

# Illinois Education Funding Recommendations

A Report Submitted to the  
**Illinois General Assembly**

by the  
**Education Funding Advisory Board**

**January 2013**

## **Executive Summary**

The Education Funding Advisory Board makes the following recommendations to the General Assembly and the Governor for Fiscal Year 2014:

- I. Increase the Foundation Level to \$8,672
- II. Increase the Poverty Grant Payment Range from \$355 - \$2,994 to \$490 - \$4,129
- III. Continue Study of the GSA Formulas and Consider Other Models for Determining Adequate Education Funding Levels
- IV. Provide ISBE with Adequate Resources

The first of these recommendations would require \$4.7 billion in additional funding in Fiscal Year 2014 or more than double the current appropriation. Meeting the other recommendations would require additional funding beyond that amount. While EFAB recognizes the dire financial position of the State of Illinois, the lack of adequate funding for basic education is a failure of the state's moral and fiduciary responsibilities. 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 and unchanged Poverty Formula parameters are evidence of that. Beyond that, the state is not even meeting the current statutory requirements of the GSA formulas. Underfunding the GSA grants by \$518 million in the current fiscal year demonstrates that the state has not attempted to meet its own goals – and EFAB finds those goals to be set far too low. The failure to raise the Foundation Level and to increase the amount of Poverty grant awards is unacceptable. Providing adequate resources to all children in Illinois is a moral imperative that 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  
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Mr. Dean Clark  
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Hazel Crest School District 152 ½

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### 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% 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 and supplemental funding stream is for at-risk students and is often referred to as the Poverty 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.

#### 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 \$4,000 in local wealth per pupil would receive the difference between the Foundation Level and its local wealth, or \$2,119 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% of 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.”

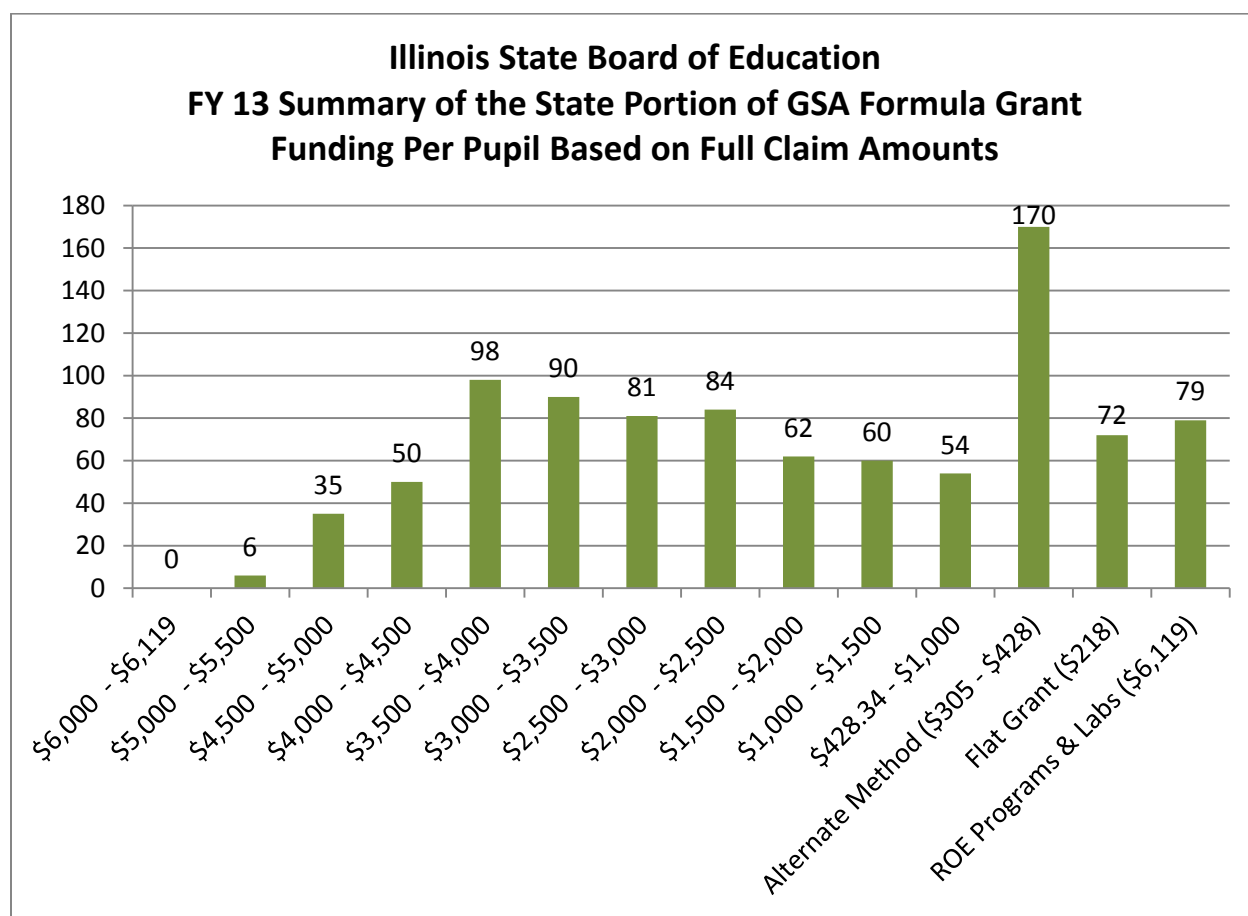
Only programs operated by the Regional Offices of Education (ROE) and the two Laboratory School districts operated by the Illinois State University in Bloomington and the University of Illinois in Urbana receive the full Foundation Level of \$6,119 per student. The reason for this is that ROE programs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

For each of the 862 public school districts in operation in Fiscal Year 2013, 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 Fiscal Year 2013. For informational purposes, the table also lists the Average Daily Attendance figure used in the Fiscal Year 2013 calculation of the Formula Grant and also the 3-year average of DHS service populations used in the Fiscal Year 2013 calculation of the Poverty 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 13 GSA Formula Claim Amount	Students in Average Days of Attendance (ADA)	3-Year DHS Population Used in FY 13 Calculations
\$6,000 - \$6,119	0	-	-	-
\$5,000 - \$5,500	6	\$ 47,430,179	9,127	8,801
\$4,500 - \$5,000	35	\$ 181,349,031	38,653	32,492
\$4,000 - \$4,500	50	\$ 193,000,957	45,474	33,925
\$3,500 - \$4,000	98	\$ 406,725,246	108,731	70,201
\$3,000 - \$3,500	90	\$ 363,817,167	110,665	67,360
\$2,500 - \$3,000	81	\$ 299,669,141	110,333	60,132
\$2,000 - \$2,500	84	\$ 366,687,562	163,337	63,572
\$1,500 - \$2,000	62	\$ 245,557,003	135,048	67,214
\$1,000 - \$1,500	60	\$ 586,328,202	489,438	382,071
\$428.34 - \$1,000	54	\$ 90,386,355	137,746	48,176
Alternate Method	170	\$ 171,012,085	443,491	145,980
Flat Grant	72	\$ 23,485,251	107,731	26,821
ROE Programs & Lab Schools	<u>79</u>	<u>\$ 35,439,963</u>	<u>5,792</u>	<u>-</u>
Totals	941	\$ 3,010,888,141	1,905,565	1,006,746



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.

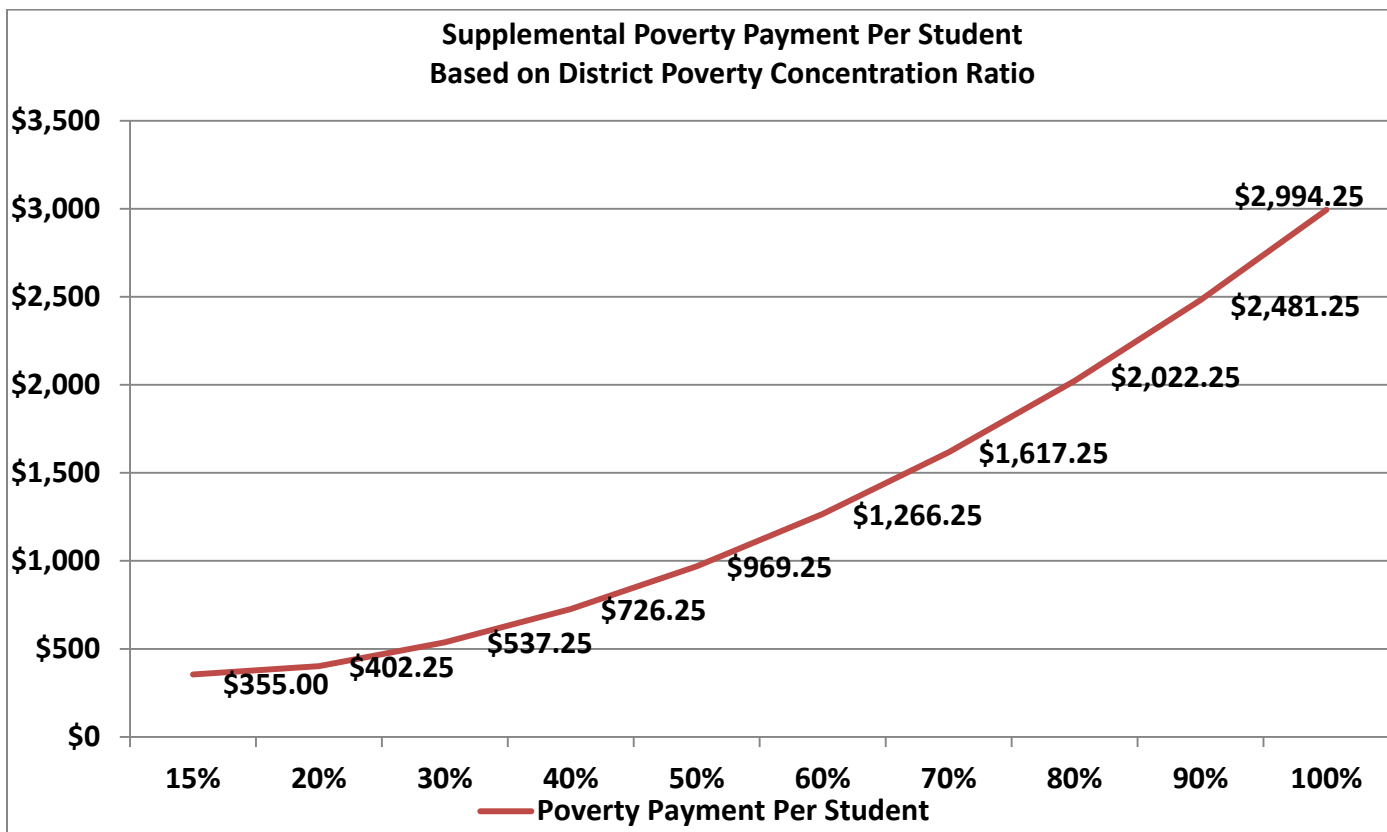
### Poverty Grant

The second funding stream in GSA is the Poverty 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, TANF or Food Stamps.

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% 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 Poverty 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 Poverty Grant funding.

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

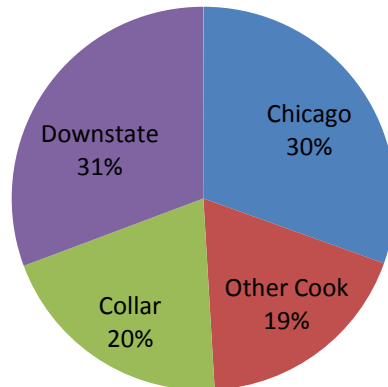


The cost of the poverty grant is growing as the number of low-income pupils increases and as they make up a larger proportion of the overall student population. Even as the low-income student population has grown, the total student population statewide has declined slightly. The growth in low-income students has taken place in all geographic regions of the state, as the table below demonstrates.

**Distribution of Low-Income Students and Poverty Grant by Geographic Region  
FY 2009 – FY 2011  
(Dollars in Millions)**

Geographic Region	FY 2011		FY 2012		FY 2013		Change FY 11 - FY 13	
	Low-Income Population	Poverty Grant Claim	Low-Income Population	Poverty Grant Claim	Low-Income Population	Poverty Grant Claim	Change in Population	Percentage Change
Chicago	296,940	\$ 667.0	317,093	\$ 740.9	324,382	\$ 796.1	27,442	9.2%
Other Cook	151,244	\$ 211.8	184,553	\$ 268.9	197,543	\$ 315.5	46,299	30.6%
Collar	149,535	\$ 144.0	196,039	\$ 190.9	214,903	\$ 243.9	65,368	43.7%
Downstate	276,815	\$ 326.2	312,437	\$ 366.6	326,763	\$ 418.2	49,948	18.0%
Total	874,534	\$ 1,349.0	1,010,122	\$ 1,567.3	1,063,591	\$ 1,773.7	189,057	21.6%

## Distribution of Low Income Students 2013



### Failure to Fully Fund Both the Formula Grant and the Poverty Grant in GSA

The preceding is an explanation of how the GSA formulas are intended to work. However, in recent years funding for GSA, like many state programs, has fallen short. District claims are calculated according to the formulas as described but the dollars necessary to fully fund those claims are not always available and in the past two years the difference between the cost of the claim and the funds appropriated for GSA has grown dramatically. In Fiscal Year 2012, appropriated funds fell \$231 million short of the amount necessary to fund the claim. The result was that districts received 95% of the amount owed to them per statute. In Fiscal Year 2013 the situation grew worse, with appropriated funds falling \$518 million short of the amount necessary to fully fund the GSA claim, resulting in payments at just 89% of the amount owed to districts.

Prorating or paying only a portion of the amount owed to each district is a policy of default; statute does not specify what to do in the case of a funding shortfall. Policy makers do have the option of revising statute and altering the calculation requirements of the formulas. For example, had the Foundation Level been lowered to an amount the appropriations could actually afford, it would have been set at \$5,734 in Fiscal Year 2013 rather than \$6,119. That \$5,734 amount was the Foundation Level set in statute in Fiscal Year 2008. An analysis of districts based on wealth per pupil and the proportion of low-income pupils demonstrates that many of the poorest districts would have benefitted from a policy of lowering the Foundation Level rather than prorating payments. Districts in the lowest 20<sup>th</sup> percentile of Equalized Assessed Valuation per pupil would have received almost \$40 million more had the Foundation Level been lowered. Similarly, districts in the 80<sup>th</sup>-100<sup>th</sup> percentile of the proportion of students qualifying as low-income would have gained \$54 million had the Foundation Level been lowered, rather than prorating payments.

However, lowering the Foundation Level alone may not be an optimal policy. Flat grant districts, the wealthiest in terms of the GSA Formula grant, receive \$218 per pupil, regardless of the amount of the Foundation Level. And lowering the Foundation Level has a minimal effect on Alternate districts as they receive only 5-7% of the Foundation Level. In addition, altering the Foundation Level implies a policy of



funding the Poverty Grant first, as its cost must be calculated in order to determine the dollars available for the Formula Grant. The Poverty Grant has driven all of the growth in the GSA claim in recent years, creating questions about the balance between the two formulas and the best method of distributing limited state education funds.

### **2012-2013 EFAB Review of State Funding for Pre-K – 12<sup>th</sup> Grade Education in Illinois**

New EFAB members were named in the fall of 2012 and meetings were held on October 31 and December 4 to discuss the status of education funding in Illinois. Members heard testimony from Illinois State Board of Education staff concerning how the current mechanics of the formula work and how underfunding the formula affects districts. In addition, advocates from several education organizations provided testimony concerning the shortfall in state funding and whether changes to the two grant formulas should be considered.

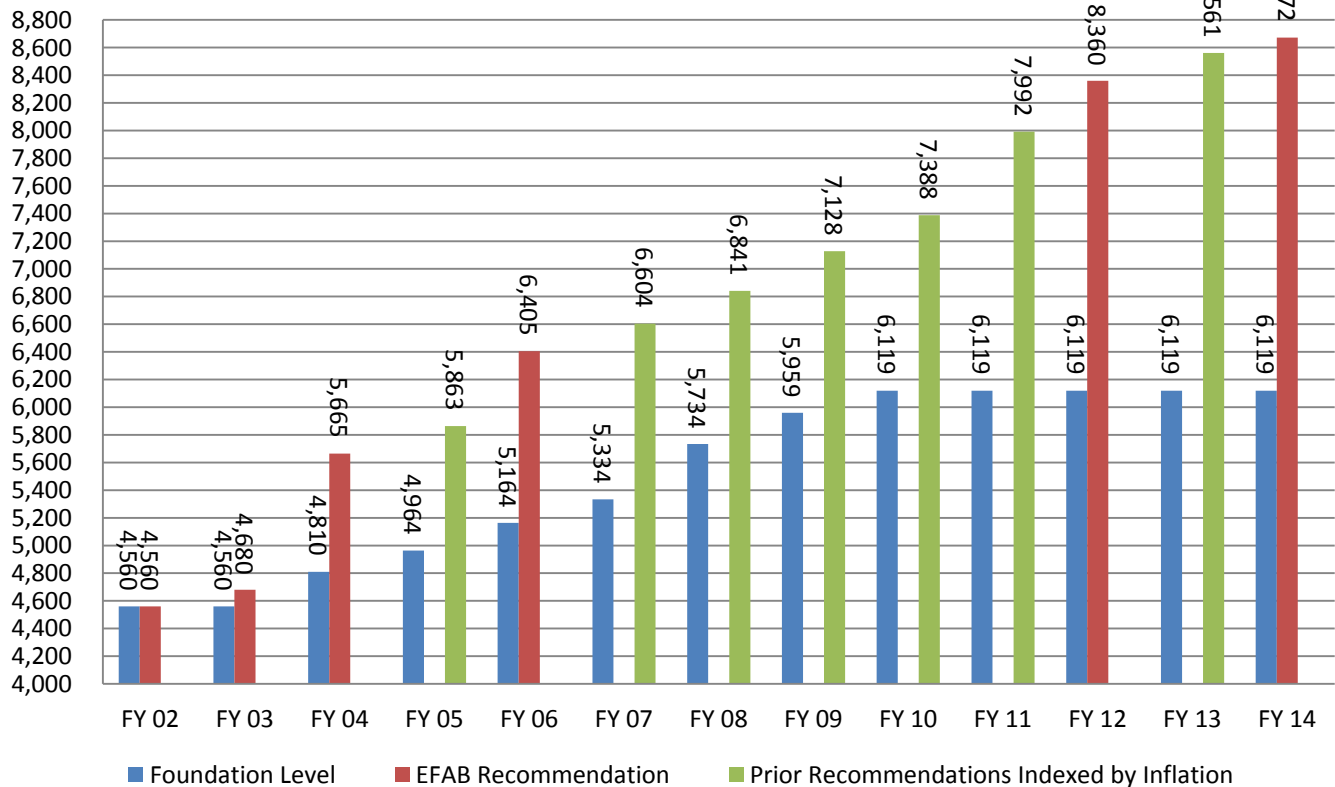
During its December meeting, the members of EFAB voted unanimously to endorse the guiding principles that were adopted by the previous iteration of the board. Those principles are as follows:

1. Ensure the foundation level is sufficient to provide a comprehensive, high-quality education that prepares every student in Illinois to flourish in a global society.
2. Guarantee that the state share of public school funding provides a reliable, predictable, timely, and adequate funding stream.
3. Ensure that categorical and other targeted funds (including, but not limited to poverty grants, special education, transportation, English language learning, and Early Childhood Education) are sustained year to year and are sufficient to meet the needs of students.
4. Eliminate the gap of real educational opportunities for all students in Illinois by reducing funding disparities to establish functional equity.

The methodology used in creating past EFAB recommendations for Foundation Levels was created by Augenblick and Myers of Denver, Colorado in 2001 and is based on high performing, low spending school districts, and 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](http://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 Fiscal Year 2002, was for a \$4,560 Foundation Level. The General Assembly adopted that amount in enacting the Fiscal Year 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. In those years where EFAB was not convened prior year recommendations have been inflated by the Employment Cost Index (ECI).

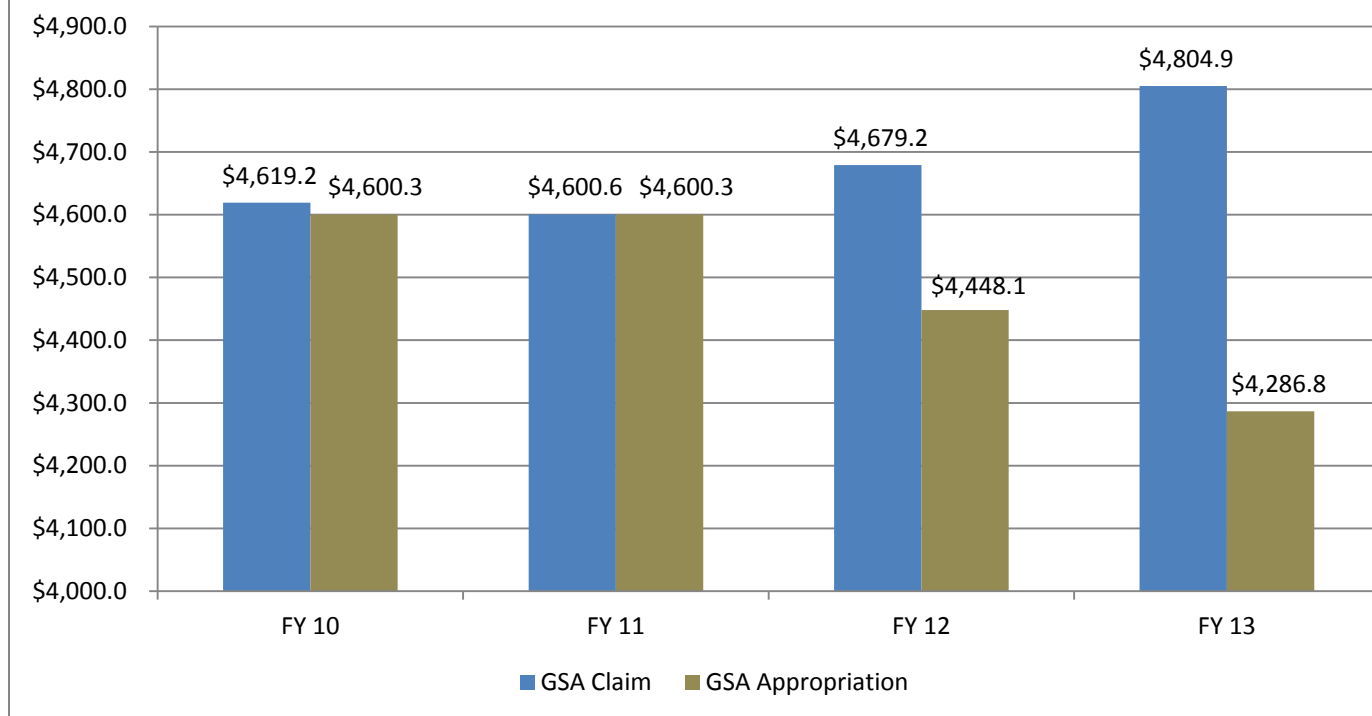
## History of GSA Foundation Level



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 four consecutive years to fully fund the statutory requirements of the Formula Grant and the Poverty Grant. The impact has been most notable in the current and the prior fiscal year. During Fiscal Year 2012, the appropriated funds were \$231 million less than the amount needed and districts received only 95% of the amount owed to them through the existing GSA requirements. In Fiscal Year 2013, the situation has grown even worse with appropriated funds \$518 million less than the amount required to fully fund the GSA claim, resulting at payments of only 89% of the amount statute says the districts are owed. The chart on the following page depicts the shortfalls in funding for GSA in recent years.

For this report, EFAB elected to index the Fiscal Year 2012 recommendation by two years of the ECI to produce a new Foundation Level recommendation. That produces a recommended Foundation Level in the amount of \$8,672.

### Comparison of GSA Claim Amounts to Funds Appropriated for GSA Dollars in Millions



EFAB also reviewed the parameters of the Poverty Grant and found that formula warrants an update. The current formula parameters were first implemented beginning in Fiscal Year 2004 and have not been revised since that time. Researchers at Voices for Illinois Children brought academic research to the members' attention that notes the heightened cost of adequately educating at-risk children. They cited research findings that at-risk children may require 150% of typical base education costs or even more funding to properly educate. That research may be found in the appendices of the 2012 EFAB report, located here: [http://www.isbe.net/EFAB/pdf/Appendix\\_V\\_fy11.pdf](http://www.isbe.net/EFAB/pdf/Appendix_V_fy11.pdf). The current parameters of the Poverty Grant may not provide this necessary amount of funding.

## **EFAB Recommendations for Fiscal Year 2014**

Based on a review of the current funding system, and after considering testimony provided by education advocates, EFAB makes the following recommendations for Fiscal Year 2014:

### **I. Increase the Foundation Level to \$8,672**

The most recent recommended Foundation Level, which was determined according to the parameters of the Augenblick & Myers adequacy model of successful and efficient schools, was \$8,360. The criteria for the adequacy model are as follows:

- Districts that are typical of their cohort are selected. For elementary and unit districts this is defined as  $\frac{1}{2}$  standard deviation of the mean. For high school districts this is 1 standard deviation of the mean.
- Successful districts are those with 67% or more of students meeting or exceeding test standards.
- Efficient districts are those where the Operating Expenditure per Pupil (OEPP) is less than the predicted OPEPP determined by a regression of education factors.
- A Regional Cost Index, the McMahon Index, is applied to expenditures.

Increasing the Fiscal Year 2012 recommended Foundation Level by two years of the ECI results in a recommended Foundation Level of \$8,672. If the Foundation Level is set at \$8,672 in Fiscal Year 2014, the forecast cost to the state would be \$9 billion. That is more than double the current appropriated amount of \$4.3 billion for GSA.

### **II. Increase the Poverty Grant Payment Range from \$355 - \$2,994 to \$490 - \$4,129**

The current Poverty Grant formula has not been revised since it was first implemented in Fiscal Year 2004. Therefore, EFAB recommends that those parameters be inflated by the ECI annually to recognize the rising cost of educating at-risk children. Applying the ECI annually would increase the range of payments per low-income pupil to \$490 for districts with 15% or fewer low-income students and \$4,129 for districts where 100% of the students are classified as low-income.

### **III. Continue Study of the GSA Formulas and Consider Other Models for Determining Adequate Education Funding Levels**

In 2012 EFAB noted the need for additional study of the GSA formula as well as categorical grants to determine if those are the best methods for distributing state funds. At that time EFAB noted three areas that warrant continued study: (1) the impact of the PTELL adjustment; (2) the definition of a successful school district; and (3) how to measure and address poverty. EFAB again notes that these and other areas of state education funding deserve additional study and review. In the current budget climate of shrinking resources and growing needs, this is all the more necessary. EFAB finds the current policy of prorating GSA and other education grant payments reprehensible. The members

encourage the state to devote resources to the study and development of a new model for determining adequate funding levels for education and to then support those revised funding levels. The current Augenblick & Myers model was developed in 2001 and merits updating. EFAB would also like to see additional methodologies, such as the evidence-based method of determining adequate funding levels, to be considered by policy makers. Illinois would benefit from a survey of the best practices in other states.

#### **IV. Provide ISBE with Adequate Resources**

The members of EFAB are grateful to ISBE staff for their assistance in reviewing the mechanics of GSA and how it impacts school districts. At the same time the members recognize that ISBE is not properly staffed to provide the in-depth study of education funding that this issue deserves. ISBE also lacks the resources necessary to develop new adequacy models.

### **Conclusion**

While EFAB recognizes the dire financial position of the State of Illinois, the lack of adequate funding for basic education is a failure of the state's moral and fiduciary responsibilities. 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 and unchanged Poverty Formula parameters are evidence of that. Beyond that, the state is not even meeting the current statutory requirements of the GSA formulas. Underfunding the GSA grants by \$518 million in the current fiscal year demonstrates that the state has not attempted to meet its own goals – and EFAB finds those goals to be set far too low. The failure to raise the Foundation Level and to increase the amount of Poverty grant awards is unacceptable. Providing adequate resources to all children in Illinois is a moral imperative that 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.