



Illinois School Funding & Property Tax Relief: Understanding School Funding Adequacy June 2015

Good morning, ladies and gentleman of the Senate. Thank you for the opportunity to testify as you consider how Illinois might support public schools and the students they serve while also considering relief for Illinois homeowners with property tax changes.

This is a complex issue that gets at the heart of how we support our public schools.

Even in these difficult financial times, our most important investment must be to educate all of our students. This is vital for our state's civic and economic future.

My name is Robin Steans. I am the executive director of Advance Illinois, a bipartisan, non-profit organization that for seven years now has provided an independent, objective voice in support of a public education system that prepares all students for college, career and citizenship.

The issue before the Chamber today is a potential change to the property tax structure in our state. But as we consider this complicated issue, we also should consider how this bears on school funding – specifically, the adequacy of our school funding.

What is adequate school funding?

Adequate funding typically is defined as the dollars needed to help students achieve certain goals – like proficiency on the Illinois Learning Standards¹. More specifically, the notion of adequate school funding is guided by three key principles:

- *There is no one-size-fits-all.* Students with greater need and fewer supports at home require more funding to reach their academic potential, decades of research shows. Adequacy is not a single number that tells us what it takes to serve each and every student without any consideration for the language they speak at home, the socio-economic situation in which they live or whether they can read at grade level.
- *Adequacy accounts for all funding sources – local and state.* (See Appendix I for a reminder of how reliant we are on local sources of revenue)
- *Smart spending matters.* Adequacy should account for the efficient and targeted way in which dollars are spent to support students.

The guiding principle of any property tax change should be to ensure it does not limit a district's ability to spend the funds needed to serve its students.

¹ "Overview of the Structure of the Illinois School Finance System," Augenblick, Palaich and Associates, 2013. Note: The author's define adequacy as "the extent to which it assures that all school districts have levels of revenue sufficient so that school districts have a reasonable opportunity to meet state education standards and student academic performance expectations."



Put differently, given the direct link between property taxes (the backbone of local resources), and adequate school funding, any proposal to change the structure of property taxes should take into account how varied school districts are when it comes to how much they spend to educate students and how much they tax locally to do so – and not do something that jeopardizes a district’s ability to meet student needs.

I will speak about this more specifically and offer some analysis that you might consider in moving forward, but first let me focus on how we determine an adequate level of school funding.

How Does Illinois Define Adequacy Currently?

As a first step, it is important to understand the concept of funding “adequacy.” Using a “successful schools” calculation, the state’s independent Education Funding Advisory Board (EFAB) determines every other year how much funding is required to adequately fund an average student – that is, a student with no special learning needs or issues. EFAB provides this number to the Illinois legislature as a recommendation for the foundation level. Illinois’ currently calculates a baseline adequate level of education funding as \$8,890 per student².

For the past four years, however, the statutory foundation level set by the General Assembly has remained at \$6,119³ – even as actual appropriations have not been sufficient to meet this inadequate foundation level⁴.

While the funding gap is egregious, it exists in part because the number is conceptually flawed. Here’s how:

- It provides a single, one-size-fits-all adequacy number for the entire state. This is despite the fact that research and the best practices of other states suggest that an adequate system should recognize different student needs.
- As used in the Foundation Level, it does not really consider all funding at the state, local and federal level. The gap between the Foundation Level and EFAB often is used to suggest that no district is adequately funded despite the fact that some districts, in fact, are funded adequately through local resources⁵.

How Does SB1 Approach Adequacy?

The School Funding Reform Act of 2015, SB1, provides a clearer picture of adequacy by basing it upon student needs. While school funding reform is not the focus of today’s hearing, it is related and merits mention. More to the point, it illustrates the challenges in a one-size-fits-all approach to tax relief.

As proposed, SB1 calculates spending adequacy for each district based upon the needs of its students. It does this by using the EFAB recommendation of \$8,890 as a baseline funding level for an average student, and then factoring in student needs that call for additional spending - such as whether a student has special learning needs, is an English

² “Illinois Education Funding Recommendations,” Illinois Education Funding Advisory Board, 2015.

³ Illinois State Board of Education, Enacted Operating Budget, FY2009, FY2010, FY2011, FY2012, FY2013, FY2014, FY2015.

⁴ “Funding Expectations,” Advance Illinois, 2013.

⁵ “Illinois School Funding,” Education Commission of the States, 2013.



Language learner, is living in poverty, etc⁶. By “weighting” various needs and expenditures (such as transportation), one can more accurately identify what each individual school district should be spending to meet the needs of its particular student body.

This more nuanced and complete adequacy number then can be compared to the actual Operational Expense Per Pupil (OEPP) for each district to suggest whether a school district is currently spending more or less than it ideally should to meet the needs of its students. *(See Appendix III to learn how SB1 would support districts that cannot reach adequacy despite high tax rates.)*

This approach to determining district-level spending needs reveals that many of our districts are funded inadequately, while others are funded more than adequately due, in large part, to property tax revenue. This is despite the fact the state has not delivered on its own obligation for adequate school funding in recent years.

Any Property Tax Relief Should Consider the Varying Tax Levels of School Districts

A property tax relief proposal ought to balance three key factors in determining whether a potential property tax freeze or relief measure would be more helpful than harmful to school districts:

- A school district’s level of student need (which varies across districts);
- A school district’s current spending level (specifically, its operating expenditure per pupil); and
- A school district’s property tax rates generally and relative to its property wealth, and a district’s ability to raise adequate funds locally.

It is important to understand that a property tax change means different things for districts depending upon how much they spend and how much they tax. As we sit here today, the nearly 860 school districts across Illinois could be divided between the following categories:

- Districts that spend adequately with lower taxes rates;
- Districts that spend adequately, but with higher tax rates;
- Districts that spend inadequately with high tax rates; and
- Districts that spend inadequately, but with low tax rates.

So what does this mean given the property tax proposals that have been put forth?

The good news is there are districts that tax themselves at high rates and spend more than adequately to support their students. Such districts – about 11 percent of all Illinois’ districts – arguably could benefit from property tax relief without shortchanging student opportunities or outcomes.

⁶ “School Funding Reform Act of 2015,” Illinois Senate Democrats, 2015.

But at the same time, we see another swath of districts – about 36 percent – that tax themselves at high rates, but have such low property values they simply cannot generate enough dollars to spend what they should to meet student needs – particularly given low and inequitable state support for schools. They are working hard and shouldering a heavy tax burden, but they still cannot provide adequately to meet their students’ needs. These districts are arguably most in need of property tax relief, but can least afford it – at least until the state sends them more education dollars.

Finally, there are a significant number of districts – roughly 40 percent – who are not spending adequately, but who are taxing themselves below the state average. Freezing tax rates in these districts would take away a legitimate tool those districts perhaps should consider in reaching adequate spending levels for their students.

In sum, because adequacy depends upon both state *and* local resources, any move to limit the local spending of school districts that already spend less than adequately could have harmful, if unintended, consequences on students.

We have provided an analysis of five school districts to illustrate these points and the interplay between adequacy and tax rates. (*See Appendix II to see the varied impact a property tax change could have on school districts.*)

NOTE: It is worth pausing here to note the difference between the tax rate and the tax bills that homeowners pay. It is tempting to compare the property tax bills of homeowners in different school districts, and say one pays far more than the other. The tax bill depends, in large part, upon the size and valuation of the home. But the tax rate is a far more accurate and consistent measure of the tax burden that each community asks its residents to bear. The tax rate reveals how hard communities – and, in turn, homeowners – are working to support their local schools. That’s the right point of focus, both on an analytic and common sense level.

Any Changes to Property Taxes Should Help, Not Harm School Districts Already Struggling with Funding Cuts

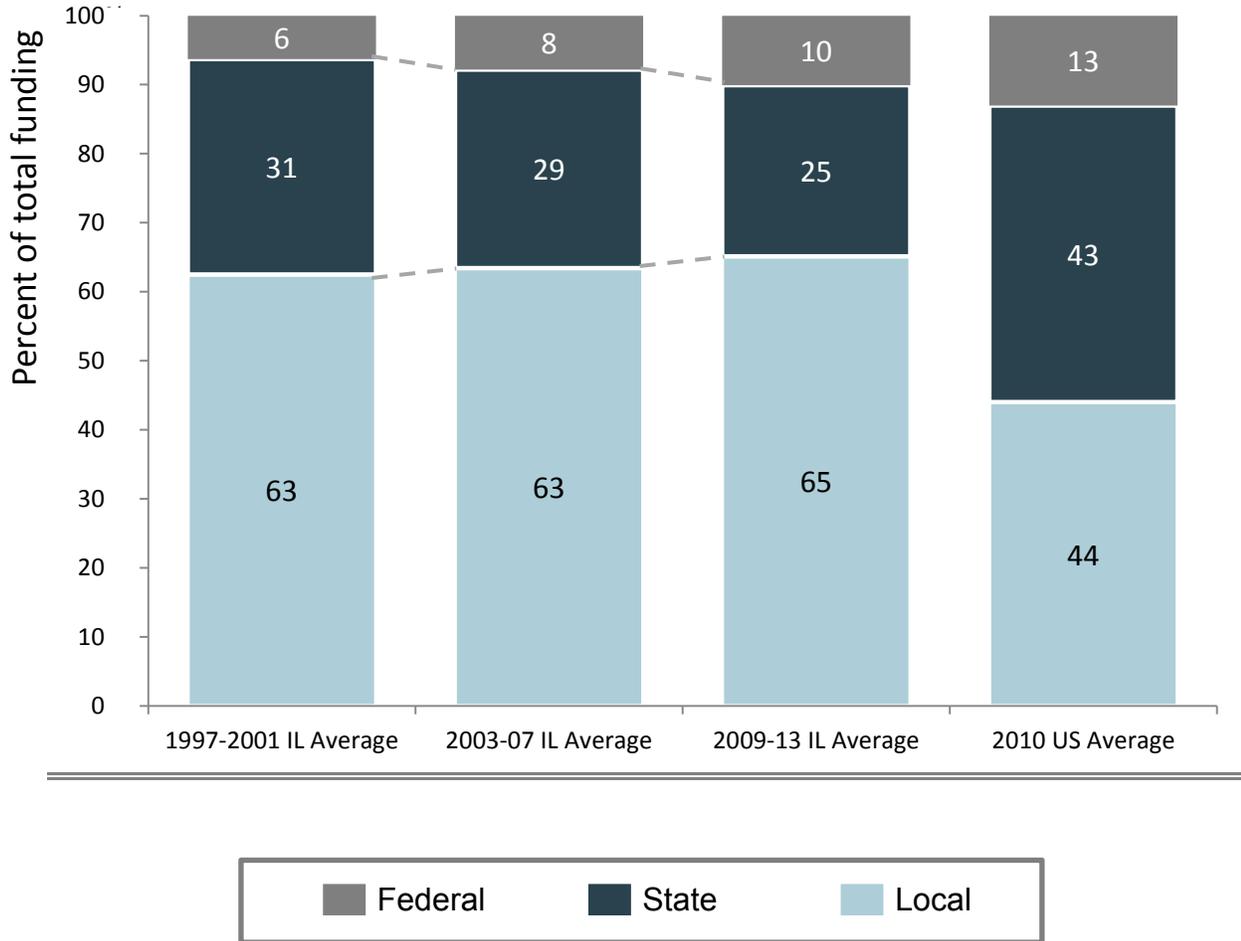
In closing, I would leave you with two key points that you might bear in mind as you continue to examine this most complex of issues.

- *Illinois school districts vary incredibly in how much they spend and how much they tax.* Changes in the property tax structure would impact them very differently – to the good and the bad.
- *Adequacy is not a single number.* Rather, it is a number distinct to every district based upon the mix of students who walk into their schools every morning. This is an important point that bears on how much districts spend from *all* sources – local, state and otherwise – to support their students.

Thank you very much for your time, your service and your commitment to Illinois students. I’m happy to answer any questions you might have.

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Appendix I: Illinois Largely Depends Upon Local Resources to Fund Schools



1. Includes special education. Note: Categoricals include some competitive grants. Additional competitive grants represent very small portion of total spend.
2. Illinois distributes an additional \$3.5 billion in federal funds to support state and local education. (Source: Illinois State Board of Education Budget Book).
3. Source: Illinois State Board of Education; ILearn website, APA report to EFAC

Appendix II: Districts Vary In How Much They Spend and How Much They Tax

The Illinois State Board of Education modeled the idea of a district-specific adequacy target as part of its number runs for SB1, or the Illinois School Funding Reform Act of 2015. This methodology uses a weight based upon the student demographics of each district. (see note below for more information) The analysis makes it clear that many of our districts are funded inadequately while others are funded adequately based upon local resources.

District Name	District Weighted Average	Operating Expense Per Pupil (OEPP)	District Adequacy Target Based Upon Student Needs	Spending as percent of the District Adequacy Target	Operating Tax Rate (OTR)	District OTR as percent of State Weighted Average*
KENILWORTH SCHOOL DIST 38	1.215860	\$18,857.06	\$10,543.94	178.8%	2.89	95%
SCHAUMBURG C C SCHOOL DIST 54	1.464800	\$12,787.57	\$12,702.75	100.7%	3.20	105%
NORTH PALOS SCHOOL DIST 117	1.745270	\$10,994.43	\$15,134.98	72.6%	4.15	136%
PANA COMM UNIT SCHOOL DIST 8	1.551250	\$9,132.28	\$13,452.44	67.9%	4.35	112%
CITY OF CHICAGO SCHOOL DIST 299	1.978170	\$13,432.53	\$17,154.69	78.3%	2.80	72%
SCHOOL DISTRICT 46	1.646680	\$9,660.69	\$14,280.01	67.7%	4.75	122%
VALLEY VIEW CUSD #365U	1.528070	\$12,148.71	\$13,251.42	91.7%	5.05	130%

* If a district's tax rate is at the state average (for that district type), their % of average weighted OTR will be 100%. Anything above 100% indicates that district taxes itself above the state average, anything below 100% indicates the district taxes itself less than the state as a whole.

Note: Each of these districts is provided a weight based on their student demographics. For example, English Language Learners are weighted at 20% and students receive Special Education services are weighted at 100%, to recognize that adequate resources necessary for these students are greater than the average student. The adequacy target is derived by multiplying the Education Funding Advisory Board's recommendation by this weight for a district. This model uses \$8672 recommendation of SB1 from FY14 which aligns with the OEPP represented here.

Source: Illinois State Board of Education, iLEARN.

Appendix III: SB1 Would Support Districts Who Cannot Reach Adequacy Despite High Tax Rates

School districts that would gain state funds under SB1 typically are unable to spend adequately despite taxing themselves at higher-than-average levels. On average, these districts spend \$8,093 per student though \$14,383 is recommended for their district based upon student need. At the same time, these districts tax their localities at rates well above state averages.

The analysis below represents the estimated per-student impact averaged across school districts whose state funds are expected to increase, decrease and hold steady under SB1, according to an analysis by the Illinois State Board of Education.

NOTE: The modeling provided by the Illinois State Board of Education relies upon FY2014 and FY2013 numbers to gauge the impact of the proposed legislation. This represents moment-in-time estimates. The analysis here is based on this information.

		State Funds			Chicago Public Schools
		Increase	Hold Steady	Decrease	
The average student attendance for the top three months of the year.	Districts	381	107	370	1
Percent of all students who are new to the English language.	Average Student Enrollment	1,815	1,589	1,849	349,184
Percent of all students whose families qualify as low-income.	English Language Learners	11%	6%	6%	19%
Local resources available to support public schools on a per-student basis. The bulk of this stems from local property taxes.	Low-Income Rate	67%	39%	30%	92%
District defined funding level based on a base amount with additional weights for student need. The Base Funding Level of \$4,878 is determined by current state funding level.	Available Local Resources	\$3,597	\$5,118	\$8,152	\$6,604
Average amount spent to educate students in each school district statewide.	Weighted Foundation Level	\$8,093	\$6,760	\$6,660	\$9,650
Spending level recommended for each district based upon student needs. This uses the Education Funding Advisory Board's recommendation of \$8,672 and weights for student need.	Operating Expenditure Per Pupil	\$10,736	\$9,873	\$12,671	\$13,433
Reflects the district's effort to support local schools with local resources by comparing each district to the statewide average for its district type (i.e. unit, elementary, or high school).	Adequacy Spending Target	\$14,383	\$12,017	\$11,851	\$17,155
Shows how much, on average, districts' state education funding would increase, decrease or hold steady under SB1. It includes an adequacy grant to shield high-taxing, low-spending districts from state funding cuts for a period of four years. This compares SB1 to current funding levels.	Tax Rate as % of Average	115%	113%	96%	72%
	Average Change: SB1+AG	\$525	\$0	-\$501	\$405

Compare OEPP to the Adequacy Spending Target to get a sense for whether districts spend more or less than what is recommended based upon student need.