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SCHOOL LAW GROUP

**EVIDENCE-BASED SCHOOL
FUNDING IS HERE**

Illinois has approved a new funding process for its schools based on an “evidence-based formula”, i.e. a formula designed to take into account District needs, student population and District available resources, to determine the level of funding support needed by a District to achieve “adequacy” in funding. The program is initially funded to inject a targeted \$350 million in new education funds to the neediest schools in Illinois. The evidence-based formula is designed to allow such school districts to receive additional state funds in order to “catch up” and reach those funding levels deemed adequate for instruction. In addition to the new funding mechanism, other key changes in the law are as follows:

- A new tax credit program for private school scholarships.
- A referendum option whereby 10% of voters in a school district funded above 110% of adequacy to petition for a referendum to reduce taxes by 10% (but not less than 110% of adequacy).
- Schools have discretion to determine frequency of PE classes; cannot be less than 3 days a week. Can also exempt students in grades 7-12 who participate in sports.
- Districts can contract with 3rd party driver’s education companies w/o need for waiver.

A full copy of the legislation is available by clicking the below link.

[SB 1947](#)

A detailed summary of the new funding formula is set forth herein.

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THE BASICS OF EBM

We all have been discussing and working with the concept of an evidence-based funding model to replace General State Aid for quite some time. Now that it is finally here, it is important to have a basic understanding of how the evidence-based model (“EBM”) works. We have tried to outline its major components below and have attached our EBM Chart at the end of this summary, which provides a visualization of the mechanics behind the EBM.

I. Four Major Components of EBM

The EBM has four (4) major components: (i) the Adequacy Target; (ii) Local Capacity; (iii) Percentage of Adequacy; and (iv) establishment of Tiers. Each school district is evaluated through these four (4) major components to determine what percentage of evidence-based funding it will receive.

Adequacy Target

Twenty-four (24) “Essential Elements” compose a school district’s Adequacy Target – the estimated cost for a school district to educate its students. The Essential Elements are largely based upon average student enrollment (“ASE”), but many of the Essential Elements are also subject to a regionalization factor due to variances in costs across the State of Illinois.

Local Capacity

This component derives a formula to determine what capacity a school district has from its local property tax revenues. Local Capacity is either equal to the school district’s Local Capacity Target or its Adjusted Local Capacity Target. If Real Receipts are less than or equal to the Local Capacity Target, then a school district’s Local Capacity is equal to the Local Capacity Target, and, if Real Receipts are greater than the Local Capacity Target, then the school district’s Local Capacity is its Adjusted Local Capacity Target.

Real Receipts are equal to a school district’s prior year’s tax rate (for most categories) (the “Applicable Tax Rate”) multiplied by the average of the trailing three (3) years of EAV (unless the prior year’s EAV decreased by more than 10% of the three-year trailing average EAV) (the “Adjusted EAV”).

The Local Capacity Target is the school district’s Adequacy Target times the “Local Capacity Ratio,” which is the lesser of the Adjusted EAV or PTELL EAV divided by the Adequacy Target. This figure is then adjusted for school districts that serve K-8 by 9/13, and school districts that serve 9-12 by 4/13.

Inside This Issue

Evidence-Based School Funding is Here

Link to Full Copy of Legislation.....1

Summary of Evidence-Based School Funding is Here.....2-5

Chart of New Evidence-Based Funding Formula.....6

The Adjusted Local Capacity Target is equal to the Local Capacity Target plus the “Real Receipts Adjustment.” The Real Receipts Adjustment is equal to (Real Receipts – Local Capacity Target) * “Local Capacity Percentage.” Local Capacity Percentage converts the Local Capacity Ratio to a curve equivalent score comparable to all other school districts in Illinois.

Percentage of Adequacy

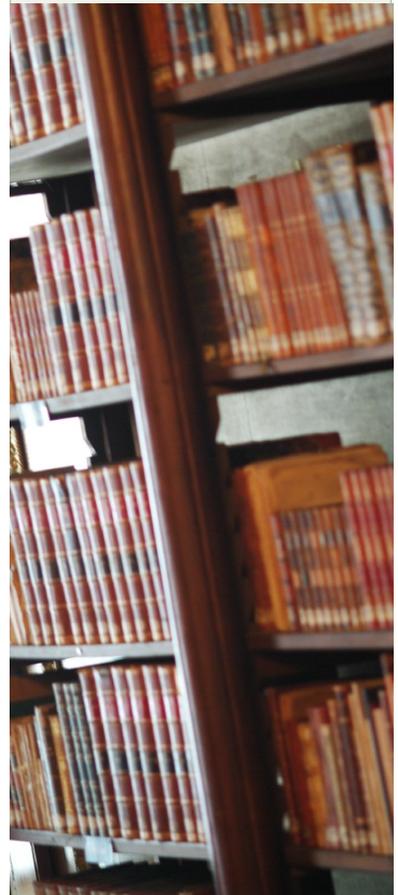
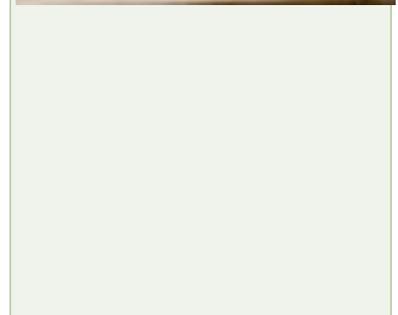
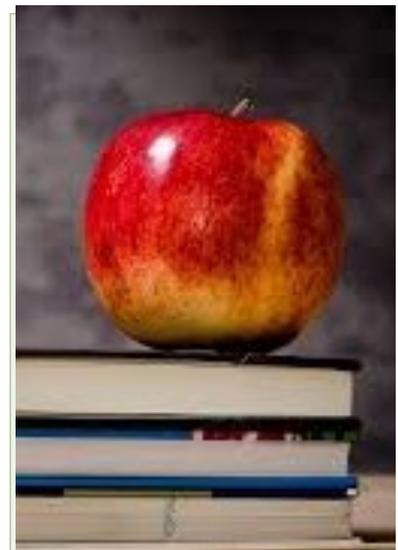
Once the Adequacy Target and Local Capacity of a school district have been derived, the formula then calculates a “Final Percentage of Adequacy.” To derive the Final Percentage of Adequacy, the EBM first starts with a determination of the “Preliminary Resources” of a school district. The Preliminary Resources of a school district are equal to the Local Capacity Target + CPPRT + Based Funding Minimum (defined below). From there the Preliminary Percentage of Adequacy is determined by dividing the Preliminary Resources/Adequacy Target (if in excess of 100%, then the Preliminary Percentage of Adequacy is equal to 100%). The EBM then derives the “Final Resources,” which is Local Capacity + CPPRT + “Adjusted Base Funding Minimum.” The Adjusted Based Funding Minimum is equal to the (Base Funding Minimum – “Supplemental Grant Funding”) + (Supplemental Grant Funding & Preliminary Percentage of Adequacy). Supplemental Grant Funding is the General State Aid received by the school district in 2016-17 per subsection (H) of Section 18-8.05 of the School Code. Finally, the Final Percentage of Adequacy is equal to Final Resources/Adequacy Target.

Assignment to Tiers 1-4

Once the Final Percentage of Adequacy is derived for the school district, it is then assigned to one (1) of four (4) tiers. Tier 4 is composed of those school districts who have a Final Percentage of Adequacy greater than or equal to 100%. Tier 3 is composed of those school district who have a Final Percentage of Adequacy greater than or equal to 90% but less than 100%. Tier 2 is composed of Tier 1 school districts and all other school districts with a Final Percentage of Adequacy less than 90%. Tier 1 school districts have a Final Percentage of Adequacy less than the “Tier 1 Target Ratio.” The Tier 1 Target Ratio is the ratio where Tier 1 Aggregate Funding (the funding for all Tier 1 school districts) is met with the Tier 1 Allocation Rate of 30%.

II. Allocation of Funding

Once a school district is assigned to Tiers 1-4, its tier assignment impacts its allocation of funding. Under the EBM, all school districts receive their “Base Funding Minimum” + “New State Funds.”



The Base Funding Minimum of a school district for school year 2017-18 is its General State Aid from 2016-17. The Base Funding Minimum for future years is the prior year's Base Funding Minimum plus any evidence based funding for the prior year.

New State Funds are allocated based upon tiers. Tier 1 school districts receive 50% of New State Funds, Tiers 1 and 2 school districts receive the next 49% of New State Funds, Tier 3 school districts receive 0.9% of New State Funds, and Tier 4 school districts receive 0.1% of New State Funds.

Tiers 1 and 2 school districts receive New State Funds that are equal to its "Funding Gap" * its "Allocation Rate". The Funding Gap for a Tier 1 school district is equal to: $[(\text{Tier 1 Target Ratio} * \text{Adequacy Target}) - \text{Final Resources}] * (1 - \text{Local Capacity Target percentage})$. The Funding Gap for a Tier 2 school district is equal to: $[(\text{Tier 2 Target Ratio of 90\%} * \text{Adequacy Target}) - \text{Final Resources} - \text{Tier 1 allocation for Tier 1 school districts}] * (1 - \text{Local Capacity Target percentage})$.

Tier 3 and 4 school districts receive New State Funds equal to their Adequacy Target * "Allocation Rate." The Allocation Rate for Tier 3 school districts is equal to the Tier 3 Aggregate Funding divided by the sum of all Adequacy Targets of Tier 3 school districts. The Allocation Rate for Tier 4 school districts is equal to the Tier 4 Aggregate Funding divided by the sum of all Adequacy Targets of Tier 4 school districts.

III. Hold Harmless

As you know, one of the main points of discussion regarding the EBM was whether school districts that are adequately funded will need to provide a portion of their previous state funding to other districts in need. There was much discussion of a "hold harmless" for all districts in Illinois, and that only new funding would be used to close the funding gaps between lower funded school districts and higher funded school districts. In the EBM, the Base Funding Minimum is the "hold harmless" that was envisioned. By using the 2016-17 General State Aid as the floor (in most circumstances), the higher supported districts are not giving up previous funding, but, instead, will receive a very small portion of New State Funds; whereas, the majority of New State Funds are directed toward lower funded school districts to help them eventually reach their Adequacy Targets.

Outside of the Base Funding Minimum, the EBM also incorporates two (2) other schemes that impact the "hold harmless" of school districts.

Minimum Funding Level

The legislature targeted a Minimum Funding Level of \$350 Million as its goal for providing New State Funds within the EBM. In the event the Minimum Funding Level, which consists of New State Funds + New Property Tax Relief Pool Funds (up to \$50 Million), is less than \$350 Million in any given year, then Tier 4 funding is reduced by the difference between the Minimum Funding Level and New State Funds, until Tier 4 is exhausted. Then Tier 3 funding is reduced by the difference between the Minimum Funding Level and New State Funds (and the reduction to Tier 4) until Tier 3 is exhausted. Then Tier 2 funding is reduced by the difference between the Minimum Funding Level and New State Funds (and the reduction to Tiers 4 and 3) until Tier 2 is exhausted. Finally, Tier 1 funding is reduced by the difference between the Minimum Funding Level and New State Funds (and the reduction to Tiers 4, 3 and 2), and the Tier 1 Allocation Rate shall be reduced to 50% of (New State Funds/Minimum Funding Level).

Year over Year Decrease in New State Funds

In a year in which the appropriation of New State Funds decreases from one year to the next, there is an additional hold harmless for the Tier 1 and 2 school districts. Tier 1 and 2 school districts are to receive the "Base Funding Guarantee," which is equal to the per-pupil k-12 funding received in the prior fiscal year. For Tiers 3 and 4 school districts, their Base Funding Minimums would be reduced on a per-pupil basis equivalent to the total number of ASE for all Tier 3 and Tier 4 school districts divided by the total reduction in New State Funds. In no event may this reduction lower the Base Funding Minimums below the original Base Funding Minimums of the Tiers 3 and 4 school districts. If that is required, then all school districts shall receive a reduction (beyond this amount) on a per pupil basis equivalent to the aggregate additional appropriation reduction divided by total ASE of all school districts in Illinois. If the Base Funding Minimums of Tiers 3 and 4 school districts are reduced under this formula, in the following fiscal year, the reduced Base Funding Minimum will be their starting Base Funding Minimum.

For any questions or comments you might have regarding this newsletter, please feel free to contact:

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This newsletter may be deemed advertising under the laws of the Supreme Court of Illinois.

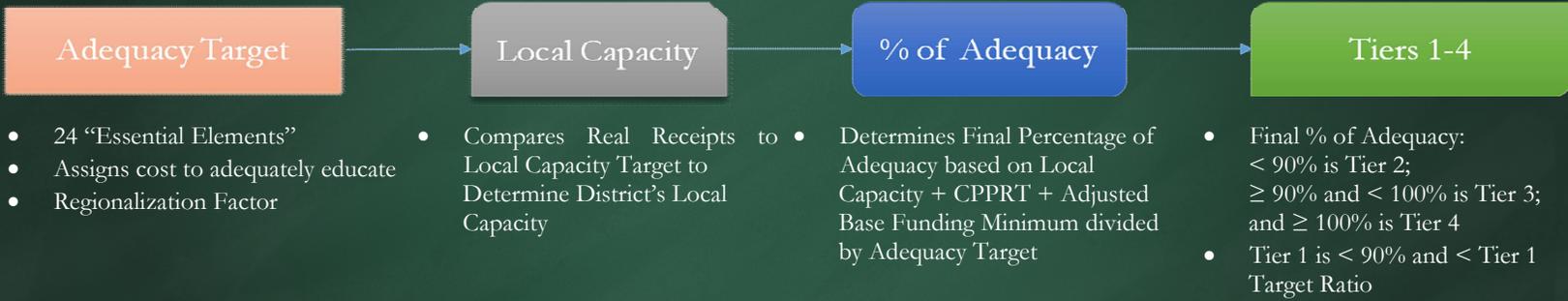
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Chart of the New Evidence-Based Funding Formula

Establishment of Tiers - Four Major Components

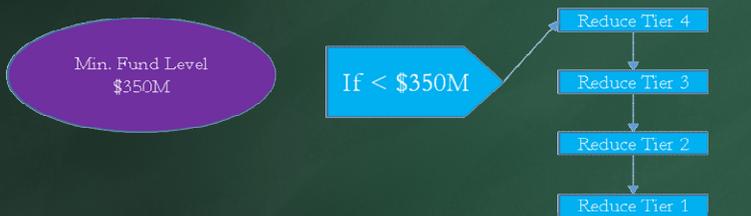


Allocation of Evidence-Based Funding

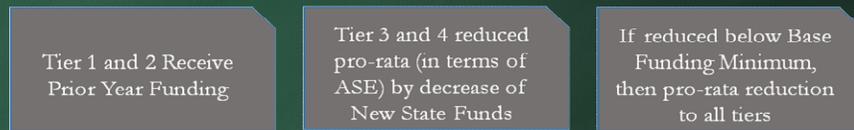


Hold Harmless Provisions (besides the Base Funding Minimum)

Minimum Funding Level



Year over Year Decrease in New State Funds



- Legislature's target funding level for the Evidence-Based Funding model is \$350M
- If New State Funds + New Property Tax Relief Pool Funds (up to \$50M) is < \$350M, then reductions to the Tiers occur from Tier 4 down to Tier 1, in that order
- If there is a year over year decrease in New State Funds, Tiers 1 and 2 receive the "Base Funding Guarantee"
- Tiers 3 and 4 are reduced pro-rata (in terms of their Average Student Enrollment) by decrease in the New State Funds
- If Tiers 3 and 4 are to be reduced below their Initial Base Funding Minimums, then pro-rata reduction of remaining decrease by all Tiers

