



GENERAL ASSEMBLY
STATE OF ILLINOIS

MEMORANDUM

TO: The Honorable Pat Quinn, Governor
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 Minority Leader

FROM: Senators Andy Manar and Dave Luechtefeld
Co-Chairs, Senate Education Funding Advisory Committee

DATE: Friday, January 31, 2014

SUBJECT: Senate Education Funding Advisory Committee Report

The Senate Education Funding Advisory Committee is being submitted pursuant to SR 431.

The Advisory Committee was created to propose a state education funding system that provides adequate, equitable, transparent, and accountable distribution of funds to school districts that will prepare students for success after high school.

For additional copies of this report, or for more specific information, contact ISBE's Government Relations Division at 217/782-6510.

cc: Tim Mapes, Clerk of the House
Tim Anderson, Secretary of the Senate
Legislative Research Unit
State Government Report Center

Enclosure

Senate Education Funding Advisory Committee Report

The report of the Senate Education Funding Advisory Committee is respectfully submitted to the Governor and the Illinois General Assembly. The Advisory Committee provides recommendations regarding the distribution of funding to school districts.

The members of the Advisory Committee wish to express that, while this report is a reflection of the group's discussions over a period of several months, unanimity was not achieved on each item contained in the report. It was not the charge of the Advisory Committee to find unanimity among members, but rather to produce a framework that reflects the educational needs of a diverse state that could serve as a basis for potential legislation. The Advisory Committee believes this report provides that framework.

The Advisory Committee would like to acknowledge and thank the Education Commission of the States for the pro-bono work provided to the Committee.

Task Force Members

Andy Manar, Committee Chairperson

Senator, 48th District

Dave Luechtefeld, Committee Chairperson

Senator, 58th District

Jason Barickman

Senator, 53rd District

Melinda Bush

Senator, 31st District

Kimberly Lightford

Senator, 4th District

Karen McConnaughay

Senator, 33rd District

Mike Noland

Senator, 22nd District

Sue Rezin

Senator, 38th District

Committee Goals

On July 9, 2013, the Illinois Senate adopted Senate Resolution 431 (SR 431), which created the Education Funding Advisory Committee (Committee). The Committee was charged with conducting a thorough review of the state's existing pre-kindergarten to 12th grade education funding system—with a specific focus on state aid. The Committee also was charged with recommending changes to the state's education funding system. SR 431 stated that recommendations from the Committee should ensure that any new Illinois school funding system would be adequate, equitable, prepare students for success after high school, and support teachers and school leaders.

In addition to the four above criteria for a school funding system, SR 431 required the Committee to consider the following when making any school funding recommendations:

- **Student Populations**, at both the school and district level
- **Student Needs**, including special needs populations
- **Each District's Ability to Pay**
- **Transparency and Accountability**
- **Predictable Results**

SR 431 also stated that the Committee should consider the long-term implications and outcomes of any changes to the funding system. To achieve its goals, the committee was required to seek input from stakeholders and members of the public on issues and possible improvements to the existing funding system.

Public Input

The Committee met monthly from August to January in various parts of the state to receive input and advice about the state's school funding system. These meetings took place in Aurora, Bloomington, Chicago, Forest Park, Springfield, and Waterloo. During these meetings, the Committee received input from state education stakeholders including:

- Local school board members, superintendents, and principals
- Members of the House of Representatives and the State Board of Education
- Advance Illinois
- Center for Tax and Budget Accountability
- Chicago Public Schools
- Chicago Teachers Union
- ED-RED
- Illinois Education Association
- Illinois Federation of Teachers
- Illinois Math and Science Academy (students)
- Illinois Policy Institute
- Large Unit District Association (LUDA)
- Legislative Education Network of DuPage County (LEND)
- Lieutenant Governor Sheila Simon
- School Management Alliance
- South Cooperative Organization for Public Education (SCOPE)
- Stand for Children
- Voices for Illinois Children

The Committee also heard testimony from the Illinois State Board of Education, the consulting group of Augenblick, Palaich and Associates, the Education Commission of the States, and the Massachusetts

Department of Education. The presentations questioned various aspects of the current funding system, including its adequacy, equity, clarity, and predictability. Several of the presenters also provided recommendations for improving the state's school funding system. These recommendations ranged from making small adjustments to instituting a complete overhaul of the system.

The State Board of Education also presented a white paper to EFAC, prepared by Augenblick, Palaich and Associates, which identified weaknesses in the current formula and made recommendations on how to approach the development of a new formula. The State Board of Education recommended that the development of a new formula must be guided by the following principles:

1. Adequacy—provides a level of funding sufficient for a high quality education.
2. Simplicity—provides districts a predictable, understandable revenue stream that is used to maximize student outcomes.
3. Transparency—is easily accessed and understood by all citizens.
4. Equity—begins with everyone contributing a minimum tax rate and adjusts for student need by weighting the formula to allow for additional resources to address impediments to student achievement.
5. Outcome-focused—encourages student growth in learning.

During the October 16 meeting in Aurora, the November 4 meeting in Bloomington, the December 17 meeting in Springfield, and the January 7 meeting in Waterloo, the Committee members participated in open discussion about their vision for a new school funding system. Michael Griffith of the Education Commission of the States facilitated these discussions.

The Education Commission of the States provided numerous hours of pro-bono services to the Education Funding Advisory Committee. Mr. Griffith from the Commission not only facilitated numerous committee discussions but also assisted with the development of this report.

Recommended Reforms

During the two of the aforementioned meetings, the Committee devised a set of recommendations for funding public education in Illinois. The Committee's recommendations are designed to ensure that the state's education funding system meets the following goals:

- **Adequacy:** That the funding system provides an adequate amount of funding that is sensitive to student need and allows each student to reach his/her educational potential.
- **Equity:** That all students are provided with a relatively equitable amount of educational resources regardless of where they live or their socio-economic background.
- **Student Success:** That the state funding system prepares all students for their post-high school experience.
- **Support for Teachers and Leaders:** That all educators have a sufficient level of resources available to them so that they can aid in accelerating student learning.

To achieve these goals the Committee recommends that the state institute the following changes to its P-12 education funding system:

1. Make use of a single funding formula.
2. Provide additional funding to at-risk, special education, and English-language learner students through the single formula.
3. Hold districts and students to higher standards.
4. Require districts to provide greater clarity on how funds are expended.
5. Guarantee that all districts receive a fair amount of minimum funding from the state.

6. Ensure that districts retain the same level of funding as under the current funding system for a period of time once a new funding system is adopted.
7. Include an accurate reflection of a district's ability to fund education programs within the district.
8. Equalize taxing ability between dual districts and unit districts.
9. Review the financial burden placed on school districts through instructional and non-instructional mandates.
10. Provide additional transparency regarding the distribution of education funding.

In addition, the Committee recognizes the need for an increase in educational funding but also acknowledges the current fiscal crisis in Illinois. The Committee believes that the General Assembly should work, over the next 5-7 years, to increase educational funding to the level necessary to reach the recommended foundation level provided by the Education Funding Advisory Board of \$8,672.

The Committee is opposed to the prorating of General State Aid (GSA) funds. The Committee recognizes that the proration of the foundation level was due to underfunding of the formula and recommends that the statutory funding levels be met.

1. SINGLE FUNDING FORMULA

The state of Illinois provided \$6.7 billion in P-12 education funding to schools during the 2013-14 fiscal year. These state funds are distributed to Local Education Agencies (LEAs) through a variety of programs and grants. The largest single source for state operational funding comes from GSA, which comprises the formula grant program (41%) and the supplemental grant program targeted to at-risk students (26%). Additional funding is provided through special education funding (16%), transportation funding (10%), the early childhood program (4%), the bilingual student program (1%), and then a variety of other small categorical programs (2%). The Chicago Block Grant also is a separate funding stream for District 299 (8%). In addition to operational funding, the state provides funds for capital projects. Having a state system with so many different funding sources—each with their own rules, regulations, and paperwork—leads to a K-12 finance system that lacks clarity and predictability.

Committee Recommendation:

The committee recommends that the majority of state educational funding be distributed through a single foundation funding formula (*See the attached ECS report for a full description of how a foundation formula functions*). The proposed new formula would include all current education funding programs, with the exception of the early childhood grants, funding for capital projects, and high-cost special education. The committee recommends that transportation be included in the primary funding stream. The committee believes further study is required to determine how these funds should be allocated to ensure efficiencies and consider cost variations throughout the State. The single foundation funding formula also would fully integrate the Chicago Block Grant.

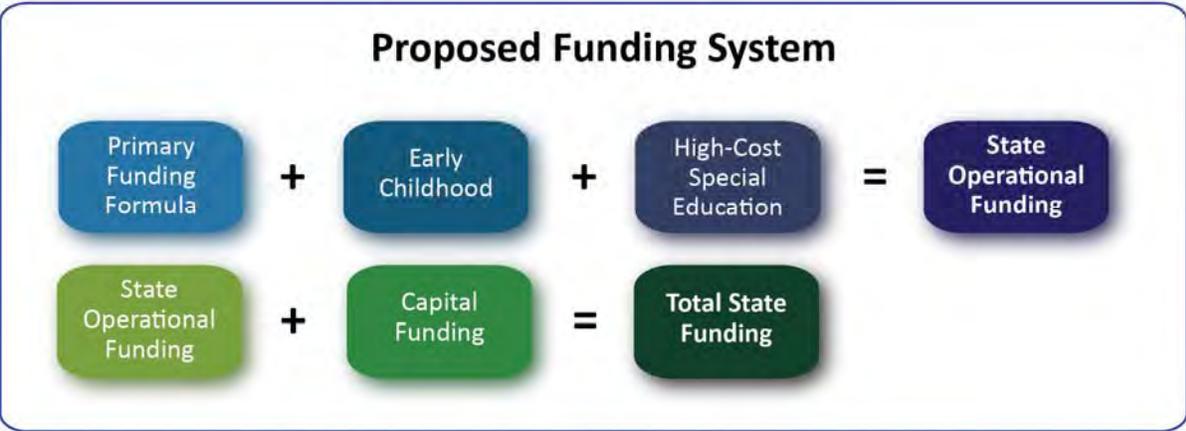
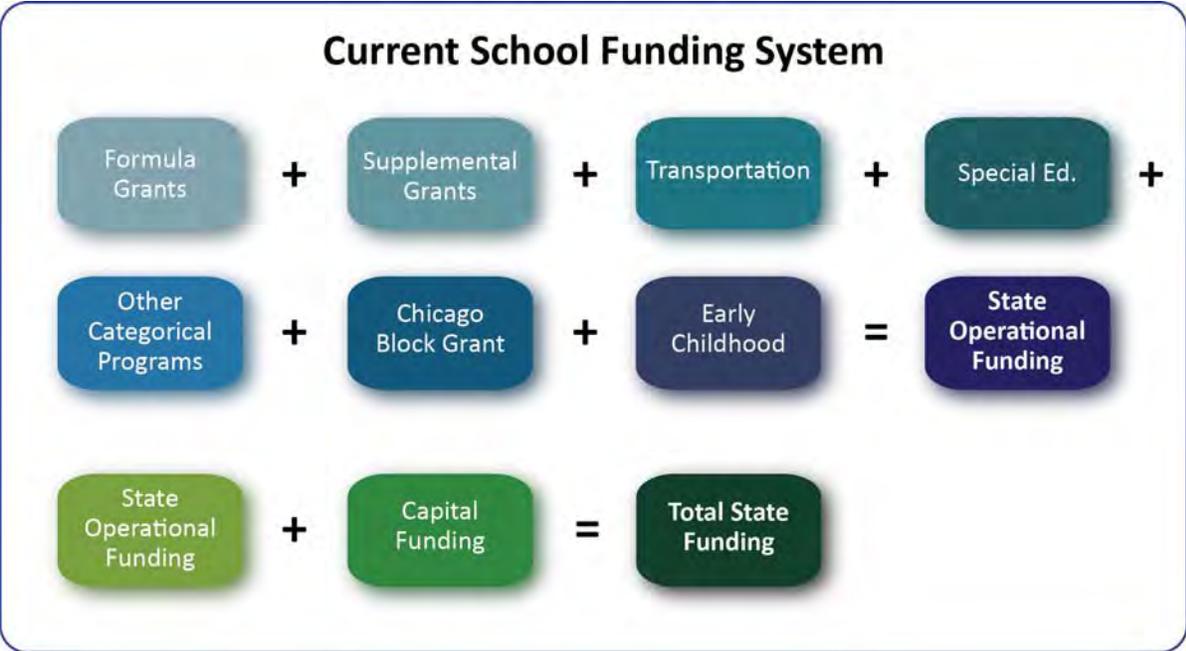
These recommended changes to the state's funding formula will result in 96% of state operational dollars for education flowing through a single school funding formula. District funding would be based on measures of student attendance—using the state's current method—and the funding from this formula would be equalized depending on each district's relative wealth. The committee recommends that a district's relative wealth be based on its average property wealth per pupil—as it is in the current formula. The committee also recommends that all districts be treated equally in the formula regardless of how they are structured or what grade levels they educate (unit, primary or secondary).

A streamlined single funding formula would allow the state to achieve the following goals:

- **Simplicity and Clarity:** Districts would no longer be required to track a variety of funding programs to determine how much they would receive from the state

- **Predictability:** By including almost all state operational funding in a single formula it will help to insulate funding for programs and services from annual budget decisions
- **Equality:** Under the current funding system only 45% of state dollars are equalized based on a districts relative wealth. Under this proposed formula 96% of operational funding will be equalized based on a districts wealth. This will create greater equity between high and low property wealth districts.

Committee members have concerns that due to their unique nature some programs will not fit into a single funding formula. The committee members feel that because the early childhood program provides grants to private providers—as well as to school districts and charter schools— and because the program is grant-based with a need component already built in, this program might not be able to fit into the same funding structure as other K-12 programs. In addition, some of these early childhood funds are used for birth to age 3 and thus do not lend themselves to distribution based on school enrollment and other factors that dictate distribution of other funding streams. The committee also feels that because of its unique nature, namely that costs can vary widely between similarly situated districts depending on age and quality of buildings, funding for capital projects cannot be easily folded into a single school funding formula. Finally, the committee feels that very high-cost special education must be kept outside the formula because the costs are so unique and so much higher than average per pupil costs that they cannot be accommodated within the formula. The committee recommended that these programs continue to be funded in their current manner.



2. FUNDING HIGH-NEED STUDENTS

The State of Illinois currently provides funding for high-need students outside of the formula grant program. Funding for at-risk students is provided through Supplemental GSA (\$1.7 billion after proration); the Bilingual Student Program (\$63 million) provides funding for English-language learners, and state funding for special education students that comes from six different state programs (\$1.5 billion). The committee recommends that funding for these programs be folded into the new proposed single school funding formula. Further, the committee recommended that each of these student groups be provided additional funding through the new funding formula. This additional funding would be provided through a system of additional weights provided to students in each group. For example, if a student group is provided with an additional weight of 0.5, that means that they would be funded at a rate 50% higher than general education students. Each of the weights detailed below are intended to be additive; for example, if a district has a student who qualifies as both at-risk and as an English language learner, that district would receive payment based on the sum of both weights.

Committee Recommendation:

- **At-Risk:** The state's current supplemental grant program provides funding to districts based on their at-risk student counts. Students are considered at-risk in the formula if they receive services from the Illinois Department of Human Services (Children's Health Insurance Program, SNAP, Medicaid, or TANF). Currently 1,086,950 students are considered at-risk under this definition. Districts that have 15% or fewer of their students identified as at-risk receive \$355 per at-risk pupil from the state. Districts with more than 15% of their students identified as at-risk receive a greater amount per at-risk pupil as the percentage of low-income pupils increases. For example, a district where 100% of students are identified as at-risk would receive an additional \$2,994 per at-risk pupil. The funding for the supplemental grant program is not equalized based on a district's wealth.

The Committee recommends that at-risk students be funded through the proposed primary funding formula by providing these students with an additional weight of 0.25. The committee feels that providing at-risk funding through the primary formula would present two advantages over the current system. First, it would allow for at-risk funding to be equalized based on a district's relative wealth—something the current system does not do. Second, it would simplify the state's funding system by moving the largest single line item that exists outside of the formula (26% of total state education funding) into the primary funding formula. The committee also supports the idea that any new formula should contain a provision taking into account the density of a district's at-risk student population – as the current formula does. However, the Committee did not feel that they had a sufficient amount of information available to make a detailed recommendation on this topic.

The Committee recommends reviewing the appropriate measure for determining which students are identified as at-risk.

- **English-Language Learners:** In 2012, 207,417 students in the state of Illinois received English-Language Learner (ELL) services. The state provides funding for ELL services through its bilingual student program. In FY 2013-14, this program received \$63.4 million in state funding, which equates to approximately \$360 per identified ELL student. The Committee feels it would simplify the funding system if this program were folded into the new proposed single funding formula. ELL students would then receive a weight in the new formula. The Committee recommends a weight of 0.20 be provided for ELL students. The committee also recommends that if the ELL program is fully funded then there should be an attempt to move students off of ELL designation within 2 years.
- **Special Education:** Currently, there are 292,492 students receiving special education services in Illinois. The Committee recommends that special education students be funded through the proposed primary funding formula by providing these students with an additional weight. The Committee feels that by collapsing most of the six different special education funding programs (Personnel Reimbursement, Funding for Children Requiring Special Education Services, Orphanage Tuition, Private Tuition, Summer School, and Transportation) into the new single funding formula, excluding high-cost special education, it will create greater simplicity and predictability for school districts. Greater simplicity will be achieved by having fewer funding sources to deal with, and districts will gain greater predictability because the funding would be insulated within the primary formula and would be less likely to be impacted by annual budget decisions. The Committee recommends that a set number of special education students, based on a state-wide average of the percentage of special education students in each district, be utilized when determining funding for special education students so as to avoid the risk of over-identification. The Committee recommends that the state also use a system of set weights based on the special education services that a student receives.

- **High-Cost Special Education Students:** Approximately 5% of special education students could be defined as being “high need” or “high cost.” School district expenditures for a high-cost student can exceed 13 times that of a general education student. In addition, high-cost special education students are not evenly distributed through districts—placing disproportionate spending pressures on certain districts. The committee recommends that the state maintain funding for districts to help cover the additional costs that districts bear for educating high-need special education students
- **Gifted & Talented:** The committee expresses support for additional funding for students who are identified as gifted & talented (G&T). Committee members felt that this funding amount should be in the range of \$25 to \$50 per student and the percentage of students identified as G&T in each district should be capped. There is also support for funding specific G&T programs, such as Advanced Placement courses, within the formula.

3. HIGHER EXPECTATIONS AND ACCOUNTABILITY for Schools and Students

The Committee expresses strong support for the idea that any new formula be designed to improve student learning. Committee members feel that they cannot support a higher level of education spending that does not come with higher educational expectations and accountability for both students and schools. Several members support the idea and current practice of state intervention programs for districts that do not meet state educational expectations. There was no consensus reached by the full Committee on what expectations should be and what intervention, if any, would be used by the state for districts that did not meet expectations.

Committee Recommendation:

The Committee recommends that the State Board continue with its implementation and execution of reform measures and processes for district intervention. If the State is able to provide sufficient funding for schools such that the EFAB level is attained, then the General Assembly should consider passing legislation that would require school districts to offer a minimum core education along with specific in-school services, for example, AP courses, dual credit/enrollment, art, music, gym, high level science and mathematics courses, school counselors and social workers, etc....

4. GREATER ACCOUNTABILITY IN SPENDING

There is consensus from the Committee that local school districts should be held more accountable for their spending. Most Committee members express the view that dictating how local districts spend money from the state would be counterproductive. The majority of members believe that the best way to produce results is to require districts to provide clearer information about how education dollars are being expended including clear reporting of expenditures by building within a district.

Committee Recommendation:

The Committee feels that the best way to accomplish this goal is to require districts to account for education spending at the school level as opposed to the district level, as it currently is done. School level accounting will help uncover improper disparities of funding within districts and will force districts to reevaluate funding choices and better equalize educational opportunities throughout their districts. The Committee cautions that not all funding disparities between schools are problematic; some schools will have higher level of funding because of the populations the schools serve. The goal, however, of school-level accounting is to make spending more transparent and to identify when unequal spending is improper.

5. MINIMUM STATE PAYMENTS

The Committee believes that any new funding formula should provide every district with a minimum amount of state funding. Committee members feel that providing each district with a minimum amount of funding

ensures that there will be a sense of inclusion and fairness for all districts in the state. The formula grant program guarantees that all districts will receive at least \$218 in state funding per pupil. In their presentation to the committee, Advance Illinois stated that the wealthiest 20% of districts receive approximately \$1,150 per student on average. Some members expressed the concern that the current funding system directs too much state funding to the wealthiest districts and that the minimum funding amount may need to be adjusted to take this into account.

Committee Recommendation:

The new formula must provide a minimum level of funding of to all districts. The amount of the minimum payment should increase or decrease each year by the same percentage that the overall state funding for education increases or decreases.

6. HOLD HARMLESS

A new funding formula means changes to the levels of state funding received by districts. Districts will need time to adjust their budgets to the new levels of funding. This will require increased funding because a hold harmless provision requires that no district lose funding during the period of the provision.

Committee Recommendation:

The Committee recommends that, should funding formula changes be made without adequate increases in appropriations, districts would not experience immediate decreases of funding levels. The hold harmless provisions should phase out during a 3-5 year period to allow districts to adjust to the revised distribution system and prepare for any reductions in funding that would occur with the new formula. The Committee discussed extensively that hold harmless provisions divert funds from students and districts identified as needing additional support. Ongoing implementation of the hold harmless provisions should balance the need of a predictable, reliable formula with the equity and adequacy of overall funding.

7. LOCAL ABILITY TO PAY / PTELL ADJUSTMENT

PTELL districts are limited in the annual growth of their property tax collections. Tax extensions may grow by no more than the lesser of CPI or 5%. In the past, with tax extensions capped and EAV growing substantially, local tax rates declined. The formula uses tax rates set in statute to calculate district wealth (3.00% for Unit, 2.30% for Elementary and 1.05% for High School). PTELL districts noted that applying these tax rates to their full EAV produced a measure of local wealth they could not achieve due to tax caps; when calculating GSA, in some cases the formula assumed more in local wealth than they could achieve, reducing their GSA claims. The solution-enacted beginning with FY 2000 was to create a second measure of local wealth. For these districts, we use the lesser of their actual EAV or the prior year EAV inflated by the amount by which their tax extensions could grow. Over time, the cost of the PTELL adjustment has grown substantially. While there was a decrease beginning in FY 2011, as property values begin to rise again, the cost will again go up.

Committee Recommendation:

The Committee determined that no other states have anything similar to the PTELL adjustment and that it was inappropriate to use the education funding formula for property tax relief. The Committee believes an effort should be made to include in the formula a better measure of a school district's ability to fund education programs within the district beyond property wealth. Notwithstanding this determination, it was determined that more time was needed to adequately address this problem and that temporary measures, such as constraints on the upper limits for adjustments, could help to address the problem.

8. TAX RATES

The School Code establishes maximum tax rates by fund/purpose for each district based on organization type. The current total of all operating rates for dual districts, for both elementary and high school districts is greater than the total for unit districts. This means dual districts, both elementary and high school, have greater local property tax revenue potential than unit districts. The difference in these rates provides a disincentive for dual-districts to consolidate into unit districts.

Committee Recommendation:

The Committee determined that elementary, middle, and high school districts should not have taxing authority that exceeds that of unit districts.

9. MANDATES

The School Code establishes instructional and non-instructional requirements for public school districts. Many of these mandates are unfunded and therefore cause an added financial burden on school districts. In some cases, these unfunded mandates can become very costly. Considering the current financial situation of the state, the elimination of some of the less vital mandates could help school districts without the promise of new education funding.

Committee Recommendation:

The committee recommends further discussion of this issue including a review of the Instructional Mandates Task Force report (June 2011) and gathering recommendations from stakeholders on specific unfunded mandates that could be eliminated. The committee in no way recommends that all mandates be eliminated. This issue would obviously involve discussion and input from all impacted groups.

10. TRANSPARENCY

The GSA grant consists of two funding streams, the GSA formula grant and the supplemental low-income grant. An adjustment is made to the formula grant calculation for districts subject to PTELL.

Committee Recommendation:

In an effort to allow policy-makers to detect trends within the various components of an education funding formula, the committee believes there should be greater transparency within any lump sum appropriations including GSA. Having information on these trends will allow policy-makers to make changes if necessary to ensure that schools are being funded in the way that the GSA formula was intended.

The committee recommends that the State Board of Education appropriation bill list, for informational purposes only, the approximate amounts, as provided by the State Board of Education, that are forecast to be paid for:

1. Foundation Level grants, including a separate amount of the adjustment made due to PTELL; and,
2. Supplemental low-income grants.

If GSA is appropriated in more than one lump sum, these guidelines apply to any lump sum for the purpose of GSA. Nothing in this recommendation is intended to alter the manner in which the State Board of Education calculates GSA payments.