Meeting Minutes

Property Tax Relief Task Force School Funding Subcommittee

Meeting #1
September 12, 2019
10:00 a.m.-11:30 a.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 and School Property Tax Levy Subcommittee members present in Chicago:

- Representative Terra Costa Howard
- Representative Fred Crespo
- Representative Jennifer Gong-Gershowitz
- Representative Stephanie Kifowit
- Representative Joyce Mason
- Representative Deanne Mazzochi
- Representative Anne Stava-Murray
- Representative Sam Yingling

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

- Representative Barbara Hernandez
- Representative Michelle Mussman
- Representative Diane Pappas
- Representative Nathan Reitz
- Senator Jil Tracy
- Representative Lance Yednock

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

- Representative Dan Brady
- Representative William Davis
- Senator Donald DeWitte
- Representative Marcus Evans, Jr.
- Representative Sara Feigenholtz
- Representative Mike Murphy
- Representative Tom Weber

ISBE Staff present

- Amanda Elliott, Executive Director of Legislative Affairs
- Barbara Hobrock, Legislative Affairs Coordinator
- Leticia Pickens, Senior Policy Advisor, State Funding and Forecasting
- Kelly Weston, Assistant Legal Council
- Robert Wolfe, Financial Officer

Co-Chairs: Fred Crespo and Stephanie Kifowit

I. Welcome

Representative Crespo called the meeting to order at 10:09 a.m.

II. Roll Call

Ms. Hobrock called roll and a quorum was present.

III. ISBE Presentation

Representative Crespo noted the upcoming schedule of the subcommittee, with a final report date set for October 11th. Representative Kifowit noted the importance of property taxes for school funding.

Robert Wolfe, Chief Financial Officer, Illinois State Board of Education, reviewed the school funding formula and Illinois' history of property taxes in the state, noting the contributions of Calvin Jackson and Marco Laghi. The presentation seeks to answer the question, "Why is it that why we rely on property taxes for funding of Illinois schools?"

Going back to the Massachusetts Act of 1647, property taxes were used from the local level for its ease of administration in funding schools. Stability in property taxes is especially valued as it allows for consistency in school funding. The stability of property taxes was noted in a 24-year graph, with the top line showing property tax extensions, which is the most stable in comparison to other taxes such as income and sales tax, which are more reactive with Illinois state economy. An increase over 24 years is visible, but is stable in growth.

Illinois hosts three different types of districts. Unit districts combine grades K-12, levying property taxes over total assessed property within the geographic grant. Elementary districts span grades K-

8, while high school districts span grades 9-12, taking in students from feeder elementary districts, but this relationship is not always 1:1. Property taxes can be levied for a variety of school services that are limited and denoted by being accessible via referendum (or without). Notable is how unit districts do not have a direct combination of what a combined high school and elementary district have in referendum. However, without referendum, a unit school district can be equal to the combined permissive tax rate of a high school plus elementary district. The bond and interest fund is set at a rate as needed by voter approval. The county clerk sets this rate to provide debt service payments. This procedure is also reflected in other categories such as Social Security funding. The overall extension of property taxes cannot exceed the prior year's rate times one plus Consumer Price Index (CPI) in Property Tax Extension Limitation Law (PTELL) districts.

It was asked why unit school districts appear to be a combination of elementary and high school districts yet have 4 percent rate with a referendum rather than a combined 7 percent. How was this determined? Mr. Wolfe answered that this was a statute determined rate that is historically prevalent. Representative Crespo asked whether this was a disincentive for school district consolidation. Mr. Wolfe stated that this could be a disincentive as creating a unit district from preexisting districts would cap the amount of referendum allowed property taxes.

Mr. Wolfe presented the funding as a percentage of total revenue. With over 1/3 contributions from the state, over 50 percent from local revenue and property taxes, and a consistent 10 percent from the federal level. The economic downturn in FY 2011 resulted in an increase of funding from the federal level and a decrease from the state as a result of the American Recovery and Reinvestment Act. This is an aggregate that changes at individual district levels. In East St. Louis, the local contribution is 10 percent with 70 percent coming from the state. In this location, federal grants for low-income communities also provide 20 percent of funding.

State contributions to education were then presented showing state contributions in comparison to total revenue fund appropriations. This portion shows how tax rates in different districts along with reliance of property tax has ingratiated within the state model. Representative Crespo asked if it was true that property taxes in Illinois are the highest or second highest in the country. Mr. Wolfe will dive deeper for an answer. Representative Crespo asked for further description on how school levy funding categories are broken down, as well as a break down for how state/local/federal funding is attributed to different services (MCATS, pensions etc.). He also asked if Chicago pensions were being paid in 2019. Mr. Wolfe stated the Chicago Teacher Pension Fund had received nominal payments prior. In FY 2018, there was a statute commitment in the Evidence-Based Funding (EBF) Act of a contribution of normal cost of the contributions, roughly over 250 million dollars annually. The following years will show smaller contributions, different from FY 2018.

Representative Kifowit asked why school districts are required to budget into silos with multiple levies going in multiple directions. Why is it that these funding initiatives are required to go back to referendum outside of Chicago? Mr. Wolfe answered that there is an operating fund tied directly to the levy. There is an education fund and tax rate that go along with it that are tracked and reported separately. Education, operation and maintenance, transportation, and working cash funds are considered the operating funds. Other funds are different and restricted into different funds from the operating fund, such as the School Safety fund. These are accounted for separately as they have to be approved by ISBE for specific projects. Recent legislation allows for fund transfers between operating funds. Public policy that allows these transfers from specific purpose levies make these more flexible despite these specific nine operating funds still being a baseline requirement.

Representative Yednock asked for a comparison on how other states rely on local funds. Mr. Wolfe will bring that data to the subcommittee. Representative Mazzochi asked what the biggest driver of expenses within an education fund is. Mr. Wolfe stated that approximately 80 percent of the funding goes to salaries and benefits. Representative Mazzochi asked where Illinois ranks in terms of average teacher salaries disaggregated by collar counties, Cook county, Chicago and downstate Illinois. Mr. Wolfe answered this data point will be provided to the subcommittee. Representative Mazzochi asked whether local school districts that are more self-sufficient have more leeway in determining funding and if they should. Mr. Wolfe answered that this is a policy decision for legislators. Representative Yingling asked if there was data available regarding administrative overhead cost in each category of school districts. Mr. Wolfe answered that this data is available.

Mr. Wolfe continued his presentation on how Evidence-Based Funding is calculated in the formula of the state. The formula provides a base funding minimum with additional funding provided in proportion to how distant a school is from its adequacy target. This places the district into Tiers that have specific funding that is given to each school district. The formula first calculates each school districts' adequacy target, then their resources, prior to distributing funds to try and allow schools to achieve their adequacy target. The adequacy target is calculated by 34 cost factors that incorporate salaries and demographic data, including the amount of people that are low-income or English Learners. This adequacy target includes education and basic operations and maintenance, not including transportation, high-cost special education, and capital funding for major renovations/construction. Regular cost factors for K-12 are included, while also incorporating cost factors for English Learners, low-income, and general special education. Regionalization factors are then used to calculate the individual adequacy target for each school district. No district will have a regionalization factor lower than .9 with the highest being approximately 1.2. This follows statute.

Local resources that create the numerator are determined from three individual funding sources including Local Capacity Target (LCT), Corporate Personal Property Replacement Tax, and the Base Funding Minimum, which is the amount of Evidenced-Based Funding received the prior year. Resources over the adequacy target result in the percentage of adequacy. The range in percent of adequacy for FY 2020 is between 51 percent and 269 percent adequacy.

Local Capacity Funding is calculated using the Equalized Assessed Valuation (EAV) number, which is the three-year average of Real EAV minus adjustments. This creates a smoothing effect, taking away volatility from local contributions. In statute, if a school district has a dramatic loss in value, 10 percent or more in the most recent year EAV, that most recent year will be used instead of the three-year average. For districts subject to PTELL, the cap effects the EAV used, so the EBF uses the lesser EAV between the calculated EAV versus the Real EAV. PTELL EAV is calculated from the prior year utilized EAV times the Extension Limitation Ratio. The final result is that all school districts are put into an array percentile with a cap at 90 percent to allow for state contributions.

Real receipts is used to show how districts can adjust taxes to meet adequacy by increasing or providing tax relief from property tax. Real receipts are calculated from the Real EAV being multiplied by the adjusted operating tax rate, which results in an estimation of local revenue. This adjusts the Local Capacity Target (LCT). When Real Receipts exceed LCT, the LCT is adjusted by adding the difference times the Local Capacity Percentage.

Tiers are assigned by calculating an adequacy ceiling threshold for each Tier, with Tier 1 (67.36 percent in FY 2020) requiring more funding as they are farthest away from adequacy. Tier 1 receives 50 percent of funding and also participates in Tier 2 funding which makes up 49 percent of the allocation. Tier 3 receives .9 percent, while Tier 4 receives .1 percent.

The Days Cash on Hand/Reserves was also presented, showing the projection of how many days possible for operation of each Tier without further added revenue: Minimum being 8 days, Maximum being 1,031, and the Median being 217. It was added that 90 days should be subtracted from this data to account for the requirement of a perfect score in the school financial profile and other outside measurements for bond funding. These numbers have also evolved as a result to state payment delays, resulting in districts holding back funding to accommodate these delays. Representative Crespo asked if schools with more than 100 days of funding on hand would have frozen taxes. Mr. Wolfe answered that this is unlikely. Representative Kifowit asked if these districts have cash on hand in order to avoid state lines of credit and state delays. Mr. Wolfe agreed and added that having the cash reserve is what sustains day to day activity. Representative Mazzochi added that cash reserves allow school funding of activities with less voter accountability. She also asked if school funding and taxes were increased, if a Tier 3 or 4 school district would receive a significant amount less of funding in comparison to Tier 1 and 2 schools that may happen to be outside the district. Mr. Wolfe confirmed this per statute.

Representative Yingling asked if the Property Tax Relief Grant was in this presentation and if Mr. Wolfe could explain this grant. Mr. Wolfe stated the Property Tax Relief Grant provides 50 million dollars to school districts according to their local capacity percentage. An abatement of taxes is provided by the grant that is added to the Evidence-Based Funding Minimum. In FY 2020, legislation required that districts receiving this grant would need to have two years of abatement for that one-year grant. Representative Yingling asked if this meant that the second year would reduce reserve funding. Mr. Wolfe answered that this is not a dollar to dollar match. This money is considered as a perpetually added part of the base funding minimum. Any loss will be eventually made up for by the addition of the state grant. Representative Yingling asked if the Property Tax Relief Grant could continue being applied for by the same district year after year. Mr. Wolfe stated this could happen as the grants are given as a result of high tax rates, so as long as the tax threshold is exceeded, a grant can be given. Given that this is only the second year of the grant, data is limited. Representative Kifowit asked for the specific changes that occurred as a result of this system, showing how much property tax relief is actually achieved. This formula seems skewed against large districts. Additionally, in lowering or freezing the levy, the minimum has in some cases resulted in an operational deficit. In some cases, the only solution seems to go to referendum to recover. Mr. Wolfe answered that the grant is going to change as a result of legislation. New information regarding the grant will be provided to school districts. He also clarified that school districts that have frozen their property tax and now have an operating deficit is due to a result of that district not hitting their limiting rate in a year. Because PTELL is the prior year extension times CPI, without reaching the maximum, the base has been reestablished at a lower amount.

Representative Crespo stated that to reach 90 percent of adequacy for all districts would require approximately 7 billion additional dollars. If more state funding is provided rather than property taxes, is there anything that would cause school districts to increase property taxes as a result of increased funding? Mr. Wolfe said this is not the case.

Representative Mazzochi asked if administrators are paid for out of the education fund, and if there is any data tracking how mandates are driving costs for hiring administrators. Mr. Wolfe stated that administrators are paid out of the education fund. This data regarding mandates driving the cost of administrators would have to be investigated.

IV. New Business

Representative Crespo confirmed that the next meeting will be September 19, 2019, in the same locations.

V. Public Participation

Holly Fingerle, grassroots organizer, provided her encouragement to the subcommittee and stated that grassroots activism would be especially supportive of the subcommittee's mission.

John Burkey, Executive Director of Large Unit District Association (LUDA) commented that the main challenge is how to contend with the diversity throughout Illinois that cannot allow for a uniform approach.

VI. Adjourn

Representative Crespo adjourned the meeting at 11:34 a.m.