

given that CPS’s current level of funding is some \$2.1 billion less than what the evidence shows is needed to educate its students. The goal after all is to move all districts forward towards adequacy.

As for pensions, some adjustment had to be made because the state already pays both the normal cost of, and unfunded liabilities associated with, teacher pensions for every school district in Illinois except CPS. This is a significant expense. In FY2016 alone, the state made \$896 million in normal cost pension payments for school districts statewide—\$317 million of which benefited downstate districts, \$241 million of which benefited suburban Cook County, and \$338 million of which benefited the Collar Counties (Lake, McHenry, Will, DuPage, and Kane).³ So, to put CPS on the same footing as all other school districts, SB 1 requires the state to pay CPS’s full normal cost, inclusive of retiree healthcare costs, which the state also covers for all school districts except CPS.

It should be noted that the sponsors of SB 1124 agree that the state should assume the normal cost of the CPS pension system. Rather than include this obligation in SB 1124, however, the sponsors of that bill introduced companion legislation—HB 4065—which imposes the obligation to pay CPS normal cost on the state.

As Figure 1 shows, in dollar terms, there is, a **-\$65 million** difference between the normal costs covered in SB 1, which has passed, and those covered in HB 4065, the companion bill to SB 1124, which has not passed. This is because under HB 4065, CPS does not receive funding for retiree health care even though the state covers retiree health care costs for every other district in Illinois. SB 1, on the other hand, has the state treat CPS the same as all other districts for both normal costs and retiree healthcare costs, hence the **-\$65 million** difference between the two bills.

Figure 1
Pension Funding, Changes From Prior Law, SB 1 vs HB 4065

	SB 1	HB 4065	Difference
Normal Cost - Total	\$221,000,000	\$156,000,000	-\$65,000,000

Source: CTBA analysis of ISBE, House Amendment 1 to Senate Bill 1 (Manar/Davis), and HB 4065

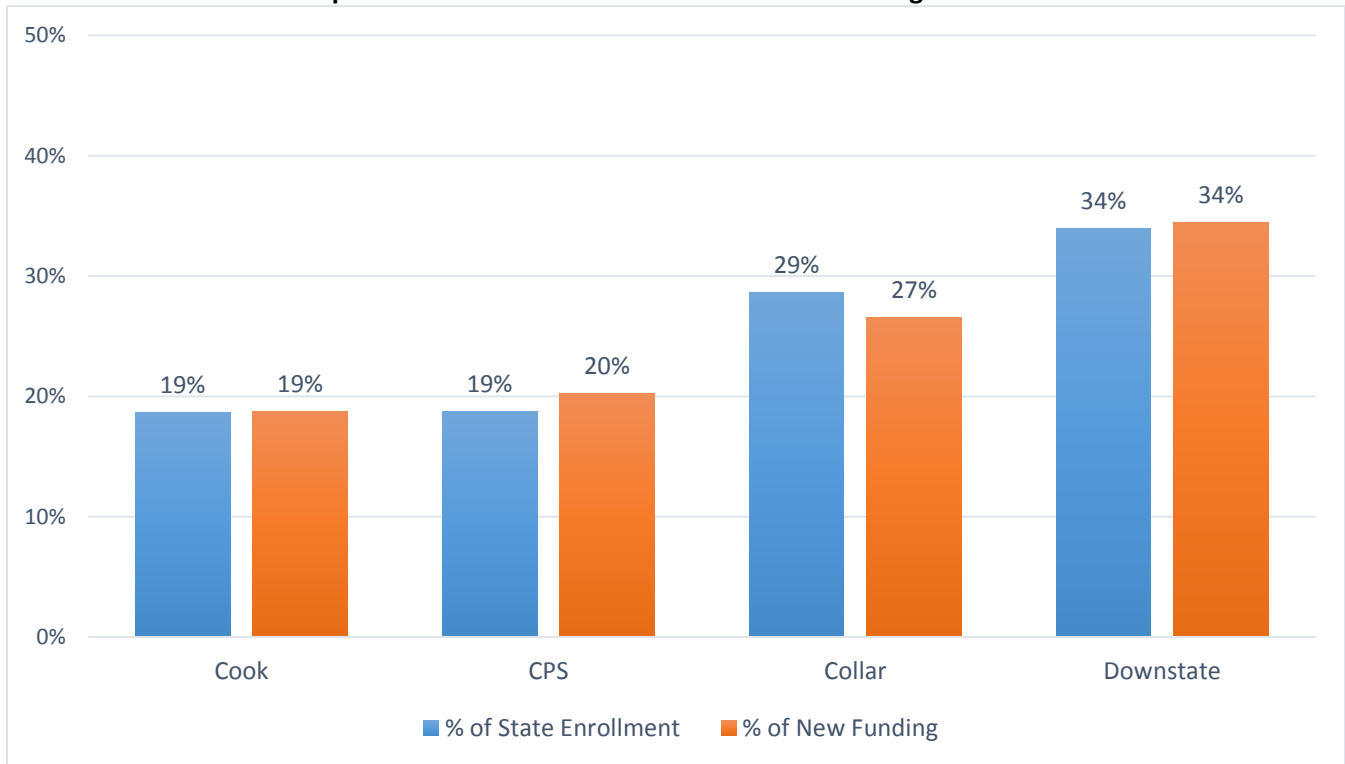
One additional concern with the approach taken in SB 1124/HB 4065 is that it ties creating partial pension parity for CPS on the one hand, to a pension cost shift to all other school districts on the other. This is done through HB 4065’s creation of a Tier III pension system for new employees. Under HB 4065, each school district in the state would be responsible to assume a portion of the pension cost for employees joining that new Tier III system. This cost will grow for districts over ensuing years, as more Tier III employees are hired, thereby straining local resources currently used for educating students. SB 1, on the other hand, accomplishes full normal cost pension parity for CPS, without shifting teacher pension costs to other school districts.

The state also pays all unfunded liabilities associated with teacher pensions for all school districts except CPS. This is another significant expense, which totaled some \$2.692 billion in FY2016.⁴ However, SB 1 does not require the state to pay the unfunded liabilities CPS owes to the Chicago Teachers Pension Fund (“CTPF”). Under SB 1, that responsibility remains solely with CPS. However, precisely because CPS retains this responsibility in full, SB 1 reduces the amount of local capacity CPS is expected to have available to fund education, by the amount of that local capacity CPS has to use to pay its unfunded liability. After all, CPS can’t use the same property tax dollar twice—once to pay unfunded liabilities and then again to cover education costs.

Taken together, the aforesaid adjustments in SB 1 for the CPS block grants and pension obligations work—equitably—for the whole state. According to ISBE, after accounting for how SB 1 handles both the block grants and pensions, CPS would receive about 20 percent of new annual school funding the state invests under SB 1’s

evidence-based funding formula. This is both rational and equitable, given CPS educates about 19 percent of all K-12 students in Illinois. Meanwhile, downstate schools would get around 34 percent of new funding, for the roughly 34 percent of the state’s student population they serve, as shown in Figure 2.

Figure 2
Proportional Distribution of New Education Funding Under SB 1



Source: CTBA analysis of ISBE, House Amendment 1 to Senate Bill 1 (Manar/Davis)

As Figure 2 clearly shows, SB 1 does not overly favor any school district—does not create any special “bailout” of CPS—and instead creates a proportional, equitable distribution of new state funding for K-12 education.

[3. SB 1124 Creates Inequities, Redistributes Existing Funding and Relies on Questionable Data.](#)

Because of his objection to how SB 1 treats CPS, the Governor is instead supporting SB 1124, Senate Floor Amendment 3, which is a version of an evidence based model that has not passed in either the House or Senate. Like SB 1, SB 1124 provides new education funding to CPS and, as indicated previously, creates partial pension parity for CPS in companion bill HB 4065.⁵ The supporters of SB 1124 had ISBE model the impact of running \$672.3 million in K-12 education funding through the new formula that bill establishes. Which is both problematic and where the reliance on questionable data come in, given that HB 4069—another companion bill filed to cover the cost of paying for new school funding formula distributions under SB 1124—only appropriates \$288.4 million over FY2017 education funding levels for this purpose. As shown in Figure 3, that means there is no revenue source to support over half (-\$383.9 million or 57 percent) of the distribution ISBE modeled for SB 1124.

Figure 3
Total Funding Actually Authorized for Distribution Under SB 1124
(\$ in Millions)

	Amount
Amount of State Education Funding ISBE Modeled for Distribution Under SB 1124	\$672.3
New State Funding Actually Appropriated for said Distribution Under HB 4069	\$288.4
Shortfall in Appropriations	-\$383.9

Source: CTBA and Advance Illinois analysis of SB 1124 and HB 4065

That in turn means school districts cannot count on receiving over half of the funding the ISBE model shows them gaining under SB 1124—because there is no legal nor appropriation authority therefor. Instead, school districts can only expect to receive roughly 43 percent of what the sponsors of SB 1124 claim they would receive under that bill.

Perhaps because they recognized this discrepancy, Senator Jason Barickman, chief sponsor of SB 1124, and Governor Rauner’s Education Secretary, Beth Purvis, both testified to a House Committee of the Whole convened on June 24, 2017 (the “**COW**”), that some of this **\$383.4** million shortfall in funding for the proposed FY2018 distributions under SB 1124’s funding formula would be covered by redistributing to other school districts across Illinois, the block grant funding CPS actually received in FY2017. And while that adjustment has yet to be made to legislative language contained in SB 1124, it is still possible to calculate the impact redistributing the CPS block grant would have.

As shown in Figure 4, this would effectively take away from CPS \$202.6 million in education funding it receives under current law. It also highlights one of the fundamental differences between SB 1124 and SB 1: SB 1124 creates winners and losers by redistributing education funding school districts—in this case CPS—get under current law, while SB 1 does not, and in fact, SB 1 holds all school districts harmless to the level of funding received in FY2017. As shown in Figure 4, the net impact on CPS of eliminating its existing block grant funding is a year-to-year loss in education resources for the classroom of **-\$37.7** million, or **-\$103** per student from what CPS has under current law.

Figure 4
How Education Funding Changes for CPS From Prior Law, Under SB1 vs. SB1124, If Modified to Redistribute the CPS Block Grant

	SB 1	SB 1124
First Year Allocation of State Funding for K-12 Under the New Formula - Total	\$70,819,546 (assuming a total new state investment of \$350 million)	\$164,947,234* (assuming \$672.3 million in new, and redistributed existing, state funding)
Change in Funding CPS Currently Receives Under Block Grants	\$0	-\$202,638,057
Net Change from Current Funding for Education - Total	\$70,819,546	-\$37,690,823
Net Change from Current Funding for Education- Per Pupil	\$193	-\$103

Source: CTBA analysis of ISBE, House Amendment 1 to Senate Bill 1 (Manar/Davis) and Senate Amendment 3 to Senate Bill 1124 (Barickman)

*Note, while ISBE modeled a new investment of \$350 in K-12 under SB1, ISBE modeled \$672.3 million in both new and redistributed existing funding run through the formula in SB 1124.

The loss CPS would realize that is shown in Figure 4, understates the negative financial impact on CPS of the funding proposal contained in SB 1124. That is because, during the COW, Senator Barickman and Education Secretary Purvis also testified that the FY2017 equity grant (also known as the short fall grant) would be redistributed in FY2018 through the new funding formula created in SB 1124. The FY2017 equity grant provided qualifying school districts with an additional \$313.4 million in education funding, over what they received in General State Aid for the year.⁶

Redistributing the FY2017 equity grant, however, would cause CPS to lose an additional \$195.6 million in funding from FY2017 levels, over and above the losses shown in Figure 4. Moreover, redistributing the FY2017 equity grant will also harm other districts as well, because any district that received the equity grant in FY2017 would either gain, or lose, portions of that funding when it gets redistributed under SB 1124 in FY2018, creating hundreds of winners and losers across the state. Again, this is fundamentally different from SB 1, which creates no year-to-year losers over the FY2017-2018 sequence.

Figure 5 shows what would happen to CPS if SB 1124—as modified by the testimony of Senator Barickman and Education Secretary Purvis—and its companion bills were to become law.

Figure 5
Year-to-Year Impact of SB 1124—If Modified to Comport with Committee of the Whole Testimony—and Companion Legislation on CPS, Compared to SB 1

	SB 1	SB 1124 and Companion Bills
First Year Allocation of State Funding for K-12 Under the New Formula - Total	\$70,819,546 (assuming a total new state investment of \$350 million)	\$164,947,234* (assuming \$672.3 million in new, and redistributed pre-existing, state funding)
Change in Funding CPS Currently Receives Under Block Grants	\$0	-\$202,638,057
Change in Funding CPS Currently receives form the FY2017 Equity Grant	\$0	-\$195,557,342
Net Change in Funding for Normal Pension Costs	\$221,000,000	\$156,000,000
Net Change from Current Funding for Both Education and Pension Parity - Total	\$291,819,546	-\$77,248,165

Source: CTBA analysis of ISBE, House Amendment 1 to Senate Bill 1 (Manar/Davis) and Senate Amendment 3 to Senate Bill 1124 (Barickman)

The reduction in education funding for the classroom CPS would realize under the approach taken in SB 1124 is poor public policy and hard to justify from an equity standpoint. That’s because as it stands today, CPS has some \$2.1 billion *less* in current funding than what both SB 1 and SB 1124 indicate would be adequate to meet the educational needs of the children it serves—85 percent of whom are low income and 90 percent of whom are minorities. So, by actually reducing the amount of existing funding CPS has to educate children, ***SB 1124 would move CPS further away from adequacy than it is under current law.*** It is also poor politics because it promises to provide additional funding to school districts outside of CPS, at the cost of hurting low-income and minority children who attend CPS, thereby pitting educators in low and middle income communities across the state against educators who serve predominately low income CPS students.

4. Other Problems with SB 1124.

Another concern about SB 1124 is that it fails to fund either the \$28 million shortfall under current law in Bilingual Education or the \$1.7 million shortfall in Special Ed Summer School funding. Both of these shortfalls are eliminated under SB 1.

Finally, SB 1124 provides that the “hold harmless” in education funding changes from a district level, aggregate funding hold harmless (as it is under SB 1), to a “per pupil” hold harmless in four years. According to ISBE, 222 school districts across Illinois lost student population over the 2015-2016 school years—many of which are in downstate communities. Obviously, once this change kicks in, many school districts will lose educational funding, even if they have less than what the evidence indicates they need to educate the children they serve. ***It also means that under SB 1124, school districts will be moved further away from reaching adequacy when their student populations decline—a highly undesirable and inequitable outcome.***

SB 1, on the other hand, deals with loss of student population in a far more equitable manner. Over time, if a district is losing student population, under SB 1 its “Adequacy Target”, that is, the amount of total funding the evidence indicates it needs to educate the children it serves, will be reduced. However, if that district is below its

Adequacy Target, it won't lose any existing funding it currently receives. Rather, it would simply receive less new funding over time, given its reduced need for additional funding. Nonetheless, all districts would continue moving forward toward the goal of receiving adequate resources to educate the children being served.

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ENDNOTES

¹ "Report to the General Assembly and Governor Rauner", Illinois School Funding Reform Commission, (Springfield, IL: February 1, 2017), 4. https://www.isbe.net/Documents_ISFRC/FINAL_Commission_Framework_Report_2017_02_01.pdf

² Jason Nevel, "Purvis: Rauner likes 90% of school funding reform bill but will veto", *The State Journal-Register*, June 11, 2017. <http://www.sj-r.com/news/20170611/purvis-rauner-likes-90-of-school-funding-reform-bill-but-will-veto>

³ "How Much Are State Pension Payments Worth to Illinois School Districts?" Center for Tax and Budget Accountability, (Chicago, IL: June 23, 2017), 1. <http://ctbaonline.org/reports/how-much-are-state-pension-payments-worth-illinois-school-districts>

⁴ "How Much Are State Pension Payments Worth to Illinois School Districts?" Center for Tax and Budget Accountability, (Chicago, IL: June 23, 2017), 1. <http://ctbaonline.org/reports/how-much-are-state-pension-payments-worth-illinois-school-districts>

⁵ In year one (FY2018); in the ensuing years, that would not be the case as CPS would receive less funding from the state for the district's normal cost.

⁶ ISBE, Finance, Budgets, & Funding, General State Aid, "FY 17 General State Aid Claims by District", Excel file. <https://www.isbe.net/Pages/General-State-Aid.aspx>