



The Journal of School Business Management

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ILLINOIS ASSOCIATION OF
SCHOOL BUSINESS OFFICIALS

THE ROLE OF ORGANIZATIONAL
LEARNING AS A VEHICLE FOR

REDUCING ENERGY COSTS

8

18 Illinois Support for Public Education
Ranks Dead Last Among 50 States

22 Property Tax Extension Limitation
Law (PTELL) Utilizes the Wrong
Economic Indicator



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Editor's Page ...



Michael A. Jacoby, Ed.D., SFO, CAE

This issue of the *Journal of School Business Management (JSBM)* offers a variety of articles dealing with topics confronted by school business leaders.

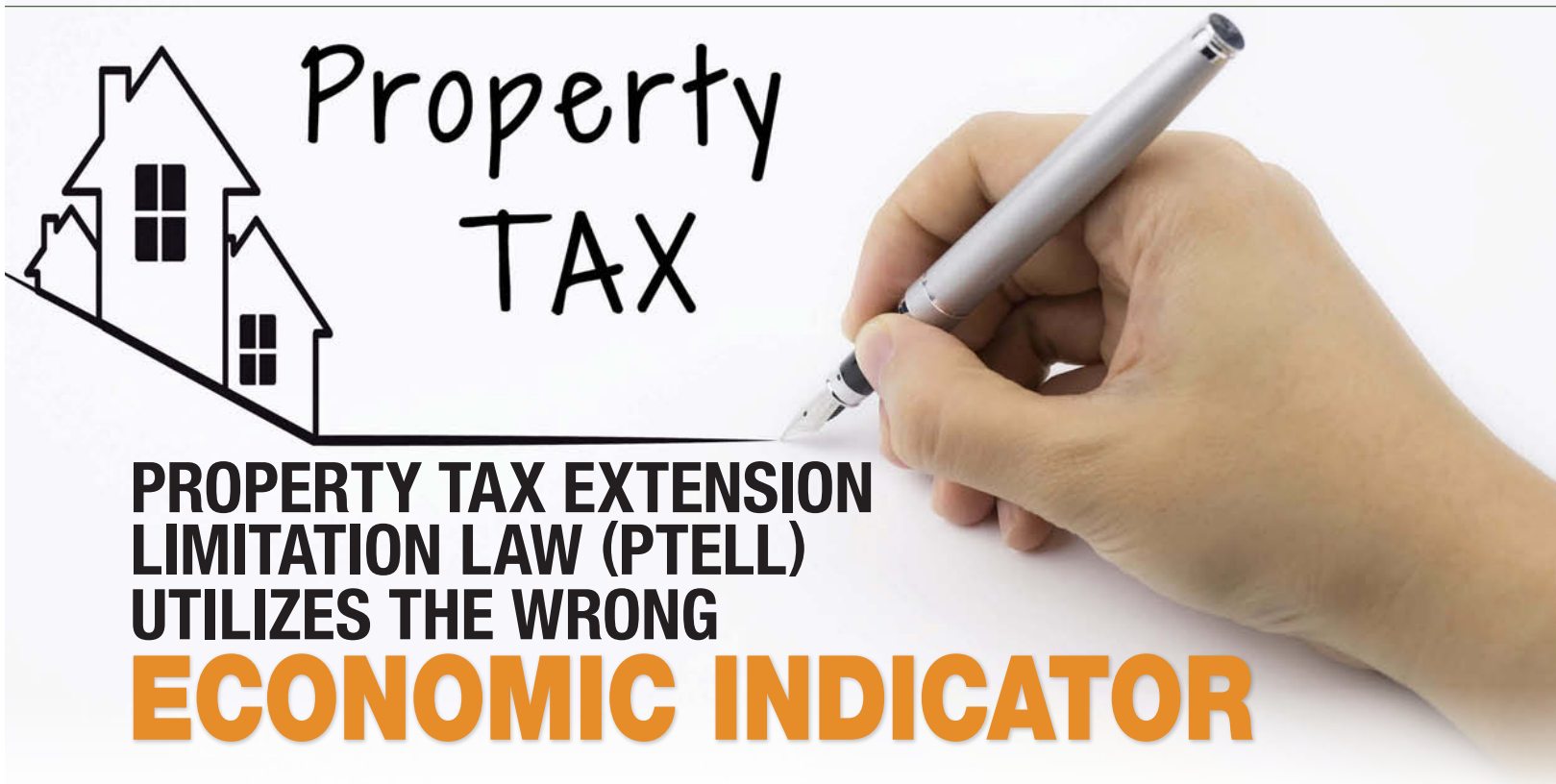
Leading off this issue is an article written by Dr. Johnathan Meyers and Dr. Jeffrey Maiden from the University of Oklahoma. For many years, school leaders have attempted to implement energy savings programs that require employee participation and cooperation. Meyers and Maiden explore the degree to which an existing program changes employee behavior when organizational learning theory is applied. This is particularly important to any district that is investing resources and time to reduce energy costs through employee participation. Like many things, if the right kind of learning or training is not given to employees, the results will likely be limited and disappointing.

Second, a long-time Illinois ASBO member, Dr. David Grace explores the nature of the funding problem between state and local revenues in Illinois. Illinois currently ranks 50th in the nation in financial support for public schools by providing only 24.9% of all funds. This has significant implications on the range of spending across the state and recent attempts to change the funding formula to be more equitable and adequate are underscored by the data in this article. If you live in Illinois and think your property taxes are too high – read this article and you will discover how dependent schools are on that single source of revenue. Hopefully, knowledge of the disparity between state and local funding will help move reform in a positive direction.

Finally, to the point of property taxes and the Property Tax Extension Limitation Law (PTELL) in Illinois, Trevor Moore, a Northern Illinois University graduate student in the Chief School Business Official program, shows that the economic factor or indicator within the Act is flawed. The Consumer Price Index vs. the Employer Cost Index has been a point of contention within the state since the inception of the PTELL in 1991. School districts spend very close to 80% of their budget on people and the Consumer Price Index does not assess the cost changes from year to year for employment of teachers, administrators and support personnel.

Your comments on any of the articles above are solicited and can be made directly to: Dr. Michael A. Jacoby, Editor, *Journal of School Business Management*, Northern Illinois University, Illinois ASBO, 108 Carroll, DeKalb, IL 60115 or by email to: [mjacoboy@iasbo.org](mailto:mjacoby@iasbo.org).

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PROPERTY TAX EXTENSION LIMITATION LAW (PTELL) UTILIZES THE WRONG **ECONOMIC INDICATOR**

By Trevor J. Moore, CSBO Student, Northern Illinois University

PTELL BACKGROUND

For nearly 25 years, many school districts in Illinois have grappled with how to levy enough property taxes to cover the district's annual expenses. The State of Illinois enacted the Property Tax Extension Limitation Law in 1991 in some counties and extended the option to other counties in the years following (Kersten, 2016). For counties that have enacted PTELL, the tax extension of a school district can only increase by 5% or the rate of inflation as measured by the Consumer Price Index (CPI), whichever is less (Kersten, 2016).

The reason for the law was a fear by taxpayers that property taxes would increase at an untenable rate after high inflation in the 1980's. Providing the 5% cap on the CPI economic indicator demonstrated the real fear of very high inflation. However, as Kersten (2016) notes, CPI has not exceeded 5% since PTELL went into effect in Illinois. Lawmakers did consider a situation in which a school district experienced rapid growth and included a provision to help them raise funds beyond this limit. Even with the additional funds, "the property taxes resulting from new growth may or may not be sufficient to pay the costs incurred for the additional children in this instance, but are nonetheless important" (Kersten, 2016, p. 40). Several suburban school districts in Illinois have experienced rapid growth in the past two decades and have struggled, in part because of PTELL, to raise sufficient revenue to keep pace with expenses.

PTELL is sometimes called a "tax cap" in casual discussion, which often leads taxpayers to believe it will somehow limit the amount of property tax for which they will be responsible. In actuality, it is meant to merely slow the rate of increase of individual

tax bills by putting a cap on the total amount of property taxes a school district can collect (Kersten, 2016).

The tax cap law has affected school districts in a variety of ways since its inception. From the view of a school business official, the limitation is detrimental to district financials because it limits the ability to raise the necessary funds. Especially in Illinois, state aid is not sufficient to offset the limiting effects of PTELL which can lead to program cuts or operating budget deficits (Kersten, 2016). While the State has limited the ability to raise revenue locally and has not provided the necessary financial support to supplement this shortfall, it hardly seems appropriate for lawmakers to continue to mandate program changes that require more resources. If costs from these programs and costs from district operations exceed the rate of inflation, it is impossible for an administrator to fulfill all financial obligations. The limitation of revenue with an unlimited cost increase "is probably the most significant factor contributing to school district deficit spending and financial stress in Illinois" (Kersten, 2016, p. 44). The difficult financial position school districts experience is exacerbated by the fact that the general public and many local officials do not understand PTELL (Dahlstrom, 2011).

Illinois is one of 24 states in the country that has passed legislation capping the taxing ability of local school districts. Some states set a fixed percentage increase (Arizona, Idaho, Kentucky, Massachusetts, West Virginia), some limit it solely on inflation (Colorado, Montana, Michigan) and some restrict it based on the lesser of a fixed percentage or inflation (California, Illinois,

Missouri, New Mexico, South Dakota, Washington) (Lyons & Lav, 2007). While capping revenues at the rate of the Consumer Price Index can be problematic, capping revenues at a fixed percentage can be just a troublesome. "It incorrectly assumes that some single percentage can effectively capture the 'proper' growth in local government costs each year in perpetuity" (Lyons & Lav, 2007, p. 4). For this reason, Illinois did make a wise choice to tie the tax cap to some economic indicator rather than choosing a flat percentage increase.

BASICS OF CPI

When PTELL was written, lawmakers chose to limit the rate of property tax extensions by an economic indicator that is generally believed to measure the health of an economy, the Consumer Price Index (CPI). This index is precisely defined as "a measure of the average change over time in the prices paid by urban consumer for a market basket of consumer goods and services" (U.S. Department of Labor Bureau of Labor Statistics [U.S. BLS], 2004, p. 6). It seems reasonable that states would chose CPI to limit property tax extensions because it is often used to measure the effectiveness of government economic policy. It is simply the default choice of lawmakers when dealing with economic issues.

CPI is specific in its measure of consumer behavior in that it considers the spending behavior of all urban consumers and urban wage earners and clerical workers (U.S. BLS, 2004). As the U.S. BLS notes, the CPI is often referred to as a cost-of-living index, but "it differs in important ways from a complete cost-of-living measure" (2004, p. 8). A true cost-of-living index would measure how much consumers would need to spend to reach a certain standard of living. Since consumer spending goes beyond just consumer goods, it is not an all-encompassing cost-of-living index. Some spending, like public goods, is hard to measure and, therefore, not included in CPI. "It is very difficult to determine the proper treatment of public goods, such as safety and education, and other broad concerns, such as health, water quality and crime, that would constitute a complete cost-of-living framework" (U.S. BLS, 2004, p. 8).

As mentioned earlier, the intent of using CPI in PTELL was to more closely match property tax extensions with the rate of inflation. The U.S. BLS defines inflation as either the process of rising prices in an economy or, alternatively, the continuously falling value of currency (2004). The inflation that CPI measures is that which consumers in an economy experience in their daily living expenses. "The 'best' measure of inflation for a given application depends on the intended use of the data. The CPI is generally the best measure for adjusting payments to consumers when the intent is to allow consumers to purchase at today's prices, a market basket of goods and services equivalent to one that they could purchase in an earlier period" (U.S. BLS, 2004, p. 16-17). It is important to note that the U.S. BLS provides a path to use other economic indicators if they more closely align with the intended use of the economic data.

PROPOSED ALTERNATIVE FOR PTELL

PTELL could and should use an economic indicator that more closely aligns with the goals of public education. If property tax revenue should be limited in some manner, which is a judgement that will not be adjudicated here, CPI should not be used as the limit. Instead, the lesser of 5% or the Employment Cost Index (ECI) should determine how much a school district can levy in annual property taxes. The ECI is "a quarterly measure of the change in the price of labor, defined as compensation per employee hour worked" (Ruser, 2001, p. 3). This index includes more than just data about wages and salaries; it also includes an extensive list of benefits employees enjoy (Ruser, 2001). Rather than inflation being measured by consumer purchases, like CPI, the ECI measures those cost pressures within companies that could lead to consumer-experienced inflation. Interestingly, this cost pressure would apply to both consumer goods based companies and service based organizations, including school districts. Simply stated, "The Employment Cost Index measures [inflation] in the labor market" (U.S. BLS, 2004, p. 16).

A basic breakdown of the typical school districts expenses in Illinois is as follows. Approximately 67% is compensation for employees, 25% is spent on maintaining safe and comfortable buildings and the remaining 8% is spent on equipment and supplies (Illinois State Board of Education, 2014). Of these categories, the largest is clearly labor. Should a revenue cap not be based on the majority of a school district's expenses? Of these expenses, only the 8% spent on equipment and supplies and a portion of the 25% for buildings would be captured using CPI. Alternatively, all of the 67% of labor and a portion of the 25% for buildings (labor for construction projects and other outsourced services not included in the district's direct labor costs) would be represented in the ECI.

This is not an original observation as demonstrated by Martire, Kass, Otter, Lozano, Grigsby, Leal, & Sitkowski (2013). They note "state government does not purchase the vast majority of items included in the CPI. So while the CPI is an excellent metric for evaluating the economy as a whole, it is not the best choice for evaluating public sector spending" (p. 14). The sentiment is further echoed by Lyons & Lav (2007, p. 4) when they state:

A typical urban consumer spends a majority of his or her income on housing, transportation and food and beverages, so these are the primary drivers of the CPI. By contrast, local governments spend their revenue primarily on education, health care and public safety. Since the market baskets for urban consumers and local governments are entirely different, the inflation rate [CPI] does not adequately measure the change in costs of providing public services.

The Employment Cost Index is narrower in its focus and relies on data from a fewer number of factors than does the Consumer Price Index. ECI is a better choice for the State of Illinois to use to limit the revenues of school districts if the goal is to be sure they have sufficient funds to keep all programs and continue to improve educational outcomes for its students. In theory, ECI makes much more sense to use in PTELL calculations and, as demonstrated in

the following sections, could have gone a long way in preventing the budget shortfalls many school districts in Illinois are facing today.

METHODOLOGY

In analyzing what difference a more accurate economic indicator could make in school district revenues, the help of a local school district was enlisted. Financial data from Plainfield School District 202 was gathered and used to calculate the maximum allowable tax extension for the years 2002-2015 using both CPI (this would result in figures close to the tax actually collected by these districts) and ECI. Contrasting these revenue figures demonstrates how much more revenue could have been collected over this 14 year period had PTELL used ECI as the limiting economic indicator instead of CPI. It is important to note that while ECI did not exceed 5% in any of these years, it does approach it more closely than did CPI.

The data collected from the school district consisted of the total tax extension in the year 2001, the total Equalized Assessed Value (EAV) for each year 2002-2015, and the total amount of new construction for each year 2002-2015. From these amounts, and using published CPI and ECI data, the limiting rate and total tax extension for each year can be calculated.

Limiting rate is calculated using the following formula:

Equation 1

$$LR = \frac{A \times (1 + I)}{CEAV - NP}$$

LR = Limiting tax rate

A = aggregate extension base (prior year total taxes billed for funds subject to the PTELL)

I = inflationary increase (CPI or 5 percent, whichever is less; or other amount approved by voters for the levy year)

CEAV = current EAV of the district used in setting preliminary rates

NP = new property

Note 1: There are situations where the limiting rate is affected by EAV of annexations, expiration of tax increment values and the EAV of disconnections. None of these existed in the district in question and, therefore, these special situations are ignored in the formula. (Boer & Dombrowski, 2014, p. 30)

Once the limiting rate is calculated, finding the total tax extension permissible for the year is achieved by multiplying this rate by the EAV:

Equation 2

$$TE = CEAV \times LR$$

TE = Tax Extension

CEAV = current EAV of the district used in setting preliminary rates

LR = Limiting tax rate

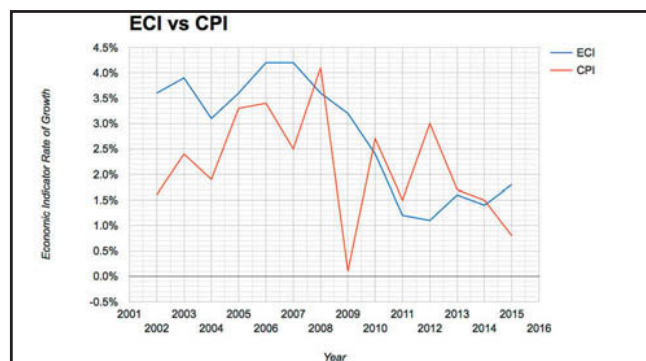
(Boer & Dombrowski, 2014, p. 30)

Performing these calculations for each year shows the difference in revenue permissible by PTELL and demonstrates the importance of the chosen economic indicator in local funds available to the school district.

RESULTS

The Employment Cost Index and the Consumer Price Index differ in the economic characteristics they measure, but they are weakly to moderately correlated (R-value is 0.3589) because they are both an indicator of economic health. Generally, both will trend in the same direction (see **Chart 1**). During the 14 years of analysis, the highest value for CPI was 4.1% in 2008 and the highest value of ECI was 4.2% in both 2006 and 2007. In this period, ECI was higher than CPI in 8 of the 14 years. Neither exceeded the maximum rate of 5% set by PTELL.

Chart 1



Plainfield School District 202 provides an interesting example for revenue analysis because it is such a large district that experienced enormous growth during the early 2000's. If PTELL had used ECI as its limiting economic indicator, Plainfield School District could have raised over \$119,000,000 more in education funding through local property taxes than it would have been allowed using CPI. Additionally, in the year 2015, the maximum allowable extension using ECI would have been 7.86% higher than it would have been using CPI.

The simple explanation for the ability to receive more local funding if ECI was used is that the rates are generally higher. However, there is another interesting detail in PTELL that accounts for such a wide gap by 2015. Since these calculations are based on the previous year's extension, each previous year that was a greater extension has a compounding effect on future years. Looking at the final column (**Table 1**) that shows the difference in annual revenues, it is clear that the difference widens each year prior to 2011 when wages across the country began to stagnate. When the current year's limiting rate is calculated, it uses the prior year's total tax extension as its starting point. Therefore, the additional revenue that could have been generated in 2002 has an effect for all of the years to come.

It would be easy to look at this analysis and criticize the use of ECI and the increased revenue it would generate because of the increase in property taxes that would be a concern to many in the community. Knowing that Plainfield has built many schools during this time period and that the district had to provide education to many new families moving into the district, it seemed important to look at how much debt is a part of the current budget. In the 2016-2017 budget, Plainfield School District has allocated \$33,502,913 in debt service. Perhaps it would have been difficult to sell the idea of higher property taxes in the 2000's, but would

it not have been helpful to avoid the kind of debt the district is in at this time? It is safe to assume that many taxpayers would be

shocked to learn that the school district will pay approximately \$1,200 per student in debt service this school year.

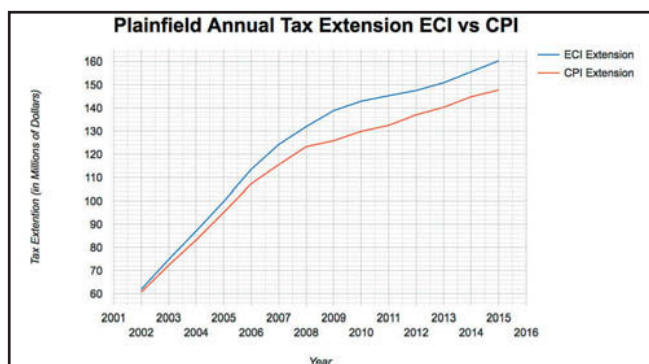
Table 1
2001 Tax Extension: \$49,709,433

Year	Total EAV	Construction	Increase	ECI	Limiting	ECI Extension	CPI	Limiting	CPI Extension	Revenue
2002	\$1,561,870,527	\$179,014,622	6.26%	3.6%	3.9572%	\$61,806,340	1.6%	3.8808%	\$60,613,071	\$1,193,269
2003	\$1,877,232,976	\$179,853,864	5.24%	3.9%	3.9815%	\$74,742,031	2.4%	3.8483%	\$72,241,557	\$2,500,474
2004	\$2,194,532,790	\$251,927,512	0.00%	3.1%	3.9668%	\$87,052,727	1.9%	3.7895%	\$83,161,820	\$3,890,907
2005	\$2,648,326,897	\$254,524,200	0.00%	3.6%	3.7675%	\$99,775,716	3.3%	3.5887%	\$95,040,507	\$4,735,208
2006	\$3,064,707,810	\$256,193,054	0.00%	4.2%	3.7018%	\$113,449,354	3.4%	3.4991%	\$107,237,191	\$6,212,163
2007	\$3,382,534,839	\$162,141,127	0.00%	4.2%	3.6708%	\$124,166,089	2.5%	3.4132%	\$115,452,679	\$8,713,410
2008	\$3,584,906,517	\$88,469,808	0.00%	3.6%	3.6791%	\$131,892,296	4.1%	3.4374%	\$123,227,577	\$8,664,719
2009	\$3,589,663,718	\$70,488,322	0.00%	3.2%	3.8579%	\$138,832,848	0.1%	3.4962%	\$125,816,481	\$13,016,367
2010	\$3,354,260,377	\$16,961,670	0.00%	2.4%	4.2599%	\$142,888,138	2.7%	3.8718%	\$129,870,253	\$13,017,885
2011	\$3,143,197,227	\$14,581,284	0.00%	1.2%	4.6219%	\$145,275,433	1.5%	4.2133%	\$132,432,329	\$12,843,104
2012	\$2,925,863,783	\$12,839,831	0.00%	1.1%	5.0420%	\$147,522,052	3.0%	4.6826%	\$137,006,498	\$10,515,554
2013	\$2,798,299,715	\$18,530,605	0.00%	1.6%	5.3919%	\$150,881,522	1.7%	5.0125%	\$140,264,773	\$10,616,749
2014	\$2,838,546,164	\$47,583,922	0.00%	1.4%	5.4818%	\$155,603,424	1.5%	5.1011%	\$144,797,078	\$10,806,345
2015	\$2,928,287,476	\$35,403,734	0.00%	1.8%	5.4757%	\$160,344,237	0.8%	5.0453%	\$147,740,888	\$12,603,349
						\$1,734,232,205			\$1,614,902,702	\$119,329,503

Note 1: Prior to 2006, districts were allowed to put a rate increase factor on the ballot to raise additional funds. This factor applied in the years 2002 and 2003, but was not used after this. Its effect was to raise the inflationary increase (CPI) in the limiting rate calculation. This same rate increase factor was applied to the ECI calculations.

Note 2: The U.S. Bureau of Labor Statistics does not have ECI data available to 2001 (which is used in the following year's limiting rate calculation).

Chart 2



DISCUSSION

The simplest way to look at the oversight in PTELL is that it was designed as a taxpayer protection to avoid rapidly increasing property taxes. Because of this, it might have made sense to use a consumer based economic indicator because if taxpayers were feeling economic pain at the gas pump and the grocery store, they would need to be protected from an even higher increase property taxes. It would be

hard to tell a taxpayer that their property taxes were going up at a higher rate than other prices. This view is shortsighted in terms of education because funding public schools adequately should not be a matter of inflation or consumer prices. Using CPI in the PTELL calculations protects the taxpaying community. Determining the tax extension using ECI in the PTELL calculation protects the public school system and the children it serves.

The decision to make the tax cap favorable to the community of taxpayers rather than to the public educational systems seems likely a decision based on pleasing the largest voter base. Had the legislators chosen to vote down PTELL or use an economic indicator that is friendlier to school districts, those politicians would run the risk of angering a large block of voters that would determine their future in Springfield. Too often, politicians choose policy stances based on what will increase their favorability with voters rather than what is truly best for the community they represent. Choosing CPI as the economic indicator used in PTELL may have been a political decision as much as it was a convenient choice when legislators wrote the bill that eventually passed.

To date, no Illinois county that has enacted PTELL has even put a referendum on the ballot to rescind it and only nine times have counties put a PTELL measure on the ballot and had it voted down (Boer & Dombrowski, 2014). It seems unlikely that PTELL will be repealed or that it will undergo significant changes, especially in the current political environment in Illinois. The general sentiment in most of the state is that property taxes are too high and, generally, the public has adopted an anti-tax mentality. It would be helpful if taxpayers saw taxes earmarked for education as

an investment in the future rather than an expense for which they have to sacrifice. With proper investment in education, the return for society far exceeds the pain of contributing more tax for education. This is an especially difficult hurdle to clear for those voters that have no direct stake in the public education system because they have no children, or because their children are grown and no longer in the

school system. Convincing these voters that education provides a strong return on investment is a task that too few politicians seem willing to take on.

Under the current circumstances, PTELL has handcuffed school business officials. "The costs associated with providing local services, such as health insurance and pensions for local employees, are rising rapidly and are expected to continue to

do so for the foreseeable future" (Lyons & Lav, 2007, p. 4). To expect local officials to control these costs is unrealistic and the only way to produce quality education and reasonable budgets is to find ways to increase local revenues. PTELL in its current form prevents administrators from achieving these goals. Even if the recent recession is ignored, "the current tax cap system in Illinois will likely result in long term depressed property tax revenues for taxing bodies subject to those caps" (Dahlstrom, 2011, pp. 19-20).

Looking back at the mistake that the authors of the Property Tax Extension Limitation Law made by using the Consumer Pricing Index instead of the Employment Cost Index does not solve the problem school districts face today. It does, however, demonstrate that the wrong economic indicator was used when the provisions were established. Hopefully, the financial analysis presented here provides a clear idea of what can be done in the future to alleviate the financial distress school districts find themselves in today. ■

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