

Understanding Funding Distribution Models

Developed for the
Governor's Funding Reform Commission
September 21, 2016



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What do we mean by “Distribution Model”?

- Defining Adequacy and Equity are important conceptual guiding principles.
- But unless we have ~\$3 - \$5 billion more to invest in education next year, it won't happen immediately.
- This committee will need to make choices on what factors to take into consideration when deciding how to give out funds - and how to take them into consideration.
- So the pragmatic questions to consider are: How do we distribute the limited resources we have and any new revenue that becomes available? And what type of Hold Harmless is reasonable to transition to the new formula?

CURRENT SCHOOL FUNDING SYSTEM

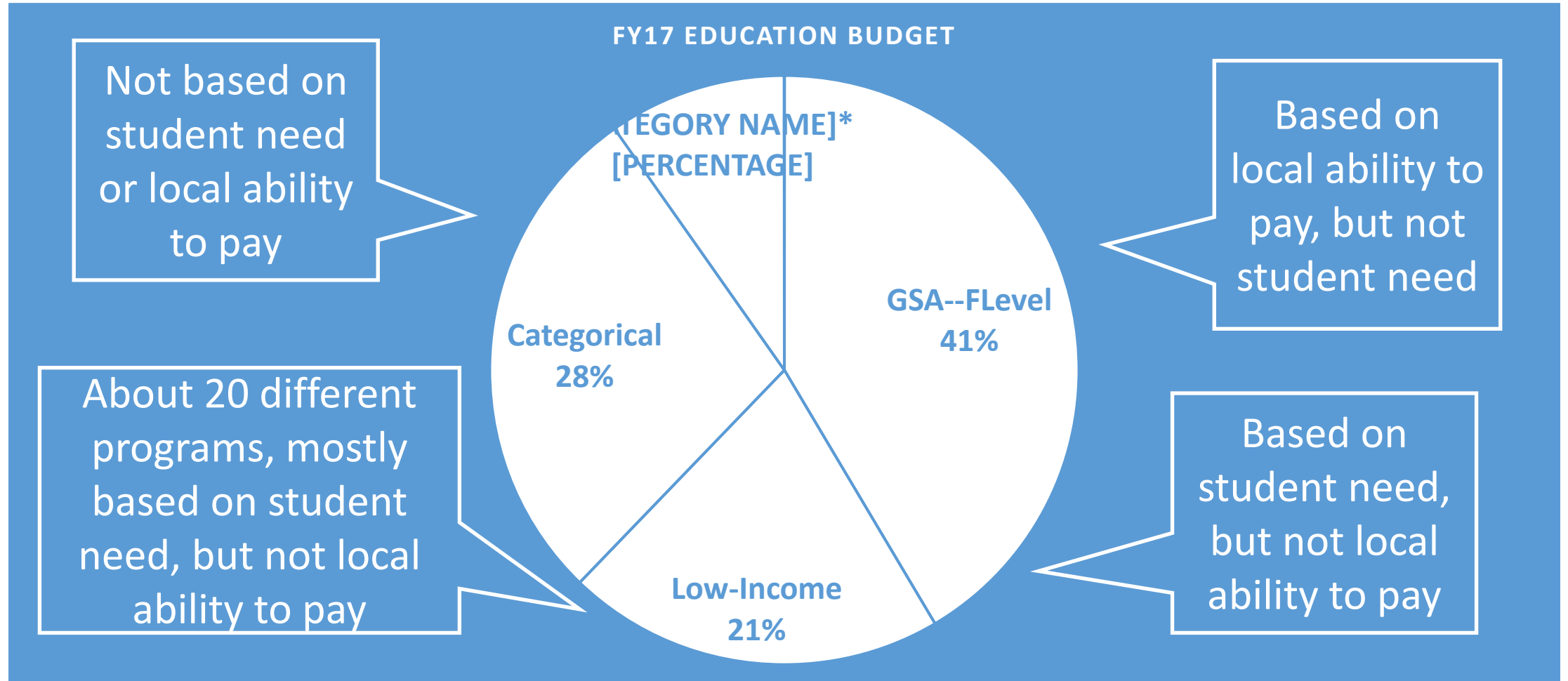
GENERAL STATE AID—FOUNDATION LEVEL GRANTS

LOW-INCOME GRANTS

CATEGORICALS

TEACHER PENSIONS

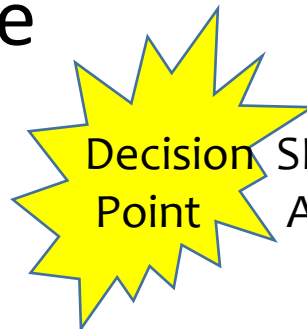
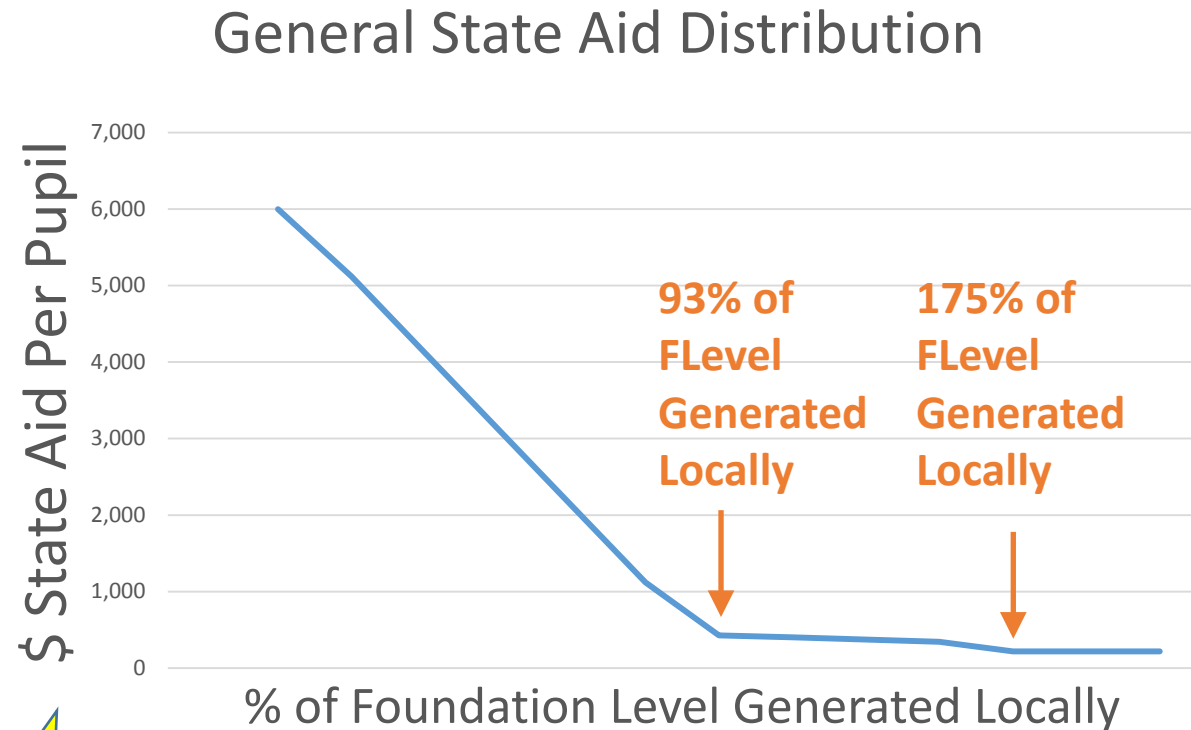
OVERVIEW OF PK-12 BUDGET



*TRS includes the in-kind, normal cost contribution that the state makes for teacher pensions outside of CPS.

GENERAL STATE AID— FOUNDATION LEVEL

- FLevel set in statute based on available revenue.
- This is an equalization grant. The formula calculates how much local revenue a district can generate and fills in the gaps so everyone reaches the FLevel.




Decision
Point

SHOULD THERE BE A MINIMUM AMOUNT OF STATE AID THAT ALL DISTRICTS GET, LIKE A FLAT GRANT?

CALCULATING LOCAL RESOURCES

- Assumed tax rates: 3.0 for Unit, 2.3 for Elementary, 1.05 for HS
- PTELL adjustment (AKA Double Whammy adjustment)
 - “Whammy” #1: Tax caps prevent districts from levying more than they did last year plus inflation.
 - “Whammy” #2: The formula used to apply the assumed tax rate to all EAV, regardless of how much a district couldn’t access.
 - The Double Whammy Adjustment corrects for that.



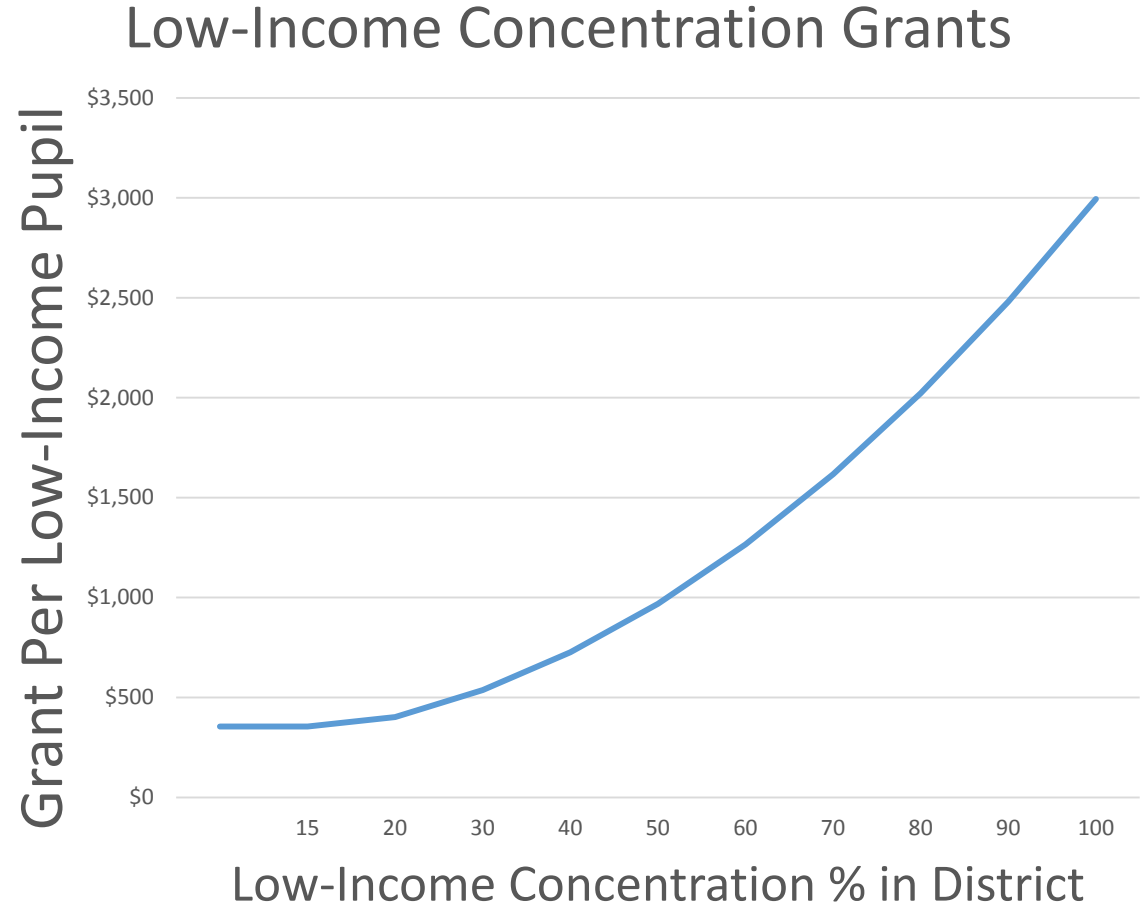
Decision
Points

HOW WILL YOU DETERMINE LOCAL CAPACITY?

HOW WILL YOU HANDLE TAX CAPS IN YOUR
CALCULATION OF LOCAL WEALTH?

LOW-INCOME CONCENTRATION GRANTS

- Part of GSA Formula, but calculated independently of Foundation Level.
- The grant provides between \$355 and almost \$3,000 per pupil, depending on low-income concentration.



Decision
Point

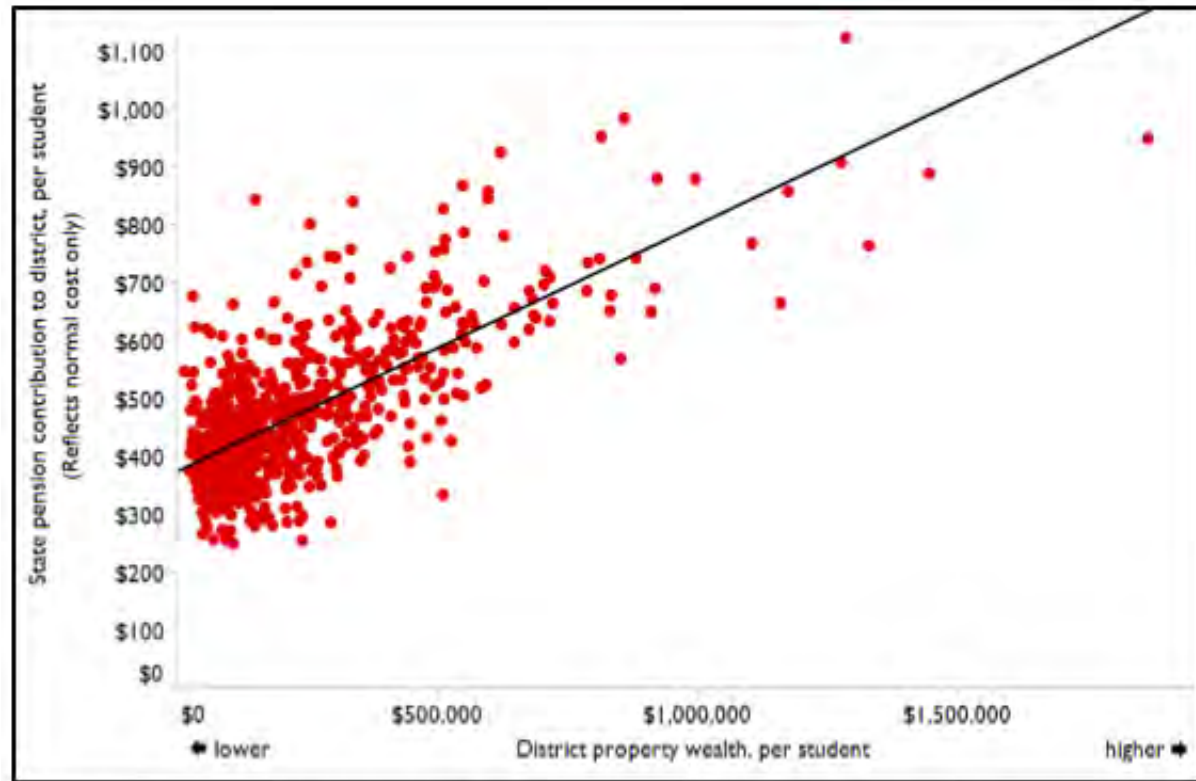
HOW WILL YOU DEFINE LOW-INCOME AND DESIGN A LOW-INCOME WEIGHT OR GRANT? WHERE WILL YOU PRIORITIZE IT IN YOUR DISTRIBUTION MODEL?

CATEGORICALS (“MANDATED” AND OTHERS)

- “Mandated Categoricals” (MCATs) include 5 Special Education lines, Transportation, Orphanage Tuition, and Free Breakfast/Lunch.
- Others include Bilingual Education, Early Childhood, Agricultural Education, CTE, AP Class Subsidies, Consolidation Incentive Payments.
- Every one of them has a different distribution methodology.
 - Example: SpEd Personnel reimburses every district in the state \$9,000 for every certified SpEd teacher.
 - Example: SpEd Funding for Children provides grants based 85% on enrollment and 15% on poverty.
- CPS gets most of its categorical funding through flexible block grants based on 1995 distribution percentages.

TEACHERS' RETIREMENT SYSTEM

- Not in ISBE's budget, but a \$3.8 billion state payment for teacher pensions for all school districts except CPS.
- \$800 million is normal cost and \$3 billion is unfunded liability.



The chart above depicts the State's pension contribution (normal cost only) per pupil to districts by property wealth. Source: Illinois Policy Institute, *Playing Favorites*, May 2012.

Decision
Point

WILL YOUR DISTRIBUTION MODEL INCORPORATE
TEACHER PENSION COSTS?

OTHER PROPOSED ALTERNATIVES

BETTER FUNDING FOR BETTER SCHOOLS (SB 231)

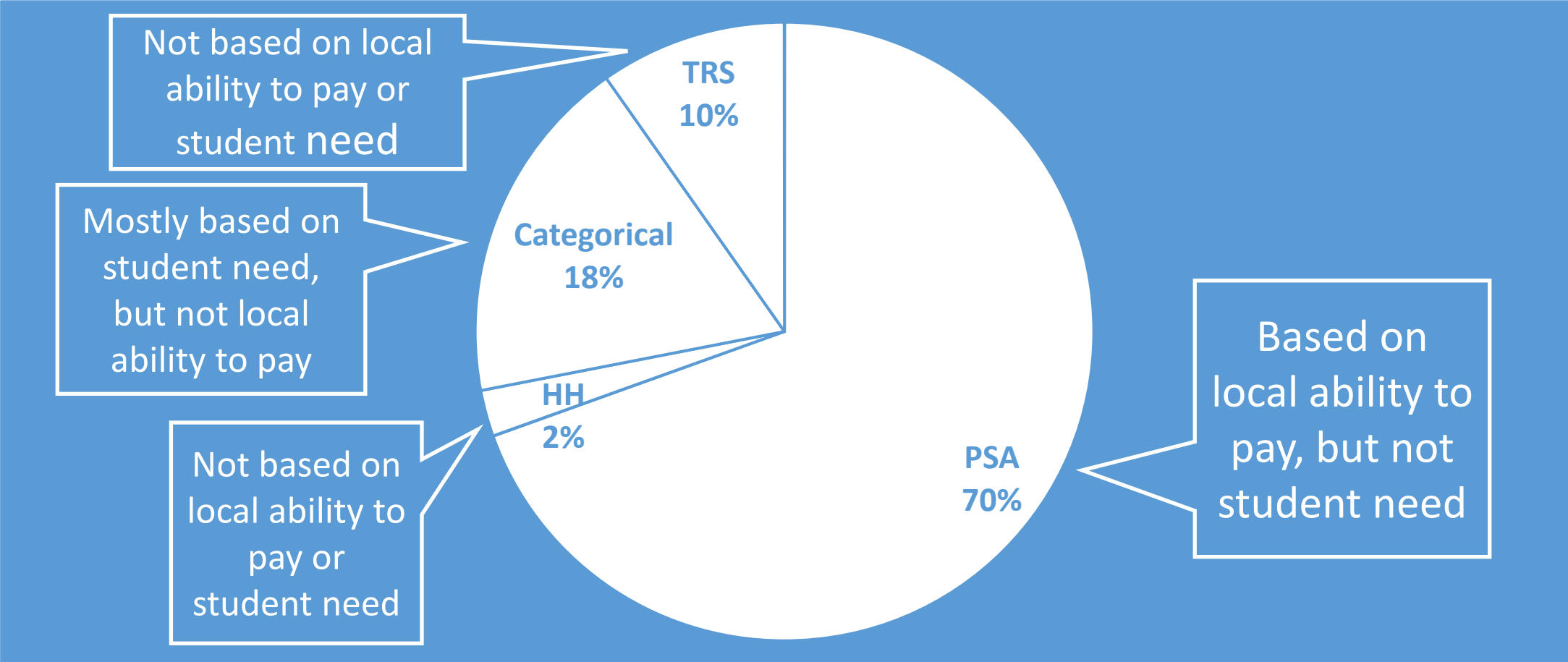
EVIDENCE-BASED MODEL (HB 828)

COMBINATION OF BFBS AND EBM (HB 3190)

FY17 BUDGET

MODIFIED EQUITY GRANT

BETTER FUNDING FOR BETTER SCHOOLS (BFBS)



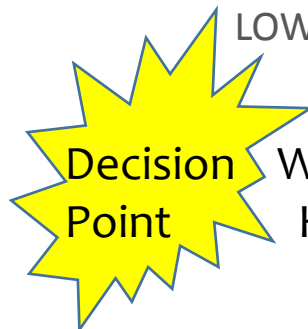
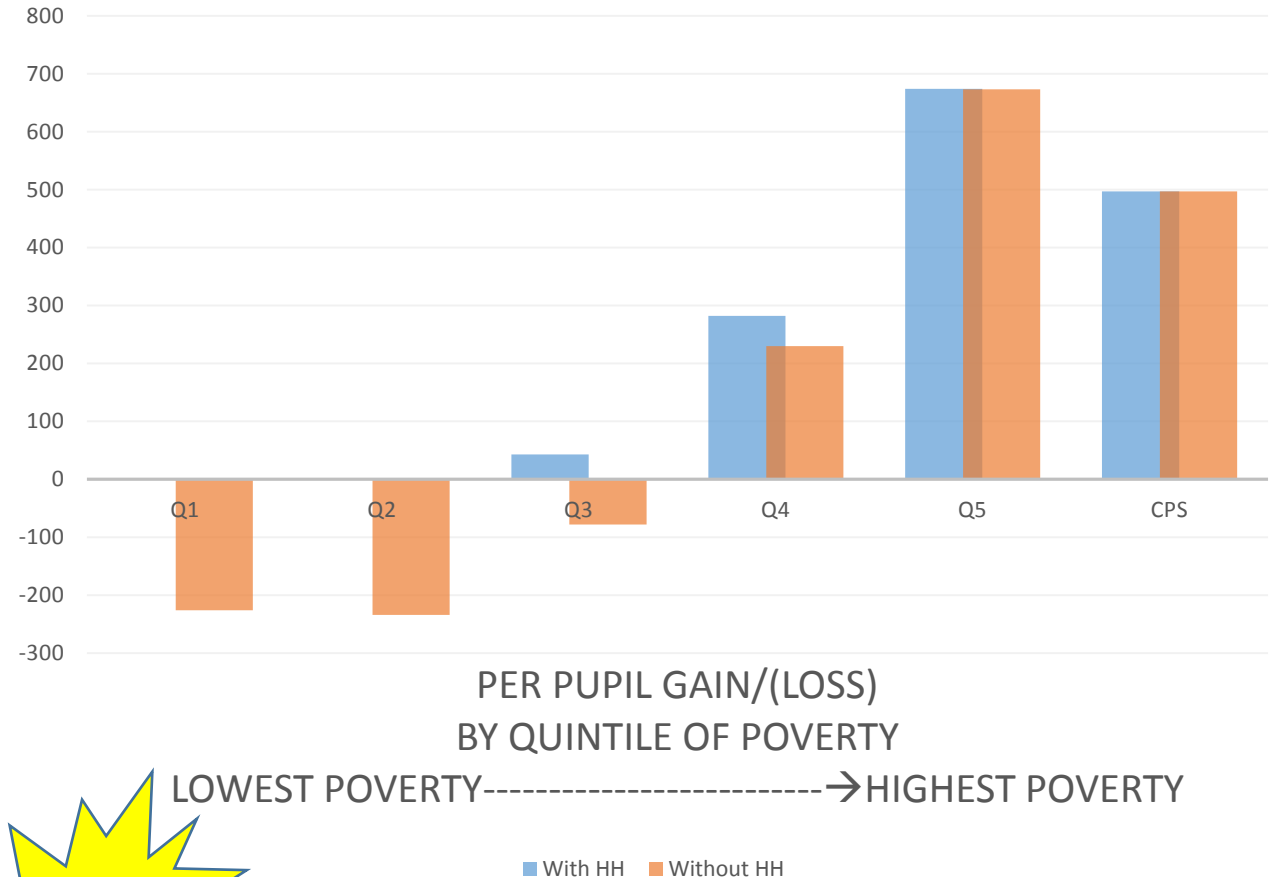
BFBS: INTEGRATED FORMULA

- Instead of having multiple complex, competing formulas distributing money to schools, SB 231 centralized most of it into one formula: Primary State Aid.
- Every district is assigned a unique Weighted Foundation Level that reflects its poverty rate and concentration, EL rate, SpEd population, regional cost differences, and enrollment.
- This is based on applying weights to a statutory Foundation Level that would automatically increase or decrease based on the appropriation.
- Then, PSA provides equalization grants to districts reflecting how many resources they have locally and what they need to educate their specific population of students.
- Determination of local wealth is based on the same assumed tax rates as current law (3% for unit, 2.3% for elementary, and 1.05% for HS districts).

BFBS/SB 231 DISTRIBUTION

- SB 231 drives new money toward the highest poverty districts.
- Early versions of the concept were cost neutral.
- Final versions included three versions of “hold harmless”:
 - \$1,000 LOSS CAP capped the total per pupil loss at \$1,000, phased in over 4 years.
 - ADEQUACY GRANTS would hold harmless any district with an average tax rate or higher. They would last 4 years and then phase-out over the next 3.
 - GENERAL HOLD HARMLESS grants would ensure no district gets less than it did the year before the formula took effect, phased out over four years.

SB 231 Per Pupil Distribution



Decision
Point

WHAT IS THE APPROPRIATE STRUCTURE OF A
HOLD HARMLESS?

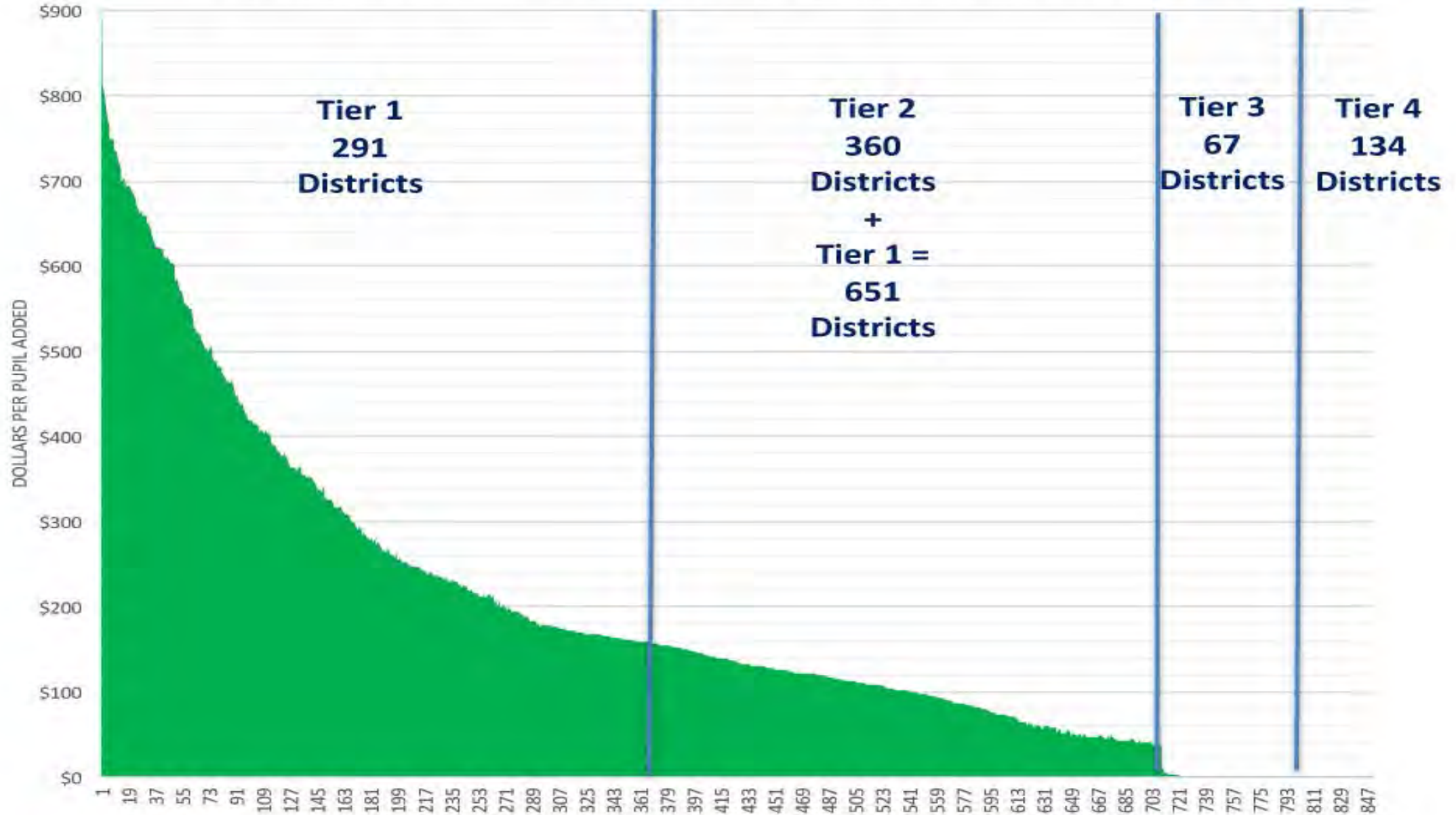
EVIDENCE-BASED MODEL (HB 828)

- EBM has two parts: a way to define adequacy and a way to distribute dollars. This is an important distinction.
- Like SB 231, EBM is an integrated formula. Every district has a unique adequacy target calculated and most state education funds are integrated into one formula.
- The distribution side is separate from the adequacy calculation. Based on the Equalized Assessed Valuation (EAV) in the district, the model estimates the local capacity the district has to contribute to its schools. (This suggests of a tax rate of less than 1% for many needier schools and a 5% tax rate for those with the most capacity.)
- Every district is guaranteed its “Base Funding Minimum,” which is a per pupil hold harmless.
- Based on the difference between each district’s local capacity and adequacy target, they are placed in to four “Tiers.”

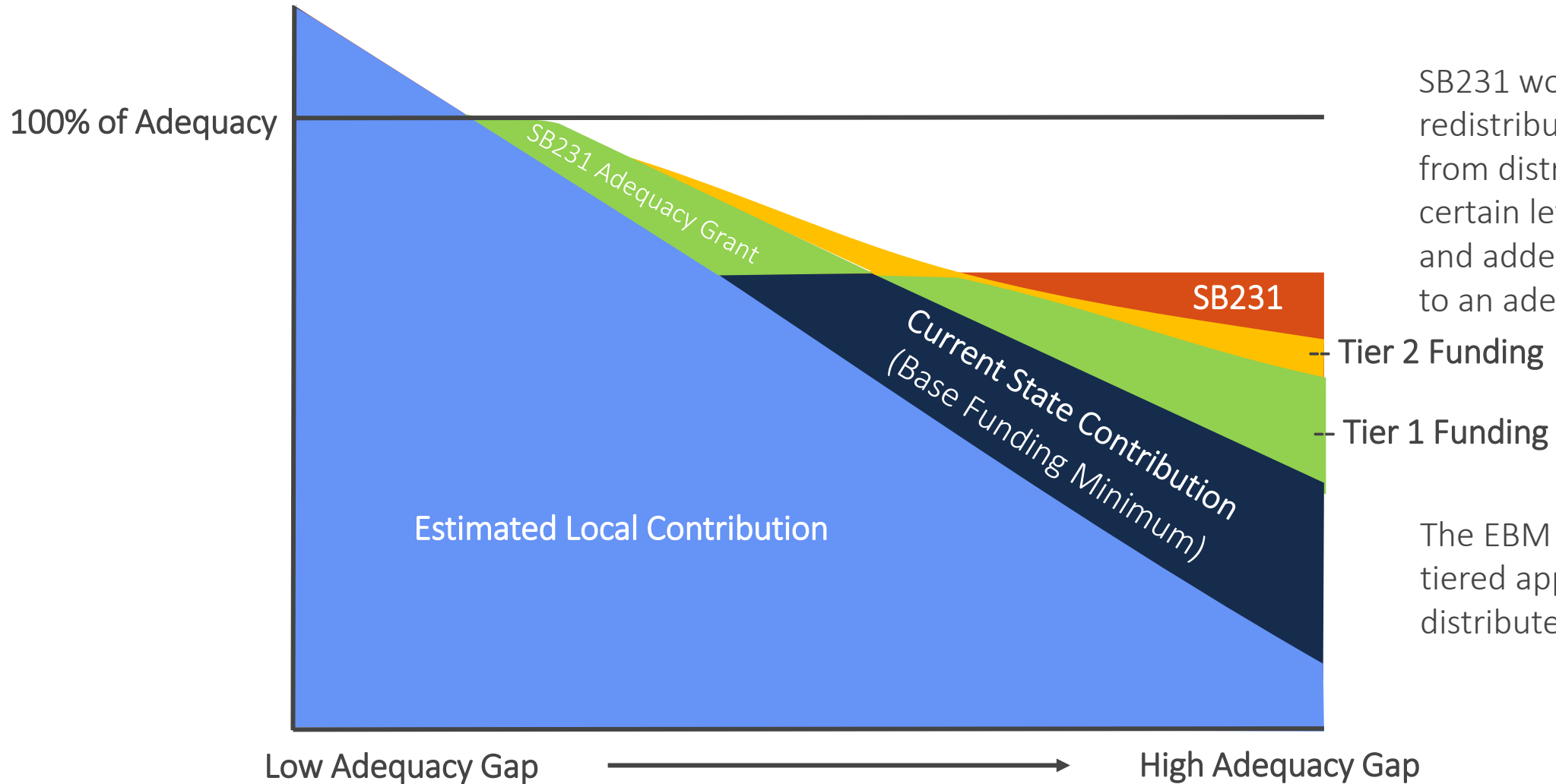
EBM TIERS

- Tier 1: Districts that are funded at less than 60% of their adequacy target. These districts will get 33% of all new money.
- Tier 2: Districts funded at less than 90% of their adequacy target, including Tier 1 districts. These districts will get 66% of all new money.
- Tier 3: Districts funded between 90 – 100% of adequacy. They will get 0.9% of new money.
- Tier 4: Districts funded above adequacy. They will get 0.1% of new money.

Evidence Based Funding For Student Success - \$500M



Distribution Model & Tiered Funding



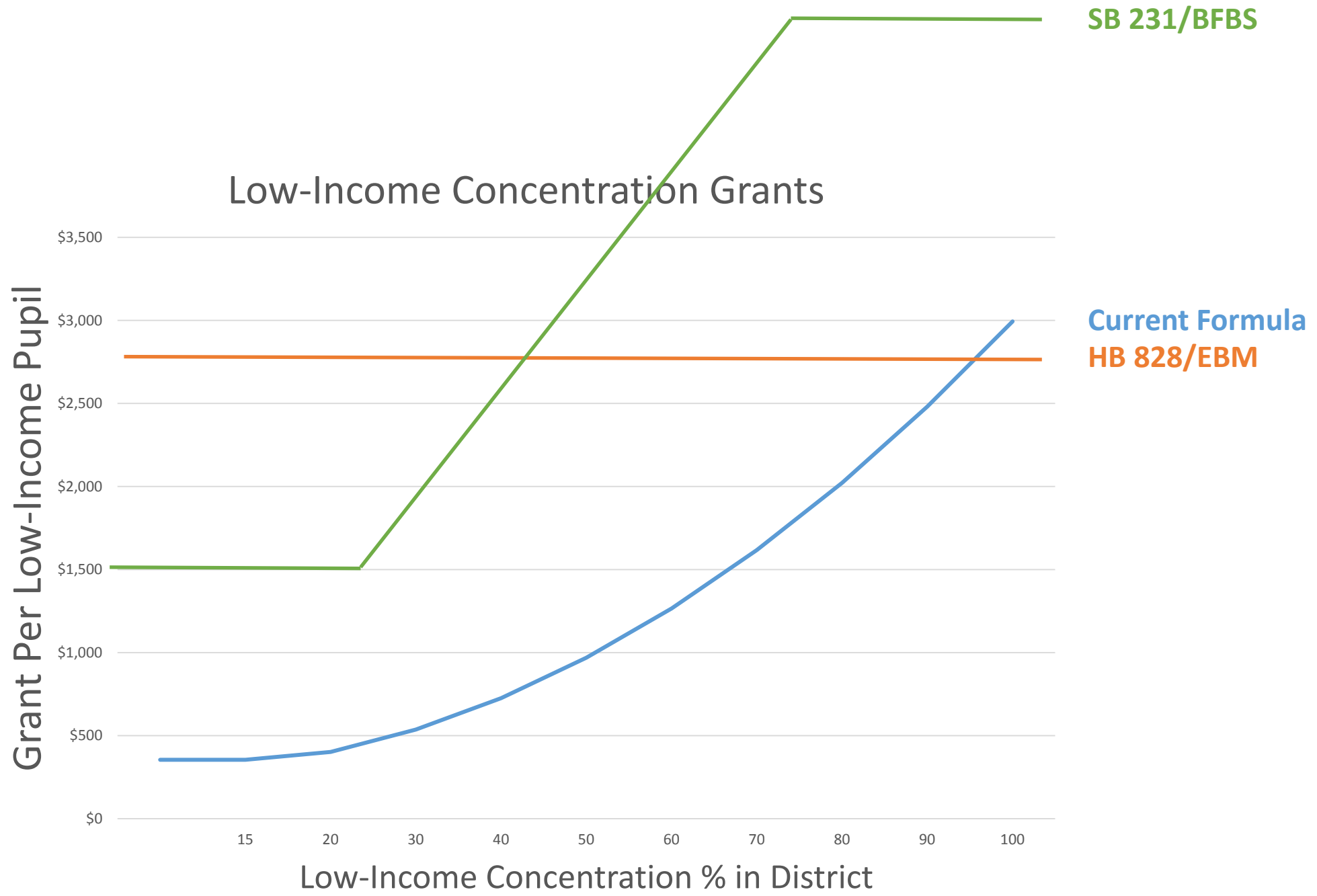
SB231 would have redistributed state dollars from districts above a certain level of adequacy and added new funding to an adequacy grant.

The EBM instead uses a tiered approach to distribute new funding.



A COMBINATION OF 231 AND EBM: HB 3190

- HB 3190 (Lightford) would have moved to SB 231 for one year and then transitioned to EBM.
- Implementing 231 before implementing EBM would have the effect of significantly raising the floor for the highest poverty districts before moving to the EBM distribution model.
- In the first year of EBM, districts would be held harmless to the higher funding level they received under the 231 model through their “Base Funding Minimum.”



FY17 EDUCATION BUDGET

- This year's education budget took a step toward a more equitable system, while also pausing many of the inputs at FY16 levels.
 - First, every district received the same GSA allocation as FY16.
 - Then, an Equity Grant was added that distributed \$250 million in proportion to the FY16 Poverty Grant allocation.
 - Finally, any district that would have received more if the FY17 model were fully funded would receive the additional amount needed to reach their FY17 GSA allocation.

MODIFIED EQUITY GRANT (HB 813)

- This concept was raised as an over-simplified mechanism to direct new funds in the most equitable way. While the poverty grant is equitable, it still has no measure of local wealth. The modified Equity Grant would have corrected that and incorporated both local wealth and poverty rate.

$$\begin{array}{c} \text{Low-Income} \\ \text{Concentration} \\ \times \\ \text{A Low-Income} \\ \text{Constant} \end{array} - \begin{array}{c} \text{Some \% of} \\ \text{Available Local} \\ \text{Resources Per} \\ \text{Pupil} \end{array} = \begin{array}{c} \text{Amount of} \\ \text{Per Pupil} \\ \text{Equity Grant} \end{array}$$

MODIFIED EQUITY GRANT EXAMPLE

For example, let's say there is \$250 million to spend and we want to use 2.5% as the percentage of ALR to deduct from the grant. These inputs will determine the affordable "low-income constant," which in this case is \$522.

| | | | | |
|---|---|---|---|---|
| <div style="background-color: #4a86e8; color: white; padding: 10px; width: 100px; margin: 0 auto;"> Low-Income Concentration X \$522 </div> | - | <div style="background-color: #4a86e8; color: white; padding: 10px; width: 100px; margin: 0 auto;"> 2.5% X Available Local Resources Per Pupil </div> | = | <div style="background-color: #4a86e8; color: white; padding: 10px; width: 100px; margin: 0 auto;"> Amount of Per Pupil Equity Grant </div> |
|---|---|---|---|---|

- District X has a poverty rate of 75% and ALR of \$2,000 per pupil:

| | | | | |
|--|---|---|---|---|
| <div style="background-color: #4a86e8; color: white; padding: 10px; width: 100px; margin: 0 auto;"> 75% X \$522 </div> | - | <div style="background-color: #4a86e8; color: white; padding: 10px; width: 100px; margin: 0 auto;"> 2.5% X \$2,000 </div> | = | <div style="background-color: #4a86e8; color: white; padding: 10px; width: 100px; margin: 0 auto;"> Amount of Per Pupil Equity Grant </div> |
|--|---|---|---|---|

| | | | | |
|-----------------|---|-------------|---|--------------------------------------|
| \$391.50 | - | \$50 | = | \$341.50 per low-income pupil |
|-----------------|---|-------------|---|--------------------------------------|

CHOOSING A DISTRIBUTION MODEL

- You will have to make a series of choices on what to take into consideration when deciding how to give out funds.
 - How will you *calculate local wealth* and treat *tax caps*?
 - Will you move to an *integrated formula*, and if so, which categoricals will you integrate and which should remain outside the formula?
 - Should every district receive a *minimum amount of state support*?
 - How should a *hold harmless* be structured?
 - Should funding be based on *enrollment*, average daily attendance, or an average of several years of data?
 - Will you provide additional funds for *poverty concentration*?
 - Should *new funds be narrowly targeted* to raise the floor for the neediest districts, or should it be allocated more broadly?