AN EDUCATION FUNDING NO-BRAINER:
STOP THE TEACHER PENSION “SURCHARGE”
THAT HITS THE POOREST SCHOOLS HARDEST

Most federal funds to school districts are targeted to support underserved students, but when a district spends that money to hire teachers, the State will take 45% of those funds to pay off pension debt.
HIGHLIGHTS OF THIS REPORT

1. When Illinois school districts pay teachers using state or local funds, they pay just 0.58% of their salaries to the Teachers’ Retirement System (TRS). When school districts pay certified teachers with federal funds, they will pay a whopping 45% of their salaries to TRS in the 2017-2018 school year.

2. The drastic TRS payment for federally funded teacher positions is highly inequitable because it hits school districts serving larger populations of poor and special needs students hardest. Illinois school districts with the lowest property values and highest number of poor students receive substantially fewer dollars than their wealthier counterparts. While these poorer districts qualify for more federal funding, those additional resources are not enough to close the tremendous funding gap.

3. Many school districts try to avoid the TRS surcharge by not spending their federal funds to pay certified teachers. Instead, they spend federal funds on non-certified staff or instructional materials. This practice encourages spending decisions that are not in the best interests of students and require complicated accounting.

Policy Recommendation: The State should end the practice of using federal education funds to pay off pension debt.

February 2017 Update: This report was originally released in 2015 when the TRS “surcharge” was 36.06%. Since then, the Illinois Senate passed SB 436 (Stadelman/Gordon-Booth) to adopt this policy recommendation. The House did not assign the bill to a substantive committee, and the TRS surcharge increased to 38.54% and will rise again to 44.61% in FY18.
INTRODUCTION

Imagine two Illinois school districts. District A has high property wealth and therefore a high property tax base, serves few low-income children, and – even with a relatively low property tax rate – raises most of its funding locally. On the other hand, the property values in District B are lower. District B has a low property tax base, enrolls mostly low-income students, and, despite its high property tax rate, brings in much less money from local sources and relies more on state and federal funds, such as Title I funding. Due to all these factors, District B still spends less overall per pupil than District A.

Each district hires a teacher at a $40,000 salary. District A uses local funds and pays $232 to the Teachers’ Retirement System (TRS) toward the teacher’s pension. District B uses federal Title I funds and pays $15,416 to TRS for pension costs. That’s right: for the same $40,000 teacher salary, a district will pay over $15,000 more in pension costs simply because the funding comes from a federal source.

The reason for this gap is the TRS “federal funds rate.”

Generally speaking, school districts in Illinois pay 0.58% of teachers’ salaries to TRS\(^1\) and the State pays the rest of the employer contribution. The sources for this funding are local property tax receipts, General State Aid, and other state funds.\(^2\)

However, when federal funds are used to pay certified teachers’ salaries, the school district gets charged the TRS “federal funds rate” of 38.54% of salary.\(^3\) In FY18, that rate will grow an additional six percentage points to 44.61%.\(^4\) That TRS payment covers not just current pension costs, but also helps pay down the massive pension debt. (See “A Crash Course in Teacher Pensions” on page 3 for more about how this rate is set.) Some call it a “penalty,” a “surcharge,” or a “tax.” TRS calls it the “federal funds rate.” Whatever it is called, it has a major impact on how schools invest their federal education funds and educate our students.

*Often, districts choose not to hire teachers with their federal funding to avoid the TRS surcharge, sometimes even at the cost of sacrificing effective programs that improve student learning outcomes.*

Federal funds are usually allocated to schools to serve specific student populations, such as Title I funds for students attending schools with high poverty concentrations and IDEA funds for children with special needs. But if districts use those federal funds to hire teachers, they are left paying 39% more to TRS than if the teachers were paid with non-federal sources. Districts are left with two tough choices: they can hire certified teachers and sacrifice 39 cents (soon to be 45 cents) of every...
federal dollar to TRS, or they can choose not to hire teachers with federal money at all. Many districts opt to spend their federal funds on non-certified aides, part-time retired teachers, or instructional materials where they can avoid the 39% TRS surcharge. (See some examples of how districts manage on page 8.) In a cash-strapped district, investing in the most effective programs to improve student outcomes should not have to take a backseat to spending practices orchestrated to minimize district losses.

District A and District B are both caught up in the most inequitable education funding system in the nation. That’s right – in Illinois, the gap in financial resources between the richest and the poorest school districts is greater than in any other state. It’s a big gap: the highest-spending district spends more than $20,000 more per student than the lowest-spending district. There are several reasons for our funding inequities, including over-reliance on property taxes, low levels of state spending, recent state budget pressures from record-high pension debt and a recently-expired income tax hike, and state funding streams that fail to take into account local ability to pay.

Fully addressing such a dysfunctional school funding system is no small task, and the General Assembly and Executive Branch must find a way to tackle all of these individual flaws and transform the system into one that works for every Illinois student. At the same time, TRS undeniably has a massive underfunding problem to deal with and no easy solutions for managing the pension funding crisis.

Nevertheless, needier communities that suffer under this system cannot afford to wait for overdue transformational change when the General Assembly and Executive Branch could make a relatively simple fix to one obvious driver of inequity. That particular inequity – the so-called TRS “federal funds rate” – is the focus of this report.

In a state already notorious for school funding disparities, charging federally funded teacher positions 39% (soon to be 45%) more to pay down pension debt leaves needier districts taking a bigger hit.

In a state already notorious for school funding disparities that shortchange poorer school districts, taking over one-third of federal funds to cover unfunded pension liabilities hits needier students the hardest. It is an unfair obstacle to providing every child in Illinois with the education they need to succeed in college and their career.

This report provides an overview of this problem
A CRASH COURSE IN TEACHER PENSIONS

All certified teachers in Illinois except those employed by Chicago Public Schools participate in the TRS for their pension plan. TRS is funded by three sources: employee contributions, school district contributions, and State appropriations.

There are two buckets of pension costs: “normal cost” and “unfunded liability.”

NORMAL COST
“Normal cost” is the amount it would take today that, as interest accrues over the years, would fully fund all members’ pensions when they retire. If actuarial projections are accurate and investment returns come in as planned, paying normal cost to a fully funded system keeps it fully funded.

In FY14, TRS’s total normal cost was 17.29% of payroll (about $1.7 billion). It is paid for by:

- **Teachers**, who contribute 9.4% of their salaries (or in some cases, negotiate for the employer to “pick-up” those costs on their behalf);
- **School districts**, which pay 0.58% of payroll (and in some cases, negotiate to “pick-up” some portion of their teachers’ contributions); and
- **The State**, which pays whatever is left.

UNFUNDED LIABILITY
“Unfunded liability” is the bigger problem, especially in Illinois where decades of underfunding have left Illinois’s five state retirement systems as the most underfunded of any state. State statute directs TRS and the other state pension systems to “certify” each year how much funding the state must contribute as a percentage of payroll in order to bring the system to a 90% funding ratio by 2045. The certified contribution rate has steadily increased over the last two decades (when the funding scheme was first adopted) in order to cover the growing unfunded liability.
HISTORY OF THE TRS “FEDERAL FUNDS RATE”

Federal law allows states to cover teacher pension costs from the federal fund from which the teacher is paid, up to the certified rate. In 2005 and before, TRS charged school districts 10.5% of salaries to cover benefit costs for teachers paid through federal funds. Since then, as the unfunded pension liabilities have exploded, that percentage has increased significantly to its 2017-2018 rate of 44.61%.

In August 2013, then-State Superintendent Chris Koch, who also served on TRS’s board, proposed that TRS reduce the federal funds rate. This policy revision, which the TRS board approved unanimously, charged school districts the normal costs rate (then 7.4%) instead of the certified contribution rate (then about 35%). TRS notified school districts of the rate change, which – because it reduced the burden on school districts – increased the State’s pension contribution by about $80 million.

However, in May 2014, the legislature reversed TRS’s rate revision amid competing budgetary priorities. This measure pushed that estimated $80 million burden back to school districts to cover with federal funds, taking away their ability to spend it on other instructional supports.

HOW IS THIS INEQUITABLE?

Almost all federal funds are heavily targeted to areas of greater student need, including poverty concentrations and special education. Of the $2.9 billion in federal grants in Illinois’s FY15 education budget, the two biggest were $970 million in Title I funds (which are allocated based on student poverty) and $730 million in IDEA funds (allocated for special education). Title I’s explicit purpose is to supplement resources for students in poverty so that all children have the opportunity to meet educational standards. Yet it takes the biggest hit of any federal program under the TRS surcharge. Many school districts try to minimize this hit by creatively navigating Title I guidelines. (See page 6 for more detail on Title I.)

Under this progressive distribution methodology, the school districts with greater numbers of students in need receive the most federal funds and thus pay the most in the TRS federal funds rate surcharge. Federal funding is intended to help level the playing field and bring more opportunities to underserved students. If a district chooses to spend the funds on certified teachers, it will soon have to sacrifice almost half of the funding for the higher TRS costs that keep growing even higher by mounting pension debt.

The general trend: the higher a district’s poverty, the more it pays to cover the state’s unfunded pension liability costs.
Broken into quintiles of poverty, the trend is starker. The poorest quintile of school districts lose over $50 per pupil, while the least poor quintile loses $10 per pupil.

Some might argue that districts that receive more federal funds should pay more to cover the pension costs for those teachers. After all, with the state’s pension liability growing and budget pressures increasing, this is one small way to manage the crisis. And these teachers would not get a pension – or even a job – if it were not for the availability of the federal funding that the state does not control. However, these arguments undercut the original purpose for which the federal funds were provided – to help disadvantaged students.

Moreover, the state does not control how many local resources a district brings in; yet, it pays the majority of pension costs for all teachers (outside of Chicago), regardless of the district’s ability to pay higher salaries, hire more educators, or raise more local money from a healthy property tax base. Districts that raise more locally benefit from the state subsidizing their teacher pension costs. Districts that have less capacity to raise locally and get more federal resources not only do not get that state subsidy – they also get hit with paying unfunded liability rates (which, of course, were generated by teachers in all districts).

Often, the inequity manifests itself in another way as school districts juggle their budgets to avoid paying the TRS surcharge. When districts are faced with the option to hire certified reading specialists with a surcharge, or instead save the surcharge and hire uncertified aides, many opt for the aides. Even when districts acknowledge that reading specialists will yield the greatest student learning outcomes and are the better choice to drive student achievement, the TRS surcharge often pushes districts away from a student-centered decision.
A TITLE I TUTORIAL

Most of the federal funds that are subject to TRS penalties come from “Title I” funds. The phrase “Title I” refers to Title I, Part A of the federal Elementary and Secondary Education Act, which “provides supplemental federal funds to ensure all students have fair, equal, and significant opportunities to obtain a high-quality education and reach, at a minimum, proficiency of challenging state academic achievement standards.” The program was initiated in 1965 during the War on Poverty and serves over 24 million students across the United States today.17

THERE ARE TWO TYPES OF TITLE I PROGRAMS:

1. Targeted assistance provides supplemental education services to eligible students, and the funding must be targeted to serve only those children. This is the default program for Title I funds.

2. Schoolwide programs are comprehensive programs that are designed to upgrade the entire educational program within a school building. All children may participate in Title I-funded initiatives. Schoolwide programs benefit from the most spending flexibility for whole-school reform and from the ability to consolidate federal, state, and local funds. In order to become a schoolwide program, over 40% of the students must live in poverty and the school must receive a board approval of its plan.

Nationally, about 70% of Title I schools operate schoolwide programs.18 In Illinois, schools that operate schoolwide programs have the added budgeting flexibility because they are not constrained by the same rules that govern schools that have not opted into schoolwide programs. This gives districts more flexibility to move certified teacher salaries to local accounts and spend federal funds on the non-certified staff and materials that are left. This sort of accounting maneuvering is trickier in targeted assistance programs, where federal funds must specifically be spent on instructional programs for struggling students.

Traditionally, Title I funds could only be used to “supplement, not supplant” local programs, but that only applies to targeted assistance.19 (That is, districts had to use Title I to provide extra services to serve needy students. They could not simply use the additional federal funds to replace district dollars.) Lack of clarity around these “supplement, not supplant” rules sometimes made districts reluctant to move teacher salaries from Title I funds. If they were funding them already, transferring them to Title I funds might appear to supplant what they had been doing. But for schoolwide programs, this is not an issue.

“In December 2015, ESEA was re-authorized with passage of the Every Student Succeeds Act (ESSA). ESSA retains the ability for higher-poverty schools to create schoolwide programs in order to more comprehensively and flexibly use federal funds. This remains a key tool for Illinois schools to use where possible to maximize their Title I funds by covering teacher salaries with other funding streams. Proposed changes to federal regulations about the “supplement, not supplant” requirement may add a layer of complexity as districts ensure compliance.”20
WHY THIS NO-BRAINER SOLUTION IS NEEDED IN ILLINOIS

ILLINOIS CHARGES THE HIGHEST FEDERAL FUNDS RATE FOR TEACHER PENSIONS OF ANY STATE. THERE ARE TWO REASONS WHY ILLINOIS IS UNIQUE:

• First, in most states, school districts pay their own teacher pensions costs, regardless of whether teacher salaries are paid with federal, state, or local funds. The concept of a separate “federal funds rate” is foreign to these states. In Illinois, the state picks up the tab for most of the employer costs.

• Second, the unfunded pension liability in Illinois is the highest in the country. As a result, so is the size of the gap between normal cost and unfunded liability rates. Even where federal funds are charged a higher rate, the difference between that rate and normal cost is relatively small compared to Illinois’s huge gap of 36 percentage points.

IMPLICATIONS FOR DISTRICTS

In FY14, $2.9 billion in federal funding was allocated to the Illinois State Board of Education. Yet, TRS received $64 million in federal funds rate contributions that year, representing just 2.5% of overall federal education funding. We would expect this percentage to be higher, but that gap is strong evidence that districts are manipulating their spending to avoid the TRS surcharge. School districts have learned to navigate complicated federal and state requirements to maximize the amount of federal dollars retained in the district. Consequently, fewer federal funds are actually spent on certified teacher salaries than one might expect.

While the financial hit to school districts from the federal funds rate is real, the bigger implication of the rate is the creative ways districts make funding allocation decisions to avoid the extra charge. School districts have to strike a balance between hiring certified teachers – who will drive student learning – at 55 cents on the dollar, or getting the full value of their federal dollars by spending on school supplies – which might not be the best way to improve academic outcomes.
HERE ARE SOME WAYS LOW-INCOME SCHOOL DISTRICTS ARE GRAPPLING WITH THIS DIFFICULT SITUATION:

PARK FOREST SCHOOL DISTRICT 163: 89.4% LOW-INCOME
Hiring Part-Time Retired Teachers Instead of Full-Time Reading Specialists

Before the increase in the cost of the federal funds rate, Park Forest employed 20 reading specialists, an average of about three per school. The district saw the highest percentage of students meeting or exceeding standards under that staffing structure, culminating in an 80% meet/exceed rate for eighth graders who benefitted from intervention each year since kindergarten. The district would like to bring back reading specialists but has opted instead to use Title I funds to hire part-time retired teachers, who already collect a TRS pension and no longer contribute to the system, to fill the role. The district misses having full-time reading specialists who join in team meetings and are fully integrated in the learning environment.

SANDOVAL COMMUNITY UNIT SCHOOL DISTRICT 501: 75.3% LOW-INCOME
Hiring Aides Instead of Certified Teachers

Sandoval CUSD 501 echoed a trend that many school districts affirmed: when possible, it hires non-certified staff, who participate in the Illinois Municipal Retirement Fund (IMRF), rather than certified teachers who participate in TRS. (School districts and other employers pay about 7.6% of salary in contributions to IMRF.) Because Sandoval is part of a special education cooperative, the district is also able to maximize its IDEA funds because the co-op pools resources and allocates IMRF-covered employee salaries to the federal IDEA grants.

BERWYN SOUTH SCHOOL DISTRICT 100: 73.4% LOW-INCOME
Investing in Technology While Watching Out for Supplement/Supplant Rules

Berwyn South has prioritized a 1:1 technology initiative and has allocated a significant amount of its Title I funding to computers, but not without some careful accounting. Federal Title I funds come under the condition that they “supplement” district funding, rather than “supplant” it. Moving teacher salaries out of Title I presents a potential future problem: the district says they cannot be paid with Title I funding later on if other sources dry up, as it would potentially supplant district funding rather than supplementing it.

WAUKEGAN COMMUNITY UNIT SCHOOL DISTRICT 60: 71.5% LOW-INCOME
Purchasing Supplies and Shifting Teachers

In FY14, Waukegan charged 20 teacher salaries to the Title I grant and paid the then-33% TRS surcharge. In FY2015, the district shifted all Title I teacher salaries to other sources, squeezing the existing programs and positions paid from those funds. Rather than instructional salaries, those Title I funds go toward supplies and contractual services.
ROCKFORD SCHOOL DISTRICT 205: 78.7% LOW-INCOME
Sometimes, You Just Have to Pay the Penalty

Rockford, the district with the second-largest amount of money funneled to TRS through the federal funds rate, has been among the most outspoken advocates for rolling back the TRS surcharge. The district has budgeted to minimize TRS salaries coming from federal funds, but still spends about $2 million on the TRS federal funds rate. Without the federal hit, Rockford could hire 20 more teachers, provide every student with 2.5 hours of private tutoring, or more than double the size of its four-week summer intervention program for students below standards in Title I schools.28

KANKAKEE SCHOOL DISTRICT 111: 86% LOW-INCOME
Taking a Hit on its School Improvement Grant

School Improvement Grants (SIGs) are federal awards to schools that create transformative plans for academic improvement. SIGs are competitive grants, requiring extensive planning and efforts toward whole-school reform. They are renewable for three years. One Kankakee school received a SIG of $3 million over three years (FY15 – FY17). The district has been careful to shift salaried positions to avoid paying them with federal funds in the past. But with its budget deficit, the district has to consider making difficult decisions such as moving to grade centers, closing an elementary school, increasing student fees, and renegotiating vendor contracts. But when it comes to the SIG, where the money is temporary and will go away in three years, the district has been forced to absorb the TRS penalty and leave less SIG funding available to transform its lowest-performing school.29

PANA COMMUNITY UNIT SCHOOL DISTRICT 8: 58.7% LOW-INCOME
Letting Positions Lapse Through Attrition

Like many others, Pana has shifted most certified teachers’ salaries to non-federal funds where possible, also being careful to comply with federal supplement/supplant rules. Paraprofessional salaries come from Title I funds where possible to avoid TRS charges, but four certified teachers remain Title I-funded, for whom the district pays the surcharge. The district also participates in a special education cooperative, in which multiple districts combine resources to serve students with special needs. The cooperative manages its IDEA funds to avoid any TRS federal funds charges. When TRS changed the policy in 2013, Pana projected additional funds available for Title I, but was able to manage after the policy was reversed by not filling positions after retirements took effect.30
### WHO ARE THE BIGGEST LOSERS?

Per pupil, the districts that lost the most federal funds due to TRS surcharge payments in FY2014:**

<table>
<thead>
<tr>
<th>District</th>
<th>Poverty Rate*</th>
<th>Per Pupil Federal Funds Rate Loss (v. Normal Cost Payment)**</th>
</tr>
</thead>
<tbody>
<tr>
<td>East St. Louis SD 189</td>
<td>100%</td>
<td>$206</td>
</tr>
<tr>
<td>Ford Heights SD 169</td>
<td>100%</td>
<td>$197</td>
</tr>
<tr>
<td>Madison SD 12</td>
<td>82%</td>
<td>$189</td>
</tr>
<tr>
<td>Mount Vernon SD 80</td>
<td>100%</td>
<td>$177</td>
</tr>
<tr>
<td>Gen. George Patton SD 133</td>
<td>100%</td>
<td>$170</td>
</tr>
<tr>
<td>Cairo USD 1</td>
<td>100%</td>
<td>$166</td>
</tr>
<tr>
<td>Cahokia CUSD 187</td>
<td>100%</td>
<td>$166</td>
</tr>
<tr>
<td>Galesburg CUSD 205</td>
<td>67%</td>
<td>$150</td>
</tr>
<tr>
<td>Armstrong-Ellis CSD 61</td>
<td>56%</td>
<td>$143</td>
</tr>
<tr>
<td>Egyptian CUSD 5</td>
<td>71%</td>
<td>$128</td>
</tr>
<tr>
<td>Macomb CUSD 185</td>
<td>40%</td>
<td>$126</td>
</tr>
<tr>
<td>Venice CUSD 3</td>
<td>100%</td>
<td>$125</td>
</tr>
<tr>
<td>Springfield School District 186</td>
<td>79%</td>
<td>$121</td>
</tr>
<tr>
<td>Desoto CUSD 86</td>
<td>64%</td>
<td>$116</td>
</tr>
<tr>
<td>Neoga CUSD 3</td>
<td>46%</td>
<td>$114</td>
</tr>
<tr>
<td>Bloom Twp High School District 206</td>
<td>100%</td>
<td>$113</td>
</tr>
<tr>
<td>CCSD 168 Sauk Village</td>
<td>100%</td>
<td>$111</td>
</tr>
<tr>
<td>Elem School District 159 (Matteson area)</td>
<td>65%</td>
<td>$110</td>
</tr>
<tr>
<td>Quincy School District 172</td>
<td>57%</td>
<td>$110</td>
</tr>
<tr>
<td>Sandoval CUSD 501</td>
<td>67%</td>
<td>$105</td>
</tr>
<tr>
<td>District or Entity</td>
<td>Poverty Rate*</td>
<td>Total Federal Funds Rate Loss (v. Normal Cost After Payment)**</td>
</tr>
<tr>
<td>----------------------------------------</td>
<td>---------------</td>
<td>---------------------------------------------------------------</td>
</tr>
<tr>
<td>Illinois State Board of Education</td>
<td>n/a</td>
<td>$3,251,161</td>
</tr>
<tr>
<td>Springfield SD 186</td>
<td>79%</td>
<td>$1,748,725</td>
</tr>
<tr>
<td>Rockford SB 205</td>
<td>87%</td>
<td>$1,688,549</td>
</tr>
<tr>
<td>East St. Louis SD 189</td>
<td>100%</td>
<td>$1,242,539</td>
</tr>
<tr>
<td>SD U46 (Elgin area)</td>
<td>63%</td>
<td>$1,077,866</td>
</tr>
<tr>
<td>Peoria SD 150</td>
<td>90%</td>
<td>$1,074,873</td>
</tr>
<tr>
<td>Aurora East USD 131</td>
<td>100%</td>
<td>$971,828</td>
</tr>
<tr>
<td>Cicero SD 99</td>
<td>100%</td>
<td>$780,762</td>
</tr>
<tr>
<td>Waukegan CUSD 60</td>
<td>97%</td>
<td>$704,549</td>
</tr>
<tr>
<td>Quincy School District 172</td>
<td>57%</td>
<td>$694,651</td>
</tr>
<tr>
<td>Champaign CUSD 4</td>
<td>59%</td>
<td>$694,651</td>
</tr>
<tr>
<td>Galesburg CUSD 205</td>
<td>67%</td>
<td>$663,727</td>
</tr>
<tr>
<td>Decatur School District 61</td>
<td>93%</td>
<td>$658,911</td>
</tr>
<tr>
<td>Joliet School District 86</td>
<td>89%</td>
<td>$620,347</td>
</tr>
<tr>
<td>Rock Island School District 41</td>
<td>69%</td>
<td>$569,244</td>
</tr>
<tr>
<td>Valley View CUSD 365U</td>
<td>54%</td>
<td>$567,545</td>
</tr>
<tr>
<td>Granite City CUSD 9</td>
<td>69%</td>
<td>$560,449</td>
</tr>
<tr>
<td>Cahokia CUSD 187</td>
<td>100%</td>
<td>$542,064</td>
</tr>
<tr>
<td>Aurora West USD 129</td>
<td>60%</td>
<td>$507,321</td>
</tr>
</tbody>
</table>

Note that ISBE is the biggest loser because of the large number of federally funded positions within the agency.

*For purposes of this chart, poverty rate refers to the proportion of students who receive DHS services and is the figure used in General State Aid calculations.

**The loss calculated represents the difference between the amount each district paid in the TRS Federal Funds Rate (FFR) in 2014 and the amount each would have paid if only normal cost had been charged on federal employee salaries.
There is a no-brainer fix to this inequitable situation that the Illinois General Assembly can address immediately: enact a law to require school districts to cover only normal cost pension rates on federal funds. The financial impact to the State is minimal at about $65 – $95 million per year, but the change would benefit the most underfunded districts the most. This change would allow schools to spend federal funds on what is most effective for students (rather than what works best in their creative accounting), and enable targeted federal funds to be used for their intended purpose of improving outcomes for underserved students.

There may also be a federal solution: Congress can restrict states from charging higher pension costs to federal funds. There could also be a federal solution: Congress can restrict states from charging higher pension costs to federal funds. There have been recent federal proposals to limit this but none have become law.32

Finally, school districts can minimize the impact. School districts should think creatively about how to account for federally funded teacher salaries – but be careful to strike the right balance. This means transitioning to school-wide programs to maximizing flexibility and minimizing the TRS surcharge by moving teacher salaries to local funds and paying for IMRF employees and instructional materials they would need to purchase anyway out of federal funds (when possible). But as always, the lens through which to consider these options must be improving student learning outcomes and bringing equal educational opportunities to all students – not avoiding the TRS penalty no matter what.
ENDNOTES

1. 40 ILCS 5/16-158(e)(2)
2. Chicago Public Schools has a separate pension fund for its teachers, pays its own employer contribution costs, and does not participate in TRS; thus, CPS is not impacted by the TRS federal funds rate.
4. TRS. “Proposed Funding Certification.” Letter to Governor Rauner and legislative leaders from Richard Ingram, TRS Executive Director. October 28, 2016.
8. Note that TRS receives other payments from school districts, including early retirement option costs, costs attributed to end-of-career pay increases, and federal funds rate contributions, but these are not considered part of the “normal cost” calculation.
10. 40 ILCS 5/16-158(b-3)
11. Office of Management and Budget Circular A-87 Revised (8)(f)
13. Note that the $80 million price tag is an estimate. As districts become increasingly adept at manipulating their budgets to minimize the cost to federal funds, it has decreased (for example, $64 million was collected in federal funds rate contributions in FY14) and is likely to continue on this path.
14. PA. 98-674, enacted by SB 220 (Kotowski/Madigan). SB 220 was the FY15 Budget Implementation Bill (“BIMP”). BIMPs typically include multiple components and pass each year as a part of the budget process to implement any substantive changes that are needed to implement the budget.
15. The federal H.R. 5, the re-authorization of the Elementary and Secondary Education Act, included an amendment (HA 37 (Dold)) in the House version to prohibit states from charging more than normal cost to federal funds. That measure was removed in conference committee before final passage of the bill in December 2015. A 2015 amendment (SA 1 to SB 436 (Stadelman)) was filed in Illinois to reverse the practice. The bill was assigned to the Executive Committee’s subcommittee on Special Issues and did not receive a committee vote.
22. TRS FOIA request.
23. For purposes of this section, “low-income” is defined as the percentage of students who qualify for free or reduced cost school lunch programs.
27. Luosa, Brian. Waukegan CUSD 60 Director of Business and Finance. (2015, August 24). Email communication.
31. Analysis of data from TRS FOIA request.
STAND FOR CHILDREN’S MISSION is to ensure that all children, regardless of their background, graduate from high school prepared for, and with access to, college or career training.

STAND.ORG/ILLINOIS
FACEBOOK.COM/STANDILLINOIS
@ILLINOISSTAND