Meeting Minutes

Property Tax Relief Task Force School Funding and School Property Tax Levy Subcommittee

Meeting #2
September 19, 2019
1:30 – 3:00 p.m.

Videoconference Room, 100 North 1st Street, Springfield, IL 62777
Videoconference Room, 100 West Randolph Street, Suite 14-300, Chicago, IL 60601

Property Tax Relief Task Force School Funding Subcommittee members present in Chicago:

- Representative Fred Crespo
- Representative Jennifer Gong-Gershowitz
- Representative Diane Pappas
- Representative Sam Yingling
- Representative Lance Yednock
- Representative Tom Weber

Property Tax Relief Task Force School Funding and School Property Tax Levy Subcommittee members present by phone:

- Representative Dan Brady
- Representative Terra Costa Howard
- Senator Donald DeWitte
- Representative Sara Feigenholtz
- Representative Deanne Mazzochi
- Representative Nathan Reitz
- Representative Anne Stava-Murray
- Senator Jill Tracy

Property Tax Relief Task Force School Funding and School Property Tax Levy Subcommittee members absent:

- Representative William Davis
- Representative Marcus Evans, Jr.
- Representative Barbara Hernandez
- Representative Stephanie Kifowit
- Representative Joyce Mason
- Representative Mike Murphy
- Representative Michelle Mussman

ISBE Staff present:

- Amanda Elliott, Executive Director of Legislative Affairs
- Jason Hall, State Funding and Forecasting
- Barbara Hobrock, Legislative Affairs Coordinator
- Leticia Pickens, State Funding and Forecasting
- Kelly Weston, Assistant Legal Counsel
- Robert Wolfe, Financial Officer

Co-Chairs: Fred Crespo and Stephanie Kifowit

I. Welcome

Representative Crespo brought the meeting to order at 1:36 p.m.

II. Roll Call

Roll call was taken and a quorum was present.

III. Approval of September 12, 2019 Minutes (voice vote)

Representative Crespo made motion to approve the September 12, 2019 minutes. Representative Yednock seconded the motion. The motion passed by unanimous voice vote.

IV. Presentation – VOICE

VOICE (Vision on Issues and Choices in Education), commended the fully funded Evidence-Based Funding (EBF) model is creating property tax relief in Streator Township High School District 40. With the extra funds for a Tier 1 district, an expected rise in Equalized Assessed Value (EAV), and the property tax relief grant, the district expects to subtract 75 cents from the taxpayers' property taxes. The overall message is one that acknowledges a direct impact from EBF in providing tax relief. It was noted that this may not address suburban districts. Any reassessments towards energy resources will have a negative impact on EBF, setting everyone back in funding.

Bureau County was then used as an example being funded at 55 percent of adequacy. The money gained from EBF has allowed the county to pay off new programs, constructions, and make new and needed hires. Full funding of schools is vital. EAV is at its highest ever, yet need is still present. Any property tax extension freeze would result in an issue for the county as money would have to be taken from the general fund to pay bills.

It was mentioned that in past property tax relief taskforces, a key takeaway was that in order for any effort to be effective, the tax payers must be able to see the relief. Would any reduction be reflected in the property tax bill? It was answered that yes, the property tax bills that are being paid will also show an EAV increase due to wind turbine construction, allowing for a dramatic showcase of property tax relief.

Representative Yednock asked for hard numbers regarding how the county is being funded by the state. VOICE answered that LaSalle County has state funding providing 50 percent of funding, local funding is set at 40 percent, the rest comes from federal grants. Representative Yednock then asked that if EBF is still funded, then a natural property tax relief would occur. What would happen with a property tax freeze? VOICE stated both example districts would see property tax relief when EBF is fully funded. Any freeze of the tax extension would lower the tax rate, while the EAV grows, then those dollars that would be captured can never be recaptured following what should be natural economic growth. Freezing the rate, while the EAV grows, some of those dollars are still be captured. Any extension freeze would eventually result in teacher or program cuts in order to pay for construction costs. Long term effects would be a misbalance. EBF as of now is more than adequate. Previous years have been limited in opportunity for students over the past years, only now does the district have opportunities to discuss extensions and expanding opportunities for students.

Representative Yednock asked that if the system of funding was to be redone, what would have to be done to achieve adequacy without just defaulting to the state paying 50 percent or more of the district budget. VOICE answered that this is a difficult question due to state diversity. In their opinion, if the state sets a 15-year goal to getting towards 90 percent adequacy, districts in most need would be able to raise their level of education while taking the burden off property tax payers. The parameters for the districts presented are already in place and just need to continue to be funded.

It was asked why would we lower property taxes when there are still schools that are not fully-funded? VOICE answered that some districts disproportionately raise money from property taxes in a way unaccounted for by the formula. This is where property tax relief comes in by trying to re-align the property taxes collected to the actual value that is available. It was asked if cost-shifting pensions cause school districts to hang onto surplus dollars. It was asked if this model of funding would not increase the pressure to increase property taxes in Tier 3 and 4 districts. VOICE answered that in EBF, the cost-shift mechanism makes up the money by shifting the burden. A negative effect would be shown on the district's EBF. This would cause the mentioned effect of pressure on Tier 3 and 4 districts. What works for these districts in providing tax relief, may not work for other districts and in other Tiers.

V. Presentation – ED-RED, LUDA (Large Unity District Association), LEND, SCOPE (South Cooperative Organization for Public Education), and IHSDO (Illinois High School District Organization)

Sarah Hartwick, Executive Director, ED-RED, presented slides reminding the committee of the different factors that affect property taxes and school funding. As had been discussed, EBF aims to provide high-need districts with priority money. Prior to its implementation, funding had been held flat. Tier 3 and 4 districts still have flat funding. These districts rely on property taxes to make up for this lack of EBF funding, so any tax freezes will disproportionately affect Tier 3 and 4 districts. Jennifer Figurelli, Assistant Director, LEND, SCOPE, and IHSDO, continued that the intent is that any solution proposed has a holistic perspective being provided and is thus balanced. Schools relying on property taxes are relying on a more stable system of funding that is predictable. Districts that are suffering under high property taxes are still struggling to retain resources and are not being properly serviced from EBF funding and are also harmed by any property tax freezes.

Peg Agnos, Executive Director, LEND, SCOPE, and IHSDO, continued that counties under Property Tax Extension Limitation Law (PTELL) has augmented the effect of any potential tax freezes. EBF does not recognize Tier 3 and 4 districts enough. Any change for one district can affect all the rest of the districts in the state, as all districts are measured against each other. This is a point of concern, as funding can be taken or given as a result. Tax Increment Financing (TIF) districts are predominantly in the suburban areas and in South Cook County. These rules are not transparent and have a negative impact on school districts. Larger mandates as well can have an impact on local districts, such as the Minimum Wage Act. This is not considering the minimum teacher salary. Another example is the mandated PE structure. The pension issue is another burden that is unknown and will need further conversation.

Property tax freezes would mean that remaining fund balances would be depleted. Maintaining programs would be put at risk. At least 25 percent fund balances are maintained for stewardship and for staying off the Financial Watch List. Capital projects are able to be completed as a result of saving funds, staying off of referendums, or taking from other funds. Tax extensions do not always come in at the same time, so fund balances can be variable depending on when an assessment is done. Ms. Hartwick continued that 77 responses were given in reaction to a prior proposition regarding a tax freeze. Since any levy is based on the prior year's levy, any reduction would be perpetually felt in the future. An aggregate total of lost money was presented over a five-year period of $476 million as a result of a freeze. Any loss of money that is not replaced by the state will result in a cut of programming for schools. It was asked whether it was fair to assume that the projection was truly money being lost that the districts would otherwise be getting. Ms. Hartwick answered that this is normal for school districts to project based off the data they have available including a Consumer Price Index (CPI) of 1.9 percent for 2018. Any projection was conservative and made in order to show and explain to the policy makers and committees. Representative Crespo stated that others may look at this loss in tax revenue as dollars saved by tax payers.

It was asked what bigger Tier 3 and 4 districts spend per student in comparison to Tier 1 and 2 districts. If Tier 3 and 4 districts are reaching 85 percent adequacy at least from property taxes, would they be expected to take money away from spending per pupil to cut taxes? It was answered that EBF is supposed to bring people to adequacy and specifically not bring down any district's adequacy. General state aide used to work by mandating a specific amount per student.

Representative Crespo stated to adequately fund education today would require seven billion dollars. School districts would have to stress test to see the effects and ways to cope with any change that may occur in the future. Ms. Hartwick continued that national studies show that property tax relief will require much more state supports for schools. Exemptions need to be more creatively thought about in these considerations as well. Ms. Agnos continued that a more cooperative method is needed. Other taxes need to be looked at besides property taxes. Opportunities from outside taxes need to also be considered for even minimal relief.

Ms. Figurelli stated that districts have always tried to maintain a high degree of quality, no matter how their funding looked like. Historically, districts have had to deal with late categorical payments, funding changes, and fallen EAVs amongst other conditions. In a statewide study, 291 districts have an access of 50 percent in their fund balances, based on 2018 AFR, only 1/3rd of which is from Tier 3 and 4 districts. Money in the capital funds lock away money, so districts are hesitant to invest money there. Districts build reserves to provide stability. Typically, 80 percent of the education fund goes to salary and benefits, so districts need to be certain that they can accommodate this and elements that may be outside the EBF funding model. Being able to recapture funds that would otherwise be lost because of one year of under-levying would potentially provide relief as school boards typically do not want to tie the hands of future boards. Any changes must be well-vetted, revenue-neutral, and well-communicated as they can be hard to understand.

Representative Crespo asked how the days cash on hand fund totals, previously provided by Robert Wolfe at the last subcommittee meeting, are generated. Mr. Wolfe answered the totals are as of June 30 using FY 2019 budget data. The totals are configured by computing a daily spend amount and then figure the available days cash on hand. Representative Crespo asked if there is a way to determine what ought to be a sufficient reserve for districts. Mr. Wolfe stated that the reserves can truly vary depending on school district projects and restrictions that may be put in place, although 25 percent is the usual minimum. Representative Crespo asked if reserve funds may sometimes be used for capital expenditure. Should this not be decided by referendum? Mr. Wolfe stated this would be decided on the local level. Representative Crespo asked if cash reserves were factored into EBF. Mr. Wolfe stated they were not. Ms. Agnos added that any capital project should have public approval even without referendum. It was added that capital expenditure is likely not a one-time cost, and thus should be referred to the tax payers. New buildings would have to go under referendum for example, while renovations may not need referendum. But in practice, this is not always the case.

It was asked when bonds are paid back, does the amount from the bonds expire in the taxes or does the line of credit still stand. Ms. Agnos answered that the bonds do expire. Any continuation of the bond would be considered a new bond entirely. Action would have to be forced at the local board meeting; no referendum would be made in this case. It was added that these referendums can be misleading in how they may or may not be new projects that can affect budgets and taxes. It was asked how this process may differ in a PTELL district. It was answered that PTELL districts typically maximize their levy all the time to not lose out on future money that they would never receive again if lost at one point. A majority of the highest taxing school districts are PTELL districts, as non-PTELL districts do not face this problem. Counties that do not have PTELL tend to spend less than those that are PTELL.

VI. New Business

Representative Crespo reminded members the next meting will be Wednesday, September 25 from 12:30 p.m. to 2:00 p.m.

VII. Public Participation

None

VIII. Adjourn

Representative Crespo adjourned the meeting at 3:03 p.m.