

# “Accelerating Equity: Integrating Teacher Pension Funding into Fair School Funding” Methodology

## Calculation of Adequacy Gap

For purposes of this brief the Adequacy Gap in funding is calculated for districts below 100% adequacy. The Adequacy Gap for each district below 100% is calculated by subtracting the Final Resources from each district’s Adequacy Target. The State’s Adequacy Gap is the sum of all these gaps. Final Resources and the Adequacy Target are both available from the state calculations for the distribution.<sup>1</sup>

## Impact of Equity Boost

To estimate the impact of the Equity Boost, the model calculates the normal cost for each district. For each district, the pensionable earnings were determined for each district and multiplied by 10.1%. A calculated normal cost is derived by dividing the total normal cost by the total calculated cost of salaries in the formula, and then multiplying this percentage by each districts’ salary costs in the formula. For runs of the model that include the Equity Boost, the calculated normal cost is added to the Adequacy Target, while districts pension costs are added to their Base Funding Minimum. For Chicago Public Schools, pension costs are from the budget book with insurance costs removed.<sup>2</sup>

## Modeling the Percent of Students Adequately Funded

To estimate the number of students at different adequacy levels requires running the funding model for multiple years. Using the State Board model for FY19, the model is initially run with \$300M, the amount distributed in FY19. To run the model for additional years the distribution of the prior year is add to the districts’ Base Funding Minimum (BFM). The salary components of the Adequacy Target are inflated by 2.77% based on an analysis of the Employee Cost Index (ECI) developed by Center for Tax and Budget Accountability.<sup>3</sup> EAV is inflated by 2% based on the Consumer Price Index (CPI), which is used in accordance with Property Tax Extension Limitation Law (PTELL).

The formula calculates a new Local Capacity Percent and Target based on the interaction of increases in the Adequacy Target and changes in EAV. In addition, the Corporate Personal Property Replacement Tax (CPPRT) is inflated at 5% each year (between FY18 and FY19, CPPRT increased by 6.5%). Actual increases in salary will be based on changes to the average teacher salary in the state calculated by the State Superintendent as specified in statute (pg. 418, PA100-0465).

For models without inflation the investment level is held flat throughout the 10-year analysis. For inflated investment levels the investment level is inflated by 2%. For each year the level of investment is input into the formula and the formula is run and the distribution for the district calculated and added to the districts’ Base-Funding Minimum and its level of adequacy is calculated (note that this is after the distribution). The number of students, based on the ASE (Average Student Enrollment), is summed below different levels of adequacy after each run.

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<sup>1</sup> <https://www.isbe.net/Pages/ebfdistribution.aspx>

<sup>2</sup> [https://cps.edu/fy19budget/documents/FY19\\_BudgetBook\\_Approved.pdf](https://cps.edu/fy19budget/documents/FY19_BudgetBook_Approved.pdf)

<sup>3</sup> <https://www.ctbaonline.org/reports/fully-funding-evidence-based-formula-four-scenarios>

These estimates do not consider changes in enrollment or demographics of districts. Large increases or decreases in enrollment, the number of low-income students or shifts across districts could lead to different results.

### **Effectiveness of Property Tax Relief Grant (PTRG)**

For the purposes of this model all dollars were distributed through the formula. However, to reach these estimates dollars could be distributed through the formula, the Property Tax Relief Fund, or any other mechanism that directs dollars to the Base Funding Minimum. To impact the number of students below 70% and 80% of adequacy those dollars would need to go to districts below that level of adequacy. In FY19, approximately \$38M was directed to districts below 80% of adequacy by the PTRG.

However, since a portion of each district's tax collections is part of the district's local capacity, the effect of each dollar in property tax relief lowers the district's local capacity. In FY19 the effective impact of each dollar in Property Tax Relief was approximately 75%, each dollar invested below a certain level of adequacy reduced the Adequacy Gap by 75%. Therefore, in FY19 the effective impact of each dollar to the PTRG was approximately 60% (80% multiplied by 75%).

Possible changes to the PTRG and the districts that will receive it will alter its effectiveness. For purposes of ongoing investment, the brief recommends using an effective rate of 50% or \$1 of Adequacy Gap closing for every \$2 invested. For example, to attain a gap closing level of \$500M, the state could either invest \$500M directly into the formula or \$450M in the formula and \$100M into the PTRG. Ongoing, the state should monitor the effectiveness of PTRG funds closing the Adequacy Gap.