



Illinois State Board of Education

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James T. Meeks
Chairman

Tony Smith, Ph.D.
State Superintendent of Education

December 22, 2016

TO: The Honorable John J. Cullerton, Senate President
The Honorable Christine Radogno, Senate Republican Leader
The Honorable Michael J. Madigan, Speaker of the House
The Honorable Jim Durkin, House Republican Leader

FROM: Tony Smith, Ph.D. 
State Superintendent of Education

SUBJECT: Report of the Education Funding Advisory Board

Pursuant to 105 ILCS 5/1/-8.05 (M), the Education Funding Advisory Board submits this report to the General Assembly and the State Board of Education. This fulfills the advisory board's responsibility to provide a report to the General Assembly by January 1 of odd-numbered years.

If you have questions or comments, please contact Chief Financial Officer Robert Wolfe at (217) 782-0249.

cc: The Honorable Bruce Rauner, Governor
Tim Mapes, Clerk of the House
Tim Anderson, Secretary of the Senate
Legislative Research Unit
State Government Report Center

Illinois Education Funding Recommendations

A Report Submitted to the
Illinois General Assembly

by the
Education Funding Advisory Board

January 2017

Recommendation

EFAB Recommendation for Fiscal Year 2018

Based on a review of the current funding system EFAB makes the following recommendation for FY 2018:

I. **Increase the Foundation Level to \$9,204**

For FY 2016 EFAB recommended increasing the Foundation Level to \$8,899. EFAB directed ISBE staff to update this number with a measure of inflation. Applying two years of the Employment Cost Index to that figure results in a Foundation Level of \$9,204. If the Foundation Level had been set at \$9,204 in FY 2017, the cost to the state would be \$9.7 billion. That is \$4.6 billion greater than the current appropriated amount of \$5.07 billion for GSA.

The recommendations would require \$4.6 billion in additional funding in FY 2018, or almost double the current appropriation. The members of EFAB recognize that Illinois faces severe financial challenges. The members also recognize that we as a state continue to fail to live up to the goals we have established for ourselves. Providing adequate resources to all children in Illinois is of utmost importance as it impacts those children, their families, our economy and the future of our state. EFAB implores the General Assembly and the Governor to work together to increase the resources available for public education, offering our children the tools they deserve and need to compete in a global economy.

Education Funding Advisory Board Members

Ms. Sylvia Puente, Chair
Executive Director, Latino Policy Forum

Dr. Sheila Harrison-Williams
Superintendent
Hazel Crest School District 152 ½

Ms. Cinda Klickna
President
Illinois Education Association

Mr. Dan Montgomery
President
Illinois Federation of Teachers

Vacant

History of the Board

Public Act 90-548 created the Illinois Education Funding Advisory Board (EFAB) in December of 1997. Members are to include representatives of education, business, and the general public and their terms are limited to four years. The statutory charge of EFAB, as stated in 105 ILCS 5/18-8.05 (M), is to “make recommendations ... to the General Assembly for the foundation level ... and for the supplemental general State aid grant level ... for districts with high concentrations of children from poverty. The recommended foundation level shall be determined based on a methodology which incorporates the basic education expenditures of low-spending schools exhibiting high academic performance.”

Description of the GSA Funding Formula

The mission of the EFAB is to make recommendations to the General Assembly concerning the General State Aid (GSA) grant program. GSA represents 66 percent of all state general funds expenditures on PreK-12 education in Illinois and consists of two funding streams. The primary funding stream is the Equalization Formula Grant, which considers local wealth in determining the amount of the grant awarded per pupil. The second funding stream is for at-risk students and is referred to in statute as the Supplemental Low-Income Grant. This second grant provides additional funding for low-income pupils in an amount that rises as the proportion of the student population qualified as low-income increases, but does not means test against local wealth in the way the equalization Formula Grant does.

Formula Grant

The equalization Formula Grant considers local wealth as an indicator of need for state resources. Funding amounts vary inversely with local wealth. Grants decline as local wealth increases and grants increase as local wealth decreases. At its most basic, the formula pays the difference between a Foundation Level set in statute and a district’s local resources per pupil. The equalization Formula Grant calculation appears as follows for Foundation districts: (Foundation Level – Local Resources Per Pupil) X Students

The current statutory Foundation Level is \$6,119. So a district that possesses \$2,000 in local wealth per pupil would receive the difference between the Foundation Level and its local wealth, or \$4,119 per pupil through

the Formula Grant. The formula varies somewhat as district wealth increases. There are three categories of payment in the equalization Formula Grant:

<u>Foundation</u>	Wealth: Local Resources < 93% of the Foundation Level Calculation: (Foundation Level – Local Wealth per Pupil) X Students
<u>Alternate Method</u>	Wealth: Local Resources 93% or Greater and Less Than 175% of Foundation Level Calculation: 5% - 7% of Foundation Level X Students
<u>Flat Grant</u>	Wealth: Local Resources Greater Than or Equal to 175% of Foundation Level Calculation: \$218 X Students

The goal of the Formula Grant is to assure that every school district has at a minimum the Foundation Level of funding for each pupil through a mix of state and local funds. Per 105 ILCS 5/18-8.05 (A), “The system of general State financial aid provided for in this Section is designated to assure that, through a combination of State financial aid and required local resources, the financial support provided each pupil in Average Daily Attendance equals or exceeds a prescribed per pupil Foundation Level.”

Only programs operated by the Regional Offices of Education (ROE) and the two Laboratory School districts operated by Illinois State University in Bloomington-Normal and the University of Illinois in Urbana-Champaign receive the full Foundation Level of \$6,119 per student. The reason for this is that ROE programs and the lab schools have no tax base for a comparison of local wealth. In addition, the ROE programs and lab schools receive no Supplemental Low-Income Grant funding.

For each of the 852 public school districts in operation in FY 2017, it is possible to compute local wealth as a measure of revenue from property taxes and corporate personal property replacement taxes. Given that every district has some amount of local wealth, no public school district receives the full \$6,119 per pupil. Instead they receive the difference between that Foundation Level and their local resources per pupil.

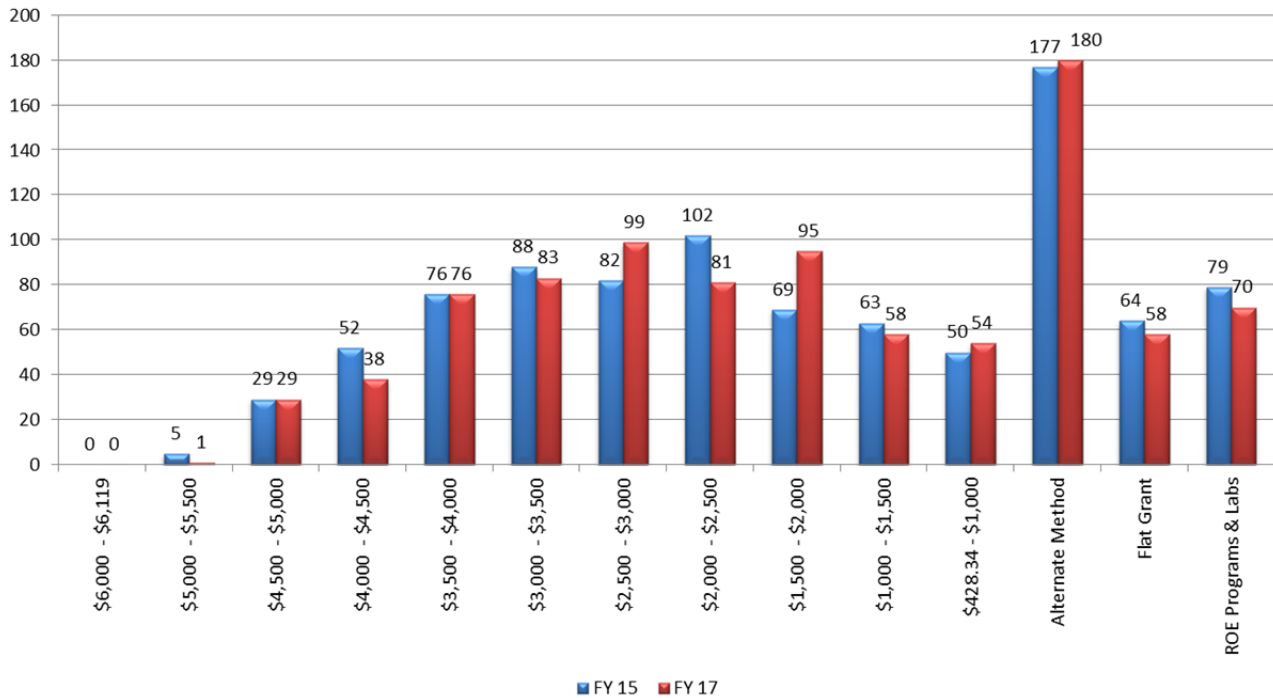
The table and graph on the following pages illustrate the range of payments per pupil made through the Formula Grant in FY 2017. For informational purposes, the table also lists the Average Daily Attendance figure used in the FY 2017 calculation of the Formula Grant and also the three-year average of Department of Human Services (DHS) service populations used in the FY 2017 calculation of the Supplemental Low-Income Grant.

Categories of the State Portion of the GSA Foundation Level (\$6,119)

Districts Receive the Difference Between the Foundation Level and Their Local Resources Per Pupil

Equalization Formula Grant Per Pupil	Number of Entities	FY 17 GSA Formula Claim Amount	ADA Used in FY 17 Calculations	3-Year DHS Population Used in FY 17 Calculations
\$6,000 - \$6,119	0	\$0	0.00	\$0
\$5,000 - \$5,500	1	\$2,152,392	400.94	\$236
\$4,500 - \$5,000	29	\$273,808,253	58,794.26	\$54,964
\$4,000 - \$4,500	38	\$254,392,113	59,744.02	\$47,703
\$3,500 - \$4,000	76	\$292,255,031	78,394.19	\$54,963
\$3,000 - \$3,500	83	\$338,971,996	104,374.52	\$54,021
\$2,500 - \$3,000	99	\$636,564,914	232,695.09	\$130,196
\$2,000 - \$2,500	81	\$302,335,012	133,983.12	\$57,290
\$1,500 - \$2,000	95	\$275,006,347	159,627.26	\$71,445
\$1,000 - \$1,500	58	\$140,169,177	116,082.75	\$50,734
\$428.34 - \$1,000	54	\$265,101,253	452,524.24	\$333,343
Alternate Method	180	\$155,631,639	403,815.13	\$138,941
Flat Grant	58	\$14,517,542	66,594.23	\$13,124
ROE Programs & Labs	70	\$39,471,160	6,450.59	\$0
Totals	922	\$2,990,376,830	1,873,480.34	\$1,006,961

**Illinois State Board of Education
FY 15 and FY 17 Summary of State Portion of GSA Formula Grant
Funding Per Pupil Based on Full Claim Amounts**



It is important to remember that when the Foundation Level is discussed, it is a base funding level that districts achieve through a combination of state and local resources.

Supplemental Low-Income Grant

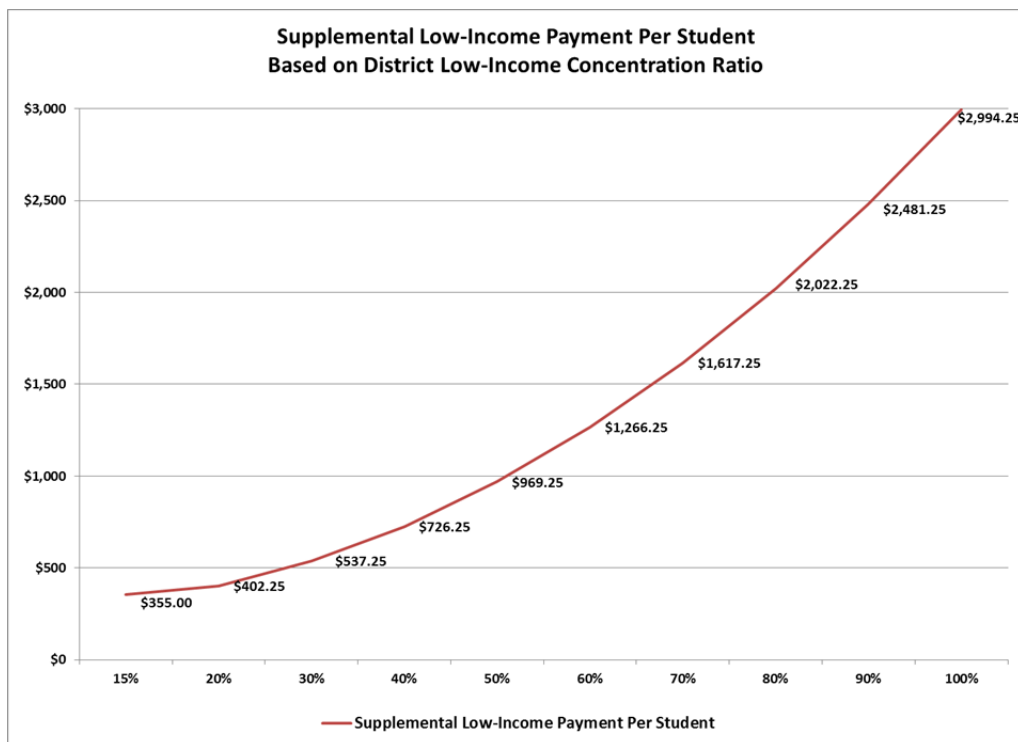
The second funding stream in GSA is the Supplemental Low-Income Grant. This funding mechanism awards grant amounts based on a district's percentage of low-income students. Low-income pupils are those students who receive services from the Illinois Department of Human Services through one of four programs: Medicaid, the Children's Health Insurance Program, Temporary Assistance for Needy Families or the Supplemental Nutrition Assistance Program.

The amount paid per low-income pupil increases as the percentage of students in a district who are classified as low-income increases. Districts where 15% or less of their pupils qualifying as low-income receive \$355 per pupil. All others receive a grant amount that varies based on the following formula:

$$(\% \text{ of Low-Income Students})^2 \times \$2,700 + \$294.25$$

This is a curvilinear formula that pays a greater amount per pupil as the percentage of low-income pupils increases. It is important to note that the Supplemental Low-Income Grant is not equalized, meaning it does not consider how wealthy a school district is in determining the amount of the grant awarded. Even the wealthiest districts receive some amount of Supplemental Low-Income Grant funding.

The graph on the following page illustrates how payments per low-income pupil increase as the percentage of the student population qualifying as low-income increases.

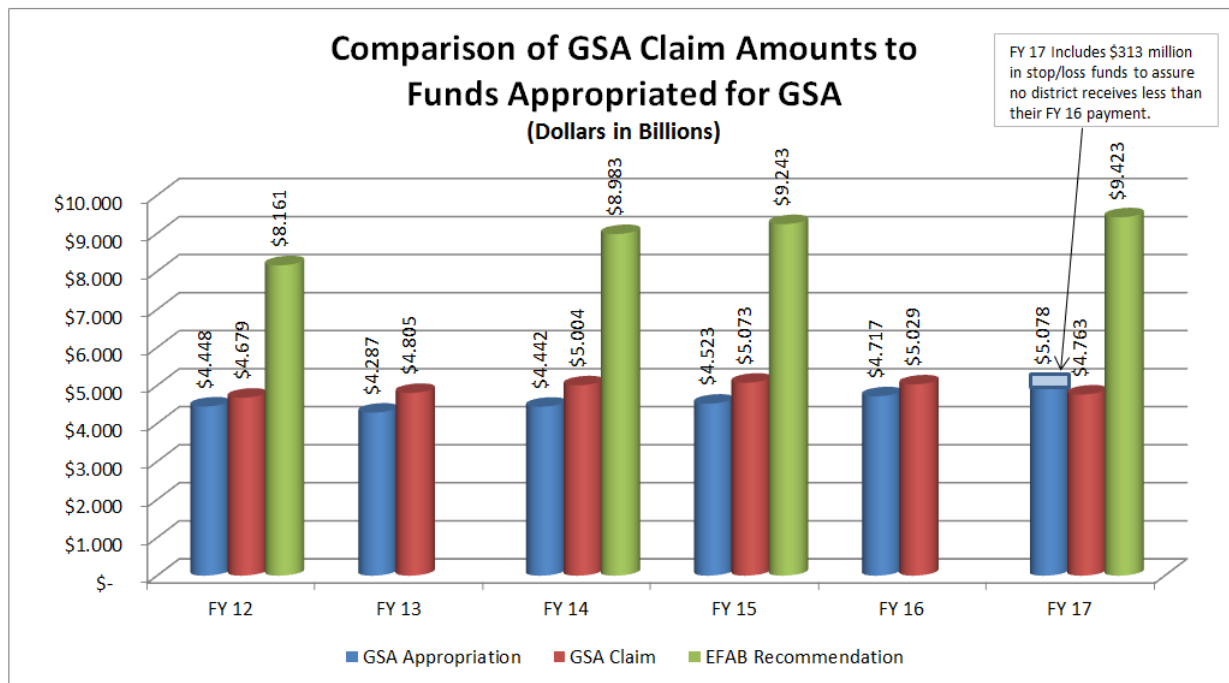


Over the past three fiscal years, we have observed an overall decline in the Supplemental Low-Income grant. This in part has been due to not only the decline in the low-income population served, but also due to the decline in the low-income concentration level. For example, since the last EFAB report was issued in 2015 the low-income population served has gone from 1,063,532 to 962,031. The state low-income concentration has gone from 57% to 52%. The decline in these components has led to the Supplemental Low-Income claim to decrease by \$237 million from FY 2015 to FY 2017. This decline resulted in the Supplemental Low-Income grant proportion of the total claim changing from a peak of 40% in FY 2015 to the approximately 37% of the claim that it is in FY 2017.

Past Failures to Fully Fund Both the Formula Grant and the Supplemental Low-Income Grant in GSA

The preceding is an explanation of how the GSA formulas are intended to work. However, FY 2016 marked the fifth consecutive year where the state has prorated or paid only a portion of the amount owed through GSA claims. From FY 02 – FY 16, appropriated funds were less than the amount required to fully fund the GSA claim, resulting in payments ranging from 87-99 percent of the amount that is statutorily owed to districts. The table on the following page provides a history of the underfunding of GSA for FYs 14-17. As illustrated, the shortfalls in funding became pronounced in FY 2012. We ask our policymakers to note that in each of these years that the state has failed to meet its obligations, school districts must continue to meet all of the statutory requirements imposed upon them. This situation should not be allowed to continue.

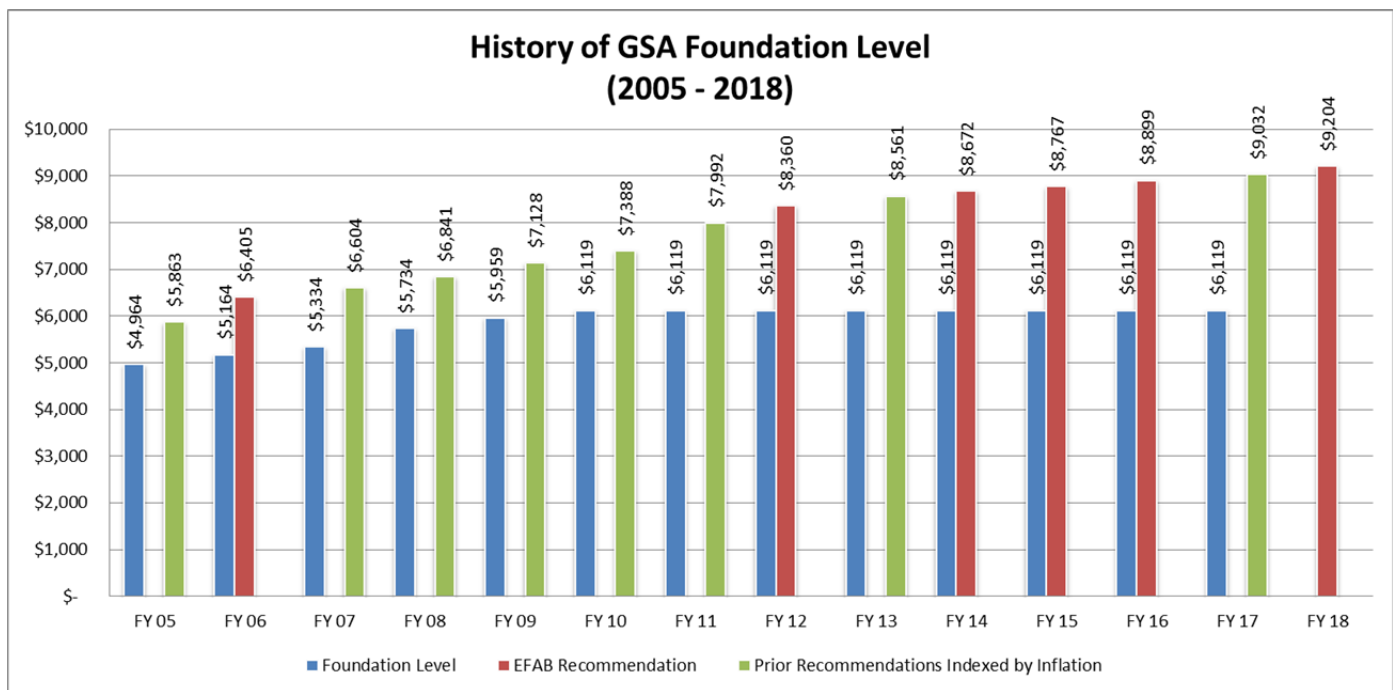
EFAB acknowledges that both the General Assembly and Governor Rauner have made efforts to increase funding in both FY 2016 and FY 2017. In FY 2016 a total of \$4.6 billion was appropriated for GSA with an additional \$85 million to limit district losses. However, while there was an increase GSA was not fully funded and once again resulted in proration. In FY 2017 \$5.078 billion was appropriated to fully fund GSA. In FY 2017 the General Assembly recognized that some districts would still suffer losses in GSA funding and instead took a creative approach to distribution of funds ensuring that no district would lose funds compared to FY 2016. Districts instead received the greater of FY 2016 net payments plus a proportional share of an equity grant or their FY 2017 gross claim as calculated. While we recognize these efforts, it is important to note that both increases in resources do not reflect the appropriate funding levels should the EFAB recommended foundation level have been adopted.



2016-17 EFAB Review of State Funding for Pre-K – 12th Grade Education in Illinois

The methodology used in creating past EFAB recommendations for Foundation Levels was created by Augenblick and Myers of Denver, Colo., in 2001 and is based on high-performing, low-spending school districts. It utilizes a number of district variables, including assessment, finances and demographics. The Augenblick and Myers report may be found at www.isbe.net/EFAB/archive/PDFs/fullreport.pdf. The current members of EFAB determined that asking ISBE staff to spend time updating the model to produce a new Foundation Level would be of limited value. The first EFAB recommendation, made in January 2001 for FY 2002, was for a \$4,560 Foundation Level. The General Assembly adopted that amount in enacting the FY 2002 budget. Since that year, the Foundation Level set in statute has fallen short of the recommendations of the EFAB. The graph below demonstrates the disparity between what EFAB members have recommended as adequate Foundation Levels and the Foundation Level set in statute for the last 12 fiscal years. In those years where EFAB was not convened, prior year recommendations have been inflated by the Employment Cost Index (ECI).¹

¹ The Employment Cost Index (ECI) is issued by the United States Department of Labor Bureau of Labor Statistics as a measure of the change in the cost of labor. A detailed description of the survey methods can be found in the Bureau of Labor Statistics at www.bls.gov/opub/hom/pdf/homch8.pdf. ECI was selected as the measure to index costs due to the availability of aggregate indices for State and Local Government Workers in Education Services and Elementary and Secondary Schools, which is more relevant than the general market basket of costs typically found in other inflation measures.



As this table demonstrates, there is a growing divergence between what EFAB recommends and what is approved in statute. Beyond that disparity, there is the reality that the state has failed for several years to fully fund the statutory requirements of the Formula Grant and the Supplemental Low-Income Grant. The impact has been most notable in Fiscal Years 2012-17. In FY 2012 appropriations fell short of the GSA claim by \$231 million and districts received 95 percent of the amounts they were owed. In FY 2013 the situation worsened with the funding shortfall climbing to \$518 million and claims paid at 89.2 percent. During FY 2014, the appropriated funds were \$562 million less than the amount needed and districts received only 88.7 percent of the amount owed to them. In FY 2015, despite an increase of \$80 million in GSA appropriations, the funding shortfall is \$551 million, resulting in payments of only 89 percent of the amount statutorily owed to districts. This continued in FY 2016 when the funding shortfall was \$397 million, resulting in claims paid at 92.1%. In FY 2017 GSA was fully funded ensuring that no district received less than their FY 2016 net payment including their loss limit grant, if applicable. District's received the greater of their 2016 net payment plus a proportional share of the equity grant or their gross FY 2017 GSA claim. For this report, EFAB elected to index the FY 2016 recommendation by two years of the ECI to produce a new Foundation Level recommendation. The ECI factors of 1.5% and 1.9%, which relate to the 2016 and 2017 EAV years respectively, were used to develop this recommendation. The result is a recommended Foundation Level in the amount of \$9,204.

EFAB Recommendation for Fiscal Year 2018

Based on a review of the current funding system -- and after considering testimony provided by education advocates -- EFAB makes the following recommendation for FY 2018:

I. Increase the Foundation Level to \$9,204

In FY 2016 EFAB recommended increasing the Foundation Level to \$8,899. EFAB directed ISBE staff to update this number with a measure of inflation. Applying two years of the ECI

to that figure results in a Foundation Level of \$9,204. If the Foundation Level had been set at \$9,204 in FY 2017, the cost to the state would be \$9.4 billion. That is \$4.6 billion more than the current appropriated amount of \$5.07 billion for GSA.

A Note on Funding Reform

Since the last EFAB report there has been increased focus on education funding in Illinois. The legislative attempts of Senate Bill 16, Senate Bill 1, Senate Bill 231, House Bill 828, and Senate Bill 3190 have been followed closely by the members of EFAB. In addition, EFAB has monitored alternative attempts to increase the GSA pool of funds such as the State Board's recommendation to collapse the Funding for Children grant money into GSA in order to increase the Foundation Level to closer resemble the EFAB recommended amount. As members of the General Assembly have recognized, given their recent efforts to review and discuss revising how the state sends funding to districts, distributing funds without considering local resources makes no sense. Distribution methods should in most cases consider local wealth and provide greater funding to districts with greater needs.

The members of EFAB have followed these discussions and appreciate the continued work by lawmakers and the education community to improve the adequacy of state education funding and to improve the equity in how those resources are distributed.

Conclusion

Article X, Section 1 of the Illinois State Constitution states in part, "The State has the primary responsibility for financing the system of public education." EFAB renews its commitment to advocating for the state to end its failure to meet its constitutional responsibilities to adequately fund public education. Increasing funding for basic education in Illinois will be a challenge, but it is a challenge we ask every policymaker and citizen to embrace. Certainly, the children of Illinois deserve no less.