A PROPOSED PLAN FOR ALTERING THE PRESENT STATE AID SYSTEM, TO CORRECT FOR OBJECTIONABLE FEATURES OF THE PRESENT ILLINOIS SYSTEM OF FUNDING PUBLIC EDUCATION, AND A SUGGESTION ABOUT A WAY TO ADJUST PROPERTY TAXES DOWNWARD WHILE LEAVING THE SYSTEM FLEXIBLE

A Presentation for the Illinois Association of School Boards

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There are a number of features of the laws relating to financing public education that have caused concern since their enactment in 1973. In addition, we have had Proposition 13 and the rumored or real tax revolt in recent times. As the systems used to furnish money to local school systems change, there is an obligation to attempt to alter them to correct educational or financial defects. In fact, the concept of having something for everyone, or the "Christmas Tree" approach used in 1975 and 1977, must be examined and, in our judgment, altered before we reach the point that school aid is in fact a simple political package, rather than educational package with political consequences. It is, of course, obvious to those of you who know us that we are not suggesting that the final decision will not be political as well as educational. What we do want to suggest, however, is that we believe that we in education must continue to make proposals that will result in improved equity and opportunity for all, rather than just to make proposals for "me and my board," "our students," "our taxpayers"--us four and no more, in the tradition of the fervent prayer of the narrow-minded convert who prayed for "me and my wife, son John and his wife--us four and no more."

Access to State Dollars

By any standard, we did not in 1973 assure or even make possible full access for all districts to the maximum state dollars that the formula said was possible. We know that there are districts where, despite maximum effort by boards and school persons, the local citizens could not, or have not, been persuaded to increase their taxes to the maximum level that the state will match. And, yes, we know that there are some districts that have not attempted to achieve this maximum level of funding despite the opportunities that it offers. Nevertheless, in 1973-74, the first year of the present formula, an analysis of the cost of changing the formula pointed out that, if every district went to the maximum tax levy, it would have cost an additional $230 million dollars. The most recent figures from the Illinois Office of Education set the figure of the cost of full access at $42 million dollars. We believe that this figure is now low enough that in light of court decisions such as Cincinnati v. Walters and the logic behind this and other decisions, the argument against the state not sending its calculated share should be "moot" and we, therefore, suggest that the reward for effort feature be eliminated or reduced. In the proposal, which will be made to you shortly, there will be no penalty. Alternatives to this proposal are in a paper available from the Center since the General Assembly may wish a number of less drastic opportunities.

Appropriate Level of Support

In 1973 when $1,260 was the maximum level that the state system would participate in the support of a weighted pupil, $1,260 would buy a quality level of education. Despite the fact that this included all operational funds, rather than the normally calculated per capita cost of the educational fund, the $1,260 was a big step up for a majority of the districts of the state. Currently, inflation has pushed the average expenditure well above this figure. It is true that even with the "major" (with tongue in cheek) overhaul of the formula that increased the level by $33 to $1,293, the state is not sharing in a cost that pulls the educational level of most students up. In subsequent statements this paper will deal with this level of support, both for the short and long run.

There is attached to the copies of this paper a copy of part of a document which was written to the Illinois School Problems Commission in 1973 that suggests that the 1973 formula commits the state to $1.5 billion dollars at the end of 1977-78 with a possible $1.7 billion by that date if each district increased its tax rate to the maximum (Appendix A). I remind you that the largest appropriation ever made is for the current year and is only $1,359,000,000. This is said to suggest that decreasing enrollment and increasing assessments have caused us to receive far less than the General Assembly and the Governor were actually anticipating spending by 1977 when the formula was enacted in 1973. Suggestions which will be made subsequently will still be within these levels of support.

The level of support should have increased at a faster rate than the nominal changes which have in fact been made. This failure to keep the state guarantee at a high level is significant beginning with the 1977-78 year, since the original proposal was to have been phased-in through 1976-77. The 1977-78 year was not increased significantly and 1978-79 has been increased only $33 per weighted pupil and much of the change resulted from changes in weighting. Other changes that affect districts are basically short-term and political adjustments that cost money but do not move the foundation or support level in significant ways.

Unified Operational Fund

In 1973 the attempt to change the formula was so massive that wiser heads persuaded us that to fight for a single operatonal fund might cause us to lose the more important part of the proposal. Now as then, we believe that there should be only two major funds for which taxes are collected and which the state supports because our business is education. All funds for school purposes should be combined into an operational fund and the Bond and Interest Fund left as it is. There could, of course, be funds like IMRF and liability insurance funds which schools and other local governments are authorized to use. In the end, there must be a sensible approach to funds and having an operational fund to cover all cost would seriously help solve the problem of tax adjustments, tax reductions, freezes, multipliers, etc. This suggests that the General Assembly might need to arrive at a tax rate for the operational fund that would not reduce anyone's local collection, even if it meant making possible the raising of the tax rate for some districts without a referendum. The number affected would be small and the amounts of increase insignificant. If the last step of our procedure is ever enacted, it would make the question "moot."

Inflation and Its Problems

For years state policymakers have given increases to K-12 education exactly like they have to all other agencies, i.e., higher education, public health, etc. If the state can afford a 7 percent increase (or any other percent increase) in funding, each major area varies from the 7 percent increase based on the crisis, or supposed crisis, in the area; but, as we all know, the variation sometimes results from the "wheel that squeaks the loudest." However, the variation was from 7% or whatever percent level the estimates allowed.

This sytem may give higher education and public health and all the rest of those agencies a percentage raise at or near the 7 percent. In the public schools, however, because about 47 percent of all dollars are collected from property taxes, 6 percent from the federal government and about 47 percent from the state, simple mathematics says that a 7 percent increase in state dollars will result in less than one-half of the state's percent of increase being felt by the school districts. Because with a 7 percent increase in state dollars the average local school district can only increase its operations between 3 and 3½ percent, the system forces the local school to cut its program or raise property taxes. The heavier and heavier weight that schools have put on property taxes varies inversely to the wealth of a district. The wealthier a district is, the greater percent of its support it derives from the property tax and the more it must increase the property tax to make inflationary adjustments. Some system to prevent this must be developed if we are to avoid a California type property tax revolt.

Property Taxes as a Basis of School Support

As unpopular as it appears at the moment, the property tax has been good to public education. It has almost singularly caused the control of at least some aspects of education to stay in local school districts. It is the very root of the voice that local citizens have in education. More importantly, it has provided a stable, even if at times an inadequate, income on which uniform school terms and similar school programs have relied. Just as most young persons at some time decide that their parents just don't understand the problem, so many persons who have become disillusioned with the property tax just don't understand what it would be like without it. Our main task today is to be sure that corrections of things wrong, or alleged to be wrong, with the property tax are not corrected in a way that will be detrimental. When we have proposed an adequate level of support for the public schools, we will suggest one such way that property tax relief could in fact be instituted without affecting the opportunity for either local control or flexibility in controlling local schools by local citizens.

Combining All Formulas Into One

The Citizens Committee on School Finance recommended that we move to a single formula. The State Board of Education has made this one of their goals. All reasonable persons, except those who profit from the multiple formulas, agree with this goal. Any outsider who studies our system quickly asks the "$64 question." Why do you keep these formulas when all they really do is to give those who draw from plans other than the Resource Equalizer an advantage?

The obvious answer is first politics and then a seldom-admitted truism--all or nearly all districts are spending all they get; therefore, any plan that cuts a part of their support affects their ability to operate.

The plan we will suggest includes a simple, but expensive, way to move all districts to the same formula without penalty through time and, in fact, meet the other criteria we have discussed.

A Step-By-Step Approach to Solving Educational and Tax Problems

We would now like to propose a step-by-step process to meet the specific goals which we have outlined. These proposed steps may or may not be attainable quickly depending on the goals which you and others can persuade the General Assembly and the Governor to accept. However, it is important that we in education get our act together in light of the real world and in a way that it is possible for those things which need doing for the students to be accomplished.

Whether it is done this year or in some future year, intense work on creating an operational fund including all purely educational purposes other than debt service should be created. This means re-thinking all of our historical avoiding of this issue by creating a new fund for each new item, but then always admitting that one fund is desirable. This should not be done percipitously and may take longer than a single year, but the process should be started. This could add more to the ease of understanding school finance than those of you who have worked with the various formulas believe.

There would, of course, be no need to incorporate those taxes that all governments are authorized to collect, such as the IMRF tax and taxes for liability.

Step One: We believe that the General Assembly should increase the basic support level to $1,400 per TWADA and let this be step one. The tax rate required to participate should be a computational rate of 3 percent for K-12 districts, 1.95 percent for K-8 districts, and 1.05 percent for 9-12 districts, whether or not a district chooses to levy these rates for operational purposes. Until 1981, or the second year of step two, districts which cannot receive as much from this plan plus step two should be allowed to continue the present method of calculation. This plan would be based on the TWADA count and could reflect whatever political decisions are made about compensatory education. After 1980-81, or when the second year of step two becomes effective, all school districts should receive only the funds calculated through the application of step one and step two of this proposal. This simply proposes the present formula be changed only at the support level, the tax used for computation, and then that all be paid the full amount of state aid, whether or not the local board chooses to levy the full or a greater or lesser amount of taxes. Whether or not the 35 percent limit on increase remains is both a fiscal and a political question that can be decided by the appropriate forum.

Step one would cost considerably more than the present formula would cost in 1979-80, but would not increase the 1978-79 appropriation more than about 100 million dollars. It would, of course, use up the approximately 100 million dollars that the current formula would not cost in 1979-80 plus an additional $100 million.

Step Two: Because it is currently mandatory that schools either increase their property taxes or cut programs when inflation takes place, the state should assume the full cost of the previous year's inflation on the basic $1,400 program provided in step one when the General Assembly makes its appropriation, but should increase only on $1,400 for each WADA in the district. For example, the 1979-80 school year's appropriation would be made in the spring of 1979 and the fiscal year 1977-78 inflation of 7.2 percent would be the figures used if step two were enacted in 1979-80. This plan of providing the previous year's inflation increase will only catch the schools up with the previous year's inflation cost and will not serve to be the cause of overall inflation. In fact, schools will have to operate a full year with all the economies possible and borrowed money before receiving the relief to cover inflated cost. If, in fact, the national program can succeed in reducing inflation to 5.5 percnet as proposed for 1978-79, that could be the amount that schools would use to calculate aid received in 1980-81.

The proposal is simple--regardless of the tax rate or dollars spent above or below $1,400, the state would in 1979-80 pay all schools on the formula the 1977-78 inflation (the previous year) times $1,400 per Weighted Average Daily Attendance (WADA). In 1977-78 this inflation by the system then in use by the Consumer Price Index was 7.2%. Thus, step two would authorize payment of a flat grant of $100.80 per Weighted Average Daily Attendance calculated for the district. After the second year of this plan, steps one and two would provide the only basis for calculating general fund aid.

Step one should be paid on the Title I Weighted Average Daily Attendance figure, while step two should be paid only on Weighted Average Daily Attendance. The argument over how compensatory education dollars should be paid and measured is a political question and the full settlement of the need for dollars should be settled in the calculation of the basic amount. We have no objection if the General Assembly wishes to pay inflation on the entire TWADA.

In our judgment, however, the inflation increase is more palatable on the simple WADA. The cost in 1979-80 based on 1978-79 cost of living increases would be approximately $204,926,400. The first yell we will hear is that the state can't afford it. Let us suggest that this is just why property taxes have been going up and the quality of education hurting. This amount of inflation is real and must be recognized. Property taxes are a current issue and not facing this reason for their increase is dangerous for both educators and politicians.

<u>Step Three</u>: In some communities, persons who pay taxes have been willing to pay high rates despite low assessments. Where these tax rates are higher than those used in step one and the assessed value is below the average for the state (or some other politically arrived at level), there seems to be a need for the state to assure those districts that their tax effort would at least make them capable of securing what the average district in the state would receive. If in fact the power to tax were equal in all types of districts, we would support this concept. However, since the 9-12 districts can in fact tax equal to or nearly equal to K-8 districts, we have suggested the same rate for 9-12 districts and K-8 above which the state would assure payment.

The proposal is simply that when a district in K-8 or K-12 districts exceeds the state-used rate in step one, the state assure those districts that their tax rates will at least get the dollars that the average of all like districts in the state would receive. In the 9-12 districts, we propose that when they tax above 1.95 percent and have less than the average assessment for all 9-12 districts, the state assure them that they will receive the average amount.

For formula statements, you need to see the printed copies of this paper with the attached appendices. The third step thus preserves a mini-version of the "Resource Equalizer" which the General Assmebly passed in 1973. The cost of this proposal would be about 11.8 million dollars.

A Plan for Property Tax Relief

In the beginning, it should be understood that the writers do not wish to propose that they have judged that a property tax reduction is necessary. On the other hand, our heads have not been buried in the sand since the enactment of Proposition 13 in California. We are fully aware of the great political awakening that has occurred as it relates to the inequities, or alleged inequities, of the property tax. Having looked at multiplier freezes, extension freezes, caps on taxes, and a host of other plans which Dr. Hickrod has discussed, we have decided that we in the school business should have a plan that accomplishes the goal of those who want or must have tax relief, <u>but which still allows schools to function</u>.

Therefore, we base our proposal on two assumptions:

1. That property tax reduction proposals are in fact based on a belief that property taxes are bearing a greater share of the cost of governmental spending than they should.

2. That the reduction of one tax must be made up by increasing some other tax.

Without proposing the exact level of relief, I want to suggest a simple solution to a complicated problem. Being simple to understand does not, however, mean that it will be easy to achieve. If in fact there is a group of persons who believe that the burden of supporting public education should be shifted from the property tax to a state level tax, then the following is suggested.

Every taxpayer in Illinois pays taxes to support education. The amount of tax relief could easily be paid by the state to the tax collector in lieu of taxes levied by local boards of education. Our proposal is simply that tax relief be given to taxpayers beginning at a $3 total tax bill for all educational levies and moving downward. If the state is willing to increase its income from alternative tax sources by about 600 million dollars, then a $1 property tax rebate could be paid to tax collectors to replace any taxes at the $3 down to the $2 rate. We would suggest that the law authorizing this require the local collection form to calculate the tax bill, reduce any taxes that the bill reflects between 2 percent and 3 percent, and show on the form that the levy made by the board of education had been paid to the local district and that the taxpayer's bill was reduced by the amount of such taxes <u>levied</u>, but paid by the state. The tax reduction would be obvious and the prerogative of the local board would remain. The state could, of course, rebate only a smaller amount from current revenue by this method, i.e., pay the difference between .03 percent and .0290 percent.

Make no mistake. This is not equalization, but tax relief through property tax replacement. The higher a local district's assessment, the greater the rebate if they levied the tax. We would prefer to allow reductions to be paid to the area only on assessments up to the amount which the state guarantees, but this would complicate the matter and make little difference in real cost. Attached to this paper as Appendix B are formulas describing the way this would work. The cost of lowering the tax rate $1 on all property for the current year (1976 tax year) would have been 578 million dollars. As assessments go up, the state cost would increase.

AN ANALYSIS OF THE COST OF CHANGING THE PRESENT FORMULA TO A RESOURCE EQUALIZER FORMULA THROUGH FOUR OR FIVE YEARS

If the alternative two formula found in "A New Design; Financing for Effective Education in Illinois" (attached as a bill) were adopted in a single year, the OSPI estimates based on 1971-72 data that it would cost \$1,530,716,000. This is an increase of \$750,648,000. Because many districts are not at the maximum tax rates allowed, it could be expected that the ultimate cost might exceed this by a maximum, if all districts levied the full amount, of \$230,850,000. This could mean an eventual cost of \$1,761,566,000. However, as assessments increased in relation to students the state would reduce its contribution. Conversely, it could be established by law that a district could only increase its taxes at some minimal amount each year if they were below the allowed tax level. (Example -- No district may increase their local taxes more than 10% without state funds being cut proportionately.)

Despite this great increase the formula has merit if it is calculated to be put into effect through four or five years. To put it into effect through four years would require an increase of \$188,013,000 each year. To put it into effect in five years would require an increase of \$150,410,000 each year plus any increase because of increased local effort that would not be offset by increased assessments.

If, however, the formula had a provision that no district could have its state aid increased more than 25% each year, an interesting thing occurs. High school districts would have their increase delayed so that the full formula divided by four would cost $39,355,000 less each year, or a net of $148,658,000 (188,013,000 less 39,355).

The formula would force high tax districts to roll back taxes as the state increased its support and would encourage districts with low taxes to raise their taxes. It would through time give equal reward for equal effort.

Actually, the formula would move the state toward meeting the principles of equal funding for weighted pupil where the effort was equal.

In the past, we have resorted to the same formula on the grounds that people understood it. With the many additions and changes this is no longer true. A formula that would give all districts making the same tax effort the same funds would be a major improvement. If the 25% increase limit were enacted it would take several years for some districts to get equal treatment, but when fully funded the formula would solve the dual vs. unit problem and would fund all schools proportionately. The forced roll back in taxes would hold maximum expenditure districts where they are while the others catch up except for the provision for innovative programs (see bill attached).

With the 25% limit on increases the full formula could be enacted for about $148,658,000 if the four year base were used. If five years were used the formula might be installed for an increase of about $118,926,000. Calculations for this are shown in Table I attached.

The commitment to this formula over either four or five years would commit the state to a plan for equalizing educational opportunity up to $1260 per weighted pupil in steps that are achievable. The formula allows the state to weight students for any of the categorical programs and would if used cause these funds to be equalized on a basis of poor districts getting more than the wealthy. It seemed wise, however, to recommend establishing the formula to first replace the present formula including the size factor (density) impaction, and the flexible aid. This, however, would not be cut out for districts that would not get as much under the new formula.

No district would get less under this proposal than they get at present.

Taxes in high tax districts would be forced back while low tax areas would be able to raise their taxes to assist in paying for the education of their children.

Another real plus for the formula would be that it eliminates any need for districts with high assessments avoiding consolidating with districts with low assessments. When the state guaranteed the same amount of assessment for districts (all but 6% would be guaranteed the same) it would not affect tax rates if low and high assessment districts consolidated. It should aid in organizing districts for educational purposes rather than organizing them based on assessed value or wealth.

The formula treats dual and unit districts alike through time. It forces duals to give up excessive taxing power but commits the state to treating them equal. It in other words allows dual districts the same funds which it allows units but does not allow duals to gain an advantage. The bill proposed is attached.

TABLE I

Analysis of Appropriation if Resource Equalizer
with Title I at .375 weighting is used
To put entire formula into effect in a single year

	Total Appropriation	Elem Dist	Sec	Unit
Resource Equalizer	$ 1,530,716	387,282	246,365	897,069
1973 Approp for Distributive Fund	$ 780,068	204,265	57,942	517,861
Increase	$ 750,648	183,017	188,423	379,208
1/4 of Resource Equalizer Increase	$ 968,081	250,156	105,048	612,876
1973 Approp for Distributive Fund	$ 780,068	204,265	57,942	517,861
Increase	$ 188,013	45,891	47,106	95,015
If no district could increase more than 25% it would save	$ 39,355	3,223	32,651	3,480
Net total	$ 148,658	42,668	14,455	91,535

*

1/5 of Resource Equalizer Increase	$ 930,478	240,977	95,626	593,873
1973 Approp for Distributive Fund	$ 780,068	204,265	57,942	517,861
Increase	$ 150,410	36,712	37,684	76,012
Less estimated savings with 25% limit	$ 31,484	2,578	26,120	2,784
Net total	$ 118,926	34,134	11,564	73,228

* Figures above this line from OSPI printout.
Figures below the line are interpolated.

PROPOSED FORMULAS

Step One--Equalization Grant:

$$G = 1400 - rV$$

where:

G = state aid per TWADA to district

r = computational (not mandated) operational tax rates set at .0300 for K-12, .0195 for K-8, and .0105 for 9-12.

v = assessed valuation per TWADA in district

TWADA = Title I Weighted Average Daily Attendance

Step Two--Inflation Grant:

$$G = X\ (1400)\ \text{WADA}$$

where:

G = state aid for inflation to district

X = inflation rate of previous year

WADA = Weighted Average Daily Attendance

Step Three--High Effort/Low Valuation Grant:

$$G = r\ (V_a - V_i)$$

where:

G = state aid per TWADA

r = for K-12, positive difference between .0300 and their operating tax rate;
for K-8, positive difference between .0195 and their operating tax rate;
for 9-12, positive difference between .0199 and their operating tax rate

V_a = average property valuation/TWADA for each class of district (K-12, K-8, 9-12)

V_i = property valuation per TWADA in district

Step Four:

The tax replacement should be understood as just that. It has no effect on the funding of schools except that it will reduce the burden of the tax which the local district taxpayer pays to the schools. Because it is a tax relief, it must be used to replace the tax burden equally for all who pay the 3 percent rate. This complicates only the way the local tax collector shows the relief for the taxing bodies when they are K-8 and 9-12. The formula for each taxpayer who pays school tax will result in the same thing. The following formula applies.

$$Re = \left[\frac{A}{V_s}\right] V_i$$

where:

A = appropriation for tax replacement
V_s = total property valuation in the state
V_i = valuation in the district
Re = replacement dollars

The dual district rates, where both are at the maximum rate of 1.95% and 1.05%, would be calculated by reducing the Re calculated in the formula by .65% and .35% respectively.

When any district or combination of districts did not need the full 3% for operation, they would receive only the relief allowed by subtracting the Re of the formula from 3% times their assessed valuation and their remaining rate would be the same as others.

When one of the dual districts did not tax at the 1.95% or 1.05%, they would receive only the amount that .65% or .35% times the value of Re subtracted from the 1.95% and 1.05% times the assessed valuation. However, to be fair to the taxpayer in the combined districts, the district which taxes in excess of the rates to be reduced would have the state pay an additional amount of their taxes until such time as the other district levies the amount necessary to receive the full refund.