

# **Tax Rate Limit for Educational Fund Lifted in Tax-Capped Counties**

Another of the provisions contained in the school funding legislation signed into law by Governor Rauner on August 31, 2017, (known as SB 1947, or Public Act 100-465) which has not received much attention in the media is the removal of the specific rate limit for Educational Fund levy for all school districts subject to the Property Tax Extension Limitation Act (PTELL or the “tax cap”). This new provision was added as Section 17-3.6 of the School Code. Since the Educational Fund can be used for any purpose, this action should give tax-capped school districts much more flexibility in the use of precious property tax revenues.

Some history is helpful in understanding the significance of this legislation. Prior to PTELL (and still in those counties not subject to PTELL), school district tax levies in all of the major operating funds were subject to specific rate limitations,

defined as a percentage of the district's equalized assessed valuation (EAV). Those rate limits varied from district to district and could be increased by referendum, but there was a cap on the Educational Fund. Even with voter approval, an elementary or high school district's Educational Fund tax rate could not be higher than 3.50%, or 4.00% in unit districts. As the tax cap first came into play in the 1990s for most districts, each district's local rate limits carried over, so there were individual rate limits within the overall limiting rate for the aggregate levy established under the PTELL formula. However, the aggregate PTELL limiting rate floated up or down in inverse relation to the district's EAV, while the individual rate limits remained fixed as a percentage of EAV. In 2006, the Property Tax Code was amended to allow tax-capped districts to maximize their rate limits without a referendum, meaning that all such districts could levy in their Educational Fund up to 3.50% or 4.00% of EAV.

Then the Great Recession of 2008-09 hit, bringing with it historic drops in property values and sinking EAVs. The effect of this was that, while PTELL's floating limiting rate protected a district's aggregate property tax revenues, the fixed

Educational Fund rate limit prevented many districts from levying enough in the one school fund where districts needed the money most. To meet this challenge, many districts levied more in the unlimited Transportation Fund and then transferred those revenues to the Educational Fund later, but this was never a satisfactory solution and last year's transportation "Lockbox" constitutional amendment raised real issues concerning the transferability of those revenues.

SB 1947's elimination of the Educational Fund rate limit for school districts in tax-capped counties solves this problem. Districts can now levy whatever portion of their aggregate tax levy in the Educational Fund which they need to. And since Educational Fund revenues can effectively be used for any school district purpose, this provides much more flexibility in the use and management of the district's funds. ***School boards and school administrators should keep this in mind when preparing this year's and future years' proposed levies.***

The lifting of the Educational Fund tax rate limit will not bring more money to tax-capped school districts, but it is designed to allow those districts to put their tax moneys where it can be most effectively used to accomplish the district's



goals. Levies should be prepared to take advantage of this new authority.

If you have questions about this topic, or any provision within SB 1947, please contact one of our attorneys in Oak Brook (630.928.1200) or Flossmoor (708.799.6766).