

## Suburban Superintendents Meeting – Friday, September 27, 2013

### Legislative Update by Peg Agnos (LEND, SCOPE, HSDO) and Erika Lindley (ED-RED)

#### Veto Session

- October 22-24 and November 5-7
- The General Assembly is able to consider vetoed legislation, legislation that did not advance through both chambers last spring, or new legislation
- Bills with an immediate effective date require a supermajority vote in both chambers

#### Conference Committee on SB 1 (Pension Reform)

The Conference Committee has not released a pension reform proposal during its four months of work. At times, the group appeared to be close to reaching resolution on the major provisions to the benefit piece of the puzzle, but the complexity of the issue, the state's constitutional language, and ever-present politics continues to affect progress.

The conference committee is focusing attention on benefits and has not held discussion on the cost shift. They continue to target the 3% compounded Cost of Living Adjustment (COLA) and latched onto two concepts from last spring's proposal offered by the presidents of the state's public universities:

- Reduce COLA to ½ CPI (vs. automatic 3%) and keep the compounding factor (vs. simple)
- End the practice of providing a COLA the year after an employee retires; freeze the COLA until an employee is retired for a certain number of years or reaches a certain age. Several bills discussed last year froze the COLA for five years after the employee retired or until they reached age 67, whichever was earlier.

Other provisions of the higher education plan:

- Phases in a cost shift at a rate of 0.5% of creditable earnings each year until the normal cost is the full responsibility of community colleges/state universities
- Increases the employee contribution by 2%
- Does not cap pensionable salary
- Creates a hybrid Defined Benefit (DB)/Defined Contribution (DC) pension plan for new employees and for Tier 2 employees.
- Allows the pension systems to sue if the annual state payment is insufficient
- Allows individual community colleges/public universities to adopt or reject future pension enhancements passed by the General Assembly based on their priorities/HR structures
- Adds additional seats to the SURS board
- Requires the state to make flat annual payments (vs. the ramp system with back loaded payments)
- Provides new flexibility in university procurement procedures

## **Senate Education Funding Advisory Committee**

The Senate created the Senate Education Funding Advisory Committee to review the state's education funding system and make recommendations to implement a system that is equitable, adequate, and supports staff and student learning. Their report to the General Assembly is due in February 2014. Last week's meeting focused on an analysis of the distribution of General State Aid completed by APA, a national research and consulting organization. Here are highlights from the presentation and conversation:

- Many states have a tax cap. We are the only state that provides an alternate calculation of local wealth for districts impacted by the tax cap, which we call the PTELL Adjustment.
- Illinois uses the DHS count to calculate a district's poverty population and allocation. Most states use the Free/Reduced Lunch count. Using this calculation would reduce the number of students eligible for the poverty grant and lower the poverty grant allocation for some districts.
- Committee members focused attention on the poverty grant and its negative correlation with wealth. Poverty grant eligibility for flat grant districts has been a topic of conversation at the ISBE table and in legislative budget negotiations.
- Committee members threw out a few ideas about revenue including moving to a graduated income tax and resurrecting a tax swap plan to reduce property taxes and raise other taxes to compensate. The chair of the committee, Sen. Andy Manar, intends to release a plan that includes a redistribution of current dollars and does not include an increase in state spending.

### **Talking points on education funding**

Any changes to the current formula that will impact state support for GSA and MCATS must:

- Substantially increase the state's contribution to public education.
- Guarantee the state's share of funding for public schools.
- Assure parity of tax effort among local school districts. All districts must tax at least at a minimum operating tax rate.
- Consider the impact of a districts' local ability including EAV, tax rates, and tax-cap limitations.

Districts rely on GSA as a consistent revenue source. The State's lack of commitment to the statutory foundation level of \$6,119 per pupil threatens the financial stability of districts throughout the state. We are in the third year of proration, causing districts to cut staff, administrative positions, and student programs. Proration of an inadequate foundation level further diminishes essential financial support.

### **We recommend that the Senate Committee consider the following issues:**

- Completing a comprehensive review of the school funding formula and the impact of recent legislative changes to General State Aid including PTELL/tax cap, the calculation of the PTELL adjustment, and the poverty grant formula.
- Including a regional cost index in a new formula.

- Changing Chicago Public Schools' block grant funding for several Mandated Categorical programs.
- Providing relief from the tax cap for specific mandated items such as pensions, school safety and health/life safety requirements, and special education programs.
- Providing local relief to state mandates if the General Assembly prorates or reduces state support through General State Aid.

#### **Tax issues for Spring 2014**

The personal income tax rate is set to phase down to 3.75% in January 2015. In FY 13, the state took in \$22 billion from the personal and corporate income tax, \$7.3 billion from the state sales tax, and our total revenues were \$32.5 billion. The Comptroller estimates that the state's deficit will be \$8-9 billion at the end of Fiscal Year 2014.

The General Assembly will have the option to pass legislation to maintain the tax rate at 5%, lower it to a different number, or create a new tax package. It is possible that the legislature will include other changes as part of a final package including additional revenue for specific programs, abating another tax, changing the school funding formula, expanding the sales tax to include services, or pension reform.

Several organizations are working in support of a progressive income tax including the Responsible Budget Coalition, the teachers and service unions, and the Center for Tax and Budget Accountability. CTBA's presentation on this issue highlights the following:

- In calendar year 2011, Illinois had the fifth largest population, fifth highest overall state Gross Domestic Product, and 17th highest state per capita income in the nation.
- In FY 2011, Illinois ranked 25th in General Fund spending per capita, and 32nd in General Fund spending as a share of GDP.
- According to the National Association of State Budget Officers (NASBO) Illinois ranks 40th in per-capita education spending and according to the National Center for Education Statistics (NCES), Illinois ranks last in the portion of education funding covered by state.
- Currently, 41 states assess an individual income tax, 34 of which - or 83% - have a progressive income tax structure. Illinois, however, is constitutionally required to be one of only seven states that impose a flat, individual income tax rate.

**HJRCA 39 Sen. Don Harmon (D-Oak Park)** is a constitutional amendment allowing the legislature to create a progressive income tax system. It strikes language requiring that the tax be the same percentage for all wage earners. The amendment was filed after the legislature adjourned.

To change the state constitution, the General Assembly must pass legislation authorizing the issue to appear on the November 2014 ballot. In order to pass, the measure must be approved by three-fifths of the individuals that vote on the measure or a majority of individuals voting in the election. If approved, the legislature would need to pass legislation and administrative rules to implement the new tax system.

**HR 241 Rep. David McSweeney (R-Barrington Hills)** opposes a progressive income tax system. This legislation includes a statement of beliefs and is not binding; however, it's important to note that the resolution has over forty co-signers.