An Overview of Education Funding & the Impact of Property Tax

Presented to the Property Tax Relief Task Force
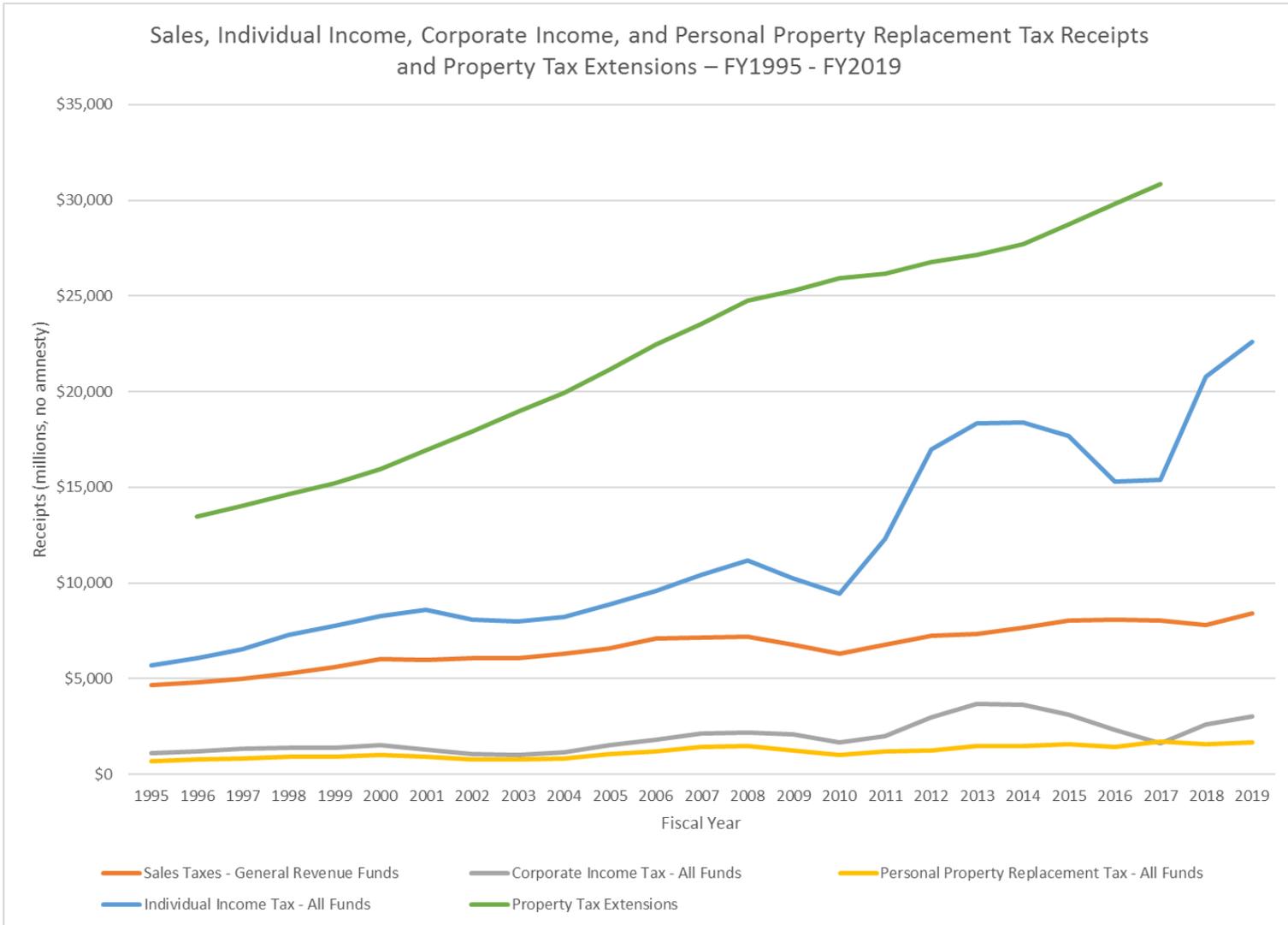September 12, 2019

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.
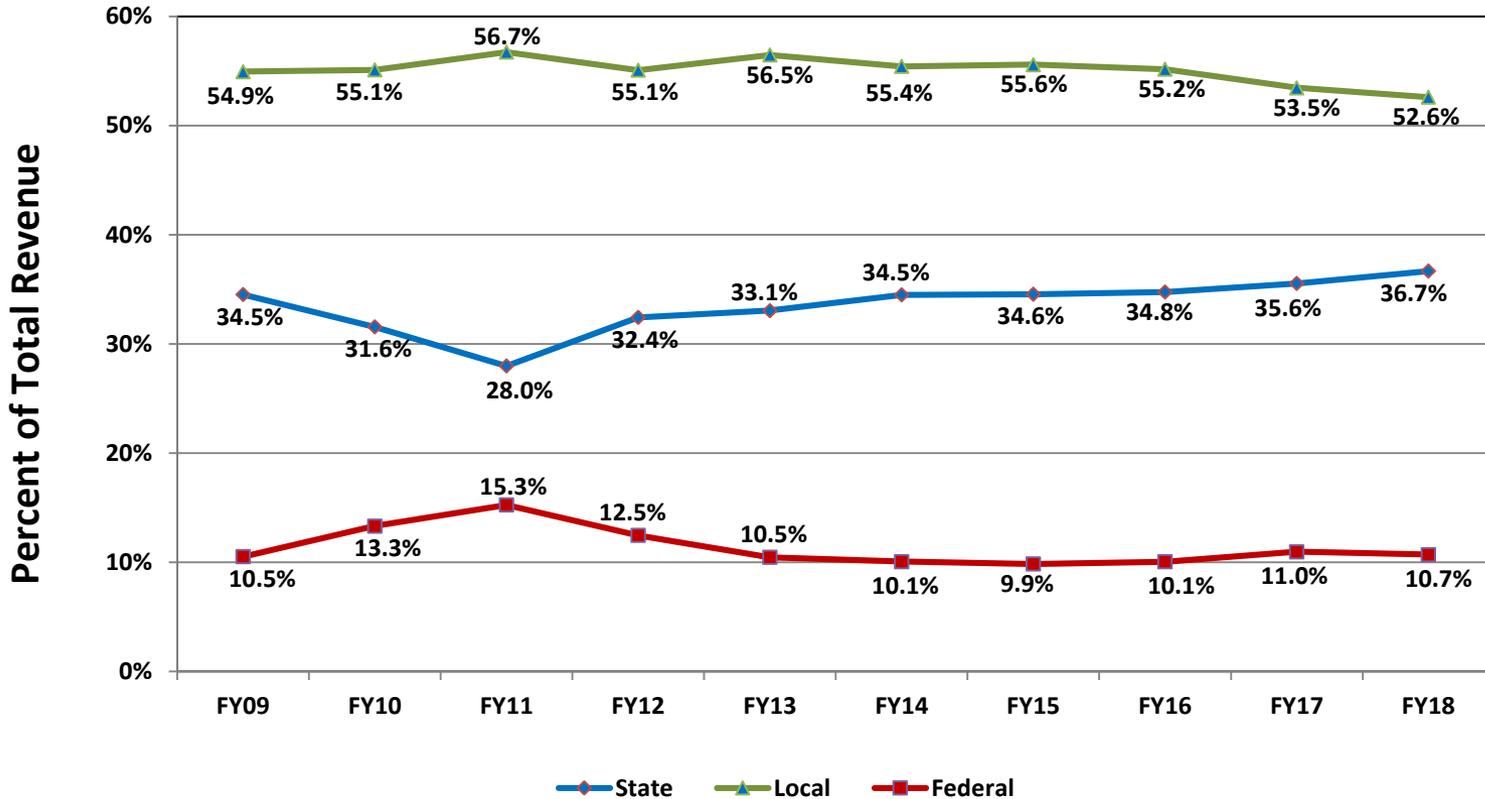
24 Year Tax Revenue History

Sales, Individual Income, Corporate Income, and Personal Property Replacement Tax Receipts and Property Tax Extensions — FY1995 - FY2019

Maximum Property Tax Rates for School Districts Vary by Fund and by District Organizational Type

	Elementary District		High School District		Unit District	
	w/o Referendum	w/Referendum	w/o Referendum	w/Referendum	w/o Referendum	w/Referendum
Education	0.92%	3.50%	0.92%	3.50%	1.84%	4.00%
Operations and Maintenance	0.25%	0.55%	0.25%	0.55%	0.50%	0.75%
Transportation	0.12%	AS NEEDED	0.12%	AS NEEDED	0.20%	AS NEEDED
Capital Improvement	N/A	0.75%	N/A	0.75%	N/A	0.75%
Fire Prevention, Energy Conservation & School Safety	0.05%	0.10%	0.05%	0.10%	0.05%	0.10%
Special Education Programs	0.02%	0.40%	0.02%	0.40%	0.04%	0.80%
Summer School	N/A	0.15%	N/A	0.15%	N/A	0.15%
Working Cash	0.05%	N/A	0.05%	N/A	0.05%	N/A
Bond and Interest	N/A	AS NEEDED	N/A	AS NEEDED	N/A	AS NEEDED
Social Security	AS NEEDED	AS NEEDED	AS NEEDED	AS NEEDED	AS NEEDED	AS NEEDED
IMRF	AS NEEDED	AS NEEDED	AS NEEDED	AS NEEDED	AS NEEDED	AS NEEDED
Tort Immunity	AS NEEDED	N/A	AS NEEDED	N/A	AS NEEDED	N/A
Medicare (Health Insurance)	N/A	AS NEEDED	N/A	AS NEEDED	N/A	AS NEEDED
Area Vocational Education	N/A	N/A	N/A	0.05%	N/A	0.05%
Lease	0.05%	0.10%	0.05%	0.10%	0.05%	0.10%

State, Local and Federal Funding as a Percentage of Total Revenue

State, Local and Federal Funding as a Percentage of Total Revenue

	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Local	54.9%	55.1%	56.7%	55.1%	56.5%	55.4%	55.6%	55.2%	53.5%	52.6%
State	34.5%	31.6%	28.0%	32.4%	33.1%	34.5%	34.6%	34.8%	35.6%	36.7%
Federal	10.5%	13.3%	15.3%	12.5%	10.5%	10.1%	9.9%	10.1%	11.0%	10.7%

Overall General Funds Budget
(Inclusive of Pensions)

$ in billions
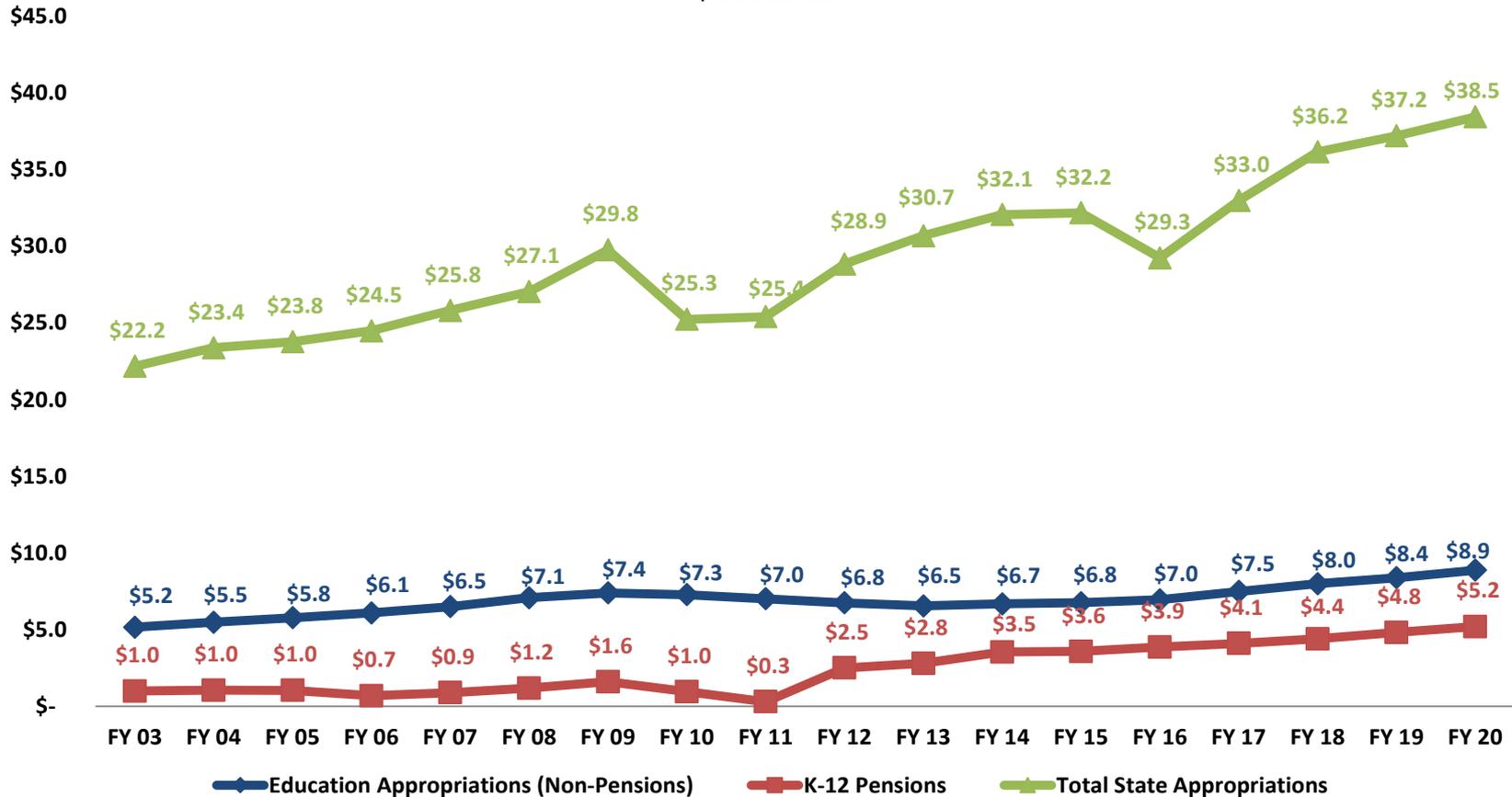
Note: FY16 includes FY17 Budget Stabilization Funds available for use for FY16 expenses. ISBE's FY18 Evidence-Based Funding appropriation included $221.3 million for the Chicago Public School Teacher Pension Fund. The FY18 Education Appropriations amount was reduced by $221.3 million in FY18 and reallocated 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.

- **<u>Stage 1</u>**: 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***.

- **<u>Stage 2</u>**: Measuring each district's local resources for comparison to the Adequacy Target. This is the ratio's ***Numerator***.

- **<u>Stage 3</u>**: Distributing additional state funds to assist districts in meeting their Adequacy Targets.

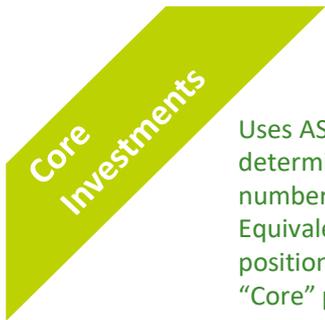| Final Resources	÷	Adequacy Target	=	Final % of Adequacy

Stage 1:

A Brief Summary of

Determining a District's Adequacy Target

(Building the Denominator)
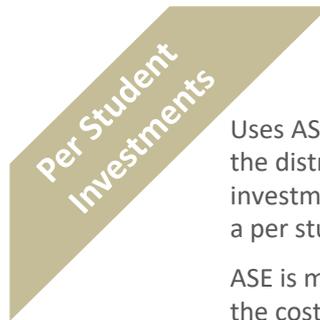
Adequacy Target

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.
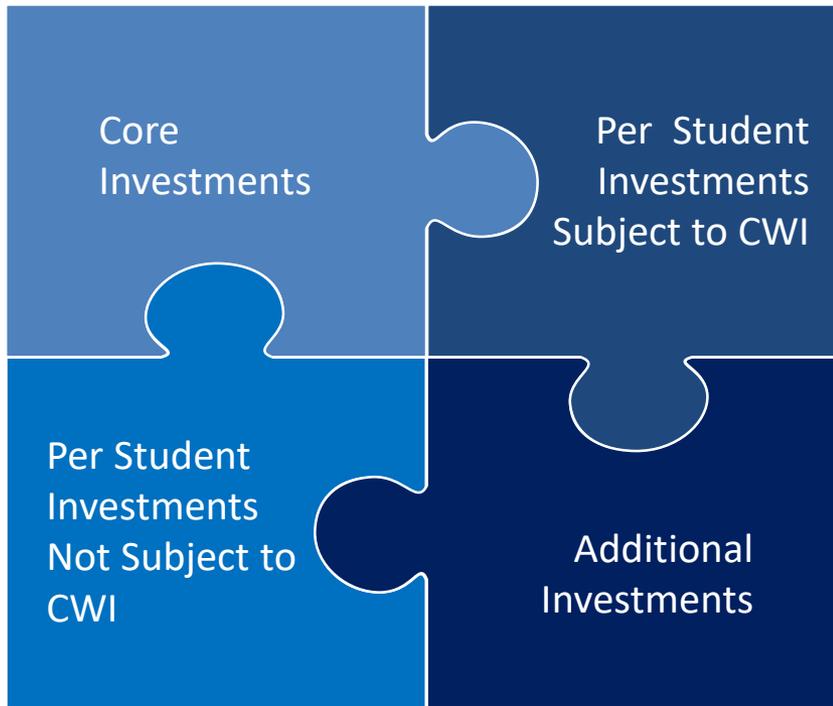
FTE is then multiplied by the average salaries to determine the cost.

See https://isbe.net/ebfdist for details on investment types.

Adequacy Target

Adequacy Target (AT) = Sum of all Education Cost Factors

= **Initial Adequacy Target**

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.

Initial Adequacy Target	**✖**	Regionalization Factor (CWI)	**=**	Final Adequacy Target

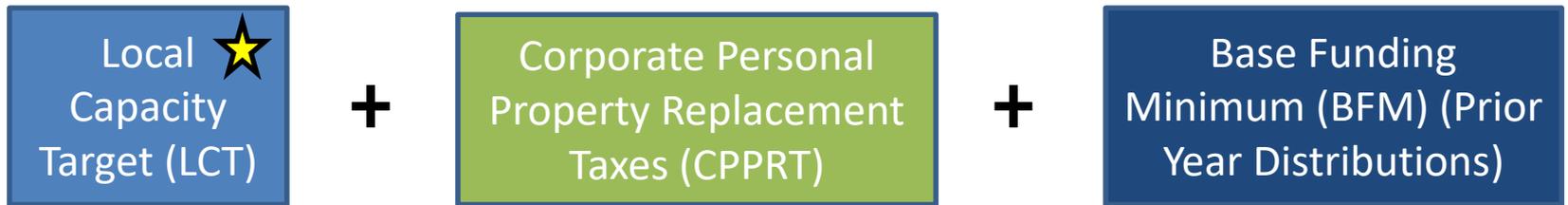Note: EBF sets the lowest Regionalization Factor to 0.90.

Stage 2:

A Brief Summary of

Determining a District's Local Resources

(Building the Numerator)

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**:

Resources	**÷**	Adequacy Target	**=**	Percent of Adequacy

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.

$$\text{PTELL EAV} = \text{EAV used in Prior Year EBF} \times \text{Extension Limitation Ratio (ELR)}$$
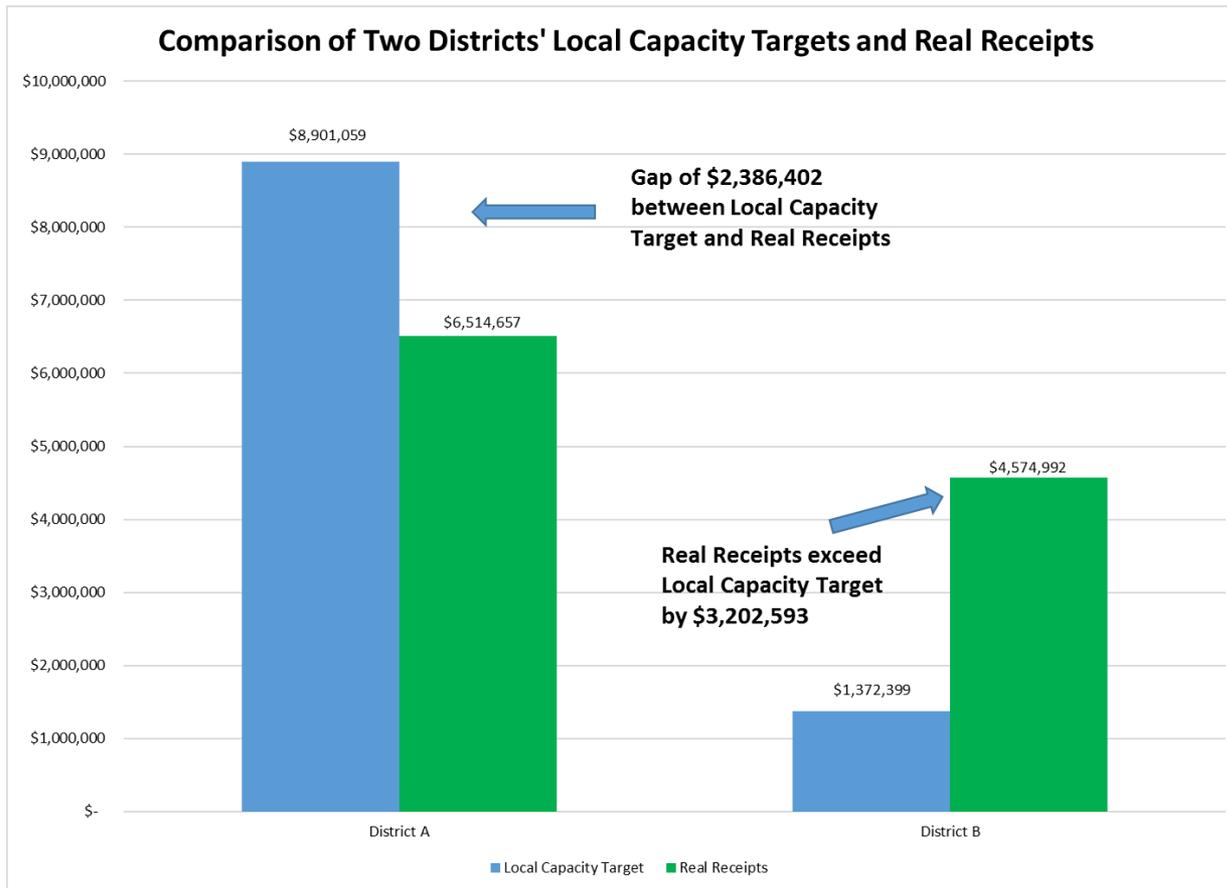
The PTELL Extension Limitation Ratio is equal to:

$$\frac{\text{Current Year EAV} \quad X \quad \text{Current Year Limiting Rate}}{\text{Prior Year EAV} \quad X \quad \text{Prior Year Operating Tax Rate}}$$

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.

Comparison of Two Districts' Local Capacity Targets and Real Receipts

District A: Local Capacity Target $8,901,059; Real Receipts $6,514,657 — Gap of $2,386,402 between Local Capacity Target and Real Receipts

District B: Local Capacity Target $1,372,399; Real Receipts $4,574,992 — Real Receipts exceed Local Capacity Target by $3,202,593

Legend: Local Capacity Target, Real Receipts

Real Receipts

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

Real Receipts = [Real EAV] **X** [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 (Real Receipts – LCT) X 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**:

Resources	**÷**	Adequacy Target	**=**	Percent of Adequacy

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

*i.e. A <u>low Percent of Adequacy </u>means the district is distant from meeting its Adequacy Target and **needs greater state assistance**. A <u>higher Percent of Adequacy </u>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.**

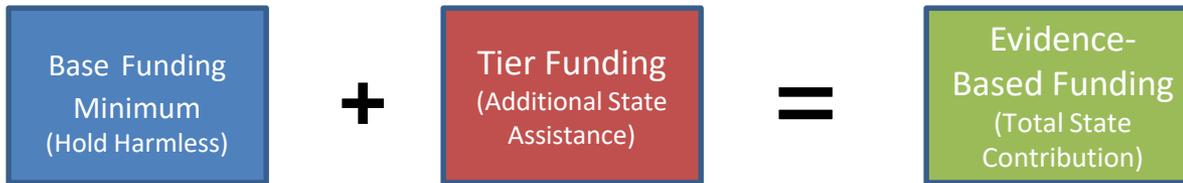| Tier	Target Ratio	State Assistance
Tier 1	TBD (in FY 20 67.36%)	Furthest away from Adequacy, more state assistance
Tier 2	**<90%**	
Tier 3	≥90% <100%	
Tier 4	≥100%	Greater than adequacy, least amount of state assistance.

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.

Tier	% of New Funding
Tier 1	Receives 50%
Tier 2*	Receives 49% (*Includes Tier 1 and Tier 2 Districts)
Tier 3	Receives 0.9%
Tier 4	Receives 0.1%

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

	Minimum	Maximum	Median	District Count
Tier 1	8	571	181	312
Tier 2	23	1,003	208	338
Tier 3	45	823	259	57
Tier 4	31	1,031	217	144

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