



Illinois State Board of Education

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Gery J. Chico
Chairman

Christopher A. Koch, Ed.D.
State Superintendent of Education

December 30, 2014

MEMORANDUM

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

FROM: Sylvia Puente
Education Funding Advisory Board Chair 

SUBJECT: Report of the Education Funding Advisory Board

Pursuant to the requirements in Section 5/18-8.05(M) of the Illinois School Code [105 ILCS 5/18-8.05], the Education Funding Advisory Board (EFAB), in consultation with the Illinois State Board of Education, shall make recommendations to the General Assembly for the foundation level in General State Aid (GSA) and for the supplemental GSA grant level for districts with high concentrations of children from poverty.

This report, dated January 2015, fulfills the EFAB's statutory obligation to make recommendations for state fiscal year 2016.

I hereby submit the attached report of EFAB.

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

cc: The Honorable Pat Quinn, Governor
Tim Anderson, Secretary of the Senate
Tim Mapes, Clerk of the House
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 2015

Recommendations

EFAB Recommendations for Fiscal Year 2016

Based on a review of the current funding system -- and after considering testimony provided by education advocates -- EFAB makes the following recommendations for FY 2016:

I. **Increase the Foundation Level to \$8,899**

In FY 2013 EFAB recommended increasing the Foundation Level to \$8,672. 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 \$8,899. If the Foundation Level had been set at \$8,899 in FY 2015, the cost to the state would be \$9.5 billion. That is more than double the current appropriated amount of \$4.5 billion for GSA.

II. **Appropriate \$250,000 to Develop an Alternative Model for Determining Adequate Education Funding Levels**

Charge the members of EFAB with oversight of a \$250,000 appropriation for the study and development of a new model for determining adequate funding levels for education. The current Augenblick and Myers model was established in 2001 and merits updating. EFAB would also like to see additional methodologies, such as the professional judgment or evidence-based method of determining adequate funding levels, be considered by policymakers and asks that they be given the flexibility to choose which model would be most effective. Illinois would benefit from a survey of the best practices in other states.

The first of these recommendations would require \$5 billion in additional funding in FY 2015, or more than 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. 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 finds that the state is not adequately funding education and that the current Foundation Level is evidence of that. In addition, the state is not meeting the current statutory requirements of the General State Aid (GSA) formulas. FY 2015 marks the fourth consecutive year of severe underfunding. In our current fiscal year, the state has failed to meet its statutory obligations to school districts by \$551 million. This failure to fully fund the GSA claim and to subsequently raise the Foundation Level is unacceptable. 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.

The second recommendation would require an appropriation in the FY 16 budget for funding to develop a new model that would determine adequate education funding amounts in future years. The subject of how to distribute current state education dollars has been a welcome subject of debate in recent years. However, there needs to be additional discussion about what constitutes an adequate funding level. A satisfactory model is still necessary to regularly inform the state of where appropriations should be in order to provide adequate funding for all children, thus our second recommendation as listed above. Currently EFAB is required to use a successful school district model that considers the actual spending amounts of districts that are low-spending and high achieving, but the state and EFAB would benefit from information from other models and two possibilities have been discussed in recent years. The professional judgment model recognizes base education costs and then adds to that the cost of educating students with additional needs, often relying on education experts to determine these costs. The evidence-based model relies on determining tested research practices, assigning a cost to those practices and summarizing the cost of those practices for school districts and the state. These models could be used in place of or in addition to the successful schools model to determine an adequate funding amount in future years.

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.

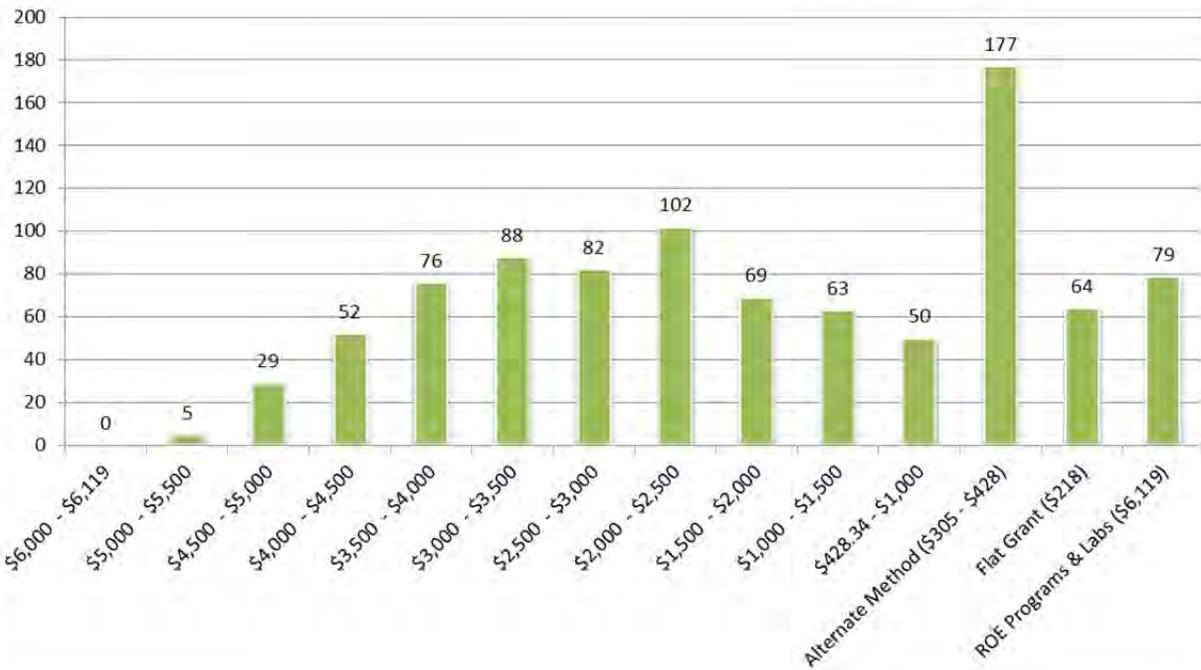
For each of the 857 public school districts in operation in FY 2015, it is possible to compute local wealth as a measure of revenue from property taxes and corporate personal property replacement taxes. Given that every district has some amount of local wealth, no public school district receives the 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 2015. For informational purposes, the table also lists the Average Daily Attendance figure used in the FY 2015 calculation of the Formula Grant and also the three-year average of Department of Human Services (DHS) service populations used in the FY 2015 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
Their Local Resources Per Pupil**

Equalization Formula Grant per Pupil	Number of Entities	FY 15 GSA Formula Claim Amount	ADA Used in FY 15 Calculations	3-Year DHS Population Used in FY 15 Calculations
\$6,000 - \$6,119	0	\$ -	-	-
\$5,000 - \$5,500	5	\$ 54,228,562	10,700	11,256
\$4,500 - \$5,000	29	\$ 154,879,232	33,517	29,906
\$4,000 - \$4,500	52	\$ 279,709,622	66,182	57,337
\$3,500 - \$4,000	76	\$ 373,375,899	99,711	71,422
\$3,000 - \$3,500	88	\$ 271,525,352	83,876	45,488
\$2,500 - \$3,000	82	\$ 454,552,344	162,964	83,501
\$2,000 - \$2,500	102	\$ 479,324,812	212,499	117,731
\$1,500 - \$2,000	69	\$ 197,960,842	113,214	55,284
\$1,000 - \$1,500	63	\$ 179,214,179	139,504	62,997
\$428.34 - \$1,000	50	\$ 421,908,026	478,207	363,886
Alternate Method (\$305 - \$428)	177	\$ 154,231,398	404,608	151,333
Flat Grant (\$218)	64	\$ 17,785,055	81,583	21,214
ROE Programs & Labs (\$6,119)	79	\$ 34,741,540	5,678	-
Totals	936	\$ 3,073,436,862	1,892,241	1,071,355

**Illinois State Board of Education
FY15 Summary of the 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

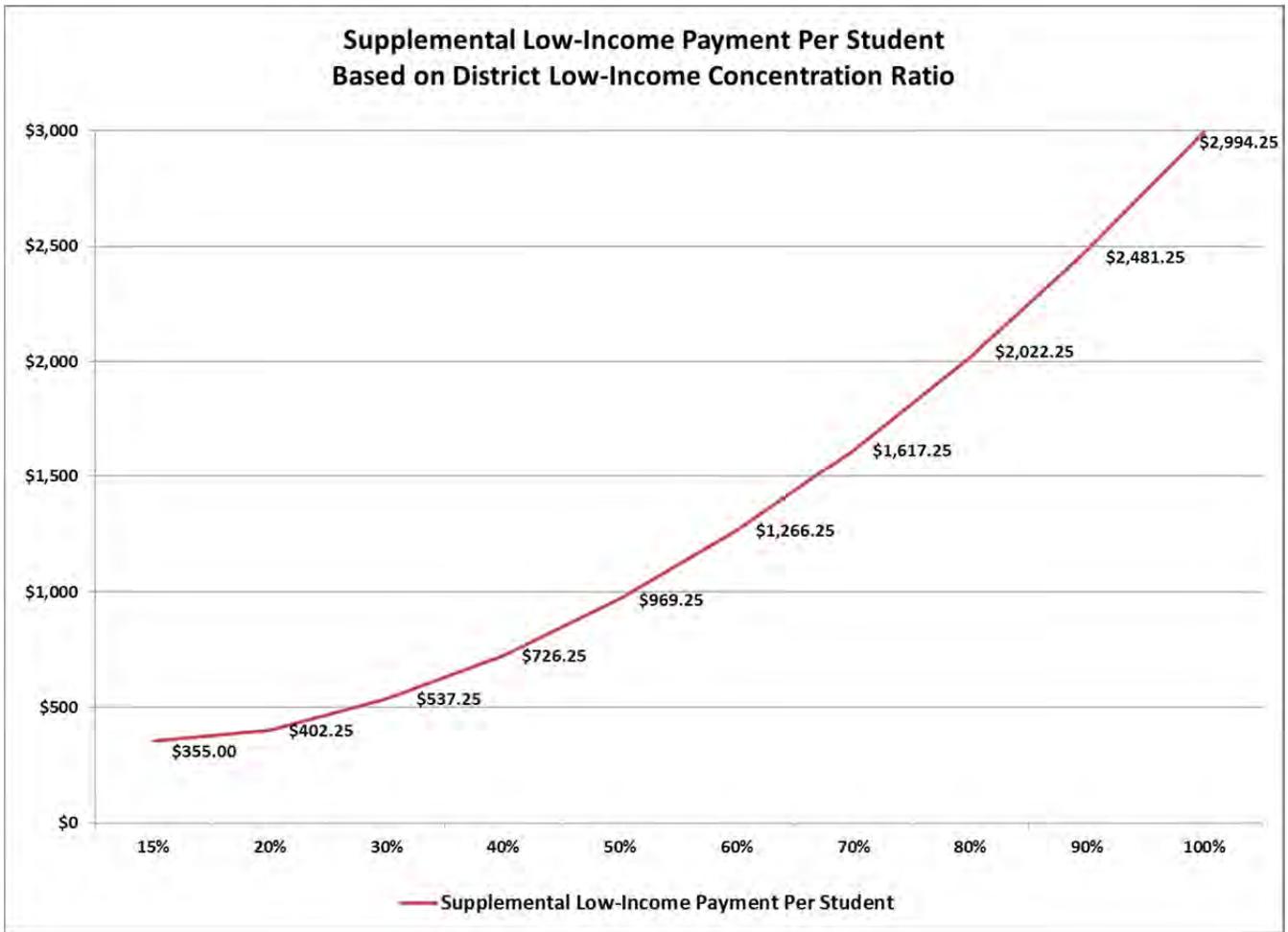
The second funding stream in GSA is the Supplemental Low-Income Grant. This funding mechanism awards grant amounts based on a district's percentage of low-income students. Low-income pupils are those students who receive services from the Illinois Department of Human Services through one of four programs: 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 with less than 15% 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.

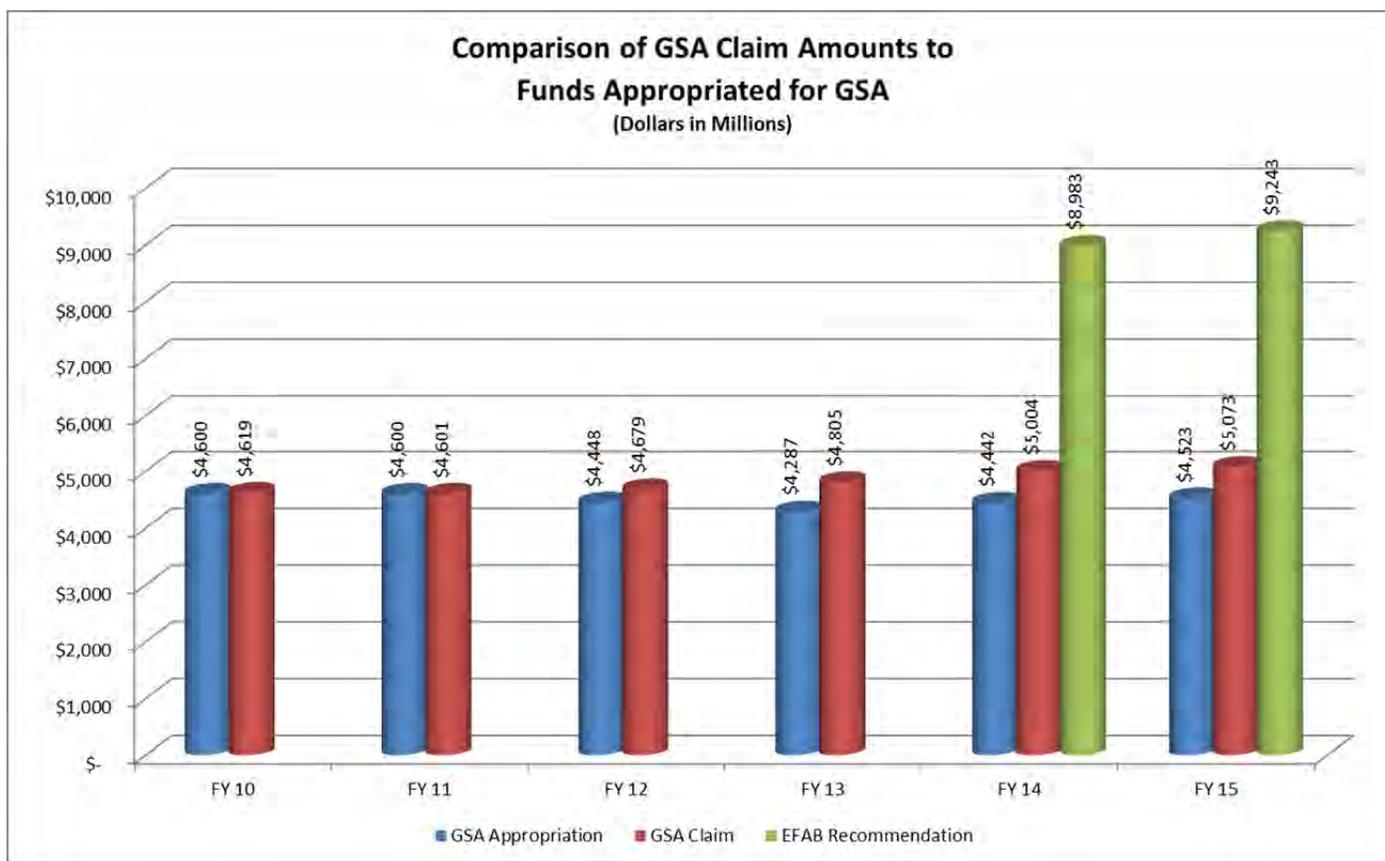
The graph on the following page illustrates how payments per low-income pupil increase as the percentage of the student population qualifying as low-income increases.



The cost of the Supplemental Low-Income Grant is growing as the number of low-income pupils increases and as they make up a larger proportion of the overall student population. Even as the low-income student population has grown, the total student population statewide has declined slightly.

Failure 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 2015 marks the fourth consecutive year where the state has prorated or paid only a portion of the amount owed through GSA claims. Payments are made in this year at only 89 percent of the amount that is statutorily owed to school districts. The table on the following page provides a history of the underfunding of GSA since FY 2010. As illustrated, the shortfalls in funding became pronounced in FY 2012 and have continued to this day. 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.

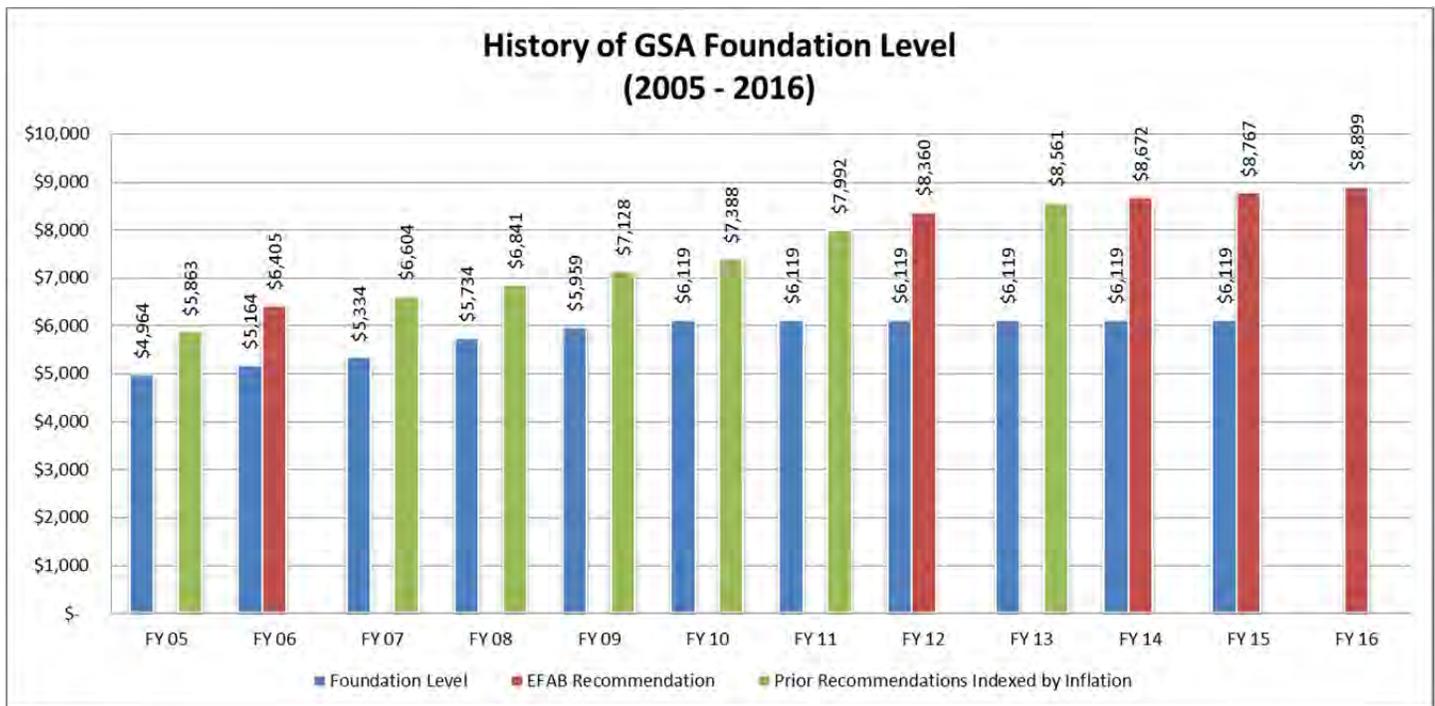


At the risk of having our initial recommendation ignored, EFAB is compelled to note that if underfunding is to continue, then the policy of proration should be ended. When underfunding was a marginal amount of the total claim, proration was viewed as an acceptable method for implementing a funding shortfall. But we are now in the situation of implementing shortfalls that total more than half a billion dollars. And using proration to implement that shortfall impacts our most needy districts. Imagine a year in which the state appropriates funding sufficient to cover only 90 percent of the GSA claim and how that would affect two districts -- one heavily reliant upon state resources, which constitute 60 percent of its budget, and another less reliant upon the state and receiving only 10 percent of its total budget from the state. Each district may lose 10 percent of its GSA claim. But the district dependent upon the state loses 6 percent of its total budget. The wealthier district's 10 percent cut in GSA results in only a 1 percent cut in its total budget. So a seemingly fair method of dealing with a funding shortfall ultimately has a more devastating effect on our school districts that are least capable of absorbing funding losses. For this reason, if the resources cannot be found in FY 2016 to fully fund GSA, the members of EFAB implore our lawmakers and the Governor to find an alternative to the policy of proration.

2014-15 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 recommendation 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 11 fiscal years. In those years where EFAB was not convened, prior year recommendations have been inflated by the Employment Cost Index (ECI).¹



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 2012-15. 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.

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.

For this report, EFAB elected to index the FY 2015 recommendation by two years of the ECI to produce a new Foundation Level recommendation. The ECI factors of 1.1% and 1.5%, which relate to the 2012 and 2013 EAV years respectively, were used to develop this recommendation. The result is a recommended Foundation Level in the amount of \$8,899.

EFAB Recommendations for Fiscal Year 2016

Based on a review of the current funding system -- and after considering testimony provided by education advocates -- EFAB makes the following recommendations for FY 2016:

I. **Increase the Foundation Level to \$8,899**

In FY 2013 EFAB recommended increasing the Foundation Level to \$8,672. 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 \$8,899. If the Foundation Level had been set at \$8,899 in FY 2015, the cost to the state would be \$9.5 billion. That is more than double the current appropriated amount of \$4.5 billion for GSA.

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A Note on Senate Bill 16

Much of the focus on education funding in Illinois in the past year has been related to Senate Bill 16 and how existing education funds are distributed. The members of EFAB have followed these discussions and appreciate this attempt by lawmakers to improve equity. However, there needs to be additional discussion about what constitutes an adequate funding level. A satisfactory model is still necessary to regularly inform the state of where appropriations should be in order to provide adequate funding for all children, thus our second recommendation as listed above.

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 our constitutional goals and to reminding the state of its continued failure 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.