



HOW THE PROPERTY TAX RELIEF POOL FUND DRIVES EQUITY

June 9, 2018



Introduction

The Evidence-Based Funding (EBF) for Student Success Act (PA 100-0465) is a historic change to the education funding system in Illinois. While this legislation fundamentally changed how schools in Illinois are funded, it also contains a lesser-known provision called the Property Tax Relief Pool Fund which comes into effect in FY19. This new Fund enables school districts to apply for grants that compensate them for reductions in their property tax levy, the amount of dollars they receive from real estate owners. This allows the neediest districts to lower their property taxes with minimal or no loss in revenue. The FY19 budget included \$350 million in education funding, including \$50 million for the Fund. By law, any dollar appropriated for education above \$300 million goes into the Fund, until the Fund has \$50 million.

The goal of the Property Tax Relief Fund is to start moving districts away from relying on property taxes to fund their schools. It is focused on high-tax, low-property wealth districts that tax themselves at high rates as they strive to provide an adequate education, as the state has historically underfunded schools. However, their high property taxes are often harmful to their communities and often do not raise significant dollars due to their low property wealth. To ensure that education is adequately funded and that districts can lower their property taxes, the state must continue to appropriate adequate funding for both the EBF formula and Property Tax Relief Fund.

The goal of the Property Tax Relief Fund is to start moving districts away from relying on property taxes to fund their schools.



Property Taxes and Evidence-Based Funding

“The Illinois school finance system is inequitable for both students and taxpayers,” according to a 2013 report on Illinois’ prior education funding system.¹ Developing a more equitable formula that directs dollars to the least well-funded districts was a first step towards improving this system.

But our state’s reliance on local property tax funding results in inequity as low-wealth areas struggle to generate the revenue needed to fund a quality education. At 26% state funding, Illinois contributes the smallest percentage of education funding of any state in the country and therefore has the greatest dependence on property taxes. Poor areas of Illinois have raised property taxes to make up for the shortfall in state funding of education. As a result, districts under the average property wealth² fund themselves at 62% of adequacy while districts with greater property wealth fund themselves at 100% of adequacy. Property wealth inequity compounds the school funding inequities already facing students of color and low-income students.

But our state’s reliance on local property tax funding results in inequity as low-wealth areas struggle to generate the revenue needed to fund a quality education.

By focusing dollars on the least adequately funded districts, EBF is intended to change this dynamic. Like almost all funding formulas in the United States, EBF expects that districts will be funded through a combination of local and state funds. EBF provides an adequacy target, which is defined as the total resources, both state and local, needed to support the best practices students need to succeed. High property wealth districts are expected to contribute more revenue to their overall funding than are low-property wealth districts (a higher percentage of their adequacy target). Despite this, low-property wealth districts often must have higher property tax rates. In Illinois, districts with property wealth below the average have an average property tax rate of 5.7%³, while districts above the average property wealth have a tax rate of 4.7%.

Districts often tax themselves above what the formula expects them to provide. Currently districts under 100% adequacy tax themselves at more than \$2 billion greater than what the formula expects them to contribute.⁴

These dollars are only partially accounted for in the calculation of adequacy. While this does mean that the total (both state and local) gap to adequate funding is less than the state’s adequacy gap of \$7 billion, it demonstrates that many districts are relying on local funds to make up for a lack of state funding.

1. Augenblick, Palaich and Associates. (2013). *Overview of the Structure of the Illinois School Finance System*. Denver.

2. The average property wealth used for this calculation is \$6,364, which is the weighted average of all districts; Local Capacity Target + Corporate Personal Property Replacement Tax (CPPRT) divided by enrollment of the district.

3. The tax rate used in this calculation is the Unit Equivalent Tax Rate. This is the Operating Tax Rate for each district modified to equate tax rates for Unit, High School, and Elementary districts.

4. We only include districts under 100% adequacy since districts above 100% adequacy are choosing to have high tax rates in order to fund their districts at higher than adequate levels. This figure does not include districts who contribute less than they are expected to contribute.



The Mechanics of the Property Tax Relief Fund

While providing more adequate funding for EBF would certainly help districts rely less on local revenue, districts must assess whether they want to use additional revenue for tax relief or to more adequately fund their education programs. In addition, only a few districts are likely to get enough new revenue from the state to offset a meaningful reduction in their levy. The Property Tax Relief Fund was established to provide a more direct mechanism for districts to lower their property taxes. Dollars that flow into the Property Tax Relief Fund will reduce the state's adequacy gap while lowering local property taxes.

The Property Tax Relief Fund was established to provide a more direct mechanism for districts to lower their property taxes.

The Property Tax Relief Fund comes into effect when the state appropriates money into the fund. By law the first \$300 million appropriated for education goes into the EBF formula. Any appropriation above \$300 million goes into the Fund, up to \$50 million. Dollars appropriated above \$350 million will flow into the EBF. For example, if the state were to appropriate \$400 million, the first \$300 million would flow to EBF, \$50 million would flow to property tax relief, and then another \$50 million would flow to EBF (for a total of \$350 million into EBF). All appropriations count against the Minimum Funding Level.⁵

The Illinois State Board of Education administers the Fund and will develop timelines for grant applications and grant approvals. An example would be that in FY19 districts could apply in October or November of 2018 for grants to arrive in spring of 2019. Districts with the highest property taxes will get priority for the Fund grants.

To allow for the comparison of tax rates across different types of districts (high school, elementary, and unit), all tax rates are converted to the amount equivalent to a district that served all grades (this is called the Unit Equivalent Tax Rate). The highest UETR in the state is about 18% for a high school district that has an

Operating Tax Rate of 5.7%. The highest tax rate for a unit district is about 8.5%. The state average UETR is 5.2%.

Districts can apply to reduce their tax rate by 1 percentage point in UETR. For high school districts this translates to 0.31% in Operating Tax Rate, and for elementary districts its 0.69% in Operating Tax Rate. This limits the amount of money a district can receive in tax reduction each year. The State Board will provide grants until the Property Tax Relief Fund is exhausted. The district with the highest tax rate that applies will get the first grant, the second highest tax rate the next grant and so on, until all the money is used. Any dollars not provided in grants will be distributed through the formula.

The grants are not dollar-for-dollar swaps but come closest for districts that have the least in property wealth to dedicate to education, or "local capacity." In this way, the incentives direct the Property Tax Relief Fund to the neediest districts.

More specifically, a district gets a grant based on the amount of tax reduction they provide, based on the following formula:

$$(1 - \text{Local Capacity Percent}^2) \times \text{District Tax Reduction} = \text{Property Tax Relief Fund Grant}$$

The Local Capacity Percent is the percentage of funding the district is *expected* to provide of its adequacy target. Districts with more property wealth are expected to contribute a greater percentage than districts with lower property wealth. Therefore, districts with greater property wealth will get a smaller percentage of their tax reduction back as a grant, making the Fund less appealing.

The following table shows the calculation for two districts:

District	Local Capacity Percent <i>(Share of Adequacy Target Contributed by District)</i>	District Tax Reduction	Property Tax Relief Fund Grant
A	20%	\$1,000,000	\$960,000
B	60%	\$1,000,000	\$640,000



Conclusion

District B with greater property wealth would get far less of a grant if they were to apply. Because they are giving up \$1 million in property taxes and only receiving \$640,000 back, they would see fewer resources for their schools. They likely would have to make cuts to their education program. Hence, District B has little incentive to apply for the grant.

On the other hand, District A gets almost 96 cents for each dollar in tax relief. In addition, because they are also likely to get funding from the EBF tiers, they will likely not have any reduction in education revenue. So, while higher wealth districts are eligible for the Fund, they are less likely to apply.

Finally, dollars that districts get in property tax relief grants will be included in their Base Funding Minimum⁶ in future years, ensuring that these dollars will be maintained year over year. Districts with very high property taxes who received a grant from the Property Tax Relief Fund are able to apply for new grants each year.

To reduce inequity in education funding, Illinois must become less reliant on property taxes to fund education. The EBF is a first step in this process, in that it directs dollars to the least adequately funded districts, many of which are low-property wealth. The Evidence-Based Funding for Student Success Act also recognizes a second step to funding adequacy by establishing a Property Tax Relief Fund to more directly allow districts to lower their property taxes. This will be funded for the first time in FY19.

The Property Tax Relief Fund increases adequacy in the formula by replacing unaccounted-for local dollars with dollars from the state. These dollars are not accounted for because they are above and beyond what districts should be expected to contribute. As the state adequately funds education, it allows these districts to lower their property taxes and realize these additional state dollars toward adequacy. This recognizes the reality that the funding adequacy gap is a gap in the state funding represented both in lack of funding to districts and over-taxing by districts.

Together the EBF and Property Tax Relief Fund start to reverse Illinois' historically inadequate and inequitable system. Providing appropriate funding for both will be critical to marching toward adequacy and equity.

5. The Minimum Funding Level (MFL) is the funding level for new dollars required to ensure that the EBF funds all funding tiers. If funding falls below the MFL, funding for tiers is reduced, with Tier 4 (the most adequately funded districts) not receiving new tier funding and Tier 3 not receiving new funding through Tier 1. No districts lose dollars year over year, unless the appropriation is below the prior year's appropriation. The MFL represents the minimum in new funding (above prior year appropriation) that is necessary for the system to fund all tiers. To learn more about tier funding visit isbe.net/Pages/ebfdistribution.aspx

6. The Base Funding Minimum (BFM) is the state funding the district received in prior years. This includes all funding the district received prior to the implementation of EBF and monies the district received each year in tier funding. Property Tax Relief grant dollars will also be added to the BFM, so that districts will continue to receive these dollars in subsequent years.