

Reform education spending: Eliminate loopholes in General State Aid formula



By Ted Dabrowski, Vice President of Policy

The problem: At a time when massive budget deficits threaten to cut into funding for classrooms, Illinois cannot continue to give away subsidies to a select few districts that benefit from the complex structure of the state’s education-finance formula.

Some school districts take advantage of loopholes in Illinois’ education formula, called the General State Aid, or GSA, formula, to appear less wealthy, thereby receiving more means-based state aid than they otherwise would.

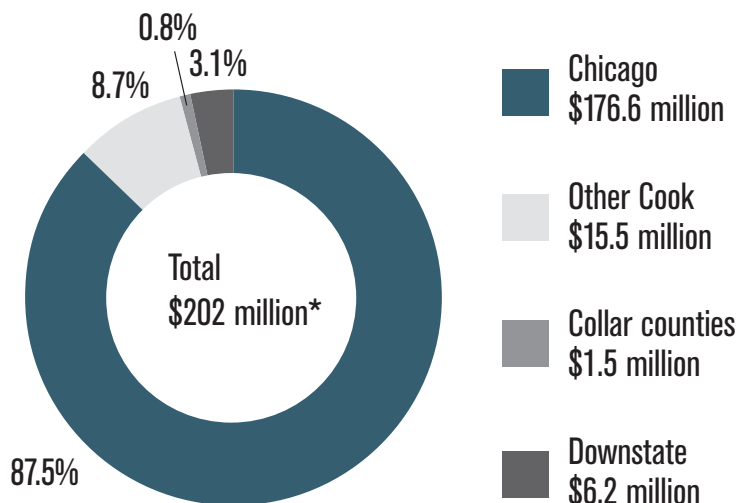
Districts do this by underreporting their true local property wealth when applying for means-based support from the state. Due to loopholes in the GSA formula – one for property tax-capped districts and another for districts that operate in tax increment financing, or TIF, districts – school districts are able to underreport their property wealth and receive more education funding.

The extra money the state sends to school districts in tax-capped jurisdictions is often referred to as a Property Tax Extension Limitation Law, or PTELL, subsidy. These subsidies totaled approximately \$200 million in 2014. At their highest point in 2008, PTELL subsidies totaled more than \$800 million.¹

Most school districts that receive the PTELL subsidies are located near Cook County. Ten districts received more than 96 percent of the \$200 million in PTELL subsidies in 2014, with the majority located in Cook County and its collar counties. Only 3 percent went to downstate school districts.²

The city of Chicago is the biggest recipient of PTELL subsidies, receiving more than \$175 million in extra GSA funds in 2015. It received nearly \$500 million in PTELL subsidies in 2008, when property values were much higher in the years before the Great Recession.

Nearly 97% of FY 2015 PTELL subsidies went to Cook and collar counties



Source: Illinois State Board of Education
* Before proration

Similar to the PTELL loophole, much of the underreported property wealth by school districts in TIF jurisdictions is located in a small group of counties. In 2012, the latest year data are available, 89 percent of this underreported property from the TIF loophole was located within just 10 counties, with the vast majority in Cook County.³

89% of TIF property is found in only 10 counties

Property value excluded from GSA, FY 2012

Rank	County	Property removed	Percent of total
1	Cook	\$9,593,937,376	72.6%
2	St. Clair	\$377,737,951	2.9%
3	DuPage	\$341,936,944	2.6%
4	Will	\$296,280,574	2.2%
5	Madison	\$265,605,558	2.0%
6	Kane	\$243,304,942	1.8%
7	LaSalle	\$181,248,186	1.4%
8	Rock Island	\$180,298,543	1.4%
9	Grundy	\$154,584,641	1.2%
10	Champaign	\$147,368,212	1.1%
Top 10 Counties		\$11,782,302,927	89.1%
Remaining 92 counties		\$1,435,122,755	10.9%
Total property removed		\$13,217,425,682	100%

Source: Illinois Department of Revenue

Chicago is the biggest beneficiary of the TIF loophole. The city is allowed to exclude more than \$7 billion in taxable property from its needs-based funding application to the state, allowing the city to receive an additional \$175 million in GSA funds.⁴

There is no accurate way to calculate the total subsidies granted to non-Chicago school districts, as there is no entity that tracks, by school district, the amount of underreported property values due to TIF districts.

Our solution: The state should simplify and amend the GSA formula to end the PTELL and TIF-district loopholes, and require each school district to fully report its true property wealth when requesting means-based state aid.

Why this works: Eliminating these loopholes ensures the GSA formula is efficient and achieves its goal of funding districts based on need.

The state will save at least \$275 million by ending these special subsidies (the savings from both PTELL and TIF reforms are not additive due to the structure of the funding formula). The savings can be expected to rise in future years, as property values continue to recover from the Great Recession.

Endnotes

¹Data from the Illinois State Board of Education

²Ibid.

³Data from the Illinois Department of Revenue

⁴Ibid, Illinois Policy Institute calculations