

# POTENTIAL IMPACT OF A PROPERTY TAX FREEZE ON SCHOOL FUNDING

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## 1. Introduction

Illinois is a relatively low taxing state overall—ranking 33rd in total state and local tax burden as a **percentage of income, when all taxes and fees assessed by every unit of state and local government** are considered.<sup>1</sup> However, when property tax burden is isolated and compared to other states, Illinois typically ranks in the top five. For this reason, elected officials frequently look for ways to lessen the property tax burden faced by their constituents. Given the economic havoc created by the COVID-19 pandemic, the pressure on the General Assembly and Governor Pritzker to relieve some of this property tax burden will grow considerably.

The reason property taxes are relatively high in Illinois has been the state’s historic practice of shifting the primary responsibility for funding K-12 education from state-level taxes down to local property taxes. Illinois has shifted such a material portion of the obligation to fund education from the state down to local school districts, that despite three consecutive years of increased state-level investments in K-12 education under Illinois’ new Evidence Based Formula for school funding (the “**EBF**”)<sup>2</sup>, Illinois still ranks as the most reliant state on local property taxes for funding education in the nation<sup>3</sup>, with over two-thirds of all public funding for K-12 education in Illinois being covered by local property taxes. Because of this strong nexus between property tax burden and school funding in Illinois, state decision-makers interested in relieving property taxes frequently look for ways to inhibit increases in local property taxes levied by school districts. Now, that would make a lot of sense if schools were adequately funded. Unfortunately, public education in Illinois is nowhere near adequately funded. According to the Illinois State Board of Education (“**ISBE**”), total K-12 funding for public education in the state is almost \$7 billion short of what the evidence indicates is needed for all schools to provide an adequate education to the students they serve.<sup>4</sup> Given how significantly underfunded K-12 education is in Illinois, and that the lion's share of the funding currently in the system comes from local property taxes, any attempt to freeze property tax levies by school districts will likely have a negative impact on overall K-12 funding in the state.

## 2. Illinois’ Over-Reliance on Local Property Taxes to Fund Education is the Main Driver of Growth in Property Taxes

In Illinois, K-12 funding comes primarily from two sources: state-level funding and local property taxes. As a result of decades of insufficient funding from the state, a significant portion of the cost of public education in Illinois is covered by local property taxes. According to the most recent national data, Illinois only provides around 25 percent of K-12 funding from state-level tax revenue, while nationally states on average cover 47 percent of K-12 education funding from state-level tax revenue.<sup>5</sup> That

places Illinois dead last in the country among all 50 states in the portion of education funding covered by state-level tax revenue.

On the flip side, nearly 68 percent of K-12 funding in Illinois is covered by local property tax revenue.<sup>6</sup> For comparison, the national average is just 45 percent.<sup>7</sup> In fact, Illinois is currently the state most reliant on local property taxes to fund schools in America.<sup>8</sup> This is why, for generations, the quality of public education a student receives in Illinois has effectively been tied to the property wealth of the community in which that student lives.

In 2017, Illinois replaced its prior “Foundation-Level” school funding formula with the EBF, which is designed to make K-12 funding both adequate in amount and equitable in distribution.<sup>9</sup> The EBF does this by first determining a unique “**Adequacy Target**” for each school district based on its total enrollment and the proportion of its students who are low income, English learners, and have special needs.<sup>10</sup> Next, to determine how close to being adequately funded a school district is, the total state and local funding that district is actually receiving is divided by its **Adequacy Target**.<sup>11</sup> The resulting quotient derived from that computation constitutes a school district’s “**Percent of Adequacy**”. For instance, if a school district has an Adequacy Target of one \$1 million, but only has \$650,000 in total state and local funding, that district’s Percent of Adequacy is 65 percent.

The first time the EBF was implemented was FY2018. At that point in time, ISBE found that state-wide, total K-12 funding was \$7.34 billion short of meeting the aggregate Adequacy Target for all districts.<sup>12</sup> Given that the system was so significantly underfunded overall, the EBF divided school districts into four funding “Tiers” based on their respective Percentages of Adequacy. Tier I includes those districts which have funding that leaves them furthest from their Adequacy Targets, while Tier IV consists of the best funded districts in the state. The EBF then created a distribution matrix to drive most of the new K-12 funding the state provided in a year to those districts that were furthest from being adequately funded, based on their respective Percentages of Adequacy. Under the EBF, 99 percent of all increases in year-to-year K-12 funding – or “**Tier Funding**” – the state provides goes to Tiers I and II, while Tier III receives 0.9 percent, and Tier IV districts, which are already funded at or above their Adequacy Targets, get just 0.1 percent. *(For a more detailed summary of the primary elements of the EBF, see CTBA’s report “[Moving Forward](#).”)*

The EBF sets a minimum target for the state of increasing year-to-year funding for K-12 education by between \$300 million and \$350 million.<sup>13</sup> Since the implementation of the EBF in FY2018, the average increase in year-to-year Tier Funding under the legislation has been \$333.3 million a year.<sup>14</sup> Despite these increased investments under the EBF, the primary source of K-12 funding in Illinois remains local property tax revenue.

### 3. Estimating the Potential Impact of a Property Tax Freeze on K-12 Funding Under SB690

On May 1, 2019, the state Senate passed the first amendment to Senate Bill (“**SB**”) 690. As amended, SB690 established a process for freezing the dollar amount of the property tax levy school districts

could make.<sup>15</sup> Implementation of SB690 was made subject to the condition that Illinois voters ratify SJRCA 1, the proposed graduated-rate income tax amendment to the Illinois Constitution.<sup>16</sup> If SB690 were to be implemented, then beginning in 2022 and continuing in each year thereafter, the amount school districts could levy for local property taxes would be frozen at January 1, 2021 levels, so long as two conditions are met.

First, for the freeze to apply in a given year, the state would have had to have increased K-12 funding under its Evidence Based Funding formula by at least the minimum statutorily targeted amount of \$300 million over and above what the state provided in the prior fiscal year.<sup>17</sup> Second, the state would also have had to have funded at least 97 percent of all mandated categorical costs for items such as transportation and special education in the fiscal year in question.<sup>18</sup>

To create a projection of how a property tax freeze could potentially impact overall school funding in Illinois, CTBA analyzed what would happen to K-12 funding if SB690 had been effective in and applicable to FY2020. This means that both state-level funding conditions would have had to have been satisfied. The first, that formula funding under the EBF would have had to have increased by at least \$300 million from FY2019 levels was satisfied, as K-12 in FY2020 was in fact \$300 million greater than it was in FY2019.

To satisfy the second condition, 97 percent of total FY2020 reimbursement requests for mandated categoricals would have to be funded. Determining what this amount would be is a simple calculation. Start with the FY2020 enacted General Fund Budget, which estimates that the total reimbursement requests for mandated categorical costs will be \$928 million for the fiscal year. Ninety percent of \$928 million is \$835 million. Thus, the state would have to fund at least \$835 million worth of mandated categoricals for the property tax freeze to become operative in FY2020. If the state satisfied this condition, it would represent an increase of \$154 million from the actual reimbursement of mandated categorical costs the state made in FY2019 of \$746 million, when the state funded only 85 percent of the \$881 million in requested reimbursements.<sup>19</sup>

So, if SB690 were effective in FY2020, the total cost in additional year-to-year K-12 funding needed to satisfy the conditions for implementing a freeze on the amount of property taxes a school district could levy would be at least \$454 million over FY2019 levels.

#### 4. How a Property Tax Freeze Would Affect K-12 Funding in Illinois

Recall that SB690 was drafted to become effective in FY2022, and if the state satisfied the two conditions which, taken together, identify its minimum K-12 funding level for that fiscal year, the property tax collections for all school districts would be frozen at the prior fiscal year's—FY2021—levels (this is subject to some limited exceptions in the law).<sup>20</sup> So, to make a hypothetical application of SB690 to FY2020, CTBA held property tax levies for education level with FY2019 amounts.

The natural consequence of holding property tax levies flat on a year-to-year basis, however, is that there will be no new property tax revenue available to cover any of the growth in the actual costs of educating students in any school district, whether caused by inflation or other factors. This, in turn,

means growth in all year-to-year funding for a school district that may be needed to cover the natural increases in the costs of providing education, would have to come solely from the year-to-year increases in funding that district received from the state. And that in all likelihood will create significant school funding problems over time, as detailed in Figure 1.

Figure 1 shows an estimate of the difference in total state and local school funding that is available under current law in FY2020, versus what would be available if SB690 were applicable to and implemented in FY2020. Under the enacted FY2020 General Fund Budget, the state will invest \$300 million more in K-12 funding under the EBF than it did in FY2019. In addition, the FY2020 General Fund Budget also contains an appropriation for mandated categorical reimbursements that is \$33.4 million more than it was in FY2019.

**Figure 1**  
**ESTIMATE OF POTENTIAL LOSS OF EDUCATION FUNDING IF SB690 WAS EFFECTIVE IN FY2020**  
*(in millions of \$)*

Statewide	K-12 Funding Growth Under Current Law	Estimated K-12 Funding Growth If the SB690 Property Tax Freeze Was in Effect	Total Difference
<b>Year-to-Year Growth in K-12 Funding under EBF</b>	\$300	\$300	\$0
<b>Year-to-Year Growth in Property Tax Revenue</b>	\$520.8	\$0	(\$520.8)
<b>Anticipated Year-to-Year Increase in Funding of Mandated Categoricals</b>	\$33.4	\$154.5	\$121.1
<b>Total Year-to-Year Growth in Funding</b>	<b>\$854.2</b>	<b>\$454.5</b>	<b>\$399.4 (-53%)</b>

*Source: CTBA analysis of IDOR Tax Statistics*

Moreover, since there is no freeze under current law, school district levies can be anticipated to increase as normal. Over the last five years, the average annual growth in local property tax revenue raised to fund K-12 education statewide was \$520.9 million. Hence, CTBA will assume school districts will realize that level of year-to-year growth in local property tax revenue in FY2020. When that \$520.9 million in property tax revenue growth is added to the \$300 million in new state level funding under the EBF, plus the \$33.4 million bump in mandated categorical reimbursements, it results in a total of \$854.2 million in new, year-to-year funding for K-12 statewide in FY2020, as shown in Figure 1.

Under SB690, the state would increase total year-to-year K-12 funding under the EBF by the same \$300 million that is appropriated under the enacted FY2020 General Fund Budget, which is enough to satisfy the first condition for making the freeze operative. To satisfy the second condition, the state must fund 97 percent of all mandated categorical requests in FY2020, which would require a \$154.5 million increase over FY2019 funding levels, which is greater than the \$33.4 million increase currently contained in the FY2020 General Fund Budget. Of course, local property tax levies would be frozen, meaning the only new revenue available to districts would be the \$300 million under the EBF and the

\$154.5 million for mandated categoricals, for a total year-to-year increase of \$454.5 million. As shown in Figure 1, that means the amount of new revenue available to fund K-12 education statewide would be around **\$399.4 million or 53 percent** less in FY2020 under SB690 than it is under current law.

Figure 2 shows an estimate of the regional distribution of revenue growth in FY2020 with and without a property tax freeze, assuming that new state funding under the EBF is distributed in the same proportion as it has been previously in FY2018 and FY2019.

**Figure 2**  
**DISTRIBUTION OF POTENTIAL REVENUE LOSS IN FY2020**  
**K-12 FUNDING UNDER SB690 (IN MILLIONS OF \$)**  
**BY GEOGRAPHICAL REGION**

	Cook County (excluding CPS)	CPS	Collar Counties	Downstate
<b>Total Revenue Growth under Current Law</b>	\$216.73	\$192.32	\$208.97	\$236.22
<b>Total Revenue Growth under SB690 Property Tax Freeze</b>	\$87.44	\$82.07	\$132.75	\$152.24
<b>Difference</b>	<b>(\$129.2)</b>	<b>(\$110.2)</b>	<b>(\$76.2)</b>	<b>(\$84)</b>
<b>% Difference</b>	<b>(59.6%)</b>	<b>(57.3%)</b>	<b>(36.5%)</b>	<b>(35.6%)</b>

*Source: CTBA analysis of IDOR Tax Statistics and CPS Budget Books*

Then there’s the impact of inflation. To this point, the analysis has just focused on nominal, non-inflation adjusted dollars. Of course, inflation does drive up the cost of everything, from buying groceries to funding schools. State-wide, K-12 funding in FY2020 had to increase by **\$252.8 million** over FY2019 levels, just to stay even with FY2019 in real terms.<sup>21</sup> Which means **\$252.8 million** of the \$854.2 million nominal dollar increase in year-to-year funding realized in FY2020 will merely cover keeping pace with inflation, leaving **\$601.4 million** as the real, inflation adjusted increase. Given that total K-12 funding from all state and local sources in FY2019 was **\$28.8 billion**, this means under current law, in FY2020, total state and local funding for K-12 increased by just **two percent** in real, inflation adjusted terms over FY2019 levels. If the SB690 property tax freeze were effective in FY2020, however, the real year-to-year growth in K-12 funding would be just \$201.7 million or less than **one percent**.

The estimated loss in annual statewide K-12 funding that likely would occur if a property tax freeze like the one in SB690 becomes operative is hard to justify, given that statewide, school districts already face an average Adequacy Gap per Pupil of \$4,149 for FY2020, as shown in Figure 3. The **“Adequacy Gap per Pupil”** is the average difference between:

- i. What the EBF identifies as the aggregate Adequacy Target of state and local funding all school districts need to implement evidence-based practices that enhance student academic performance in a given fiscal year; and

- ii. Actual state and local K-12 funding received by school districts below their respective Adequacy Targets in that fiscal year; divided by
- iii. The total enrollment of all students in such underfunded school districts.

**Figure 3**  
**AVERAGE ADEQUACY GAP PER PUPIL AND LOW INCOME AS A PERCENTAGE OF STATE TOTAL, BY GEOGRAPHIC REGION, FY2020**

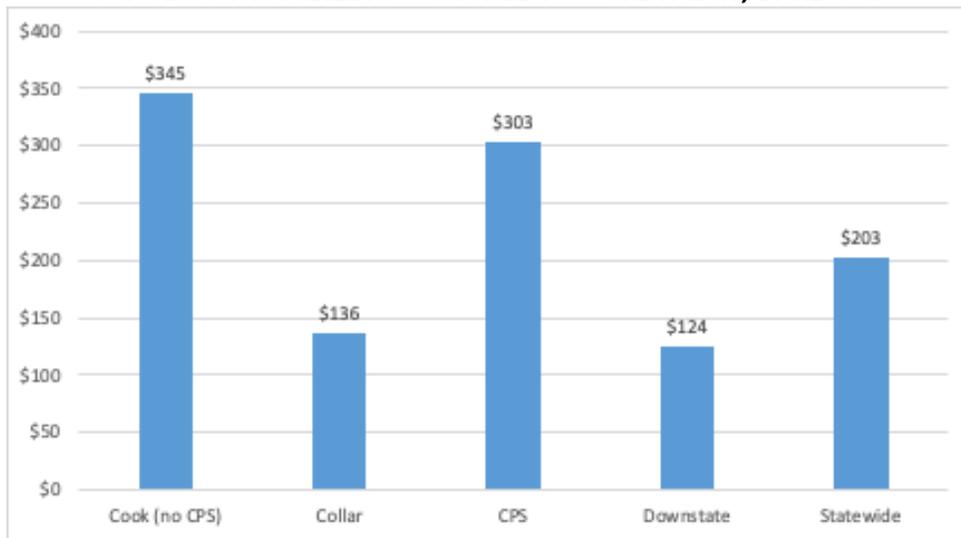
	Adequacy Gap per Pupil (excluding Tier 4)	% Concentration of Low Income Students in Underfunded Districts by Region
<b>Cook (not CPS)</b>	\$3,804	53.11%
<b>CPS</b>	\$5,285	77.90%
<b>Collar Counties</b>	\$3,924	40.57%
<b>Downstate</b>	\$3,802	47.26%
<b>Statewide</b>	\$4,149	45.89%

*Source: CTBA analysis of ISBE FY2020 EBF Distribution Full Calculations*

This loss of revenue would be particularly detrimental for districts with high concentrations of at-risk students like CPS, which could lose around \$110 million in year-to-year revenue growth because of a property tax freeze, despite having the largest Adequacy Gaps (geographically) per pupil in the state, and serving a total student population that is 77.9 percent low-income.

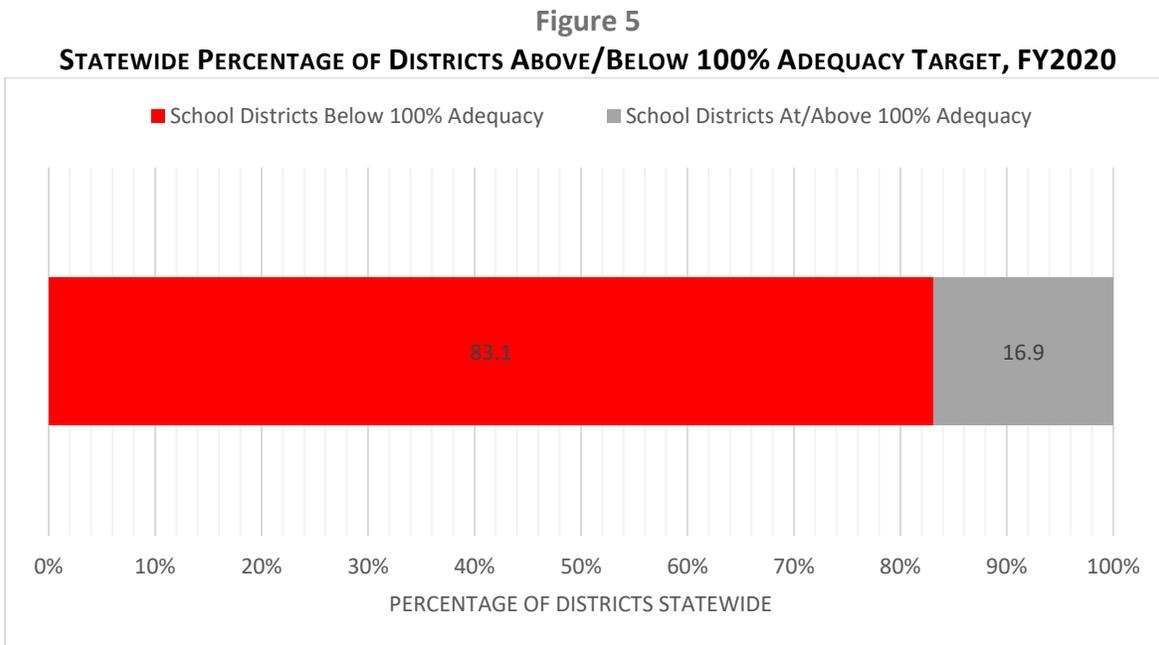
When compared to current law on a per-pupil basis, if an SB690 styled property tax freeze were in effect in FY2020, it would result in a reduction of funding for education that would range from \$124 per pupil downstate to \$345 per pupil in suburban Cook County, as shown in Figure 4.

**Figure 4**  
**PER-PUPIL REDUCTION IN SCHOOL FUNDING IN FY2020 WITH PROPERTY TAX FREEZE AS COMPARED TO CURRENT LAW, BY REGION**



*Source: CTBA analysis of IDOR Property Tax Statistics, CPS Budget Books, and ISBE Enrollment data*

The potential impact of a property tax freeze on school funding is particularly worrisome considering how underfunded overall K-12 education currently is in Illinois. As of FY2020, only 16.9 percent of the 850 school districts in Illinois had financial resources at or above their respective Adequacy Targets.<sup>22</sup> This of course means that the vast majority—706 districts or 83.1 percent—have fewer resources than what the evidence indicates is needed to educate the students they serve.<sup>23</sup>



Source: CTBA analysis of ISBE FY2020 EBF Distribution Quick Facts

Moreover, according to ISBE, at the beginning of the 2019-2020 school year, the \$7.07 billion appropriation for K-12 education was \$6.43 billion short of what the EBF indicates was needed for every district to meet the educational and social-emotional needs of the unique student population it serves.<sup>24</sup> Prohibiting school districts from accessing natural growth in property value would worsen that \$6.43 billion funding gap and frustrate the current legislative goal of fully funding the EBF by 2028.<sup>25</sup>

## 5. Negative Impacts of Property Tax Limits on Other Services and Along Racial Lines

A report from the Center for Budget and Policy Priorities (CBPP) found that property tax limits hurt the ability of local governments and schools to provide adequate levels of public services.<sup>26</sup> The reasons for this are easy to see. For instance, many states began to adopt property tax limits in the 1970s.<sup>27</sup> That hurt the capacity of school districts to educate students because those artificial limits on their ability to raise local property tax revenues coincided with a general decline in both state and federal aid.<sup>28</sup>

Meanwhile, property tax limits forced other units of local government to cut spending on services like city parks, fire and police protection, and libraries.<sup>29</sup> The growing number of states that implemented property tax caps since the 1970s has also led many local governments to shift to more regressive revenue sources like sales taxes and fees—including college tuition and hospital fees to cover service

costs. In fact, nationwide, the share of local revenues derived from fees increased 44 percent, going from 16 percent of local revenue in 1977 to 23.1 percent in 2015.<sup>30</sup> This increased reliance by local governments on regressive revenue sources has fallen disproportionately on poor residents and people of color, since fees and sales taxes consume a larger portion of their income than the income of wealthy people generally, or white people specifically.<sup>31</sup>

Indeed, from a racial-equity standpoint, property tax caps usually provide disproportionate benefits to white homeowners, further widening racial income gaps.<sup>32</sup> Taxing jurisdictions in the United States tend to be segregated by race, and areas with large concentrations of white residents tend to have higher property values. For that reason, people who are white are far more likely than people who are black or Latino to own expensive homes, and typically pay lower effective property tax rates than people who are black or Latino, but fund public services better than in majority/minority communities.<sup>33</sup>

## 6. Conclusion

State and local governments use a variety of taxes that serve different purposes. Property taxes are one important component of any local revenue system, as they are typically more stable than income taxes and less regressive than sales taxes.<sup>34</sup> However, placing artificial caps on property taxes, without addressing the actual cause for the over-reliance thereon, is neither wise nor sustainable over the long term. In Illinois' case, it also has the unintended – but quite negative consequence – of harming school funding, in a state that is already underfunding education by billions of dollars.

### For More Information

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## Endnotes

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- <sup>1</sup> Federation of Tax Administrators, “2018 State Tax Revenue.” <https://www.taxadmin.org/2018-state-tax-revenue>
- <sup>2</sup> 105 ILCS 5/18-8.15, *Evidence-Based Funding for Student Success Act*, (2017).
- <sup>3</sup> National Center for Educational Statistics, Digest of Education Statistics, Table 235.20, 2015-2016
- <sup>4</sup> National Center for Educational Statistics, Digest of Education Statistics, Table 235.20, 2015-2016
- <sup>5</sup> NCES Digest of Education Statistics, Table 235.20, 2015-2016
- <sup>6</sup> NCES Digest of Education Statistics, Table 235.20, 2015-2016
- <sup>7</sup> NCES Digest of Education Statistics, Table 235.20, 2015-2016
- <sup>8</sup> NCES Digest of Education Statistics, Table 235.20, 2015-2016
- <sup>9</sup> 105 ILCS 5/18-8.15. *Evidence-Based Funding for Student Success Act* (2017).
- <sup>10</sup> CTBA, *Moving Forward: Illinois' Evidence Based School Funding Formula Can Reverse Decades of Inequity Created by the Foundation Formula It Replaced* (Chicago, IL: October 2018).
- <sup>11</sup> Add a footnote explaining that under the LCT calculating in some instances the local revenue is an assumed amount, rather than the actual amount the district is getting
- <sup>12</sup> CTBA analysis of Evidence-based funding full calculations FY2018
- <sup>13</sup> CTBA, *Fully Funding the Evidence Based Formula: Four Scenarios* (Chicago, IL: March 2019).
- <sup>14</sup> ISBE, Full FY2018 and FY2019 EBF Distribution Calculations, <https://www.isbe.net/ebfdist>
- <sup>15</sup> Senate Bill 690, Illinois 101st General Assembly.
- <sup>16</sup> Senate Bill 690, Illinois 101<sup>st</sup> General Assembly.
- <sup>17</sup> Senate Bill 690, Illinois 101<sup>st</sup> General Assembly.
- <sup>18</sup> Senate Bill 690, Illinois 101<sup>st</sup> General Assembly.
- <sup>19</sup> CTBA analysis of ISBE State Manded Categorical Grand Program, 2019.  
<https://www.isbe.net/Documents/mcat-history.pdf>
- <sup>20</sup> Notably, school districts may still increase taxes to pay for employee pension benefits and debt service. (Senate Bill 690, Illinois 101<sup>st</sup> General Assembly)
- <sup>21</sup> CTBA Analysis of FY2021 Budget Book showing FY2019 actual appropriations of K-12 Funding
- <sup>22</sup> ISBE, FY2020 Full EBF Distribution Calculation
- <sup>23</sup> ISBE, FY2020 Full EBF Distribution Calculation
- <sup>24</sup> ISBE, FY2020 Full EBF Distribution Calculation
- <sup>25</sup> CTBA Analysis of ISBE FY 2020 Full EBF Distribution Calculation
- <sup>26</sup> Lav, Iris J., and Michael Leachman, “State Limits on Property Taxes Hamstring Local Services and Should Be Relaxed or Repealed.” *Center on Budget and Policy Priorities*, July 18, 2018. <https://www.cbpp.org/sites/default/files/atoms/files/7-18-18sfp.pdf>
- <sup>27</sup> Lav & Leachman, “State Limits on Property Taxes Hamstring Local Services and Should Be Relaxed or Repealed,” (2018).
- <sup>28</sup> Lav & Leachman, “State Limits on Property Taxes Hamstring Local Services and Should Be Relaxed or Repealed,” (2018).
- <sup>29</sup> Lav & Leachman, “State Limits on Property Taxes Hamstring Local Services and Should Be Relaxed or Repealed,” (2018).
- <sup>30</sup> Lav & Leachman, “State Limits on Property Taxes Hamstring Local Services and Should Be Relaxed or Repealed,” (2018).
- <sup>31</sup> Lav & Leachman, “State Limits on Property Taxes Hamstring Local Services and Should Be Relaxed or Repealed,” (2018).
- <sup>32</sup> Lav & Leachman, “State Limits on Property Taxes Hamstring Local Services and Should Be Relaxed or Repealed,” (2018).
- <sup>33</sup> Lav & Leachman, “State Limits on Property Taxes Hamstring Local Services and Should Be Relaxed or Repealed,” (2018).
- <sup>34</sup> Lav & Leachman, “State Limits on Property Taxes Hamstring Local Services and Should Be Relaxed or Repealed,” (2018).