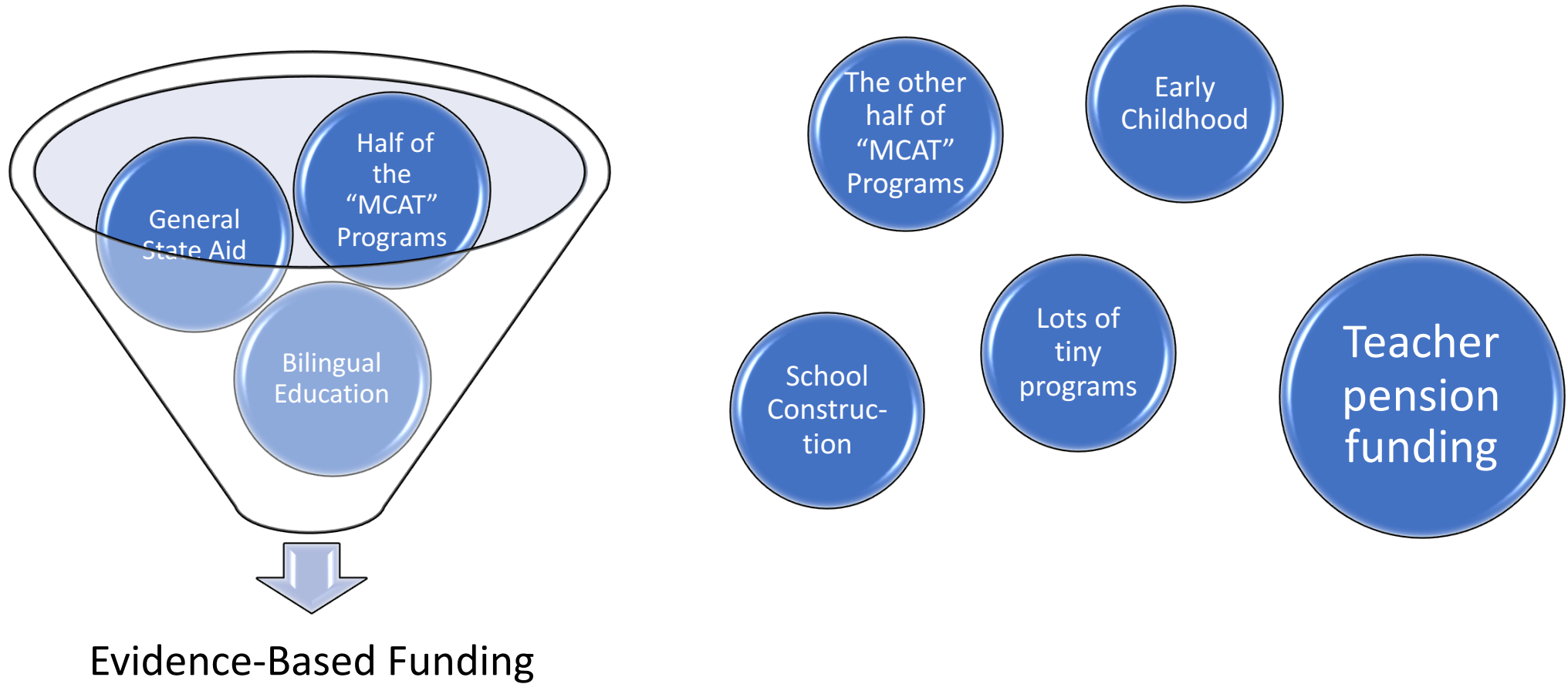


THE EQUITY BOOST

Accelerating Equity Through the
New School Funding Formula

**PROBLEM:
STATE FUNDING FOR
TEACHER PENSIONS IS
INEQUITABLE**

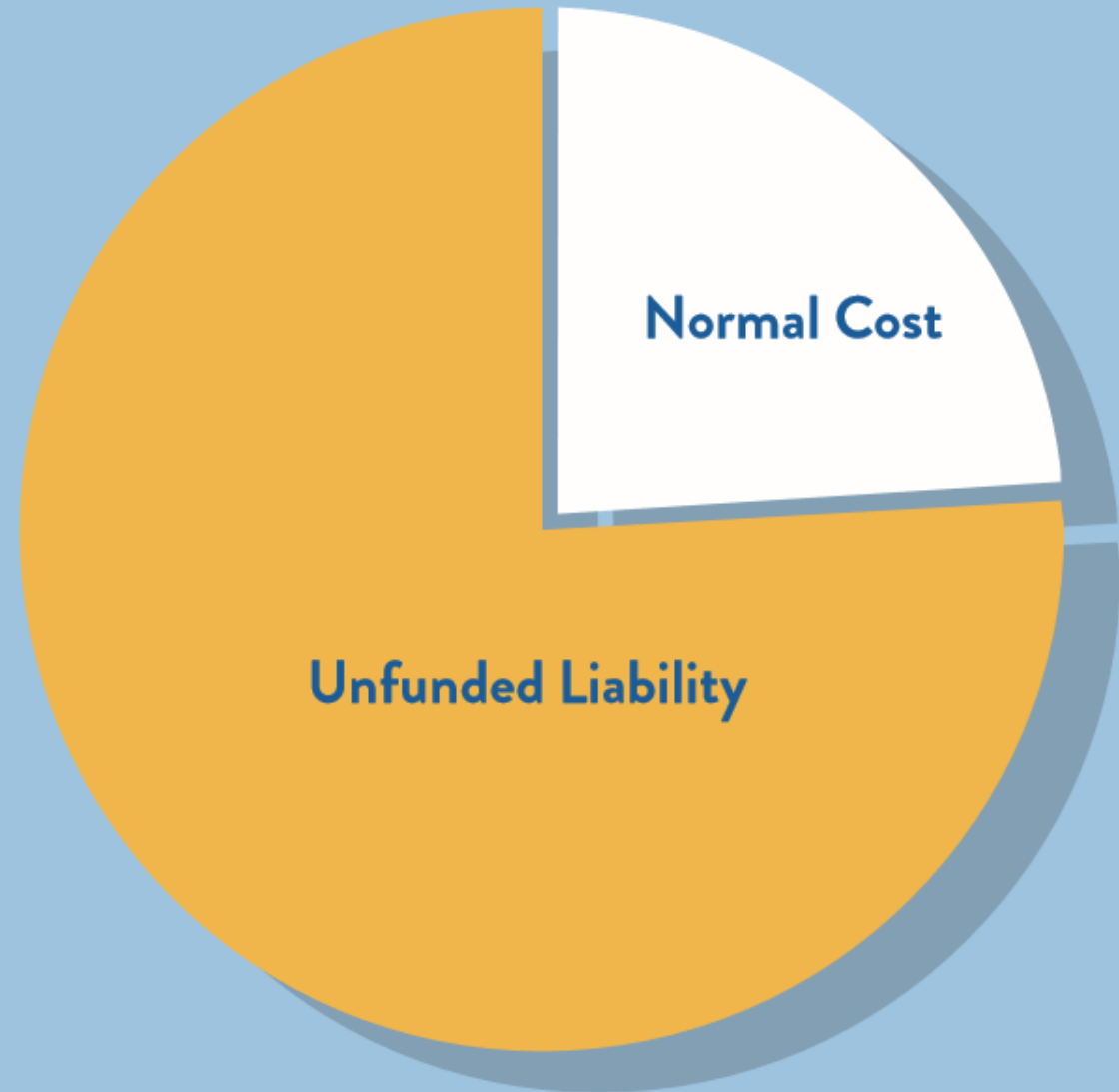
IL education funding: in or out of the formula?



PROBLEM: STATE FUNDING FOR TEACHER PENSIONS IS INEQUITABLE

The State's \$4.5 billion teacher pension payment covers both "normal cost" and "unfunded liability."

Of the \$4.5 billion the state of Illinois contributed to the Teachers' Retirement System (TRS) in FY19, about a quarter of it paid for current or "normal cost." The rest covered debt from previous years, known as "unfunded liability." Both need to be addressed. Dealing with the inequitable way that normal cost payments are handled is an important step in that direction.





The State pays the certified amount, which represents the amount needed to pay off 90% of the pension debt by 2045. In FY19, that equaled 42.8% of payroll.



Teachers pay 9% of salary.

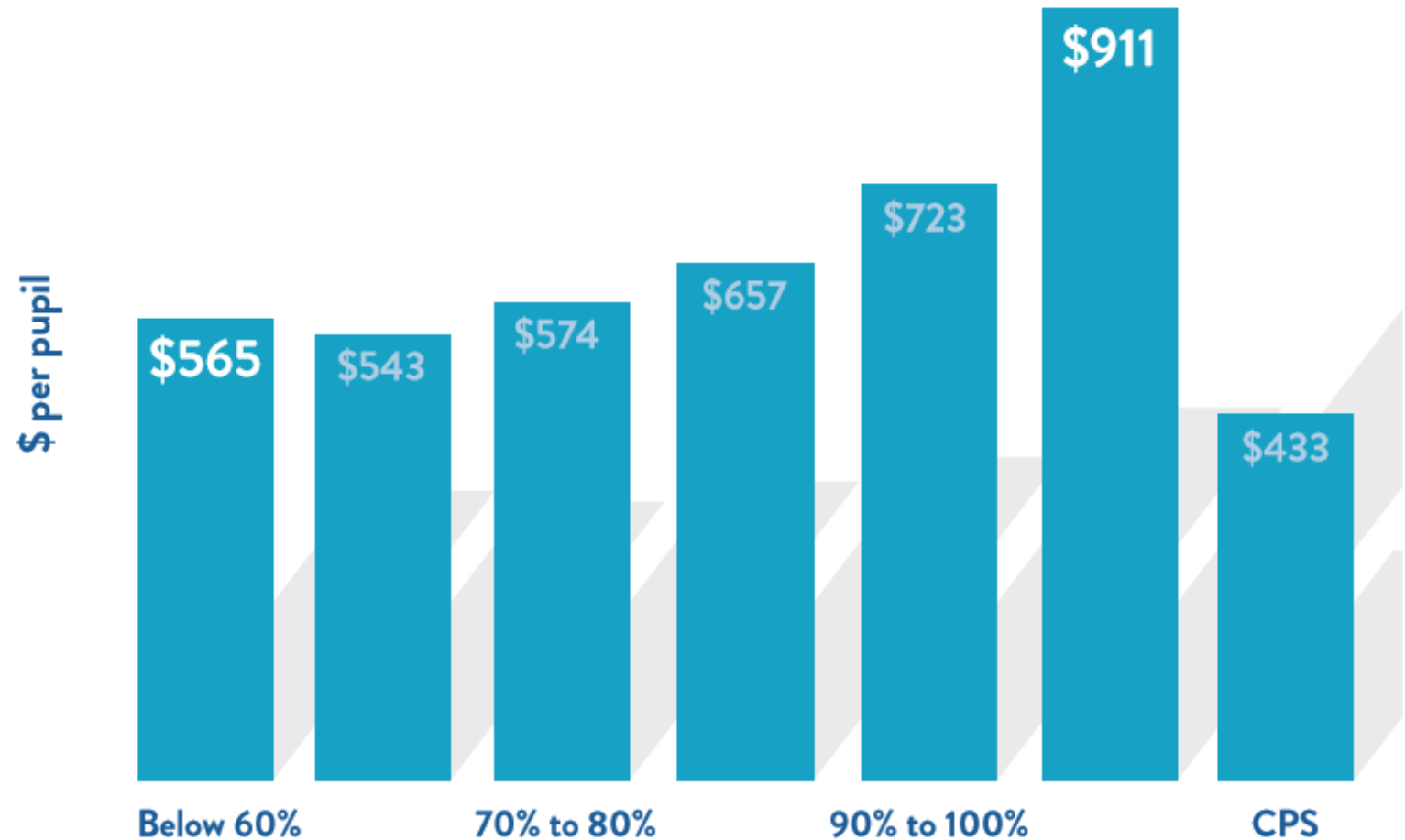


School districts pay 0.58% of payroll.

Richer school districts (ones that are more than 100% funded) get **\$346 more per pupil** than poorer districts (those that are funded below 60%).

This inequitable practice means the State sends nearly \$30 more per student to non-low-income districts than to low-income districts (\$636 per non-low-income student but only \$607 per low-income student).

Value of State-Paid Normal Cost to School Districts





End-of-Career Penalties Have Not Improved Equity

- Current law charges districts pension costs attributable to end-of-career salary increases over 6%.
- This has hit low-income districts a little harder than wealthier districts.
 - \$6 per non-low-income student
 - \$7 per low-income student
- Last year, the legislature changed the 6% cap to 3%.
- The Equity Boost would make this cap unnecessary.

OPPORTUNITY: THE NEW EVIDENCE- BASED SCHOOL FUNDING FORMULA

There are four steps to Illinois' evidence-based funding formula.



STEP ONE: Calculate the school district's Base Funding Minimum.

Under the new school funding formula, each school district is guaranteed to receive from the state an amount at least equal to the state payment it received the prior year. This hold-harmless payment is known as the district's "Base Funding Minimum." It ensures that no district loses funding.



STEP TWO: Determine the district's Adequacy Target.

The Adequacy Target considers 34 "cost factors" to determine how much funding a district needs to adequately educate its students. Those factors include ratios of students-to-teachers, counselors, librarians, nurses, and other personnel; supports for low-income students and English learners; and an adjustment for regionalized cost differences. Every school district and the make-up and needs of its student populations is unique; the amount of its Adequacy Target is as well.



STEP THREE: Calculate the district's "Local Capacity Target" to account for differences in the ability across districts to raise funds through property taxes.

The Local Capacity Target calculation expects districts with higher property values to invest more resources in local schools than districts without much of a property tax base.

The sum of the Local Capacity Target plus the Base Funding Minimum shows how much funding a district has available. Comparing that sum to the district's unique Adequacy Target shows how close the district is to being adequately funded.



STEP FOUR:

If Illinois had enough money for full funding, Step Four would just be to give each district its "Expected State Payment." That is, the State should pay each district the Adequacy Target minus the Local Capacity Target.

But Illinois is still \$7.35 billion short.



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STEP FOUR: State government distributes funds based on how adequately funded each district is, with each district falling into one of four tiers reflecting how close they are to their Adequacy Target.

Tier 4

Districts with more than 100% of their Adequacy Target

Tier 3

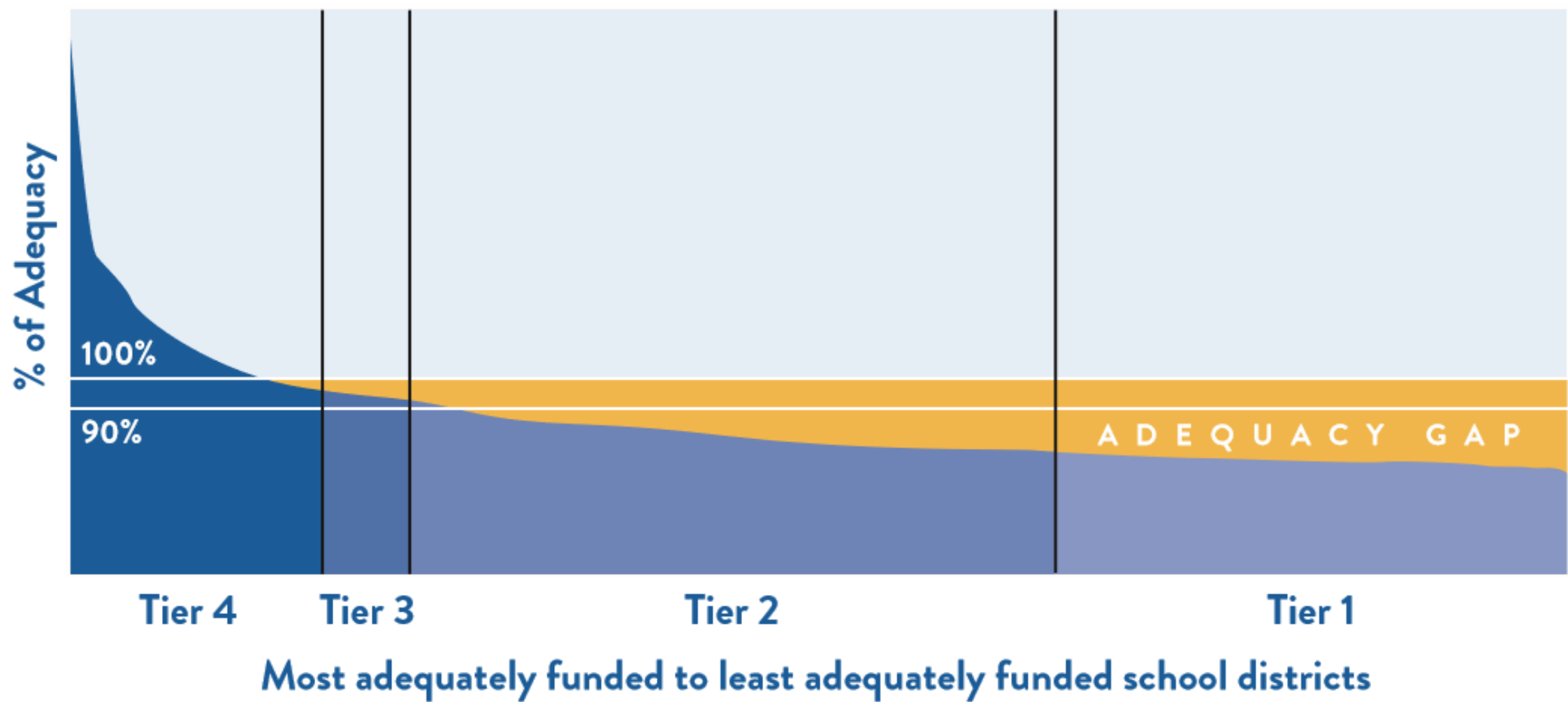
Districts between 90% - 100% of their Adequacy Target

Tier 2

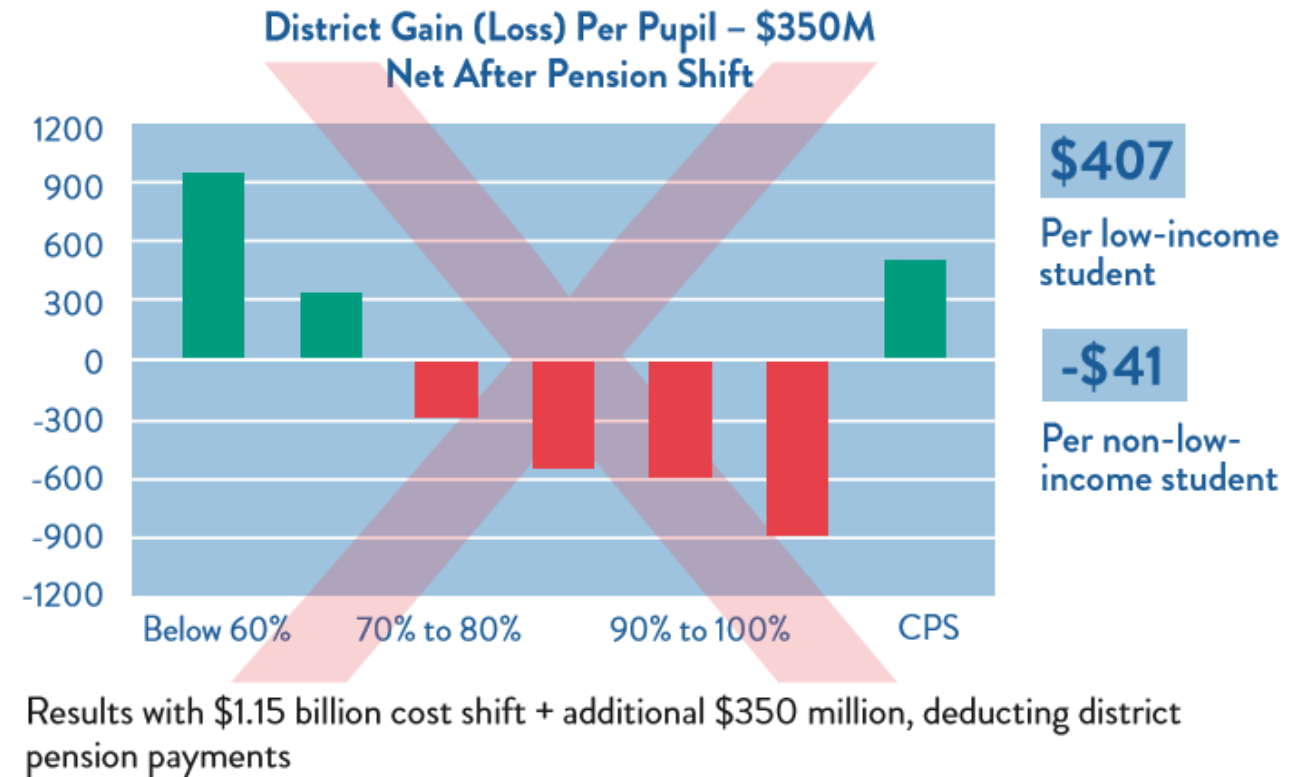
Districts with less than 90% of their Adequacy Target

Tier 1

Districts with less than 65% of their Adequacy Target



Re-allocating teacher pension funding through the formula is equitable, but creates a lot of “losers”



SOLUTION: THE EQUITY BOOST

STEP ONE

Use Calculated Normal Cost in the adequacy calculation to reflect EBM values.

STEP TWO

Shift normal costs into the Base Funding Minimum. Districts pay normal cost, no one loses, and the Adequacy Gap is \$233 million lower.

STEP THREE

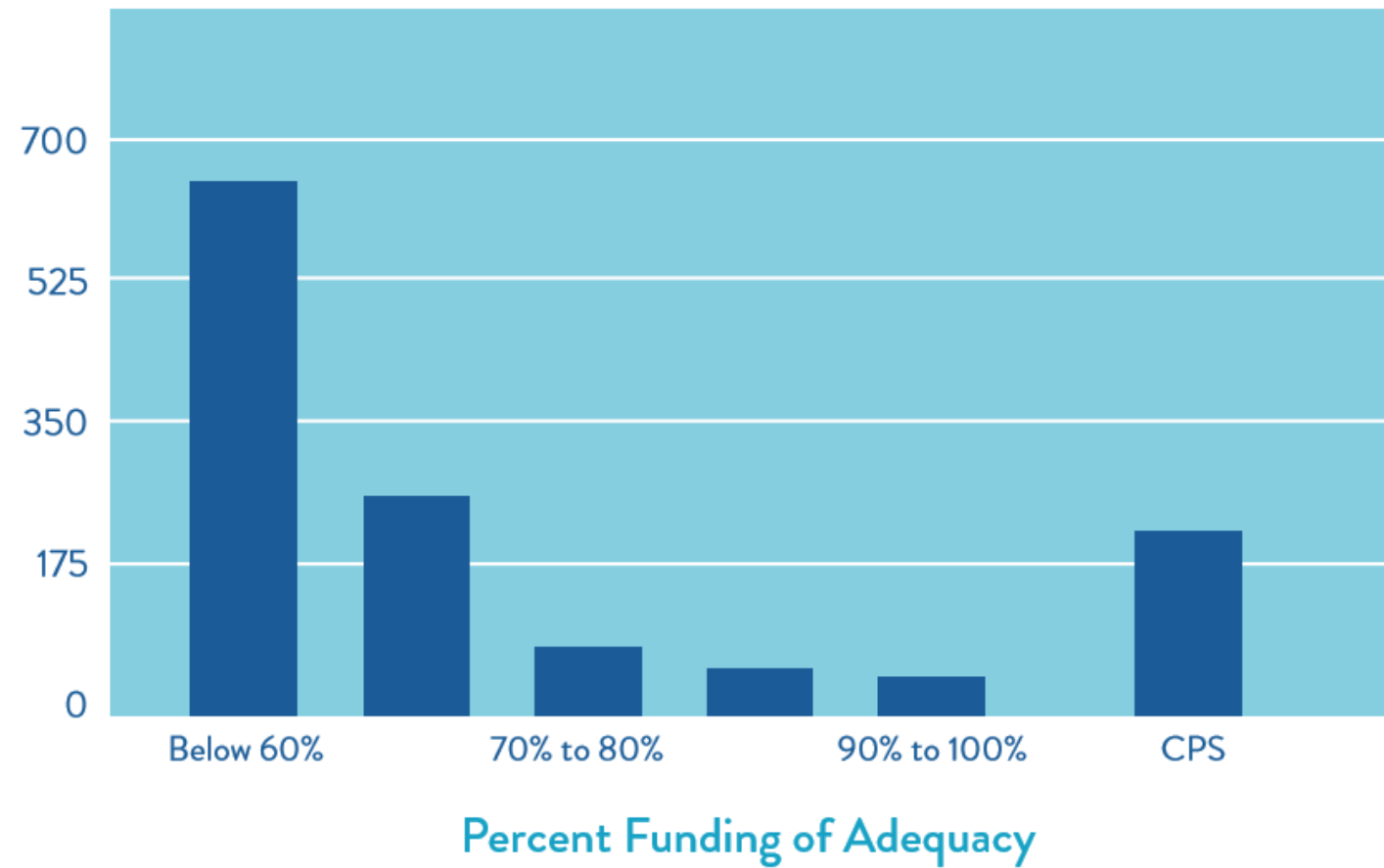
Gradually phase out Excess State Payments. This impacts 117 districts, re-directs \$70 million into the tiers, and moves us closer to adequacy.

\$271
Per low-income
student

\$91
Per non-
low-income
student

As new funds are added, they are distributed in a highly equitable manner.

This chart shows how \$350 million would be allocated after moving the state pension payment to the BFM.



The Equity Boost...

Provides predictability for districts that have been fearing a cost shift.

Adds to the BFM normal cost amounts, which will stretch further in future years as normal cost decreases.

Protects teacher pensions.

Eliminates need for a 6% or 3% end-of-career pension penalty.

Directs more funding to needier districts.

Enables the state to reach adequacy sooner.