An Overview of Education Funding & the Impact of Property Tax

Presented to the Property Tax Relief Task Force
September 12, 2019
Why Do We Rely on Property Tax to Fund Education?

• Education funding supported by property tax became practice following the Massachusetts Act of 1647.
  – The act was the basis for public education.

• Property taxes were the most efficient tax that could be administered locally.

• Property taxes are predictable, reliable, and stable.
24 Year Tax Revenue History


Fiscal Year:
Receipts (millions, no amnesty):
$0 $5,000 $10,000 $15,000 $20,000 $25,000 $30,000 $35,000

- Sales Taxes - General Revenue Funds
- Corporate Income Tax - All Funds
- Individual Income Tax - All Funds
- Property Tax Extensions
- Personal Property Replacement Tax - All Funds
### Maximum Property Tax Rates for School Districts Vary by Fund and by District Organizational Type

<table>
<thead>
<tr>
<th>Fund and District Type</th>
<th>Elementary District</th>
<th>High School District</th>
<th>Unit District</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>w/o Referendum</td>
<td>w/Referendum</td>
<td>w/o Referendum</td>
</tr>
<tr>
<td>Education</td>
<td>0.92%</td>
<td>3.50%</td>
<td>0.92%</td>
</tr>
<tr>
<td>Operations and Maintenance</td>
<td>0.25%</td>
<td>0.55%</td>
<td>0.25%</td>
</tr>
<tr>
<td>Transportation</td>
<td>0.12%</td>
<td>AS NEEDED</td>
<td>0.12%</td>
</tr>
<tr>
<td>Capital Improvement</td>
<td>N/A</td>
<td>0.75%</td>
<td>N/A</td>
</tr>
<tr>
<td>Fire Prevention, Energy Conservation &amp; School Safety</td>
<td>0.05%</td>
<td>0.10%</td>
<td>0.05%</td>
</tr>
<tr>
<td>Special Education Programs</td>
<td>0.02%</td>
<td>0.40%</td>
<td>0.02%</td>
</tr>
<tr>
<td>Summer School</td>
<td>N/A</td>
<td>0.15%</td>
<td>N/A</td>
</tr>
<tr>
<td>Working Cash</td>
<td>0.05%</td>
<td>N/A</td>
<td>0.05%</td>
</tr>
<tr>
<td>Bond and Interest</td>
<td>N/A</td>
<td>AS NEEDED</td>
<td>N/A</td>
</tr>
<tr>
<td>Social Security</td>
<td>AS NEEDED</td>
<td>AS NEEDED</td>
<td>AS NEEDED</td>
</tr>
<tr>
<td>IMRF</td>
<td>AS NEEDED</td>
<td>AS NEEDED</td>
<td>AS NEEDED</td>
</tr>
<tr>
<td>Tort Immunity</td>
<td>AS NEEDED</td>
<td>N/A</td>
<td>AS NEEDED</td>
</tr>
<tr>
<td>Medicare (Health Insurance)</td>
<td>N/A</td>
<td>AS NEEDED</td>
<td>N/A</td>
</tr>
<tr>
<td>Area Vocational Education</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Lease</td>
<td>0.05%</td>
<td>0.10%</td>
<td>0.05%</td>
</tr>
</tbody>
</table>
State, Local and Federal Funding as a Percentage of Total Revenue

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>State</td>
<td>10.5%</td>
<td>13.3%</td>
<td>15.3%</td>
<td>12.5%</td>
<td>10.5%</td>
<td>10.1%</td>
<td>9.9%</td>
<td>10.1%</td>
<td>11.0%</td>
<td>10.7%</td>
</tr>
<tr>
<td>Local</td>
<td>34.5%</td>
<td>31.6%</td>
<td>28.0%</td>
<td>32.4%</td>
<td>33.1%</td>
<td>34.5%</td>
<td>34.6%</td>
<td>34.8%</td>
<td>35.6%</td>
<td>36.7%</td>
</tr>
<tr>
<td>Federal</td>
<td>54.9%</td>
<td>55.1%</td>
<td>56.7%</td>
<td>55.1%</td>
<td>56.5%</td>
<td>55.4%</td>
<td>55.6%</td>
<td>55.2%</td>
<td>53.5%</td>
<td>52.6%</td>
</tr>
</tbody>
</table>

Percent of Total Revenue
Overall General Funds Budget
(Inclusive of Pensions)

$ in billions

FY 03 FY 04 FY 05 FY 06 FY 07 FY 08 FY 09 FY 10 FY 11 FY 12 FY 13 FY 14 FY 15 FY 16 FY 17 FY 18 FY 19 FY 20

Education Appropriations (Non-Pensions)  K-12 Pensions  Total State Appropriations

Note: FY16 includes FY17 Budget Stabilization Funds available for use for FY16 expenses. ISBE’s FY18 Evidence-Based Funding appropriation included $221.3 million for the Chicago Public School Teacher Pension Fund. The FY18 Education Appropriations amount was reduced by $221.3 million in FY18 and reallocated to K-12 Pensions for consistent presentation purposes.
Evidence-Based Funding 101: An Overview of the Primary State Education Grant
How Does the Formula Work?

The Evidence-Based Funding (EBF) formula performs calculations in three general stages.

_Completing the first and second stages produces a ratio that determines how far away a district is from adequate funding in Stage Three._

- **Stage 1**: Determining the cost of educating all students, according to the defined cost factors. The result is the **Adequacy Target** for each district. This is the ratio’s **Denominator**.
- **Stage 2**: Measuring each district’s local resources for comparison to the Adequacy Target. This is the ratio’s **Numerator**.
- **Stage 3**: Distributing additional state funds to assist districts in meeting their Adequacy Targets.
Stage 1:
A Brief Summary of
Determining a District’s Adequacy Target
(Building the Denominator)
Adequacy Target

Average Student Enrollment (ASE)

Core Investments
Uses ASE to determine the number of Full Time Equivalent (FTE) positions needed for "Core" positions.
FTE is then multiplied by average salaries to determine the cost.

Per Student Investments
Uses ASE to determine the district investments that have a per student cost.
ASE is multiplied by the cost.

Additional Investments
Uses ASE to determine the number of Full Time Equivalent (FTE) positions needed for Special Education. Use population specific data to determine Low-Income and English Learner student supports.
FTE is then multiplied by the average salaries to determine the cost.

See [https://isbe.net/ebfdist](https://isbe.net/ebfdist) for details on investment types.
Adequacy Target (AT) = Sum of all Education Cost Factors

\[ \text{Adequacy Target} = \text{Per Student Investments} \times \text{CWI} + \text{Subject to CWI} + \text{Additional Investments} \]

CWI = Comparable Wage Index, a measure of regional variations in salaries
Adequacy Target – Regionalization Factor

A Regionalization Factor is used to determine the Final Adequacy Target.

The Regionalization Factor or Comparable Wage Index (CWI) is a measure of regional variations in salaries.

Note: EBF sets the lowest Regionalization Factor to 0.90.
Stage 2:
A Brief Summary of Determining a District’s Local Resources (Building the Numerator)
EBF defines a district’s resources as the sum of:

- Local Capacity Target (LCT)
- Corporate Personal Property Replacement Taxes (CPPRT)
- Base Funding Minimum (BFM) (Prior Year Distributions)

Dividing a district’s resources by its Adequacy Target determines the district’s Percent of Adequacy:

\[
\text{Percent of Adequacy} = \frac{\text{Resources}}{\text{Adequacy Target}}
\]

Increasing any element of the numerator (Resources) means a district appears closer to its Adequacy Target, resulting in less State funding.

**i.e. A low Percent of Adequacy means the district is distant from meeting its Adequacy Target and needs greater state assistance. A higher Percent of Adequacy means the district is closer to its Adequacy Target and therefore requires less state assistance.**
Local Capacity Target – Use of Equalized Assessed Valuation (EAV)

EAV is used in determination of a district’s Local Capacity target. This is done in a 3-step process.

**Step 1:** Calculate the three-year average of a district’s “Real” EAV

“Real” EAV = (Original EAV – Adjustments)

(Property Tax Appeal Board Decisions, Certificates of Error, and Abatements)

**Step 2:** Compare the three-year average EAV to the most recent year EAV. If the most recent year EAV represents a decrease of 10 percent or greater, EBF uses the lesser EAV.

**Step 3:** For districts subject to Property Tax Extension Limitation Law (PTELL), compare the EAV selected in Step 2 to the calculated PTELL EAV. EBF uses the lesser EAV.
Local Capacity Target - Use of Equalized Assessed Valuation (EAV)

In EBF, and previously under GSA, a hypothetical EAV is calculated for districts subject to PTELL to represent the limitation in extension due to tax caps.

The PTELL Extension Limitation Ratio is equal to:

\[
\frac{\text{Current Year EAV} \times \text{Current Year Limiting Rate}}{\text{Prior Year EAV} \times \text{Prior Year Operating Tax Rate}}
\]
Real Receipts

Local communities can discuss the impact of their local taxing effort as compared to the measurement of local taxing effort within the EBF formula.
Real Receipts

• Real Receipts represents the calculation in EBF to estimate local revenue.

\[
\text{Real Receipts} = \text{Real EAV} \times \text{Adjusted OTR}
\]

• Real Receipts are utilized to adjust the calculated LCT for districts that have Local Revenue that exceeds LCT.

• Where Real Receipts exceed LCT, the LCT is adjusted by adding \((\text{Real Receipts} - \text{LCT}) \times \text{Local Capacity Percentage}\). Districts further from adequacy receive less of an increase in LCT.
Determining Local Resources & Percent of Adequacy

EBF defines a district’s resources as the sum of:

- Local Capacity Target (LCT)
- Corporate Personal Property Replacement Taxes (CPPRT)
- Base Funding Minimum (BFM) (Prior Year Distributions)

Dividing a district’s resources by its **Adequacy Target** determines the district’s **Percent of Adequacy**:

\[
\text{Percent of Adequacy} = \frac{\text{Resources}}{\text{Adequacy Target}}
\]

Increasing any element of the numerator (Resources) means a district appears closer to its Adequacy Target, resulting in less State funding.

*i.e. A low Percent of Adequacy means the district is distant from meeting its Adequacy Target and needs greater state assistance. A higher Percent of Adequacy means the district is closer to its Adequacy Target and therefore requires less state assistance.*
Stage 3:
A Brief Summary of Distribution of New State Funding
Determining State Contribution – Tier Assignments

A district’s Final percent of Adequacy determines its assignment into one of the four tiers.

*A low percent of Adequacy means the district is distant from meeting Adequacy and needs and receives more state assistance.*

*A higher percent means the district is closer to Adequacy and therefore requires and receives less state assistance.*

<table>
<thead>
<tr>
<th>Tier</th>
<th>Target Ratio</th>
<th>State Assistance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 1</td>
<td>TBD (in FY 20 67.36%)</td>
<td>Furthest away from Adequacy, more state assistance</td>
</tr>
<tr>
<td>Tier 2</td>
<td>&lt;90%</td>
<td></td>
</tr>
<tr>
<td>Tier 3</td>
<td>≥90% &lt;100%</td>
<td></td>
</tr>
<tr>
<td>Tier 4</td>
<td>≥100%</td>
<td>Greater than adequacy, least amount of state assistance</td>
</tr>
</tbody>
</table>
Determining State Contribution - Tier Funding

Once the funds available for Tier Distribution are identified, the percent of funding for each Tier is calculated. Per EBF, each Tier receives the percent as listed below.

<table>
<thead>
<tr>
<th>Tier</th>
<th>% of New Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 1</td>
<td>Receives 50%</td>
</tr>
<tr>
<td>Tier 2*</td>
<td>Receives 49% (*Includes Tier 1 and Tier 2 Districts)</td>
</tr>
<tr>
<td>Tier 3</td>
<td>Receives 0.9%</td>
</tr>
<tr>
<td>Tier 4</td>
<td>Receives 0.1%</td>
</tr>
</tbody>
</table>
Determining State Contribution

As examined in the introduction the State Contribution to Evidence-Based Funding is comprised of:

- **Base Funding Minimum (Hold Harmless)**
- **Tier Funding (Additional State Assistance)**
- **Evidence-Based Funding (Total State Contribution)**

Tier Funding will vary depending on a district’s Final % of Adequacy.
Days Cash on Hand

<table>
<thead>
<tr>
<th>Tier</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Median</th>
<th>District Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 1</td>
<td>8</td>
<td>571</td>
<td>181</td>
<td>312</td>
</tr>
<tr>
<td>Tier 2</td>
<td>23</td>
<td>1,003</td>
<td>208</td>
<td>338</td>
</tr>
<tr>
<td>Tier 3</td>
<td>45</td>
<td>823</td>
<td>259</td>
<td>57</td>
</tr>
<tr>
<td>Tier 4</td>
<td>31</td>
<td>1,031</td>
<td>217</td>
<td>144</td>
</tr>
</tbody>
</table>

Overall State Days Cash on Hand:

Minimum: 8

Maximum: 1,031

Median: 217
Additional Resources

For additional resources and educational materials related to EBF visit our website:

https://isbe.net/ebfdist