				
Japanese/Chinese Initiative	236,500	236,500				
Project Set	91,065	91,065				
Academic Competition	56,090	56,090				
Distressed Schools Distribution	50,000	50,000				
Geography Education Training	49,990	49,990				
Total	**$3,709,126,423**	**$3,829,782,955**	**$3,889,151,570**	**$3,896,758,092**	**$3,958,083,867**	**$3,952,276,147**

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Professional Development Funding						
Principal Leadership Academy	513,829	513,829	477,861	477,861	462,832	462,836
Professional Development Distribution	500,000	20,500,000	13,812,500	13,812,500	13,812,500	13,812,500
Professional Standards Division			6,806,524	6,806,524	3,682,602	2,816,502
Professional Standards Board Licensing Fund			443,900	443,900	2,400,000	900,000
Total	**$1,013,829**	**$21,013,829**	**$21,540,785**	**$21,540,785**	**$20,357,934**	**$17,991,838**
Teachers Retirement Funding						
Teachers' Social Security and Retirement Distribution	2,403,792	2,403,792	2,403,792	2,403,792	2,403,792	2,403,792
Cost of Living Pension	50,300,000	47,900,000	39,229,000	36,532,000	50,427,438	49,797,084
Teachers' Retirement Fund Distribution	385,100,000	385,100,000	266,300,000	310,300,000	502,400,000	536,200,000
Pension Stabilization Fund	30,000,000	30,000,000				
Total	**$467,803,792**	**$465,403,792**	**$307,932,792**	**$349,235,792**	**$555,231,230**	**$588,400,876**
Other						
Education Employment Relations Board	779,334	779,334	700,000	700,000	682,753	683,160
Public Employee Relations Board	35,000	35,000	34,000	34,000	32,550	32,550
Charter Schools Administration	50,000	50,000				
Indiana Council for Economic Education	30,000	30,000				
Total	**$894,334**	**$894,334**	**$734,000**	**$734,000**	**$715,303**	**$715,710**
TOTAL	**$4,189,415,954**	**$4,326,080,333**	**$4,227,685,590**	**$4,276,595,112**	**$4,542,657,503**	**$4,567,652,753**

Endnotes

[1] The 2003 Indiana Superintendent's Annual Report, *A Report on the Progress of K-12 Education in Indiana: The Continuing Journey to Excellence,* www.doe.state.in.us/publications/pdf_other/annualreport03.pdf.

[2] U.S. Department of Education, National Center for Education Statistics, Common Core of Data (CCD), "National Education Finance Survey," 2001-02, and State Nonfiscal Survey of Public Elementary/Secondary Education," 2002-2003.

[3] *Ibid.*

[4] Most of the information regarding Indiana education finance is derived from two sources – the *Superintendent of Indiana's 2003 Annual Report* and the *Digest of Public School Finance in Indiana: 2003-2005 Biennium*.

[5] Indiana Department of Education, Dr. Suellen Reed, Superintendent of Instruction, *Digest of Public School Finance in Indiana: 2003-2005 Biennium*.

[6] There is a multi-step process to determine if districts qualify for funding above foundation funding. In 2004, it was determined by comparing the 2003 Assessed Valuation to the 2002 Assessed Valuation. Districts increased their General Fund Maximum Levy by either 11% of the increase in valuation or 0.05, whichever was less. The formula for 2005 is somewhat more complicated.

[7] The enrollment adjustment grant is in addition to the ADM adjustment for growing enrollment.

[8] If the district's complexity index is less than 1.1 then the target is 18, and if it is greater than 1.2 then the target is 15. If the district's complexity index is between 1.1 and 1.2 then the complexity index is subtracted from 1.2, that result is divided by 0.1, then multiplied by 3 and added to 15.

[9] The state only funds those teachers who are in excess of the number that the district could fund at $69,811 each, subject to a ceiling of 75% of the tuition support amount for K-3 students.

[10] Special-education students are also counted in the ADM for the basic grant tuition support calculation.

[11] Us Department of Education, National Center for Education Statistics, Common Core of Data (CCD), "National Education Finance Survey," 2001-02, and "State Nonfiscal Survey of Public Elementary/Secondary Education," 2002-2003.

[12] National Conference of State Legislatures, Education Finance Database, www.ncsl.org/programs/educ/ed_finance.

[13] Indiana Department of Education, Dr. Suellen Reed, Superintendent of Instruction, *Digest of Public School Finance in Indiana: 2003-2005 Biennium*.

[14] Illinois State Board of Education, *General State Aid Overview*, www.isbe.net/funding/pdf/gsa_overview.pdf; Illinois State Board of Education, *Focus on Student Attendance Manual,* October 2003, www.isbe.net/funding/pdf/focus_student_attendance.pdf.

[15] Ohio Department of Education, *Ohio's School Funding Foundation Funding Program: The Form SF-3 – Line by Line,* www.ODE/FSA/SFPA/sf-3/linebyline/07/31/2003.

[16] Minnesota Department of Education, *K-12 EDUCATION FINANCE OVERVIEW 2004-2005,* Division of Program Finance, June 2004.

[17] Kentucky Department of Education, *Financial Management Manual,* www.education.ky.gov/KDE/Administrative+Resources/Finance+and+Funding/School+Finance/Financial+Management+Manual.html.

[18] State of Michigan Legislative Council, *The Michigan School Aid Act Compiled and Appendices,* January 2003.

[19]Ohio Department of Education, *Ohio's School Funding Foundation Funding Program: The Form SF-3 – Line by Line,* www.ODE/FSA/SFPA/sf-3/linebyline/07/31/2003, p.2.

[20] This formula changes beginning in FY 2006, as described by the text.

[21], Indiana Department of Education, Dr. Suellen Reed, Superintendent of Instruction, *Digest of Public School Finance in Indiana: 2003-2005 Biennium*, p.33.

[22] Illinois State Board of Education, *Fiscal Procedures for Special Education Pupil Reimbursement Revised for 2003-04 School Year,* www.isbe.net/funding/pdf/sped_pupil_reim_fiscalpro.pdf.

[23] Ohio Department of Education, *Ohio's School Funding Foundation Funding Program: The Form SF-3 – Line by Line,* www.ODE/FSA/SFPA/sf-3/linebyline/07/31/2003

[24] Minnesota Department of Education, *Special Education Funding and Data Manual,* October 2002, education.state.mn.us/content/031613.pdf.

[25]Kentucky Department of Education, *Financial Management Manual,* 2003, www.education.ky.gov/KDE/Administrative+Resources/Finance+and+Funding/School+Finance/Financial+Management+Manual.htm.

[26] State of Michigan Legislative Council, *The Michigan School Aid Act Compiled and Appendices,* January 2003, p.C-5.

[27] Kentucky has only 6,500 ELL students, which represents just 1% of its student enrollment.

[28] The 2003 Indiana Superintendent's Annual Report, *A Report on the Progress of K-12 Education in Indiana: The Continuing Journey to Excellence,* www.doe.state.in.us/publications/pdf_other/annual_report03.pdf.

[29] Illinois State Board of Education, *2003 ISAT Statewide Results*, www.isbe.net/news/2003/isat_charts.pdf.

[30] Ohio Department of Education, *Highlights of March 2004 Proficiency Test Results: Fourth and Sixth Grades,* www.ode.state.oh.us/proficiency/tests/4th/2004/grade_4_6_mar04_hl.asp.

[31] Minnesota Department of Education, *Minnesota Continues Strong Showing in National and Statewide Testing,* education.state.mn.us/html/020560.html.

[32] Kentucky Department of Education, *Spring 2003 Kentucky Performance Report,* apps.kde.state.ky.us/secure_cats_reports_03/index.cfm?action=display_regionstate.

[33] Michigan Department of Education, *Statewide MEAP Results: Percent of Students by Performance Category*, www.michigan.gov/documents/2004_Main_Statewide_Color_90601_7.pdf.

[34] National Center for Education Statistics, *The Nation's Report Card: State Profiles,* nces.ed.gov/nationsreportcard/states/profile.asp.

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