

ISBE

Illinois State Board of Education

Illinois School Funding Reform Commission

Hold Harmless

September 21, 2016

Presentation Outline

- General definition of Hold Harmless
- Overview of the history of various Hold Harmless Provisions
- Factors that contribute to losses in General State Aid from year to year
- Impact of a New Funding Formula where the majority of state funds are equalized
- Discussion regarding Hold Harmless
 - Factors in which districts should be held harmless
 - Time frame for Hold Harmless
 - Hold Harmless with and without funding

Hold Harmless Provisions are meant to restrict declines in revenues, while others limit revenue increases

The current General State Aid Formula has two specific examples of this general definition:

- The greater of the Three Year Average Daily Attendance or the Current Year Best Three Months Average Daily Attendance
- The Three Year Average Department of Human Services Population for the calculation of the Supplemental Low-Income Grant

General State Aid

- Effective in Fiscal Year 1999
- Base Year – Fiscal Year 1998
- No Sunset Provision

Supplemental General State Aid (Low-Income Grant)

- Effective in Fiscal Year 2004
- Base Year – Fiscal Year 2003
- Sunset Fiscal Year 2007; however, it was extended through the Budget Implementation Bill

Special Education (Funding for children requiring special education services)

- Effective in Fiscal Year 2005
- Base Year – Fiscal Year 2004
- Sunset Fiscal Year 2007; however, it was reinstated in Fiscal Year 2008 with Fiscal Year 2007 as the Base Year

Transitional Assistance

- Effective in Fiscal Year 2004
- Base Year – Prior Year
- Guaranteed that no district would receive less total funding from state distributions in the current year when compared to the prior year
- Eliminated in Fiscal Year 2010

Hold Harmless – Factors that contribute to losses in General State Aid

Fiscal Year 2017 Gross General State Aid compared to Fiscal Year 2016 Gross General State Aid at the \$6,119 Foundation Level

- 713 of the 922 entities receiving General State Aid in Fiscal Year 2017 had a gross amount that was less than the gross amount for Fiscal Year 2016 General State Aid
- Assuming Fiscal Year 2016 as a base amount, approximately \$307.9 million would be needed to fund a Hold Harmless that guaranteed no district would have received less in Fiscal Year 2017 than it received in Fiscal Year 2016
- Assuming a Fiscal Year 2016 per pupil amount received as a base amount, approximately \$263.0 million would be needed to fund a Hold Harmless that guaranteed no district would have received, on a per pupil basis, less in Fiscal Year 2017 than it received, on a per pupil basis, in Fiscal Year 2016

Factors that contribute to a loss in General State Aid from one fiscal year to the next:

- Increases in the Equalized Assessed Valuation utilized in the calculation of General State Aid
- Increase in Personal Property Replacement Tax Receipts
- Decrease in Average Daily Attendance
- Low-Income Changes
 - Decrease in Department of Human Services Population
 - Decrease in the concentration level of Department of Human Services Population

Hold Harmless – Factors that contribute to losses in General State Aid

Example District

	FY2016	FY2017	Diff	% Change
Gross Claim	\$1,679,940	\$1,210,944	\$(468,996)	-27.92%
EAV	\$183,467,831	\$193,475,645	\$10,007,814	5.45%
PPRT	\$364,207	\$388,368	\$24,161	6.63%
ADA	1,123	1,113	(10)	-0.89%
Low-Income	599	577	(22)	-3.67%
<u>Gross Hold Harmless</u>		\$468,996	<u>Per Pupil Hold Harmless</u> \$454,247	
<u>Reasons for Loss In General State Aid</u>				
Gains in Available Local Resources		\$(324,395)	69%	Only \$144k or 31% of the total loss is attributable to a loss of students
Loss in ADA		\$(60,334)	13%	
Low-Income Claim Changes		\$(84,267)	18%	
Total Change		\$(468,996)		

Additional factors to consider in a Singular Education Funding Formula that could create the need for Hold Harmless:

- A greater amount of state funding will be equalized, creating another reason for the need for Hold Harmless (currently less than half of state funding measures a school district's ability to generate revenue at the local level)
- Dependent upon the Categorical Reimbursements included in a Singular Education Funding Formula, school districts with a disproportionate amount of reliance on a particular Categorical Reimbursement may need to be considered for a Hold Harmless Provision

Considerations for Hold Harmless

Factors in which districts could be held harmless:

- Loss of students
- Changes in low-income counts
- Changes in local wealth
- A greater proportion of state education funding being equalized
- Loss due to the reliance on Categorical Reimbursements
- A Hold Harmless Provision for districts that have a high tax burden; however, not at a defined adequacy target in funding considering all revenues
- Period of time for which Hold Harmless Provisions are in place
- School districts having no loss in local receipts

Impact of Hold Harmless Provisions:

- Provides school districts with a level of predictability and stability
- A phased-in Hold Harmless Provision will allow time for planning for districts that would receive more or less in a revised State Education Funding System
- An understanding that Hold Harmless Provisions are a diversion of the amount of available funding from the intended goals of a revised state funding system for education funding
- Hold Harmless Provisions should be reviewed to ensure that Horizontal Equity (equal treatment of equal school districts) and Vertical Equity (differential treatment for districts that require more) do not become inequitable