

## **Eliminating K-12 Public School Student Transportation as a Cost-Saving Measure**

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### **Abstract**

After two failed referendum attempts and facing serious budget shortfalls, the Franklin Township Community School Corporation in Indianapolis became the first public school district in Indiana to eliminate their existing school-provided transportation services for all general education students. This article explores the background and rationale behind this landmark decision, as well as economic and policy consequences for Indiana's K-12 public schools.

*Keywords:* educational transportation policy, public school budget cuts, public school funding, public school transportation policy, public school student services.

### **Introduction**

Effective in August 2011, the Franklin Township Community School Corporation in Indianapolis, Indiana, eliminated school-provided transportation for all K-12 general education students. This cost-saving measure began a firestorm of controversy statewide regarding school transportation policy, forcing the question, which student services are appropriate to cut during a school financial crisis?

### **School Funding Background Leading to the Transportation Policy Change**

For many years, the funding of Indiana's public schools has proven to be a challenging and controversial process (Hirth & Eiler, 2012; Jarman & Boyland, 2011; Michael, Spradlin, & Carson, 2009). Historically, the Indiana public school funding formula placed a substantial reliance on property taxes as a major source of revenue. Prior to 1974, individual school districts actually had complete control over their own General Fund tax rates (Michael et al., 2009). This created a disproportionate system due to the fact that different communities had varying levels of assessed valuation per student, depending on the local property tax base or the overall wealth of the community. Across the state, property tax rates, as well as school districts' annual per pupil expenditures, varied greatly.

Over the years, state policy makers recognized these concerns and attempted to equalize funding and also to limit and reduce the variability of property tax rates across the state (Hirth & Eiler, 2012; Toutkoushia & Michael, 2005). In order to offset disparities, state legislators worked to create a funding formula in which school districts with high assessed valuation received less state aid, while school districts with less assessed valuation per pupil received additional state funds. More recently, an "at-risk" index (now termed the "complexity index") was implemented in order to provide extra funds to school districts with high percentages of students eligible for free or reduced meals (Michael et al., 2009, p. 4).

In 2008, Indiana passed property tax relief, which lowered property-owners' tax bills by approximately 30%. This legislation included new property tax caps, which limited homeowners' property taxes at 1% of the home's assessed value, apartments and agriculture land at 2%, and business property at 3% of assessed value (State of Indiana, Press Release, March 2008). Also in 2008, the Indiana General Assembly changed the Indiana public school funding formula to rely primarily on sales tax, thus reducing

the reliance on local property taxes as a central revenue source for school districts' General Funds (Michael et al., 2009).

Because the shift to full state support for school districts' General Funds eliminated the impact of assessed valuation on their General Fund revenue, it was hoped that over time the equity concerns in terms of school districts' General Funds would improve. However, due to a number of unresolved factors, some funding gaps remained. One issue was that for many years, Indiana's school funding formula allowed schools with waning enrollment revenue to receive additional dollars through a restoration grant. The restoration grant provided extra funds to prevent school districts with declining enrollments from experiencing funding losses all at once. Then, a provision in the formula called a "deghoster" continued to allow these districts to receive supplementary dollars for students who had moved to other districts. These programs, while beneficial for districts with declining enrollments, left less money to be distributed among the remaining districts. Because the formula was using an average of past enrollments, instead of current enrollments, to determine per pupil funding, the money was not directly following the students. Therefore, the formula disadvantaged school districts with quickly growing enrollments. In short, Indiana school districts with rapidly growing student populations found themselves receiving less General Fund money per pupil, while simultaneously experiencing higher costs.

In 2010, this issues prompted three school districts experiencing growing enrollments to initiate a lawsuit against the State of Indiana, alleging that the current formula lacked uniformity and negatively impacted school districts with increasing enrollments by failing to provide a level of funding adequate to meet current educational requirements (Hamilton Southeastern Schools et al. v. Daniels, 2010). Franklin Township Community School Corporation was one of the plaintiffs in this lawsuit. The state responded to the lawsuit by adjusting the funding formula, including eliminating the restoration grant and the deghoster. The lawsuit was subsequently withdrawn in 2011.

However, in the meantime, the new property tax caps became effective, diminishing many school districts' revenue for their Transportation, Bus Replacement, Debt Service, and Capital Project Funds, which are still funded through local property tax dollars. School districts that held high debt ratios and also had large percentages of homeowners as their property taxpayers were especially vulnerable under this change. This is because before the new tax caps, a school district's limit for allowable debt was determined largely by its ratio of debt to assessed valuation and its community's tolerance for higher taxes to support schools. However, upon implementation of the new tax caps, school districts that had previously acquired high debt, typically because of building schools to accommodate growing enrollments, were left receiving less revenue, but still obliged to their high debt payments.

At the same time that the new tax caps began impacting revenue for school districts' Transportation, Bus Replacement, Debt Service, and Capital Project Funds, a recessed economy and falling sales tax proceeds caused a decline in available state dollars for school districts' General Funds. In December of 2009, the Indiana Governor announced a 3% reduction in K-12 public school funding to begin in 2010, effectively cutting \$300 million from school districts' General Funds statewide (Indiana Local Government Information Website, 2011). Indiana educators hoped that this was a "one time cut." However, the 3% reduction continued into the next year, giving school districts the same lowered General Fund budget amounts in 2011 as in 2010, and resulting in a total cut of \$600 million in state funding for K-12 public school districts over a two-year period.

In summary, newly implemented tax caps reduced many local schools districts' revenue at the same time that the state also cut funding. The sum of these reductions in financial support for Indiana's public schools created the "perfect storm" for many districts, resulting in an unusually high level of cuts across

the state, forcing school districts to reduce staff and programs, and in some cases, to close schools (Jarman & Boyland, 2011).

To raise needed additional funds, a number of Indiana school districts have attempted to hold local referendums, requesting that their community members vote "yes" on increasing property taxes in order to cover operating expenses (General Fund referendum) or the costs of facilities (Capital Projects referendum). Local voter referenda are required in Indiana when school districts are requesting that their constituents' property taxes be raised above the tax cap to increase General Fund support or when large capital-construction projects are being proposed (Hiller & Spradlin, 2010). Statewide, slightly under half of these referendums have been successful. As of May 2012, there have been a total of 78 referendums held in Indiana. Of these 78 referendums, 36 (46%) have passed and 42 (54%) have failed (Center for Evaluation and Education Policy [CEEP], 2012a).

### **The Situation at Franklin Township Community Schools**

Franklin Township Community School Corporation, in Indianapolis, is one of the districts in Indiana whose members have attempted several referendums in hopes of generating additional revenue to offset losses. Their first referendum was held in November 2009 and the second in May 2011. The community's members voted down both referendums.

The Franklin Township Schools, along with several other Indiana school districts, were caught in the eye of the financial storm. Franklin Township Schools, an award-winning district, has experienced a quickly growing student population, which includes the large debt that often accompanies accommodating such growth. The Franklin Township Schools grew from 6400 students in 2001, to over 9000 students in 2011 (Indiana Department of Education [IDOE], 2012). This rise in student enrollment required that Franklin Township Schools construct and renovate several buildings in a short amount of time. This also meant taking on substantial debt to pay for its new facilities. However, the school district has little business and industry within its boundaries and, therefore, has historically relied heavily on property tax revenue generated by local homeowners. The property tax cut in 2008, and the new tax caps, devastated the district's budget and resulted in a loss of 174% of its non-debt property tax levy. The district began seriously tightening its belt and many cost-reduction strategies were implemented. Still, after the first failed referendum in 2009, the district was forced to cut an additional 4.9 million out of its budget for 2010 (Franklin Township Community School Corporation [FTCSC], 2010).

In the meantime, the state dipped further into an economic recession. With the combination of high debt and declining revenue due to the new property tax caps, the budget shortfall continued to increase at Franklin Township. The district leadership decided to attempt another referendum in May 2011, explaining to the community that a \$9.7 million dollar loss in property tax revenue was projected (FTCSC, 2010). Realizing that if this referendum did not pass, severe measures would need to be taken to maintain financial solvency, the school leadership again scrutinized every program that the district offered. This included a careful examination of the transportation program, which was already operating in a deficit. Difficult and controversial decisions had to be made in order to reduce over \$10 million dollars from the 2011 budget.

After considering many options, a combination of major cuts was found to be the only realistic and sustainable way to manage the deficit and continue providing a quality educational program. The plan developed for the proposed budget cuts was then presented to the community at a crowded school board meeting and received a great deal of media attention. If the May 2011 referendum did not pass, this budget reduction plan would include closing three schools, converting an intermediate school into a large elementary, increasing school and class sizes at the remaining schools, cutting 58 teachers and dozens of

support staff, reducing maintenance functions, eliminating fine arts classes at the elementary level, eliminating orchestra from the secondary level, and ceasing the service of school transportation for all students except those with special needs (FTCSC, 2010).

An extensive community communication effort was initiated, consisting of public meetings, mailers, electronic notices, personal contacts, and use of the media. However, even after weeks of intense efforts to communicate the school district's dire financial situation to the community, including the potential loss of transportation services, the May 2011 referendum failed. This sent a strong message to the superintendent and school board that the community wanted the school district to balance its budget without any increase in property taxes.

### **School-Provided Busing is Eliminated - Parents Must Now Pay for Transportation**

The budget reduction plan was implemented at the start of the 2011-2012 school year, which included the ceasing of school-sponsored general education transportation services. Although the superintendent and school board had outlined the proposed cuts far in advance of the referendum, and the plan for ceasing school-sponsored transportation services had received a great deal of media attention, many parents still appeared surprised and angered by the transportation change (Stokes, 2011b).

In August 2011, general education transportation services provided through the Franklin Township Schools no longer existed. The exception was for foster care and special needs students who had transportation written into their Individualized Education Plans, or 504 plans. However, the school board was able to collaborate with the Central Indiana Educational Service Center (CIESC). The CIESC is a not-for-profit state agency that assists school districts in sharing services and cooperative purchases. The Franklin Township Schools sold a number of buses to the CIESC for a nominal price (\$1.00), with the agreement that should the school district ever resume transportation services, they could purchase the buses back for the same amount (FTCSC, 2011). Parents could then contract with bus drivers working with CIESC in order to receive student transportation services to and from school for a fee.

The CIESC transported about 2,700 students to and from the Franklin Township Community Schools during the 2011-2012 school year. The fee for parents who contracted the CIESC for transportation during the 2011-2012 school year was \$425 per year for the first child and \$400 for the second. This fee could be paid in monthly installments of approximately \$47 for the first child and \$44 per month for each additional child. None of this money went back to the Franklin Township Schools and was used solely for CIESC's costs for transportation and drivers' salaries (CIESC, 2011; FTCSC, 2012). Nevertheless, it was clear that many parents were unhappy about bearing a new burden of having to either pay transportation fees or transport their children themselves (Stokes, 2011a).

The superintendent and school board faced harsh criticism from parents, community members, the media, and even a local senator, for the decision to eliminate school-provided transportation. The first weeks of school, in particular, were filled with emotionally-charged stories of frustrated parents waiting in long lines to drop off or pick up their students, as well as lengthy waits for students at bus stops and extended route times. However, as the school year progressed, each school assessed their procedures for efficient drop-off and pick-up of larger numbers of students by car. Within several weeks, student drop-off and pick-up speeds improved, as did bus route times.

In spite of this, parents continued to voice concerns about losing school-sponsored transportation. A specific issue revolved around the fact that the school district maintained a Rainy Day Fund. Some constituents proposed that the money in this fund should be used for student transportation. However, the school leadership did not consider this a viable option for several reasons. First, spending the Rainy Day

Fund was a temporary solution, which would only pay for transportation for a short period of time. So, using this money for transportation would be a short-term stall tactic, not a solution to the huge financial problem that the school district was facing. Second, if the Rainy Day Funds were spent on transportation services, there would be no money left for school-based emergencies, like facility failures, which are likely to occur every year in a large district. Therefore, in view of these factors, the Rainy Day Fund was maintained.

Although the plan to eliminate school-provided transportation increased the burden on parents and was a very unpopular solution, the superintendent and school board continued to feel that it was better to eliminate school-provided busing than to lose core educational programs or close more schools. Other cash-strapped school districts in the state began toying with the idea of canceling school-provided transportation for their general education students (Mt. Vernon Community School Corporation, 2011). However, these districts took a "wait and see" approach because in September of 2011, a lawsuit was filed against the Franklin Township School District by one of its parents alleging that it was unconstitutional to cut school-provided transportation for students in that it violated children's right to a free and appropriate education (Hoagland v. Franklin Township Schools, 2011). In December 2011, the CIESC was added to the list of defendants in the lawsuit. Then, in June 2012, the lawsuit officially became a class action suit. Through this lawsuit, restitution is sought in terms of compensation for one certified class of parents who spent personal funds transporting children on their own and a second certified class of parents who paid fees to CIESC through Parents' Supplemental Contracts with bus drivers.

### **State Legislators Step In**

In the intervening time, the leadership at Franklin Township Schools, as well as superintendents, school board members, educators, parents, and concerned citizens around the state were appealing to state-level elected officials to help the public school districts that had been most severely impacted by the financial changes. Recognizing that the combination of tax caps and statewide General Fund budget reductions had placed some school districts in a state of fiscal crisis, legislators introduced several bills in the 2012 session of the Indiana General Assembly designed to assist financially struggling school districts. House Bill 1072 (Public Law 137-2012) addressed the practice of tax rates being lowered due to decreased local assessed valuation, which was negatively impacting school districts' Capital Funds. House Bill 1072 also proposed that qualifying school districts be allowed to apply for interest-free loans from the state's General Fund in order to recover revenue lost in their district's 2012 Capital Project Fund based on the lowered assessed valuation (CEEP, 2012b).

House Bill 1192 (Public Law 145-2012) also addressed several financial issues for public schools, including creating a Distressed Unit Appeal Board, under which school districts can appeal for financial modification. Once qualified, a "distressed" school district can apply for a low-interest loan from the state's Rainy Day fund and can also become eligible for debt restructuring, which can extend debt further into the future, thus lowering monthly payments.

Furthermore, HB 1192 addressed the emerging transportation issue by proposing that it be permissible for school districts to spend monies from the General Fund on transportation, which was not allowed in the past. Most significantly for Franklin Township Schools, this bill proposed that school districts be required to maintain a school-provided transportation program for regular home-to-school busing. The bill's language recommended that if a school board wished to cancel school-provided transportation, that decision must be made and patrons informed at least three-years in advance, or a waiver must be requested from the Indiana Department of Education.

House Bill 1134 (PL 140-2012) also spoke directly to the Franklin Township transportation situation by offering language that prohibited parents or guardians from being charged a fee for transportation to and from school if the transportation is school-provided or contracted out to an educational service center (CEEP, 2012b).

All three bills passed and were signed into law by the Governor in March 2012, leading to a change in the transportation policies at Franklin Township. The school district reinstated school-provided transportation services to and from school for all students effective in August for the 2012-2013 school year (FTCSC, 2012).

### **Conclusion and Policy Implications**

In conclusion, both negative and positive consequences came from the decision made by the Franklin Township School Corporation's leadership to cancel school-provided transportation. In negative terms, this controversial change divided the community and was costly and inconvenient for many parents. Enrollment declined for the first time in over a decade at Franklin Township during the 2011-2012 school year, with 430 students leaving the district (IDOE, 2012). In addition, with fewer financial resources to draw upon, families of lower socio-economic status may have been hardest hit by this change.

However, the reality is that the Franklin Township Schools were in the midst of losing a huge amount of revenue and were running out of options. In the short-term, the transportation policy change did allow the Franklin Township Schools to maintain its high quality core educational programs for students. Additionally, this unpopular decision and the media attention it garnered seemed to significantly increase public awareness regarding the financial crisis that some Indiana school districts were facing. The decision to cancel school-provided transportation served as a catalyst for new legislation with a positive effect now being seen in terms of a level of financial relief for economically distressed school districts across the state of Indiana. In broader terms, this case has national implications because other states with financially-strapped public schools may now look to Indiana and the precedence set by these recent legislative and policy changes. Nevertheless, the story is not over for the Franklin Township Schools in Indiana. At the time of this writing, the outcome of the class action transportation lawsuit filed against the district has yet to be decided.

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