

Issue Brief

Illinois' School Funding Formula and General State Aid

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For more information please contact
Chrissy Mancini, Director of Budget and Policy Analysis at
cmancini@ctbaonline.org or 312-332-1481

Summary

There are four primary approaches to funding K-12 public education. These range from full state funding to flat grants. Illinois has selected a modified Foundation Level approach as its primary basis for school funding. The Illinois Foundation Level system has two distinct steps. First, a minimum guaranteed amount of funding per student that should be available to all schools – literally, the “**Foundation Level**” – is identified. Second, the Illinois State Board of Education then uses a formula (the General State Aid formula or “**GSA**”) to determine how much of the Foundation Level will be covered by the state, leaving the remainder to be covered by local property tax resources. The vast majority of school districts in Illinois have their state education funding determined under the preceding “Foundation Formula” approach.

A small percentage of Illinois school districts in affluent communities make such significant contributions to per pupil spending that they would receive no funding from the state under the GSA Foundation Level formula. In this case, state contributions to local spending are based on either the “**Alternative Formula**” or “**Flat Grant Formula**.” The policy concept behind using Alternative and Flat grants in such cases is that the state should be contributing to the education of every child, even in those instances where local resources provide more funds than the Foundation Level minimum.

This brief analyzes the following aspects of education funding in Illinois:

- The main philosophical approaches to education funding and how they differ from Illinois’ Foundation Level system.
- The Illinois Foundation Level.
- Common misperceptions about the Illinois Foundation Level.
- The Education Funding Advisory Board’s (“**EFAB**”) approach to the Foundation Level.
- The basic elements of Illinois’ Foundation Formula.
- The basic elements of Illinois’ Alternative Formula.
- The basic elements of Illinois’ Flat Grant Formula.
- The basic elements of Illinois’ Poverty Grant.
- The “Hold Harmless” concept.
- The role of Mandated Categoricals.

1. Different Approaches to Education Funding

Flat Grant: The flat grant method of funding is the simplest approach to distributing state aid. As the name implies, this system identifies a fixed dollar amount per-pupil that the state will contribute to each local school district. Local communities then have the option to raise additional funds. Iowa is an example of a state that uses this system.

Full State Funding: Under this method, the state provides 100% of the funds expended on education, other than what the federal government provides. There is no additional spending from the local

community. This method allows the state to mandate and collect a uniform property tax and combine it with state funds to distribute on a per-pupil basis. Only Hawaii uses this method.

Foundation Support: The majority of states use some form of foundation support approach. Generally, the foundation approach measures local property tax contribution effort versus a pre determined per-pupil expenditure, and requires the state to cover the balance. The driving rationale behind this method is it is supposed to minimize school district per pupil funding inequities across a state that has widely varying local property tax wealth. The concept is simple, if reliance on widely varying amounts of property tax wealth creates wide discrepancies in school funding, the state has the responsibility to even things out.

Initially, the foundation approach was designed to create a standardized statewide property tax rate, and then cap the property tax for schools. This was intended to help limit the portion of education financed by local property taxes and assure that the balance comes from state revenues. The total cost of education per-pupil is then set at an agreed level, and the state support would be the difference between what the local school district can generate by the statewide property tax and the per-pupil base. Districts that wanted to exceed the per-pupil amount must agree to raise their local property taxes.

Few states use a statewide property tax system in their Foundation Level formula, as initially intended. Instead, most states—including Illinois—still rely on a combination of local rather than state-based property taxes, together with traditional state-based revenue sources, like income or sales taxes, to fund the established per child minimum level of Foundation support.

District Power Equalization: This method is designed to equalize per-pupil expenditures across the state. Under this approach, the state guarantees that all local school districts will receive the same property tax yield for the same tax rate. Essentially, this method holds property tax rates for education constant across a state, and then has the state contribute the difference between what is raised using that rate in low property value areas compared to high property value areas. Under the method, poorer districts receive more resources from the state and wealthier districts fewer resources. Rhode Island formerly used this system.

2. The Illinois Foundation Level

Each year, the Illinois General Assembly establishes a guaranteed minimum Foundation Level of per-pupil spending. The Foundation Level is the minimum amount that all school districts are supposed to have the ability to expend per pupil, through a combination of state and local property tax revenue. Figure 1 displays the Illinois Foundation Level since FY 1995.

Figure 1: The Foundation Level

Year	Foundation Level
FY 1995	\$2,863
FY 1996	\$2,949
FY 1997	\$3,061
FY 1998	\$3,132
FY 1999	\$4,225
FY 2000	\$4,325
FY 2001	\$4,425
FY 2002	\$4,560
FY 2003	\$4,560
FY 2004	\$4,810
FY 2005	\$4,964
FY 2006	\$5,164
FY 2007	\$5,334

3. Common Misperceptions about the Foundation Level

The Foundation Level is frequently misunderstood by voters and policymakers alike. The following are some of the most common misunderstandings, and the corresponding reality:

- (i) **Myth:** The Foundation Level is the amount of money the state pays per child for education.

Reality: The state does not pay the full Foundation Level. Instead, the Foundation Level is the minimum per child expenditure a school district is supposed to receive, FROM A COMBINATION OF STATE AND LOCAL PROPERTY TAX RESOURCES. The GSA formula determines how much of the Foundation level the state will pay, after accounting for local property tax revenue contributions.

- (ii) **Myth:** The Foundation Level is the total amount expended per child on education in Illinois.

Reality: The Foundation Level is only the starting point for determining how much will be spent on a child's education by any school district. Other items, such as mandated categoricals (e.g., special education, transportation), poverty grants, federal funding and capital expenditures are added to Foundation Level expenditures, to determine the total amount that a district will spend per child.

- (iii) **Myth:** The Foundation Level is what it costs to provide a quality education.

Reality: The current Foundation Level is not at all tied to any actual costs of education. The first real attempt to derive a Foundation Level tied to the cost of meeting a specified measurable, educational goal was done by EFAB, which tied its recommended funding level to the cost of having two-thirds of non-at-risk children pass the state's standardized tests. The FY 2007 Foundation Level is almost \$1,350 less than EFAB.

- (iv) **Myth:** Each school district will at least receive the full Foundation Level per student.

Reality: The state funding formula assumes a minimum contribution in local property tax effort towards the Foundation Level. If a school district is below that minimum, the State will not make-up the difference, and the applicable schools will not receive the full Foundation Level.

4. Components of Illinois Per-Pupil Spending

The state Foundation Level is only part of what goes into per-pupil spending. The three factors that determine how much a school actually spends per pupil are (i) local property wealth, (ii) state aid and (iii) federal funds for the school. State aid consists of GSA funds that support the Foundation Level, as well as mandated categorical, special program, poverty and hold harmless grants. State categorical grants provide funds for special education, vocational education, transportation, school breakfast and lunch, bilingual education and textbooks. Other state grants provide dollars for preschool education, elementary reading programs and truancy and dropout prevention programs. Poverty Grants, Mandated Categoricals and Hold Harmless are treated in detail subsequently in this brief. Other items such as debt and capital expenditures factor in as well.

Federal funds provided through grants to the state from the U.S. Department of Education and the U.S. Department of Agriculture also contribute to per-pupil spending. Most of these funds are targeted toward supporting low-income students or special programs such as No Child Left Behind. Federal funding amounts to between 9% and 10% of total spending on education in Illinois. One of the largest federal education programs is the Title I program, which helps ensure students from low-income backgrounds can meet rigorous state learning standards.

There are two per-pupil expenditures reported by districts:

Instructional expenditure per pupil, which includes the direct costs of teaching pupils or the interaction between teachers and pupils; and

Operating expenditure per pupil; which includes the gross operating cost of a school district excluding summer school, adult education, bond principal retired, and capital expenditures.

5. Education Funding Advisory Board

One of the traditional problems with the Illinois Foundation Level is that it historically has not been based on any objective measure of the cost of an adequate education. Instead, the state's Foundation Level is usually based on available state General Revenue Funds. To address this problem, in 1997, Public Act 90-548 created the Illinois Education Funding Advisory Board (**EFAB**). EFAB is a nonpartisan board, made up of representatives of education, business and the public. EFAB's mission each year is to identify a minimum per-pupil foundation funding level, based not on available state General Revenues, but on the actual cost of providing an adequate education. The metric for what counts as a quality education EFAB selected is an education that is sufficient in quality so that at least 67% of Illinois' non-at-risk children will pass the state's standardized tests. EFAB then created a methodology for computing the cost per child of satisfying this standard, and made that amount its Foundation Level recommendation. At risk children, who come from concentrated poverty or broken homes or have special needs are far more expensive to educate.

Under this methodology, EFAB reviewed the per child spending of school districts that were already meeting the standard of having two-thirds or more of their non-at-risk children passing tests. But EFAB did not want to inflate the Foundation Level by considering the high per child spending of affluent districts.

Instead, the EFAB recommendation is based on, "...the basic education expenditures of low-spending schools exhibiting a high academic performance."¹ The emphasis on low spending efficiently operated school districts is a significant element of the EFAB approach. It would have been easier for EFAB to take a simple average of spending per child over all school districts that had two-thirds or more of their non-at-risk children passing tests. But that would not control for efficiency.

In an effort to create a Foundation Level recommendation that would not be inflated by the spending habits of school districts in affluent communities, EFAB selected a methodology that isolated the spending of school districts where both two-thirds or more of the non-at-risk children passed standardized tests, and spending per child was at or below local economic cost factors indicated they should spend to reach those results.

EFAB ultimately selected the quantitative analysis conducted by the nationally recognized education-consulting firm Augenblick & Myers for isolating high performance, efficient spending school districts. Augenblick & Myers considered districts "...to be efficient if their spending was less than the level predicted for them using a regression analysis of local economic costs."² For a school district's spending to be included in the calculation of EFAB's Foundation Level recommendation, that school district had to satisfy a number of criteria established by Augenblick & Myers, such as: (1) level of success in meeting state standards; (2) socio-economic characteristics such as district wealth or proportion of pupils from low-income families; and (3) efficiency in terms of spending. Augenblick & Myers then analyzed the selected school districts' basic spending (excluding spending for capital purposes, transportation, special education, other special programs, and any service funded by federal revenue) to determine a base cost

¹ <http://www.isbe.net/EFAB/html/creation.htm>

² For the full Augenblick & Myers report please visit <http://www.isbe.net/EFAB/archive/PDFs/fullreport.pdf>

figure. Those amounts were excluded because Augenblick & Myers assumed the state aid system would deal with them separately, in addition to the foundation program.

Once a Foundation Level is established using this methodology, EFAB suggests increasing that amount by an annual inflation measure to ensure the Foundation Level maintains its value over time. The inflation measure EFAB selected is the Employment Cost Index, or "ECI." EFAB chose this inflation measure rather than the more common Consumer Price Index or "CPI" because employment costs are the primary costs paid by school districts, accounting for over 80% of school district budgets statewide.

Augenblick & Myers collaborated with the Illinois State Board of Education to create a thorough database to identify these successful school districts. They collected information on each district including wealth and tax rates, enrollment and demographic information, personnel information such as the average years of teacher experience, teachers per 1,000 pupils and the average salaries of teachers and information on at-risk students. They also collected test score data in various subjects for a number of years and the per-pupil expenditure of each district. Augenblick & Myers was able to obtain information from almost all unit and elementary districts and 78% of high school districts.

The firm based its per-pupil cost figure on the minimum standard of having at least 67% of the district's students meet the Illinois Standards Achievement Test expectations for success. They also developed a spending efficiency criteria based on enrollment, operating tax rate, property wealth per pupil, percent of students in special education, percent of students eligible for free or reduced price lunches, teachers per 1,000 pupil and average salary of teachers. Districts were considered efficient if their spending was less than the level predicted for them and at least 67% if students met state standards.

This means the EFAB Foundation Level per-pupil recommendation is based solely on those districts that spent less than the level predicted for them and still had 67% of their non-at risk students meeting state standards.

For Fiscal Year 2006, EFAB recommended a per-pupil funding level of \$6,405. They also recommended that number increase by the Employment Cost Index each year, meaning the FY 2007 level should be \$6,675. The current Fiscal Year 2007 state per-pupil funding level of \$5,334 is \$1,341 less than EFAB's recommendation. It is not uncommon for the state to fail to satisfy EFAB's recommendation. In fact, EFAB has recommended Foundation Level amounts since 1997, but the state has never fully funded those recommendations.

6. General State Aid (GSA) in Illinois

There are three variations of the GSA formula that the state uses to determine how much funding it will distribute to local school districts. The Illinois State Board of Education (ISBE) determines which of the three formulas to use for each district, based on that district's available local revenue. At its most basic level, for most districts the state simply determines how much of the Foundation Level a district can fund on its own, and then makes up the difference.

The process involves four steps. First, the General Assembly establishes the minimum Foundation Level amount of funding per child every school district should receive. Second, ISBE determines how much of that minimum amount per child should be covered by local revenues generated from property taxes. Third, ISBE identifies the difference between (i) local support per child and (ii) the Foundation Level amount. Finally, ISBE determines the amount the state must cover, by multiplying the applicable school district's average daily attendance ("ADA") times the difference between the Foundation Level, and the portion of the Foundation Level covered by local property taxes.

6a. Foundation Level Formula

Translating any mathematical formula into plain English is a difficult proposition. However, understanding the foundation level formula is worth the effort. The Foundation Level is the basis of education funding for the vast majority of school districts in Illinois, approximately 81% of districts are funded using this formula. In essence, the Foundation Level formula does four things.

The foundation formula first determines whether a school district qualifies as a “Foundation Level” school district (as opposed to the alternate or flat grant formula.) To qualify, a local school district must have available local property tax resources that will only cover 93% or less of the Foundation Level amount set by the Illinois General Assembly.

Available local resources are calculated by determining the assessed value of the local property multiplied by 2.3% for elementary districts, 1.05% for high school districts and 3.0% for unit districts. Added to this is any revenue generated from the Corporate Personal Property Replacement Tax. This figure is then divided by the school districts ADA. If a school district qualifies to receive its General State Aid (GSA) based on the Foundation formula, ISBE uses the following to determine how much the state will contribute to that district.

Foundation Formula:

General State Aid = (Foundation Level - Available Local Resources) multiplied by ADA

6b. Alternative Formula

If a district is able to cover between 93% and 175% of the foundation level from its own, local property tax wealth, that school district will have its GSA calculated by using the Alternative Formula, rather than the Foundation Level formula. The Alternative Formula is based on the Foundation Level, multiplied by the ADA, and then multiplied again by the available local resources. It provides about 5% to 7% of the Foundation Level amount to schools in alternative grant districts. About 15% of all schools in Illinois use the Alternative Formula.

Alternative Formula:

GSA Alternate = Foundation Level multiplied by ADA, with that product multiplied by the following percentage

$$\left[\frac{.07 - \left(\frac{\text{Local Percentage} - .93}{.82} \right) \times (.02)}{.82} \right]$$

6c. Flat Grant Formula

The Flat Grant Formula is used for districts whose available local property wealth is 175% of the Foundation Level or greater. These districts have, at a minimum, the capacity to spend \$14,668 per student, which is almost three times the Foundation Level. Yet they still receive extra state funds. The Flat Grant formula simply multiplies the district's ADA by \$218. Only 43 school districts—4.51% of all schools—qualified for the Flat Grant Formula.

Flat Grant Formula: **ADA x \$218**

7. Poverty Grant

Illinois, like several other states, provides funding for at-risk or low-income students by using family income as an indirect measure for being at risk of failure. The state does not allocate dollars based on the actual number of students failing, but rather uses their family income to predict how many are likely to

fail. This is not unusual and avoids creating a monetary incentive for school districts to fail kids. Additionally, studies show that family income is associated with student performance.

The GSA Formula uses a multi-level approach to provide additional funding for the impact of poverty in a district, based on the concentration of low income pupils in a district. The district concentration level of poverty ("**DCR**"), is determined by dividing the district's Department of Human Services 3-year average low-income count, by the prior year average daily attendance. If the DCR is less than 15%, the district receives a flat grant of \$355 per low-income student. Otherwise, the state uses the following formula to determine the level of state support, which is based on the percentage of students from low-income families:

$$[294.25 + (2700 \text{ multiplied by } DCR^2)] \times \text{low-income count} = \text{poverty grant amount}$$

This formula will assure a minimum grant per student of \$355 and a maximum grant per student (for districts with 100% concentration) of \$2,994.25.

The formula is being phased in over a four-year period, with full implementation targeted in 2006-07. A 100% hold harmless provision was initiated with the change in formula and remains in place for 2005-06. That means in 2005-06, no district will receive a poverty grant less than it received in 2002-03, and any increase over 75% will be capped at 75%.

The Illinois poverty grant is much lower than what two notable economists found to be appropriate. Andrew Reschovsky of the University of Pennsylvania and Jennifer Imazeki of the University of Wisconsin, developed a cost index to apply to impoverished students based on the total state of Wisconsin education expenditures. This means a weight is used to allocate for the higher costs of educating low-income students. After establishing a threshold level and dividing this by the number of low-income students in excess of the level, they came up with a cost index of 1.59.

"The fact that our poverty weight is considerably larger than the largest poverty weight used by those states that include such weights in their equalization aid formulas, suggests that these other states underestimate the true costs of educating poor children."³

Applying the 1.59 rate to the current (Fiscal Year 2007) Illinois Per Pupil Foundation level of \$5,334, would produce an outcome of \$8,481 for each low-income student in Illinois. This is significantly more than the poverty grant given to most school districts under the existing sliding scale, and even more than what a district with 100% poverty would receive per student. EFAB recommends that the Foundation Level be \$6,675. Applying the poverty cost index of 1.59 to the \$6,675 EFAB recommendation produces an outcome of \$10,613 as the minimum needed per low income child to have two-thirds of the low-income students in Illinois pass the state's standardized tests.

³ Andres Reschovsky and Jennifer Imazeki, *The Development of School Finance Formulas to Guarantee the Provision of Adequate Education to Low-Income Students* 1997.

8. Hold Harmless

The state has a school funding hold harmless provision that provides if, for any district in 2005-06, the GSA formula yields less than the sum of the district 1997-98 General State Aid and 1997-98 Hold Harmless, a separately appropriated grant will be made to hold those districts harmless to the 1997-98 levels. Districts will be eligible (subject to appropriation) to receive Hold Harmless grants in all subsequent years if the amount of General State Aid the district receives is below the 1997-98 levels described above.

Figure 2: Hold Harmless FY 2003 – FY 2006

	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Appropriation	\$64,200	\$38,600	\$30,129	\$23,469	\$20,211
Number of Districts Receiving Hold Harmless Grants	272	169	138	99	N/A

All \$ in thousands

Source: Illinois State Board of Education FY 2007 Budget

9. Mandated Categoricals

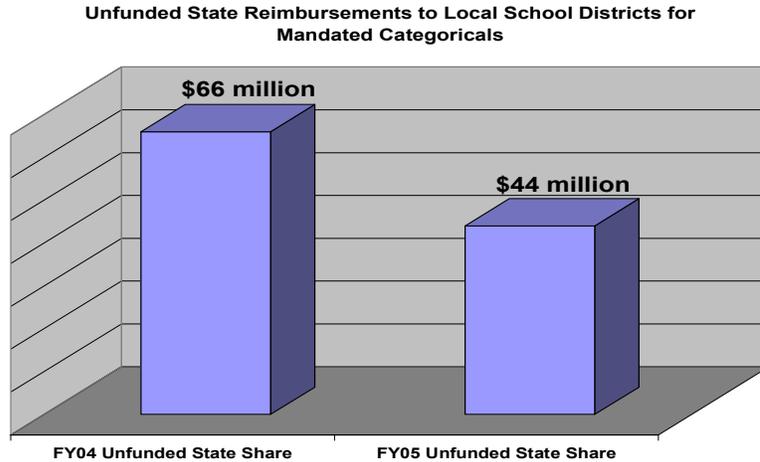
The state reimburses local school districts for the cost of providing legally mandated services (“**Mandated Categoricals**”), including items such as free lunch/breakfast programs, orphanage education, special education and transportation.

Figure 3: Mandated Categoricals

Category \$ in thousands	FY 2005	FY 2006	FY 2007
Illinois Free Lunch/Breakfast	\$20,500.0	\$21,000.0	\$21,000.0
Orphanage Tuition	\$17,400.0	\$16,000.0	\$13,130.0
Sp Ed - Extraordinary Services	\$243,048.0	\$256,836.2	\$268,892.6
Sp Ed - Orphanage Tuition	\$106,100.0	\$92,000.0	\$79,400.0
Sp Ed - Personnel Reimbursement	\$360,000.0	\$363,000.0	\$368,500.0
Sp Ed - Private Tuition	\$66,811.5	\$89,082.0	\$109,080.0
Sp Ed - Summer School	\$6,762.0	\$8,114.4	\$8,694.0
Sp Ed - Transportation	\$317,100.0	\$317,100.0	\$326,607.8
Transportation Regular/Vocational	\$261,630.0	\$261,630.0	\$286,118.0
Grand Total	\$1,399,351.5	\$1,424,762.6	\$1,481,422.4

The amount the state reimburses local school districts is determined through the use of several reimbursement formulas. In the last sixteen years, the state has funded fully reimbursements to local school districts for Mandated Categoricals only three times. For the remaining thirteen years, local school districts have been “prorated” to obtain only a percentage of the total reimbursement districts were supposed to receive. In FY05, prorated reimbursements resulted in a \$44 million shortfall to local school districts. Since the services are "mandated", local school districts have to pay for the state's unfunded portion of reimbursements with local resources.

Figure 4



By only funding a portion of district reimbursements, the state passes the burden of funding these legally required services on to local school districts. This cost shift is compounded by the fact that special education, which is one of the most expensive mandated categoricals, has seen student enrollment increase by 13% since 1995.

In addition, the state has failed to adjust its seriously outdated reimbursement formulas used to calculate the amount the state owes to local school districts for mandated categoricals. Some have remained unchanged since 1985. For instance, the current personnel reimbursement rates for special education teachers remain at the levels established in 1985, \$8,000 per certified full-time special educator, and \$2,800 for non-certified full-time special educators.

On an inflation-adjusted basis, however, the personnel reimbursement rate for these items would increase from \$8,000 to an estimated \$18,714 for a certified educator and from \$2,800 to an estimated \$6,550 for a non-certified educator.⁴ Even doing that would not cover half of the average pay for a special education teacher. ISBE recommends raising the personnel reimbursement rate for certified full-time special educators to \$24,900⁵ per teacher, which would cover only half of the average special education teacher salary.

⁴ Inflation based on Bureau of Labor Statistics Employment Cost Index.

⁵ ISBE recommendation for FY 2005, the last time they recommended a reimbursement rate.

Figure 5

Special Ed Personnel Reimbursement Rates - Amount per full-time teacher

