

Fully Funding the Evidence-Based Formula: 2020 Update

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FULLY FUNDING THE EVIDENCE-BASED FORMULA: 2020 UPDATE

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1. Introduction

On August 31, 2017, Illinois decision makers replaced one of the least-equitable K-12 public education funding formulas in the country with the Evidence-Based Funding for Student Success Act, or “**EBF**”.¹ The EBF represents the best practice in school funding because it ties the dollar amount taxpayers invest in schools to those educational practices which research shows actually enhance student achievement over time.

The EBF establishes two ongoing funding metrics for state level investments in K-12 education. First, the EBF sets a target of increasing year-to-year state formula funding for K-12 education by at least \$300 million (the “**Minimum Target Level**”). Note that is \$50 million less than the \$350 million amount actually specified in Section (g) of the EBF. The reason for this is the Property Tax Relief Grant or “**PTRG**” established in paragraph 9.5 of Section (g) of the legislation.

To effectuate the PTRG, the dollar amount of any year-to-year increase in funding the state appropriates to the EBF in a given fiscal year that is in excess of \$300 million, up to and including \$350 million, is dedicated to the PTRG – not to formula funding. When appropriated, this creates up to \$50 million for property tax relief under the EBF for the fiscal year in question. The statute further provides, however, that if any of the funding appropriated for the PTRG is not used for property tax relief in a given year, then such unused PTRG appropriations will be distributed to school districts as additional formula funding.²

This effectively reduces the state’s Minimum Target Level for increased, year-to-year formula funding from the \$350 million specified in the statute to \$300 million each fiscal year – and is precisely how the EBF has been interpreted by the Illinois State Board of Education (**ISBE**) during the first three years of the EBF’s implementation.

Illinois satisfied the Minimum Target Level for increased year-to-year state funding of K-12 education in each of the first three fiscal years—FY 2018, 2019, and 2020—during which the EBF was implemented.³ Due to the significant decline in General Fund Revenue that is being caused by the COVID-19 pandemic,⁴ however, that streak now stands to be broken. **In fact, as enacted, the FY 2021 General Fund budget does not include any year-to-year increase in K-12 funding under the EBF, but rather holds such funding level with FY 2020, in nominal, non-inflation adjusted dollars.**⁵

While that is certainly better than being cut from FY 2020 levels in nominal dollars, it represents a step backward. That is because, **after accounting for inflation, K-12 funding in FY 2021 will be \$242 million, or 2.9 percent less in real terms than it was in FY 2020.**

Second, in addition to the target created for increasing K-12 funding on a year-to-year basis, the EBF also commits the state to funding the formula fully within 10 years of its implementation, which would be June 30, 2027.⁶ According to the Illinois State Board of Education (“**ISBE**”), as of FY 2020, the EBF was underfunded state-wide by some \$6.8 billion,⁷ an amount that will grow to in excess of \$7 billion by the end of FY 2021.⁸ At its current rate of increasing EBF funding, the state is not close to being on track for satisfying the obligation to fund the EBF fully by FY 2027.

The following issue brief identifies three different scenarios for funding the EBF fully overtime, after adjusting for inflation.

2. Appropriating Only the Minimum Target Level of \$300M yearly until the EBF is funded fully

If, going forward, Illinois increases K-12 appropriations annually by the Minimum Target Level of \$300 million established under current law, then it will take until FY 2044 to eliminate the \$6.815 billion shortfall that exists as of FY 2020, in nominal, **non-inflation adjusted dollars**, as shown in **Figure 1**.

FIGURE 1
EBF NOMINAL SHORTFALL AFTER \$300M/YEAR NEW MONEY (\$ MILLIONS)

	FY2020	FY2030	FY2040	FY2044
Total Amount Needed to Fund EBF Fully	\$7,127	\$4,415	\$1,415	\$215
Total New Money Put into EBF since FY2018	\$979	\$3,679	\$6,679	\$7,794
Shortfall	(\$6,815)	(\$4,115)	(\$1,115)	\$0

Source: CTBA analysis of ISBE FY2018, 2019, 2020 & 2021 EBF Calculation.

Of course, after adjusting for inflation, the EBF would still not be fully funded at that point. Instead, in real, inflation adjusted terms, the EBF would remain underfunded by \$3.527 billion, as shown in **Figure 2**. In fact, **if lawmakers decide to continue increasing K-12 funding annually by just the Minimum Target Level of \$300 million, it will take Illinois until 2059 to fund the EBF fully**. That is 41 years after the EBF was first implemented, or more than four times longer than provided for in statute, also as shown in **Figure 2**.

FIGURE 2
EBF INFLATION-ADJUSTED SHORTFALL AFTER \$300M/YEAR NEW MONEY (\$ MILLIONS)

	FY2020	FY2030	FY2040	FY2044	FY2050	FY2059
Total Amount Needed to Fund EBF Fully (infl. adj.)	\$7,127	\$6,187	\$4,594	\$3,827	\$2,513	\$103
Total New Money Put into EBF since FY2018	\$979	\$3,679	\$6,679	\$7,879	\$9,679	\$12,182
Shortfall/Surplus	(\$6,815)	(\$5,887)	(\$4,294)	(\$3,527)	(\$2,213)	\$0

Source: CTBA analysis of ISBE FY2018, 2019, 2020 & 2021 EBF Calculation using Bureau of Labor Statistics ECI historical data.

3. Annually Adjusting the Minimum Target Level of \$300M for Inflation until the EBF is Funded Fully

What if, instead of increasing K-12 funding by \$300 million annually in nominal dollars, the state instead adjusted that \$300 million dollar annual increase to account for inflation? For example, interest grew by 2.7 percent last year.⁹ Which means that to keep pace with inflation, the Minimum Target Level amount of \$300 million would have to be increased by 2.7 percent in FY 2021. This would result in an actual year-to-year K-12 funding increase of \$308 million in 2021. Then in FY 2022, the \$308 million increase made in 2021 would be adjusted for inflation again, resulting in an even greater year-to-year increase in FY 2022 than what pertained in FY 2021, and so on after that.

If inflation continues to grow at the same average rate it did over the last twenty years, then if going forward the Minimum Target Level increase was adjusted annually to account for inflation, the EBF would be fully funded in real terms by FY 2045, as shown in **Figure 3**.

FIGURE 3
EBF INFLATION-ADJUSTED SHORTFALL AFTER
\$300M (INFLATION-ADJUSTED)/YEAR NEW MONEY (\$ MILLIONS)

	FY2020	FY2030	FY2040	FY2045
Total Amount Needed to Fund EBF Fully (infl.adj.)	\$7,127	\$5,847	\$2,654	\$187
Total New Money Put into EBF since FY2018	\$979	\$4,072	\$8,501	\$10,819
Shortfall	(\$6,815)	(\$5,465)	(\$2,156)	\$0

Source: CTBA analysis of ISBE FY2018, 2019, 2020 & 2021 EBF Calculation using Bureau of Labor Statistics ECI historical data

Such an inflation adjustment would reduce the period of time it takes the state to fund the EBF fully by 14 years compared to keeping the increase at \$300 million in nominal dollars each year. That said, it would still take 27 years to fund the EBF fully, which is more than twice as long as required by the statute.

4. Increasing Annual Appropriations by Enough to Fund the EBF Fully in Ten Years, after Adjusting for Inflation

To fund the EBF fully in ten years, going forward Illinois would have to increase K-12 funding by an additional \$1.1 billion each year – or nearly three times the Minimum Target Level currently required by law – as shown in **Figure 4**.

FIGURE 4
FULLY FUNDING INFLATION-ADJUSTED EBF IN 10 YEARS FROM EBF ENACTMENT (\$ MILLIONS)

	FY2020	FY2023	FY2028
Total Amount Needed to Fund EBF Fully (infl. adj.)	\$7,127	\$6,241	\$1,111
Total New Money Put into EBF since FY2018	\$979	\$3,201	\$8,755
Shortfall	(\$6,815)	(\$5,131)	\$0

Source: CTBA analysis of ISBE FY2018, 2019, 2020 & 2021 EBF Calculation using Bureau of Labor Statistics ECI historical data.

5. Conclusion

When it enacted the EBF, Illinois put a funding system in place with the potential to ensure every school in the state has the capacity to meet the educational and social-emotional needs of all children it serves. However, that capacity will not exist until the EBF is fully funded. Unfortunately, at the current rate of

investment, that happy day won't happen until, at best, 2059. Which means generations of Illinois children will continue to receive an inadequately funded education, at a time when education matters more than ever.¹⁰

Indeed, all the research shows that making an adequate investment in public education is not only beneficial for students, but for society as a whole.¹¹ In fact, those states that have done the best job of building the capacity of their public education systems have enjoyed a statistically meaningful advantage in economic growth over states that have not made adequate investments in education.¹²

Given its current, flawed tax policy, Illinois state government lacks the financial wherewithal to fund the EBF in a reasonable period of time. Building the state's fiscal capacity to invest an adequate amount of funding in education over a reasonable period of time is an urgent matter, one certainly made more difficult by the economic damage caused by COVID-19. Which is why it is imperative that legislators in both parties drop partisan differences and work with the governor to resolve the state's fiscal shortcomings as soon as practicable. Illinois' school children should not have to wait another four decades to receive an adequately funded public education.

ENDNOTES

¹ 105 ILCS 5/, Evidence-Based Funding for Student Success Act, (2017).

² CTBA analysis of ISBE Evidence-Based Funding Formula Distribution Full Calculations Fiscal Years 2018, 2019, 2020

³ CTBA analysis of P.A.101-0637

⁴ “April 2020 Revenue Forecast Revision,” Governor’s Office of Budget & Management, April 15, 2020, <https://www2.illinois.gov/sites/budget/Documents/April-2020-GOMB-Revenue-Forecast-Revision.pdf>

⁵ 105 ILCS 5/, Evidence-Based Funding for Student Success Act, (2017).

⁶ CTBA analysis of ISBE Evidence-Based Funding Formula Distribution Full Calculations FY2020; and FY2020 Enacted General Fund Budget

⁷ CTBA analysis of ISBE Evidence-Based Funding Formula Distribution Full Calculations Fiscal Year 2020

⁸ CTBA analysis of ISBE Evidence-Based Funding Formula Distribution Full Calculations Fiscal Year 2020

⁹ CTBA analysis of Bureau of Labor Statistics, “Employment Cost Index Historical Listing: Civilian Compensation”, April 2020, <https://www.bls.gov/web/eci/ecicois.pdf>

¹⁰ CTBA analysis of ISBE Evidence-Based Funding Formula Distribution Full Calculations Fiscal Years 2018, 2019, 2020; adjusted for inflation using Bureau of Labor Statistics, “Employment Cost Index Historical Listing: Civilian Compensation”, April 2020, <https://www.bls.gov/web/eci/ecicois.pdf>

¹¹ C. Kirabo Jackson, Rucker C. Johnson, Claudia Persico, The Effects of School Spending on Educational and Economic Outcomes: Evidence from School Finance Reforms, *The Quarterly Journal of Economics*, Volume 131, Issue 1, February 2016, Pages 157–218, <https://doi.org/10.1093/qje/qjv036>

¹² Illinois State Board of Education, “Research Base Behind the Illinois Evidence-Based Funding Model.” <https://www.isbe.net/ebfspendingplan>