

## Governor Rauner's Amendatory Veto of SB1 Has a Number of Negative Consequences for Schools Across Illinois

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Illinois historically has had one of the most inequitable, and least adequate, education funding systems in America.<sup>1</sup> SB1, which passed the General Assembly on May 31, 2017, was designed to address that woeful state of affairs by replacing Illinois' flawed approach to school funding with a new formula that, over time, would ensure every school district received the resources it needed to implement those evidence based practices which the research shows enhance student achievement.

Unfortunately, rather than sign SB1 into law, on August 1, 2017, Governor Rauner chose to issue an Amendatory Veto of the legislation (the “AV”). And while the Governor claimed his AV would create a “fairer funding system,” an analysis of how the AV changes SB1 reveals that the opposite is true. In fact, the actual application of six key elements of the AV not only fails to create a “fairer” system than the one contained in SB1, but actually frustrates SB1’s core purpose of creating an education funding formula designed to provide every school district the resources it needs to educate the students it serves. These problematic aspects of the AV are its treatment of:

- i. How school districts are held harmless;
- ii. How the Property Tax Extension Limitation Law (“PTELL”) affects the local resources available to school districts for funding education;
- iii. How Tax Increment Financing (“TIF”) districts affect the local resources available to school districts for funding education;
- iv. The impact of inflation on education costs;
- v. How adjustments are made for differences in regional costs across the state; and
- vi. How adjustments are made for pension cost shifts.

### Hold Harmless

SB1’s evidence-based education funding formula treats all school districts in Illinois equitably and proportionally. One key element of SB1 that accomplishes this goal is the way the legislation implements a hold harmless to ensure the transition from the state’s current, flawed foundation formula to the evidence-based model will not cause any district in Illinois to lose state grant funding it received in the year before the formula change. The dollar amount of a school district’s “hold harmless” under SB1 is defined as that district’s “**Base Funding Minimum**,” or “**BFM**.” The BFM for each school district is the full amount of state grant funding it received in the year before the transition to the EBM. Not cutting funding that any school district already receives is rational—given that, statewide, Illinois’ current level of K-12 funding is some \$6.55 billion less than what the evidence shows is needed to educate all students. The goal, after all, is to move every district forward towards adequacy—not reduce the investment in children already being made.

The AV provides that the hold harmless in education funding changes from a district-level, aggregate funding hold harmless (as it is under SB1), to a “per pupil” hold harmless in 2020. According to ISBE, 222 school districts across Illinois lost student population over the 2015-2016 school years—many of which are in downstate communities. Obviously, once this change kicks in, many school districts will lose educational funding, even if they have less than what the evidence indicates they need to educate the children they serve. Hence under the AV, school districts will be moved further away from reaching adequacy when their student populations decline—a highly undesirable and inequitable outcome.

SB1, on the other hand, deals with loss of student population in a far more equitable manner. Over time, if a district is losing student population, its “Adequacy Target,” that is, the amount of total funding the evidence indicates it needs to educate the children it serves, will be reduced. However, if that district is below its Adequacy Target, it won’t lose any existing funding it currently receives. Rather, it would simply receive less new funding, given its reduced need based on declining headcount. Nonetheless, under SB1, all districts continue moving forward toward the goal of receiving adequate resources to educate the children they serve.

### **PTELL Adjustment**

SB1 identifies a unique “Adequacy Target” of funding for each school district. This Adequacy Target represents the dollar amount which the evidence indicates is needed to cover the cost of that school district implementing those practices which enhance student achievement. SB1 then creates a method of funding the Adequacy Target which includes both state and local resources. The amount of its Adequacy Target a school district is expected to cover from its local revenue sources—primarily property taxes—is called its “Local Capacity Target.”

Governor Rauner’s AV modifies SB1 so that it is impossible for many school districts to reach their Adequacy Target. This is because the AV removes the adjustment for school districts in areas subject to the Property Tax Limitation Law (“PTELL”). PTELL limits increases in property tax extensions, “to the lesser of 5 percent or the increase in the national Consumer Price Index (CPI) for the year preceding the levy year.”<sup>2</sup> This places a cap on the amount of money a school district can raise from property taxes annually.

Under the AV, the legally mandated cap on extensions created under PTELL is ignored as if it doesn’t exist. Hence the AV makes it appear as if school districts in PTELL communities have access to local property tax resources which in fact they cannot access. Obviously, this creates a funding shortfall between what the evidence indicates PTELL districts need to educate children, and what they can actually raise.

**The consequence of this is clear: because the AV attributes artificially higher local funding capacity to schools in PTELL districts, it by formula reduces the amount of state funding they will receive over time—below both what the evidence indicates they should receive, and what they actually would receive under SB1.** Hence, the AV shortchanges schools located in PTELL districts twice—once by crediting them for having local tax dollars they cannot access, and then again by cutting their state funding based on that phantom local revenue.

### **TIF Adjustment**

The AV also artificially inflates the local property wealth available to school districts by including in each school district’s “Equalized Assessed Value,” or “EAV,” the value of all property contained in Tax Increment Finance (“TIF”) districts in that school district’s area. That is problematic, given that by law, school districts cannot access any increase in the value of property located in a TIF district for 23 years after it is established. This artificially inflates the local property wealth actually available to any school district which has a TIF within its boundaries. There are some 536 school districts with TIFs. The AV artificially inflates the EAV of these districts by around \$14 billion statewide, again rendering it nearly impossible for many of these school districts to ever reach their Adequacy Targets.

### **Inflation Adjustment**

The AV eliminates the adjustment for inflation that SB1 contains, thereby effectively freezing all education costs (salaries, supplies, technology, etc.) at 2017 levels. However, there is a 10 year time frame for funding Adequacy under the new formula. This means that under the AV, the “Adequacy” funding that districts will receive from the state in 2027 will be based on 2017 costs. Obviously, that won’t come anywhere near representing actual classroom expenses, because in the real world inflation drives up the cost of just about everything over time.

By eliminating the inflation adjustments contained in SB1, the AV makes it impossible for the vast majority of school districts in Illinois to ever reach their real Adequacy Targets. Indeed, most school districts will see their classroom funding

reduced in real terms over time. Which happens to be what is occurring right now under the current flawed school funding formula Illinois uses—which has made our state a national laggard in school funding.

### **Regional Adjustment**

The Governor's AV lowers the regionalization factor for 313 school districts in higher-cost areas. Hence under the AV, both the Adequacy Targets and concomitant state funding for schools in DeKalb, DuPage, Lake, McHenry, Kane, Will, Grundy, Kendall, and Cook counties will not reflect their actual costs. This in turn means districts in these counties will have to use an artificially high amount of local property taxes to cover the true cost of educating students, because the formula created under the AV ties state funding to artificially low costs for the Cook and Collar Counties. It also means a number of school districts serving middle- to lower-income children in these communities will not be able to reach their full Adequacy Target.

### **Pension Shift**

The AV eliminates the normal cost pension protections contained in SB1. Over time, this will require school districts to utilize local resources to cover pension costs rather than educate children. The reason for this is the newly created Tier III pension system, which shifts normal cost responsibility from the state to school districts. As more new hires in a district become members of the Tier III system, the amount of local resources that district has to devote to normal costs will grow. Under SB1, the burden of this cost shift is accounted for—under the AV, it isn't.

### **Bottom Line**

**The bottom line here is clear: The school funding formula created under the AV is fatally flawed, and creates an education funding system that will be inadequate in amount, inequitable in distribution, and not actually tied to the evidence of what works. These are the same flaws that exist under Illinois' current formula, which has created one of the least adequate and most inequitable education funding systems in America.**

**SB1 is the only path to an education funding formula that: is tied to the evidence of what works; identifies the actual investment needed to educate all children to succeed academically; and equitably distributes new state resources invested in education over time to school districts across Illinois.**

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### **ENDNOTES**

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<sup>1</sup> Bruce Baker, Danielle Farrie, Monete Johnson, Theresa Luhm and David G. Sciarra, "Is School Funding Fair? A National Report Card" Sixth Edition, Education Law Center, Graduate School of Education at Rutgers University, (New Brunswick, NJ: January 2017), 25.  
<https://drive.google.com/file/d/0BxtYmwryVI00VDhjRGIDOUh3VE0/view>

<sup>2</sup> Illinois Department of Revenue, An Overview of the Property Tax Extension Limitation Law by Referendum (Springfield, IL),  
<http://tax.illinois.gov/Publications/PIOs/PIO-62.pdf>