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"The voice of suburban schools"

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ED-RED FY 21 State Budget Considerations

ED-RED member districts acknowledge that countless Illinois residents and businesses now face unprecedented fiscal crises due to the COVID-19 pandemic. Given all the uncertainty for what's to come next school year, over the next few months districts will be utilizing any remaining bandwidth to develop multiple contingency plans for both in-person and remote learning for summer school and the fall semester for what will be the "new normal." In addition to addressing the learning loss that many of their students will experience given that approximately one third of the school has been interrupted, school districts are also working to address the significant mental health needs of both staff and students who have been impacted by this crisis.

ED-RED leaders anticipate the fiscal peril caused by the lingering COVID-19 pandemic and have prioritized ensuring that students across the State continue to be educated, supported, and served. The Evidence Based Funding formula (EBF) was developed to provide financial stability for schools across Illinois. Of primary concern to ED-RED member districts is how they will manage their finances over the next couple of years without compromising services to students, even if EBF is funded at current levels. Below is a short list of the unknowns, that schools are trying to plan for this next school year:

- Schools are planning around potentially starting the school year in-person and how to do that safely if social distancing requirements are still in place;
- Schools may be forced to close again in late fall/early winter if there is a resurgence of COVID-19;
- Schools expect to see a decrease in both property tax collections and Corporate Personal Property Replacement Tax Revenue (CPPRT);
- Property tax reassessments (particularly given the changes to Cook County assessments) combined with this pandemic will impact commercial properties especially hard and are expected to decrease. This may place a larger burden on homeowners;
- Districts expect to see an increase in property tax appeals, particularly for commercial properties and must plan for possible refunds in future years; and
- Will schools be expected to continue to properly support the community, families, and students in coping with the new normal.

In the short-term, **ED-RED is urging legislators to hold funding for schools flat to FY 2020 levels** and utilizing federal dollars to fill any gaps created by a decrease in State revenue. Additionally, ED-RED urges legislators to consider the following recommendations for inclusion in any FY 2021 State budget legislative package to help districts better navigate these times:

- <u>Commitment from the State to fund the Evidence-Based Funding Formula (EBF) to FY 2020 Base Funding Minimum levels (BFM) in the State's FY 2021 budget</u>.

  REASON: The FY 2021 budgeting process for school districts concludes prior to the statutory deadline for making Reduction-In-Force (RIF) decisions. That date falls 45 days before the end of the school year – typically late March/early April. Given that the RIF deadline has passed, and most districts have Collective Bargaining Agreements in place, districts know what their expenses are for FY2021 and need to ensure that they will have the needed revenues. Additionally, course selection for high school students also begins during this period, all prior to the approval of the State budget in May.

  The EBF has provided a level of fiscal consistency for the past 3 years. It is now more important than ever that this funding stream stay at least at FY2020 levels given the following threats to other funding steams:

- While property taxes have historically been the more stable funding source, there are significant concerns that there will be an impact on property tax collections, specifically from the commercial industry. Essentially, some commercial properties simply won't be able to pay their property tax payments or will delay paying them. Given that multiple counties have waived their late fees, the delays in districts seeing their property tax payments is highly likely.
- CPI is expected to be extremely low in future years, so property-tax capped districts will likely see minimal to no increases in their levy amounts;
- Districts will likely see significant reductions in their Corporate Personal Property Replacement Tax (CCPRT) revenue streams;
- While ED-RED districts are not impacted by the 1% sales tax for school district facilities, many downstate districts that have held successful referendums allowing for this funding and may see a decrease in this revenue source as well.

- <u>Make permanent the statutory provision allowing for Interfund Transfer Flexibility (17-2A) between the three school district operating funds (Educational, O&M and Transportation Funds) – currently set to expire June 30, 2020.</u>

  REASON: For the past several years, the legislature has granted districts increased flexibility to transfer between these key funds which has enabled districts to manage finances in years of limited or no increases to State funding to their districts. While this flexibility has been regularly extended in 3-year increments, the most recent 3-year period is set to expire on June 30, 2020. Increased flexibility will be needed more than ever in the coming years. Given that this flexibility in fund transfers is limited to the three key operating funds and that the legislature has allowed this flexibility for well over a decade, this flexibility should be made permanent.

- <u>Allow districts to recapture any lost revenue by extending the "3-year look back provision" to five (5) years. Districts should be allowed to recapture any lost CPI in future years when they under levy in any given year. (allowing a 3-year phase-in of this recapture should also be made available to protect taxpayers from a sudden increase in property taxes if school districts utilize the recapture provision).</u>

  REASON: Currently, there are two separate legislative provisions that provide incentives to school boards to continue to levy to the maximum amount allowed each year. The first is the "3-year look back provision" which limits a district's levy of a CPI increase to be applied to any of the of the district's three (3) previous years' levies (this essentially limits any "under levy" or abatement to 2 years). The second legislative provision is the district's inability to recapture CPI in future years should a district forego the CPI increase in any given year.

  Communities across Illinois will be impacted differently by the COVID-19 pandemic. Districts need the flexibility in their upcoming levies to make short-term decisions regarding reductions to their property tax levies that will not impact their long-term financial health. The need for modifying these two legislative provisions would be a critical step in allowing districts to do that. Additionally, these two legislative constraints were discussed at the Property Tax Relief Task Force Subcommittee meetings and were supported by several members of the Task Force.

- <u>Support TIF reform provisions that amends the role of school districts to have a proportional vote on the Joint Review Board.</u>

  REASON: Given the serious impact that this pandemic has had on the commercial sector, Illinois will likely see a significant increase in empty storefronts, malls, and other commercial spaces over the next several months. Municipalities have come to rely on TIFs to incentivize commercial growth, even as the non-TIF areas actually see property tax increases. Of primary concern is the role of school districts in the Joint Review Board (JRB). As the largest tax collector in a municipality, school districts deserve a stronger role in the JRB process. There are other concerns with the TIF process and the impact on schools that have been addressed in Senator Gillespie's SB 2938. However, most of those concerns would be resolved up front if school districts were given a stronger voice or even proportional voting on the JRB. This is extremely important now, given that decisions made in the next couple years will impact school districts for decades.

- <u>Allow all tax-capped districts to access Debt Service Extension Base* (DSEB) bonds as prescribed below, but in no event less than what the district is currently entitled to:</u>

  Enrollment: 0-1,399
  DSEB Minimum: $750,000

  Enrollment: 1,400-4,999
  DSEB Minimum: $2 million

  Enrollment: 5,000+ and community colleges
  DSEB Minimum: $4 million

  CPS DSEB Minimum: $10 million

  REASON/BACKGROUND: DSEB – When PTELL went into effect in 1994 for Cook County (and previously for the Collar Counties), districts were faced with new and severe limitations on how to fund capital projects. In consideration for those restrictions in future years, the legislature created the Debt Service Extension Base (DSEB) for districts which allowed them bonding authority in a specific amount each year. This has allowed districts to continue funding much-needed capital projects, including Health and Life Safety projects.

  The available DSEB amount for each district was determined by the amount each district had levied for non-referendum debt for the year in which PTELL went into effect. As a result, some districts have large DSEB limits while others have very small or even "zero." This arbitrary, 30+ year old methodology has hurt districts that had limited or no bonds outstanding at the time the DSEB determination was made.

Conclusion

The financial impact on both State and local funding to school districts, while still unknown, is unprecedented. Schools serve as the anchor of their communities in providing social services to their students. We recognize that current revenue projections for future years estimate that the State should expect a $4 billion to $8 billion decrease in general revenue funds. However, school districts that rely heavily on local property taxes are also anticipating decreased revenues from delayed collections, low collection rates, a significant hit to commercial property owners, and a decrease in Commercial Property Replacement Tax Revenue (CPPRT) revenue. In the short-term, it is important that EBF funding from the State remain flat to FY 2020 levels and districts have some flexibility that would allow for local decisions to be made on property tax relief as well as cleaning up decades old provisions that allow districts to access funds as needed, as stated above.

ED-RED stands ready to work with legislative leaders in navigating the future of school funding during and after COVID-19.