

Fully Funding the Evidence-Based Formula: FY 2023 Enacted General Fund Budget

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FULLY FUNDING THE EVIDENCE-BASED FORMULA: FY 2023 ENACTED GENERAL FUND BUDGET

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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 covering the cost of those educational practices which research indicates 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.

Under the statute, 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. 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 dedicated to the PTRG is not actually used for property tax relief in a given year, then such unused PTRG revenue 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 statute to \$300 million each fiscal year—and is precisely how the EBF has been interpreted by the Illinois State Board of Education (“**ISBE**”) since the EBF was first implemented in FY 2018.³

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.⁴ However, due to a combination of the decline in General Fund revenue caused by the COVID-19 pandemic, and Illinois’ structurally flawed tax policy, that streak of satisfying the annual Minimum Target Level increase was broken in FY 2021 when K-12 funding was held level with FY 2020, in nominal, non-inflation-adjusted dollars.⁵ The state did get back to satisfying the Minimum Target Level of \$300 million in new K-12 funding in FY 2022.

In FY 2023, the state intends to continue the practice of increasing year-to-year formula funding under the EBF by at least \$300 million—and in fact, appropriated \$350 million to the EBF in the final enacted General Fund Budget for FY 2023.⁶ However, as previously highlighted, up to \$50 million of that \$350 million in new EBF funding will be reserved for property tax relief in FY 2023. And while it is not yet known whether the entire \$50 million will end up being claimed under the PTRG, what we do know is that at least \$300 million of new, year-to-year K-12 formula funding will be distributed under the EBF in FY 2023. Hence for purposes of the analysis in this Report, that \$300 million amount will be used as the new formula funding total for FY 2023.

In addition to creating the aforesaid target for increasing K-12 funding on a year-to-year basis, the EBF also commits the state to fund the formula fully within 10 years of its initial implementation, which would be June 30, 2027.⁷ According to ISBE, at the start of FY 2022, the EBF was underfunded statewide by some \$4.49 billion.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. Given that 81 percent of the state’s school districts currently have less funding than the EBF identifies they need to educate the students they serve,⁹ any substantial delay in fully funding the EBF is troubling.

For that reason, the following scenarios illustrate both: when it can be anticipated the EBF will be fully funded if the state continues to increase year-to-year funding at the Minimum Target Level; as well as what it will take to fund the EBF fully by FY 2027 on an inflation-adjusted basis.

2. What Does “Fully” Funding the EBF Mean?

Formula funding under the EBF is based on the amount of resources the statute identifies each school district needs (which is defined in the statute as a school district’s “**Adequacy Target**”) to: implement the research and evidence-based practices that correlate to enhancing student achievement delineated in the legislation; and pay for the cost of standard operational expenses such as building maintenance and back-office work.

Overall, a district’s Adequacy Target is based on costing out 34 different educational inputs or “elements” identified in the EBF legislation. These elements include everything from class size and professional development, to number of core teachers, guidance counselors, and tier 2 interventionists a particular district needs to enhance student achievement, based on the unique student population the district in question serves. Most of the elements are research or evidence based, while a few, like maintenance costs, are predicated on statewide averages. The EBF then costs out these 34 elements for each school district to identify the dollar amount of funding that district needs based on its total enrollment, as well as the number of low-income, special needs, and English learner students it serves.

Given the variance in labor market costs across a state as diverse as Illinois, the EBF provides that each district’s Adequacy Target be adjusted based on regional cost factors. However, to ensure districts in lower cost areas of Illinois are able to remain competitive for attracting and retaining highly qualified faculty and staff, a floor is placed on the regional cost adjustment of 90 percent.

Next, the EBF identifies how much of a school district’s Adequacy Target is already being covered by that district’s “Base Funding Minimum” (“**BFM**”) and “Local Capacity Target” (“**LCT**”).

The BFM is the full dollar amount of all state funding for education which the district in question received in the immediately preceding fiscal year. Hence in FY 2023, a district’s BFM is the total amount of state funding that district received in FY 2022. Under the EBF, a district’s BFM increases by the amount of any new EBF formula funding said district receives from the state in a year.

The LCT for each district is the dollar amount of its Adequacy Target that school district should cover from its own, local resources. A district’s LCT is based primarily on the EAV available for it to tax, versus the EAV available to all other districts. Under the EBF, low property wealth districts, which often have high property tax rates, are not expected to contribute as much towards the cost of covering their respective Adequacy Targets as are higher wealth districts.

After determining each district’s LCT and BFM, the EBF then creates a procedure for calculating how close or far that school district is from its Adequacy Target. This is determined by adding the dollar values of a district’s Base Funding Minimum in a year to its Local Capacity Target and Personal Property Replacement Tax revenue for that year. Next, this sum is divided by that district’s Adequacy Target for the year in question, which produces its “**Percent of Adequacy**.”

To achieve “full funding,” the state should cover 90% of the aggregate gap (the “**Aggregate Funding Gap**”) between: (i) the total amount of state and local school funding received by all school districts currently below their respective Adequacy Targets; and (ii) the sum of all Adequacy Targets for all school districts currently below their respective Adequacy Targets.¹⁰ Fully funding the EBF is not set at 100 percent of such gap, because federal support generally covers anywhere from seven percent to ten percent of all K-12 funding in the state. Note that some school districts in Illinois (defined as Tier IV

districts in the EBF), already have local and state resources which exceed their respective Adequacy Targets. That excess does not reduce the aforesaid Aggregate Funding Gap.

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

According to ISBE data, at the end of FY 2022, the state will have an Aggregate Funding Gap of \$4.19 billion.¹¹ As shown in **Figure 1**, even if Illinois satisfies the Minimum Target Level of new funding every year from FY 2023 forward, it will take until FY 2036 to eliminate the \$4.49 billion Aggregate Funding Gap that exists at the start of FY 2023, in nominal, **non-inflation-adjusted dollars**.

FIGURE 1
FULLY FUNDING THE EBF ON A NOMINAL DOLLAR, NON-INFLATION-ADJUSTED BASIS, BY MAKING A \$300M MINIMUM TARGET LEVEL INCREASE ANNUALLY (\$ MILLIONS)

	FY2023	FY2027	FY2034	FY2036
Aggregate Funding Gap Before Annual Distribution	\$4,190	\$2,990	\$890	\$290
New Annual Tier Funding Amount	\$300	\$300	\$300	\$290
Remaining Aggregate Funding Gap after Distribution of New Tier Funding	(\$4,190)	(\$2,690)	(\$590)	\$0
Total Nominal Dollars Put into EBF since FY 2018	\$1,579	\$2,779	\$4,879	\$5,470

Source: CTBA analysis of ISBE EBF Full Calculations

Of course, after adjusting for inflation, the EBF would still not be fully funded by FY 2036. Instead, in real, inflation-adjusted terms, the EBF would remain underfunded by \$1.4 billion at that point in time, as shown in **Figure 2**.¹² Indeed, **Figure 2** shows that **if the state continues the practice of increasing year-to-year funding for the EBF at the Minimum Target Level, the legislation will not be funded fully until FY 2041, which is 23 years after the EBF was first implemented—or more than double what is required in statute.**

FIGURE 2
FUNDING THE EBF ON A FULLY INFLATION-ADJUSTED BASIS, BY MAKING A NOMINAL \$300M MINIMUM TARGET LEVEL INCREASE ANNUALLY (\$ MILLIONS)

	FY2023	FY2027	FY2034	FY2037	FY2041
Aggregate Funding Gap Before Annual Distribution (infl. adj.)	\$4,380	\$3,640	\$2,112	\$1,354	\$231
New Annual Tier Funding Amount	\$300	\$300	\$300	\$300	\$191
Remaining Aggregate Funding Gap after Distribution of New Tier Funding	(\$4,080)	(\$3,340)	(\$1,812)	(1,054)	\$0
Total Nominal Dollars Put into EBF since FY 2018	\$1,579	\$2,779	\$4,879	\$5,779	\$6,911

Source: CTBA analysis of ISBE EBF Full Calculations using Bureau of Labor Statistics ECI historical data

What if, instead of increasing K-12 funding by \$300 million annually in nominal dollars, the state instead adjusted that \$300 million annual increase to account for inflation? For example, inflation typically grows by about 2.8 percent each year.¹³ Therefore, the Minimum Target Level amount of \$300 million in FY 2023 would have to be increased by 2.8 percent in FY 2024 to keep pace. This would result in a Minimum Target Level of \$309 million in FY 2024. However, in FY 2023, inflation has surpassed a typical year's growth, growing by nearly double to 4.5 percent over the past 12 months.

According to the Bureau of Labor Statistics, the Consumer Price Index (all items) or "CPI" increased 8.6 percent for the 12 months ending on May 31, 2022, the greatest 12-month increase since the 12-month

period ending December 1981.¹⁴ The CPI all items less food and energy also increased at greater than recent historic annual averages, going up 6.0 percent over the last 12 months.¹⁵

The cost of providing public services, however, is predicated primarily on labor market costs, and hence is more accurately measured by the “Employment Cost Index” or “ECI.” The ECI has not risen quite as steeply as the CPI has over the last 12 months, increasing by around 4.5 percent.¹⁶ But even though it has not increased as fast as the CPI, the ECI still grew at a rate that outstripped its recent historic annual average of 2.8 percent.¹⁷

To account for this increase in inflation, \$300 million in FY 2023, is estimated to be \$314 million in FY 2024, to keep pace. Then in FY 2025, the \$314 million increase made in 2024 would be adjusted for inflation again, resulting in an even greater year-to-year increase in FY 2025 than what pertained in FY 2024, and so on after that.

Inflation will resume growing at the average rate it did over the last twenty years—3 percent—and going forward the Minimum Target Level increase is adjusted annually to account for inflation, it would take until FY 2037 to fund the EBF fully in real terms, as shown in **Figure 3**.

FIGURE 3
FUNDING THE EBF ON A FULLY INFLATION-ADJUSTED BASIS, IF THE ANNUAL \$300M MINIMUM TARGET LEVEL IS ALSO ADJUSTED FOR INFLATION (\$ MILLIONS)

	FY2023	FY2027	FY2034	FY2037
Aggregate Funding Gap Before Annual Distribution (infl. adj.)	\$4,380	\$3,557	\$1,437	\$186
New Annual Tier Funding Amount (infl. adj.)	\$300	\$343	\$422	\$186
Remaining Aggregate Funding Gap after Distribution of New Tier Funding	(\$4,080)	(\$3,214)	(\$1,015)	\$0
Total Nominal Dollars Put into EBF since FY 2018	\$1,579	\$2,891	\$5,599	\$6,668

Source: CTBA analysis of ISBE EBF Full Calculations 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 5 years compared to keeping the increase at \$300 million in nominal dollars each year. That said, it would still take 19 years after implementation to fund the EBF fully, which is twice as long as required by statute.

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

To meet the statutory deadline of fully funding the EBF by FY 2027, starting in the 2023-2024 school year and continuing thereafter, Illinois would have to increase K-12 funding by \$1.1 billion each year—or more than triple the current Minimum Target Level—as shown in **Figure 4**.

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

	FY2023	FY2025	FY2027
Aggregate Funding Gap Before Annual Distribution (infl. adj.)	\$4,380	\$3,199	\$1,099
New Annual Tier Funding Amount	\$300	\$1,098	\$1,099
Remaining Aggregate Funding Gap after Distribution of New Tier Funding	(\$4,080)	(\$2,101)	\$0
Total Nominal Dollars Put into EBF since FY 2018	\$1,579	\$3,775	\$5,971

Source: CTBA analysis of ISBE EBF Full Calculations 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—even after accounting for inflation. Unfortunately, at the current rate of investment, that happy day won't happen until, at best, 2041. Which means generations of Illinois children will continue to receive an inadequately funded education, at a time when education matters more than ever.¹⁸

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.¹⁹ 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.²⁰

Given its current, flawed tax policy, Illinois state government lacks the financial wherewithal to fund the EBF by the statutory deadline—or even within a reasonable period of time. Building the state's fiscal capacity to invest an adequate amount of funding in education within a reasonable period of time is an urgent matter. 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 two decades to receive an adequately funded public education.

ENDNOTES

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

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

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

⁴ CTBA analysis of ISBE Evidence-Based Funding Formula Distribution Full Calculations Fiscal Years 2018, 2019, 2020

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

⁶ CTBA analysis of Public Act 102-0698

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

⁸ CTBA analysis of ISBE Evidence-Based Funding Formula Distribution Full Calculations Fiscal Year 2020; ISBE FY 2022 EBF “At a Glance,” <https://www.isbe.net/Documents/FY22-EBF-At-a-Glance.pdf>

⁹ CTBA analysis of ISBE Evidence-Based Funding Formula Distribution Full Calculations Fiscal Year 2020; ISBE FY 2021 EBF Base Funding Minimum Calculations.

¹⁰ When determining the Aggregate Funding Gap, no adjustments were made to consider potential future changes in Average Student Enrollment (“ASE”) or Local Capacity Target (“LCT”). That said, each time CTBA makes a new projection of the Aggregate Funding Gap, the LCT and ASE used to begin the projection will be modified to incorporate the then current data points therefor.

¹¹ CTBA analysis of ISBE Evidence-Based Funding Formula Distribution Full Calculations Fiscal Year 2022, <https://www.isbe.net/Pages/ebfdistribution.aspx>

¹² Adjustments for inflation are made using ECI State and Local Compensation historic inflation rates for the prior two decades, and adjusted for changes in population. The year-over-year inflation projection based on historical data and adjusted for population is 2.14% for FY 2022, and 2.96% for each subsequent fiscal year.

¹³ CTBA analysis of historical Employment Cost Index for total compensation, <https://www.bls.gov/web/eci/eci-continuous-dollar.pdf>

¹⁴ “Consumer Price Index Summary,” *Bureau of Labor Statistic*, <https://www.bls.gov/news.release/cpi.nr0.htm>

¹⁵ “Consumer Price Index Summary,” *Bureau of Labor Statistic*, <https://www.bls.gov/news.release/cpi.nr0.htm>

¹⁶ U.S. Bureau of Labor Statistics, Employment Cost Index: Total compensation: All Civilian [ECIALLCIV], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/ECIALLCIV>, June 20, 2022.

¹⁷ CTBA analysis of historical Employment Cost Index for total compensation, <https://www.bls.gov/web/eci/eci-continuous-dollar.pdf>

¹⁸ CTBA analysis of ISBE Evidence-Based Funding Formula Distribution Full Calculations Fiscal Years 2018, 2019, 2020 and ISBE FY 2021 EBF Base Funding Minimum Calculations; 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>

¹⁹ 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>

²⁰ Illinois State Board of Education, “Research Base Behind the Illinois Evidence-Based Funding Model.” <https://www.isbe.net/ebfspendingplan>