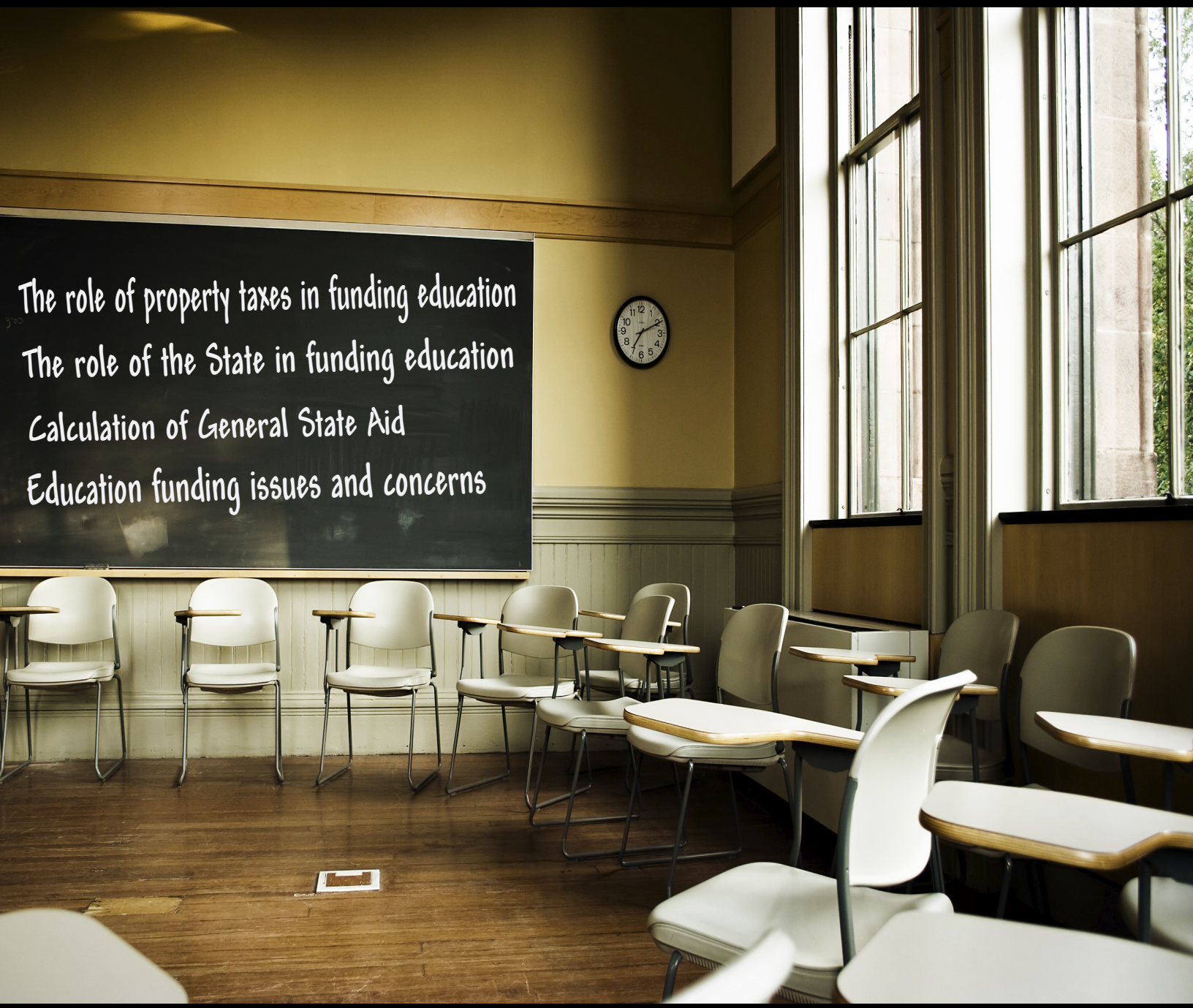
★ EDUCATION FUNDING ★



COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

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Elementary and Secondary Education Funding November 2008

EXECUTIVE SUMMARY

The issue of school funding is consistently one of the most highly debated topics for governments throughout the country and especially in the State of Illinois. The question of which government entity should take the leading role in funding elementary and secondary education and how can this funding become more equitable are the topics that headline these debates. The following report takes a deeper look at the issue of school funding in Illinois and discusses why this subject has become so controversial. This report is an update to the Commission on Government Forecasting and Accountability's 2002 report entitled, "Education Funding: Fair or Flawed?".

Across the country, state governments have used a combination of income taxes, sales taxes, and other sources to fund education. Local governments fund education primarily through local property taxes. The question that arises is which government entity should play the larger role in financing schools. In most states today, the majority of educational funding comes from state sources. However, Illinois is different as it relies mostly on the local property tax to finance education in this State.

There are many who feel that Illinois relies too heavily on the property tax as a source to fund schools. They believe that the State should assume a larger role in funding education to relieve some of the financial burden placed on local governments who have to impose high property taxes to collect the necessary funds to financially survive. Others feel that transferring the financial burden onto to the State would diminish the role of local governments and their decision making process for financing their school districts. This would, in their opinion, undermine local control and accountability. The intent of this report is not to determine which viewpoint is correct; but rather lay out the pros and cons of each format to allow for a better understanding of this controversial subject.

The report begins by offering an overview of the property tax system in Illinois, including a discussion of how property assessed in Cook County is calculated differently than the rest of the State. This includes property tax statistics showing the extent that Illinois relies on local property taxes to fund education and tables illustrating how Illinois' education funding structure is different than other states. Highlights of this section include:

- The local property tax is the major source of revenue for approximately 6,000 taxing districts and is used to finance the majority of services provided by counties, townships, municipalities, schools, and other special taxing districts.

- For most counties, Illinois property is assessed at one-third (33 1/3 percent) of its market value. Those not assessed at 33 1/3 percent of market value include farm acreage, developed coal, certain qualifying properties, and Cook County. In Cook County's case, it has 13 classes of property with assessment levels ranging from 16 percent of market value (residential property) to 38 percent of market value (commercial property).

- Illinois is one of the highest property-taxing states in the country collecting the 6th highest amount of state and local property tax revenue in 2006, based on total collections. On a per-capita basis, Illinois collected the 8th highest amount of property taxes in the country at $1,516 per capita.

- Of the amounts collected through property taxes in Illinois in 2005, school district extensions made up the largest percentage of all property tax extensions at 58.4%. City extensions made up the next highest percentage at 16.5%, followed by counties at 7.7% and park districts at 4.1%.

- During the 2005-2006 school year, 59.1% of all revenue for Illinois schools came from local sources, 32.3% came from State funds, while 8.5% came from federal funds. In comparison, in the U.S., local governments made up 44.4%, state governments made up 46.6%, while 9.0% came from federal sources.

- During the 2005-2006 school year, Illinois collected the 10th highest amount of local tax revenue per pupil in the nation at $6,211. However, on a state revenue per pupil basis, the State collected the 46th highest amount per pupil at $3,398.

The next section discusses the disparity that exists in the amounts residents pay for property taxes throughout Illinois. Explanations for why there is such vast disparity from county to county or even between two districts in the same county are included here. Statistics identifying the disparity in tax rates, per capita amounts, and per pupil funding levels are provided, along with an analysis on how the varying property tax rates and amounts affect the tax structure and economic value of each school district. The major points include:

- Tax rates vary dramatically throughout the State. In tax year 2005, the average education related operating property tax rate by county ranged from 2.1% in Hardin County to as high as 4.9% in McDonough County and Stark County. The Statewide average was 2.6%.

- A concern with the current system is that students who live in a school district with high property wealth typically have far greater resources available to them than those from the relatively property-poor districts. Without the local resources available to provide an adequate property tax base, property-poor districts have to impose higher tax rates to make up for lower property wealth.

- Another concern with Illinois' education funding system is that the system appears to create large funding gaps between the highest and lowest poverty districts. One study showed Illinois as having the second worst spending gap in the nation in 2005.

- Education funding from local sources for the 2006-2007 school year ranged from an average of $10,829 per student in DuPage County to as low as $1,726 in Hardin County. From a geographic standpoint, the majority of the higher figures in this category are found in northern Illinois near Chicago, where the lower per-pupil figures tend to be found in downstate and southern Illinois.

- Those opposed to relying on property taxes to fund the majority of educational funding believe that the State should provide an increase in educational funding to make the system more equitable. They believe State funding would redistribute revenues in a manner that would improve school funding equity.

The next portion of the report explains how the State currently funds education and gives an overview of how the State's general state aid allotments are calculated. Included are examples of how one district can receive thousands of dollars more per pupil than other districts in Illinois. This section also includes maps displaying the average county per pupil educational spending by local resources, State resources, and a combination of the two funding sources. The highlights here include:

- Illinois uses the general state aid formula to redistribute funds to public schools throughout the State. Three different formulas are used to calculate the amount of aid for a particular school district and are set up to distribute more aid to the poor districts, while entitling the wealthy districts a minimum amount per pupil.

- DuPage County has the largest amount of local revenue per ADA in the State, but yet the smallest amount of State revenue per ADA at $1,325 per pupil. This is because the amount of available local resources that DuPage county school districts are able to generate allows them to finance their schools without much need for State assistance. Conversely, counties like Alexander County had among the lowest local revenue per ADA values in the State, which is why they qualified for the highest average of State aid per ADA in Illinois.

While many believe that the State should assume a greater role in funding education, there are others who would rather leave the system as it is. The next part of the report discusses reasons why some believe that a heavy reliance on property taxes is appropriate because it gives districts more local control and creates accountability and because it allows revenues to remain in the district where they were generated. This discussion is followed with the question of whether additional funding is really necessary. The major points in this section include:

- Under the local funding structure, school resources generated through local taxes remains and are used in the place of origin and not redistributed throughout the State. This is why local funding is preferred over State funding in areas of wealth and why it will be extremely difficult for residents and legislators in these areas to support any change to the current system.

- There are those that feel that if local control were weakened, student achievement would suffer. They claim that local control creates accountability. They feel that a "one cost fits all" foundation level by the State would mean losing knowledge of a district's financial needs resulting in inefficiencies, unfilled needs, and waste.

- Some argue that an increase in school funding helps create better school quality, providing the critical resources to decrease class size, attract, train, and retain high quality teachers, and update textbooks, equipment and materials. Others argue that

there is very little correlation between school spending and student performance and that increased spending is not necessary.

The report concludes by providing summaries of some of the studies and ideas that have been discussed and/or proposed to change the way education is funded in Illinois. Subsequent tables and charts are included to provide for a greater understanding of some of the issues that pertain to these funding changing proposals. Finally, the report takes a look back at Michigan's 1994 "tax swap" and provides various viewpoints of whether this funding change should be considered a success or failure for the State of Michigan. Highlights include:

- In 1998, Governor Edgar established the Governor's Commission on Property Tax Reform. It sought to develop a simple tax swap proposal to reduce local property taxes and replace it with an increase in State sources. The commission found that a simple tax swap proposal that is fair and equitable to all taxpayers is not possible until certain State and local tax policy issues were addressed.

- Applying the recommended Employment Cost Index to the Education Funding Advisory Board's latest funding level recommendation, their FY 2009 level would be at approximately $7,205 per pupil. Therefore, the current FY 2009 foundation level amount of $5,959 per pupil is approximately $1,246 per pupil or 17% less than what the Board would recommend.

- Because individuals pay nearly 84% of the income taxes, but only 63% of property taxes, most property tax swap proposals that increase income taxes and lower property taxes would greatly benefit the business sector. This is one concern with a property tax – income tax swap.

- As the State of Michigan has found out, the idea of using economic related taxes for tax increases to fund education should not be considered without risk, especially in times of economic struggles. However, in the years following their tax change, Michigan was reported to have reduced the funding gap between rich and poor districts in absolute dollar and percentage terms.

The Property Tax System in Illinois

A property tax is simply a tax levied against the value of property owned. In Illinois, as in most other states, the property tax is a local tax. As such, it is imposed by local government taxing districts and administered by local officials. Therefore, it is the major source of revenue for approximately 6,000 taxing districts and is used to finance the majority of services provided by counties, townships, municipalities, school districts, and numerous special taxing districts.

Below is an excerpt from the Department of Revenue's publication, "The Illinois Property Tax System" which helps explain the property tax cycle in Illinois. This publication can be accessed at the following website:

http://www.revenue.state.il.us/Publications/LocalGovernment/PTAX1004.pdf

The Property Tax Cycle

Generally, the property tax cycle is a two-year cycle. During the first year, property is assigned a value that reflects its value as of January 1 of that year. (For farm acreage and farm buildings, a certification and review procedure is initiated more than nine months before the assessment process begins.) During the second year, the tax bills are calculated and mailed and payments are distributed to local taxing districts.

This two-year cycle can be divided into six steps.

1) Assessment — All property is discovered, listed, and appraised so that values for property tax purposes can be determined. Local assessing officials determine most property values; the local county board of review and the Illinois Department of Revenue also have some assessment responsibilities. The chief county assessment officer ensures that assessment levels are uniform and at the legal assessment level by applying a uniform percentage increase or decrease to all assessments in the jurisdiction (i.e., assessments are "equalized").

2) Review of assessment decisions — County boards of review determine whether local assessing officials have calculated assessed values correctly, equalize assessments within the county, assess any property that was omitted, decide if homestead exemptions should be granted, and review non-homestead exemption applications. Property owners and local taxing districts may appeal unfair assessments to their local county boards of review and, if the owner is dissatisfied with the board's decision, the State Property Tax Appeal Board or circuit court.

3) State equalization — The Illinois Department of Revenue equalizes assessments among counties and issues a state equalization factor for each county.

4) Levy — Taxing districts determine the amount of revenues that they need to raise from property taxes, hold any required public Truth-in-Taxation hearings, and certify levies to the county clerk.

5) Extension — The county clerk applies the state equalization factor, calculates the tax rate needed to produce the amount of revenues each taxing district may levy legally, apportions the levy among the properties in a taxing district according to their equalized assessed values so that tax bills can be computed, abates taxes as directed by taxing districts, and prepares books for the county collector.

6) Collection and distribution — The county collector prepares tax bills, receives property tax payments from property owners, distributes taxes to the local government taxing districts who levied them, and administers sales of liens on real estate parcels due to nonpayment of taxes.

Most Illinois properties are assessed at one-third (33 1/3 percent) of its "market value." Market data, the cost to reproduce the property, and the present worth of the income of the property are three methods used to determine the market value.

Those not assessed at 33 1/3 percent of market value include farm acreage, developed coal (assessed at 33 1/3 percent of its coal reserve economic value), certain qualifying properties, and counties with population exceeding 200,000 (Cook County). In Cook County's case, it has 13 classes of property. Its ordinance specifies assessment levels from 16 percent of market value (residential property) to 38 percent of market value (commercial property).

Property Tax Exemptions

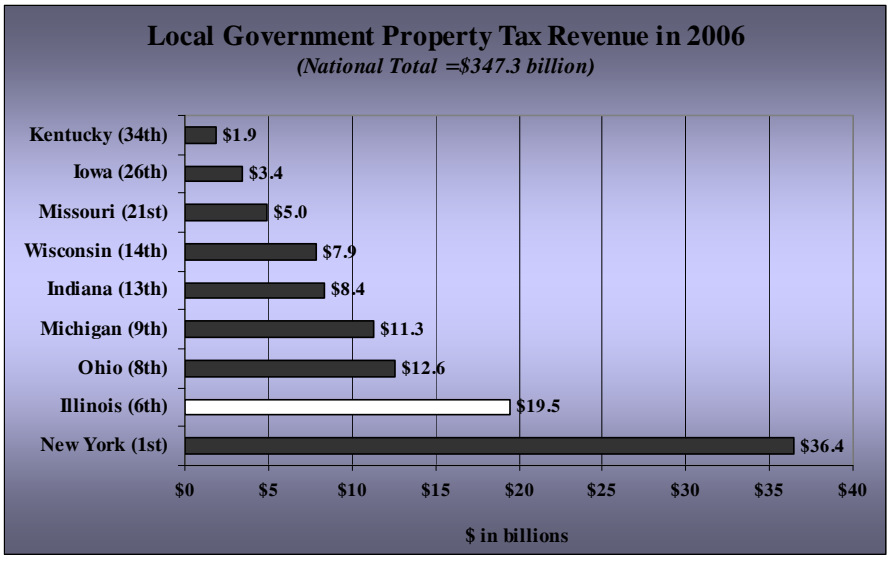
Under Illinois law, some real property is exempt from property taxes. These properties include State of Illinois property, units of local government and school districts, property that is used exclusively for agricultural and horticultural societies, and for school, religious, cemetery, and charitable purposes. Federal government property is also exempt from the property tax.

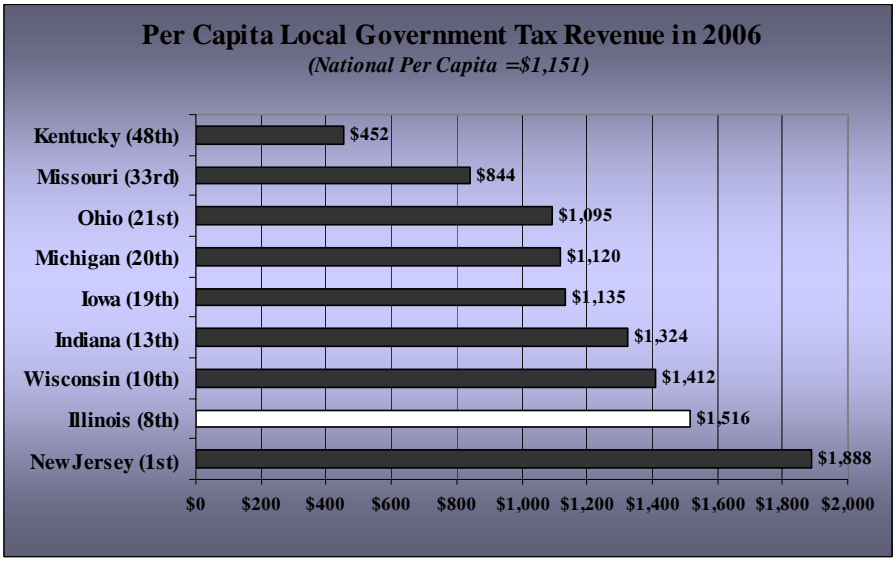
Aside from these general exemptions, several homestead exemptions are allowed under Illinois law. These include the general homestead exemption, the homestead improvement exemption; the senior citizens homestead exemption; the senior citizens assessment freeze homestead exemption; and the disabled veterans' exemption. Other relief programs come from abatements and defined preferential assessments.

It should be pointed out that property tax exemptions and other relief programs do not reduce the overall amount of taxes collected, but rather cause the assessed tax rate to increase to the level needed to collect the desired amount of revenue from those that do pay the property tax. In other words, exemptions that lower the property tax levels of one taxpayer causes the property tax levels of other taxpayers to rise.

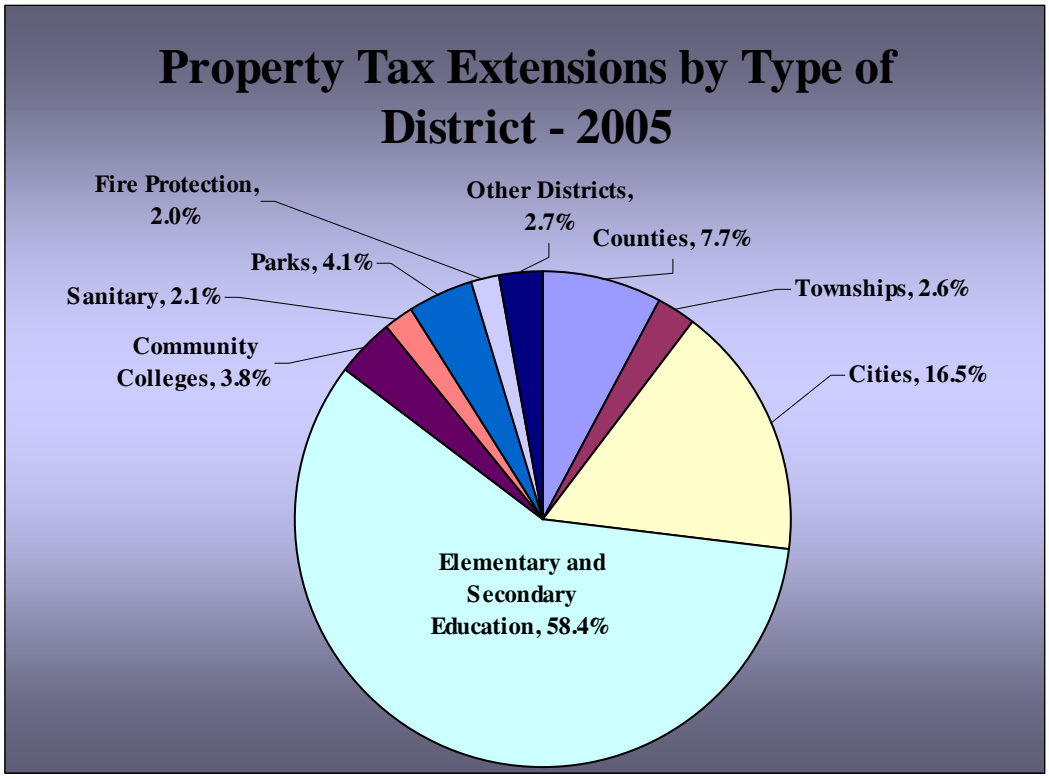
The Role of Property Taxes in Funding Education

Illinois has historically been one of the highest taxing states in the nation in the area of property taxes. According to statistics from the Census Bureau, Illinois ranked 6th in the nation in the amount of property tax revenue collected in 2006. On a per-capita basis, Illinois ranked 8th and was the highest ranked state in this category in the Midwest Region. Illinois' per-capita rate for the amount of property tax revenue generated per Illinois resident was $1,516, which was well above the national average of $1,151. The following two graphs display Illinois' national ranking on a dollar basis and on a per-capita funding in the area of local government property tax revenue. They also identify the ranking of neighboring states. Information for the graphs came from the following source: *http://www.census.gov/govs/www/estimate06.html*.





Of the amounts collected through property taxes in Illinois, the majority are collected to fund education. According to the Department of Revenue's *2005 Illinois Property Tax Statistics*, school district extensions made up 58.4% of all property tax extensions in 2005. City extensions made up the next highest percentage at 16.5%, followed by counties at 7.7% and park districts at 4.1%. A chart displaying the percentage breakouts of tax extensions by type of district is shown below.



Each of the taxing districts have their own taxing rate, the level of which depends on the amount that local officials feel is needed to fund the variety of areas of need in their district as well as the amount of tax resources available. The table on the following page displays the average tax rates by type of district for different areas of the State in 2005, as reported by the Department of Revenue.

As mentioned previously, the highest taxed types of districts in each region of the State are the education districts. In 2005, these State average rates ranged from 3.954% for unit districts, 2.679% for elementary school districts, and 1.926% for high school districts. The next highest taxed districts were the municipality and county districts, followed by fire and park districts. The higher ranked unit district rates ranged from 3.216% in Cook County, 4.381% for the Collar Counties, and up to an average tax rate of 4.548% for the rest of the State.

2005 Average Tax Rates by Type of District

Type Of District	Statewide	Cook County*	Collar counties	Rest of state
Unit District	**3.954**	**3.216**	**4.381**	**4.548**
Elementary School	**2.679**	**2.745**	**2.538**	**2.938**
High School	**1.926**	**2.040**	**1.739**	**2.113**
Municipality	0.991	1.185	0.727	1.219
County	0.563	0.541	0.379	0.914
Fire Protection District	0.475	0.660	0.504	0.364
Park District	0.406	0.419	0.355	0.493
Commission Counties Road and Bridge District	0.399	---	---	0.399
Sanitary District	0.279	0.309	0.094	0.161
Community College	0.277	0.235	0.235	0.437
Library District	0.246	0.277	0.241	0.217
Combination Township and Road District	0.233	0.162	0.163	0.449
Hospital District	0.227	---	---	0.227
Mass Transit District	0.171	---	---	0.171
Conservation District	0.136	---	0.149	0.103
Public Health District	0.125	0.133	---	0.115
Forest Preserve District	0.100	0.060	0.163	0.081
Rescue Squad District	0.099	---	0.088	0.114
Surface Water Protection District	0.081	---	0.063	0.118
River Conservancy District	0.078	0.042	0.139	0.084
Auditorium Authority	0.070	---	---	0.070
Street Lighting District	0.060	0.062	0.045	0.063
Airport Authority	0.057	---	0.020	0.136
Water Service District	0.049	---	0.049	---
Multi-Township Assessment District	0.035	---	0.032	0.035
Cemetery District	0.032	---	0.002	0.063
Museum District	0.019	---	---	0.019
Watershed/Flood Control District	0.018	---	---	0.018
Solid Waste Disposal District	0.012	---	0.012	---
Mosquito Abatement District	0.010	0.009	0.013	0.036
Water Authority	0.008	---	0.002	0.011
T.B. Sanitarium District	0.005	0.005	---	---
Soil/Water Conservation District	0.002	---	---	0.002

Notes: These figures exclude the extensions for any fund that is not extended over the entire district.

The municipality figures for Cook County exclude the City of Chicago.

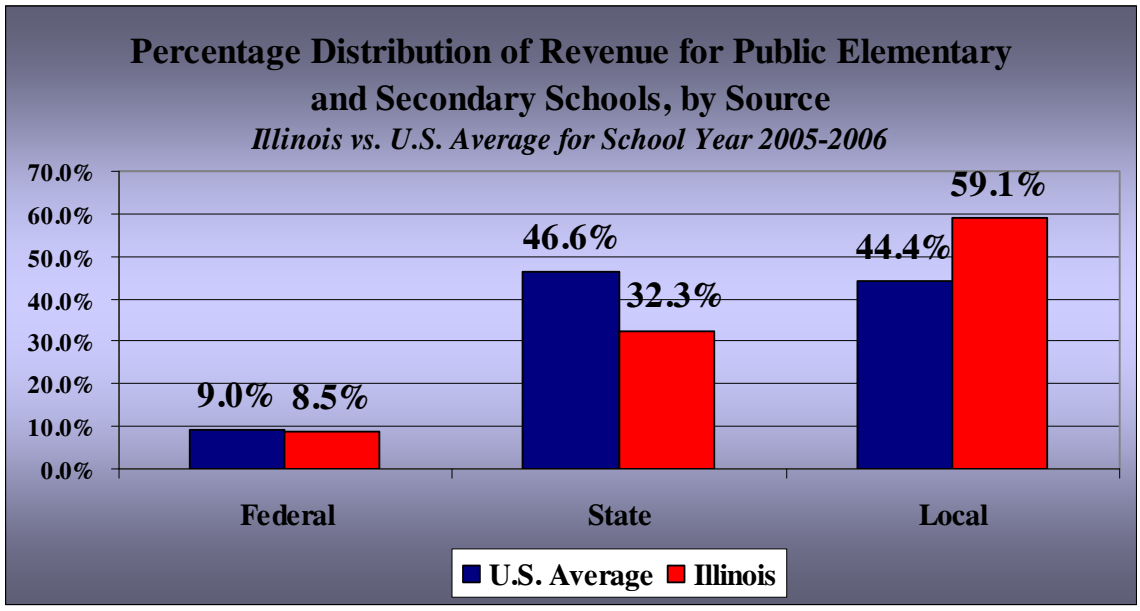
* According to the source, at the present time these figures have not been certified.

Source: http://www.revenue.state.il.us/Publications/LocalGovernment/Ptaxstats/2005/2005-Table-09.pdf

As displayed in the previous table, the majority of the revenue generated by the local property taxes is used to fund education. There are those who feel that the State relies too much on local property taxes to fund education, believing that the State should presume a larger role in this funding. There are others, though, who believe that school funding should be strongly supported by local governments and view this large reliance on local property taxes to fund education as a necessary tax burden.

So does Illinois rely more on local property taxes to fund education than other states? The answer to this question is yes. According to the Census Bureau's April 2008 report entitled, "Public Education Finances", during the 2005-2006 school year, 59.1% of all revenue for public elementary and secondary schools in Illinois came from local sources, such as the property tax. Only 32.3% came from State funds, while the remainder came from federal funds at 8.5%.

In comparison, on average in the United States, local governments made up 44.4% of all education funding; state governments made up 46.6%, while the federal government funded 9.0% of all elementary and secondary education revenue nationwide. As shown below, Illinois' local government portion of education funding was nearly 15 percentage points higher than the national average. In fact, according to this source, no other state in the nation had a higher percentage of education funded through local sources than Illinois during the 2005-2006 school year. Only Nebraska (31.4%) had a smaller percentage of education funding from the state government than Illinois (32.3%). A listing of all of the state distribution percentages are shown on the following page.



Summary of Public School System Finances for Elementary-Secondary Education by State: 2005-06

(revenue in thousands of dollars)

Geographic area	Source of Elementary-Secondary Revenue [1]				Percentage Breakout		
	Total	From Federal sources	From state sources	From local sources	Percent From Federal sources	Percent From state sources	Percent From local sources
United States	521,116,397	47,100,781	242,785,457	231,230,159	9.0%	46.6%	44.4%
Alabama	6,362,217	730,112	3,540,436	2,091,669	11.5%	55.6%	32.9%
Alaska	1,625,138	289,855	918,976	416,307	17.8%	56.5%	25.6%
Arizona	8,061,138	963,600	3,635,388	3,462,150	12.0%	45.1%	42.9%
Arkansas	4,234,383	482,038	3,108,910	643,435	11.4%	73.4%	15.2%
California	64,206,902	7,421,482	37,439,651	19,345,769	11.6%	58.3%	30.1%
Colorado	7,237,022	520,673	3,087,795	3,628,554	7.2%	42.7%	50.1%
Connecticut	8,287,208	388,080	3,148,507	4,750,621	4.7%	38.0%	57.3%
Delaware	1,503,177	109,044	969,809	424,324	7.3%	64.5%	28.2%
Florida	25,418,734	2,460,004	10,215,772	12,742,958	9.7%	40.2%	50.1%
Georgia	16,157,870	1,455,212	7,136,011	7,566,647	9.0%	44.2%	46.8%
Hawaii	2,705,532	225,393	2,431,735	48,404	8.3%	89.9%	1.8%
Idaho	1,874,662	201,040	1,046,128	627,494	10.7%	55.8%	33.5%
Illinois	**22,093,022**	**1,886,721**	**7,144,629**	**13,061,672**	**8.5%**	**32.3%**	**59.1%**
Indiana	11,317,028	740,036	5,380,185	5,196,807	6.5%	47.5%	45.9%
Iowa	4,724,109	397,290	2,158,255	2,168,564	8.4%	45.7%	45.9%
Kansas	4,646,910	340,728	2,640,757	1,665,425	7.3%	56.8%	35.8%
Kentucky	5,999,705	680,251	3,439,085	1,880,369	11.3%	57.3%	31.3%
Louisiana	6,778,539	1,276,913	2,814,302	2,687,324	18.8%	41.5%	39.6%
Maine	2,285,272	201,447	947,857	1,135,968	8.8%	41.5%	49.7%
Maryland	10,689,764	663,284	4,189,334	5,837,146	6.2%	39.2%	54.6%
Massachusetts	14,042,262	749,362	6,175,593	7,117,307	5.3%	44.0%	50.7%
Michigan	18,845,848	1,524,718	11,172,247	6,148,883	8.1%	59.3%	32.6%
Minnesota	9,006,444	558,287	6,368,364	2,079,793	6.2%	70.7%	23.1%
Mississippi	4,269,711	856,762	2,108,733	1,304,216	20.1%	49.4%	30.5%
Missouri	8,778,294	740,742	3,830,104	4,207,448	8.4%	43.6%	47.9%
Montana	1,365,225	190,226	626,958	548,041	13.9%	45.9%	40.1%
Nebraska	3,016,840	301,764	948,001	1,767,075	10.0%	31.4%	58.6%
Nevada	3,688,834	258,814	2,137,351	1,292,669	7.0%	57.9%	35.0%
New Hampshire	2,362,887	130,088	925,677	1,307,122	5.5%	39.2%	55.3%
New Jersey	23,107,783	982,557	9,540,387	12,584,839	4.3%	41.3%	54.5%
New Mexico	3,083,986	446,994	2,197,044	439,948	14.5%	71.2%	14.3%
New York	46,826,867	3,340,216	20,183,518	23,303,133	7.1%	43.1%	49.8%
North Carolina	11,708,667	1,184,622	6,846,954	3,677,091	10.1%	58.5%	31.4%
North Dakota	963,559	151,248	348,475	463,836	15.7%	36.2%	48.1%
Ohio	20,534,909	1,479,925	8,695,982	10,359,002	7.2%	42.3%	50.4%
Oklahoma	5,119,239	654,807	2,570,987	1,893,445	12.8%	50.2%	37.0%
Oregon	5,382,038	516,962	2,737,088	2,127,988	9.6%	50.9%	39.5%
Pennsylvania	22,772,190	1,794,419	7,973,651	13,004,120	7.9%	35.0%	57.1%
Rhode Island	1,993,380	149,493	797,349	1,046,538	7.5%	40.0%	52.5%
South Carolina	6,741,029	664,113	3,023,114	3,053,802	9.9%	44.8%	45.3%
South Dakota	1,083,723	177,452	355,719	550,552	16.4%	32.8%	50.8%
Tennessee	7,164,914	793,477	3,097,824	3,273,613	11.1%	43.2%	45.7%
Texas	40,988,805	4,735,208	13,503,141	22,750,456	11.6%	32.9%	55.5%
Utah	3,377,212	342,862	1,825,910	1,208,440	10.2%	54.1%	35.8%
Vermont	1,323,136	102,791	1,153,104	67,241	7.8%	87.1%	5.1%
Virginia	12,952,183	866,982	5,126,114	6,959,087	6.7%	39.6%	53.7%
Washington	9,655,800	801,941	5,899,155	2,954,704	8.3%	61.1%	30.6%
West Virginia	2,806,752	346,628	1,649,661	810,463	12.3%	58.8%	28.9%
Wisconsin	9,704,331	580,810	5,066,552	4,056,969	6.0%	52.2%	41.8%
Wyoming	1,148,354	115,937	507,178	525,239	10.1%	44.2%	45.7%

[1] Duplicative interschool system transactions are excluded.

Source: http://www.census.gov/govs/www/school06.html

Illinois' reliance on local property taxes to fund education also can be seen by looking at revenue per pupil statistics. As shown below, during the 2005-2006 school year, Illinois collected the 10th highest amount of local tax revenue per pupil in the nation at $6,211. However, on a state revenue per pupil basis, the State collected only the 46th highest amount per pupil at $3,398. This was well below the national average amount of $5,018 per pupil. As for total revenues per pupil (federal, state, and local sources combined), Illinois ranked 23rd at $10,506 per pupil, slightly below the national average of $10,771 per pupil. The District of Columbia had the highest amount of per-pupil funding in the nation at $18,332, followed by New York ($16,800) and New Jersey ($16,743).

States Ranked According to Per Pupil Elementary-Secondary Public School System Finance for the 2005-2006 School-Year

Rank	Elementary-secondary revenue				Rank	Elementary-secondary revenue			
	Total	From Federal Sources	From State sources	From Local sources		Total	From Federal Sources	From State sources	From Local sources
	US..... 10,771	US..... 974	US..... 5,018	US..... 4,779		US..... 10,771	US..... 974	US..... 5,018	US..... 4,779
1	DC..... 18,332	AK..... 2,181	HI..... 13,301	DC..... 16,195	26	GA..... 10,113	SC..... 950	MD..... 4,871	SC..... 4,369
2	NY..... 16,800	DC..... 2,137	VT..... 12,488	NJ..... 9,119	27	WV..... 10,032	OR..... 929	ME..... 4,856	LA..... 4,145
3	NJ..... 16,743	LA..... 1,970	DE..... 8,480	CT..... 8,537	28	KS..... 9,973	FL..... 923	AL..... 4,763	OR..... 3,823
4	CT..... 14,893	MS..... 1,735	MN..... 7,785	NY..... 8,360	29	ND..... 9,815	GA..... 911	NH..... 4,604	MT..... 3,773
5	HI..... 14,799	ND..... 1,541	NY..... 7,241	MA..... 7,492	30	IA..... 9,771	**IL..... 897**	PA..... 4,532	DE..... 3,710
6	MA..... 14,782	SD..... 1,458	AK..... 6,915	PA..... 7,391	31	OR..... 9,668	MI..... 882	GA..... 4,466	KS..... 3,574
7	VT..... 14,329	NM..... 1,368	NJ..... 6,913	RI..... 6,972	32	SC..... 9,643	NC..... 853	IA..... 4,464	MI..... 3,556
8	WY..... 13,329	WY..... 1,346	NM..... 6,724	MD..... 6,787	33	MO..... 9,585	OH..... 836	LA..... 4,341	AZ..... 3,447
9	RI..... 13,279	MT..... 1,310	AR..... 6,578	NH..... 6,502	34	FL..... 9,542	TN..... 832	SC..... 4,325	TN..... 3,432
10	DE..... 13,143	WV..... 1,239	MA..... 6,501	**IL..... 6,211**	35	NM..... 9,438	IA..... 822	MT..... 4,316	AK..... 3,133
11	PA..... 12,942	HI..... 1,233	MI..... 6,462	NE..... 6,175	36	MT..... 9,399	MO..... 809	MS..... 4,269	NV..... 3,132
12	MD..... 12,430	NY..... 1,198	CA..... 5,985	WY..... 6,096	37	WA..... 9,359	MA..... 789	VA..... 4,224	CA..... 3,092
13	AK..... 12,229	CA..... 1,186	WV..... 5,896	OH..... 5,855	38	CO..... 9,285	ID..... 778	MO..... 4,182	OK..... 2,984
14	NH..... 11,753	VT..... 1,113	WY..... 5,887	ME..... 5,820	39	TX..... 9,210	WA..... 777	OK..... 4,052	WV..... 2,897
15	ME..... 11,709	TX..... 1,064	WI..... 5,826	VA..... 5,734	40	AR..... 8,960	MD..... 771	ID..... 4,050	WA..... 2,864
16	OH..... 11,606	NE..... 1,055	WA..... 5,718	TX..... 5,112	41	NV..... 8,937	KS..... 731	CO..... 3,962	AL..... 2,814
17	WI..... 11,160	ME..... 1,032	KS..... 5,668	IN..... 5,064	42	SD..... 8,904	IN..... 721	FL..... 3,835	KY..... 2,767
18	IN..... 11,028	OK..... 1,032	CT..... 5,658	FL..... 4,783	43	KY..... 8,828	VA..... 714	UT..... 3,678	NC..... 2,649
19	MN..... 11,010	AR..... 1,020	RI..... 5,312	GA..... 4,736	44	MS..... 8,644	NJ..... 712	AZ..... 3,619	MS..... 2,640
20	MI..... 10,900	PA..... 1,020	IN..... 5,243	ND..... 4,725	45	AL..... 8,560	CT..... 697	ND..... 3,550	MN..... 2,542
21	VA..... 10,672	KY..... 1,001	NV..... 5,178	WI..... 4,665	46	NC..... 8,434	UT..... 691	**IL..... 3,398**	UT..... 2,434
22	NE..... 10,543	RI..... 996	KY..... 5,060	CO..... 4,655	47	OK..... 8,069	MN..... 682	NE..... 3,313	ID..... 2,429
23	**IL..... 10,506**	AL..... 982	NC..... 4,932	MO..... 4,594	48	AZ..... 8,025	CO..... 668	TN..... 3,248	AR..... 1,361
24	LA..... 10,456	AZ..... 959	OR..... 4,917	SD..... 4,523	49	TN..... 7,512	WI..... 668	TX..... 3,034	NM..... 1,346
25	CA..... 10,264	DE..... 953	OH..... 4,915	IA..... 4,485	50	ID..... 7,257	NH..... 647	SD..... 2,922	VT..... 728
					51	UT..... 6,802	NV..... 627	DC..... -	HI..... 265

Source: http://www.census.gov/govs/www/school06.html

The table illustrates that, even though Illinois collected a large amount of local revenues to fund education, when combined with other sources, twenty-two states (including the District of Columbia) still had higher funding per-pupil totals than Illinois during the 2005-2006 school year. The data also emphasizes how Illinois is much more reliant on property taxes to fund education compared to other states.

Variance in Property Tax Rates

The previous data and charts identify Illinois as a state that relies heavily on the local property tax as a revenue source to fund elementary and secondary education. The question that then arises is whether this high reliance on local property taxes is an inequitable taxing format or a desired local decision-making luxury. The answer to this question is highly debatable and has an abundance of varying viewpoints.

A major concern that many have with the property tax is that property tax rates for school districts vary widely throughout the State. For example, in 2005, the operating tax rates for Illinois school districts ranged from 0.83% in the Butler School District in DuPage County to 6.64% in the Crescent-Iroquois School District in Iroquois County. *(The term "operating tax rate" or "OTR" is defined in Illinois Statute as "all school district property taxes extended for all purposes, except Bond and Interest, Summer School, Rent, Capital Improvement, and Vocational Education Building purposes").*

While the previous example highlights the two rate extremes in Illinois, a wide variance in education related property tax rates are not uncommon throughout Illinois. As a method of showing how these disparities exist Statewide, the table on the following page lists the average operating tax rates by county, using property tax information from 2005. During this year, the rates ranged from an average operating tax rate of 2.1% in Hardin County to as high as 4.9% in McDonough County and Stark County. The Statewide average in 2005 was 2.6%. Also displayed in the table is each county's combined Real EAV.

The wide variance in tax rates is not necessarily a geographical issue. Not only can property tax rates differ between counties hundreds of miles apart, but also between two neighboring cities in the same county. For example, the East St. Louis school district in St. Clair County had one of the highest operating tax rates in the State in 2005 at a rate of 5.675%. In contrast, the Mascoutah School District, only 23 miles away, had one of the lowest operating tax rates at 3.24%.

These examples of discrepancy between tax rates lead to one of the primary concerns with property taxes; that is, the reliance on property taxes to fund education has created what some believe to be an inequitable system. A significant factor to this concern is that students who live in a district with high property wealth typically have far greater resources available to them than those from the relatively property-poor districts.

Without the local resources available to provide an adequate property tax base, property-poor districts have to impose higher tax rates to make up for lower property wealth. A study from the Metropolitan Planning Council confirmed this occurrence finding a strong and statistically significant negative correlation between the tax bases and operating tax rates. The report states, "Property-poor school districts must raise their operating tax rates to compensate for an inadequate property tax base. Property-wealthy school districts, because of the larger size of the tax base, are able to tax

property owners at a lower rate than property poor school districts." This provides a reason for the disparities in the tax rates in the school districts mentioned earlier.

Average Operating Tax Rate* by County in 2005

County	2005 Real EAV	County Avg. OTR	County	2005 Real EAV	County Avg. OTR
HARDIN	$21,724,722	2.1%	GREENE	$129,213,189	3.6%
JEFFERSON	$610,858,141	2.2%	FAYETTE	$139,184,553	3.7%
GRUNDY	$2,678,973,748	2.2%	JO DAVIESS	$585,148,613	3.7%
LAKE	$47,086,818,172	2.2%	SALINE	$169,120,381	3.8%
LASALLE	$3,282,289,083	2.3%	PEORIA	$2,937,885,184	3.8%
UNION	$271,278,319	2.3%	CRAWFORD	$218,963,013	3.8%
DUPAGE	$57,058,335,989	2.3%	HANCOCK	$242,643,454	3.8%
MARION	$577,036,530	2.3%	KANE	$16,096,061,407	3.8%
ST. CLAIR	$5,007,648,929	2.4%	VERMILION	$771,047,386	3.8%
COOK	$200,383,278,912	2.4%	ROCK ISLAND	$2,361,878,363	3.8%
WASHINGTON	$260,840,766	2.4%	ALEXANDER	$30,043,045	3.9%
MCHENRY	$12,467,183,765	2.4%	ADAMS	$741,801,478	3.9%
CLINTON	$603,136,165	2.5%	EDGAR	$226,236,574	3.9%
JACKSON	$886,751,541	2.5%	CALHOUN	$50,669,714	3.9%
JOHNSON	$129,627,918	2.5%	MACON	$1,400,113,277	3.9%
TAZEWELL	$3,009,527,022	2.6%	SCHUYLER	$75,856,319	3.9%
WAYNE	$164,603,042	2.6%	HENRY	$645,725,934	3.9%
WILL	$20,653,196,976	2.6%	COLES	$529,526,992	3.9%
BUREAU	$783,756,353	2.7%	KENDALL	$2,389,262,888	3.9%
FRANKLIN	$330,076,802	2.7%	DOUGLAS	$262,312,530	3.9%
LOGAN	$559,593,125	2.7%	CARROLL	$310,502,705	3.9%
PERRY	$202,793,230	2.7%	SANGAMON	$2,975,086,428	3.9%
KANKAKEE	$2,087,368,377	2.9%	PUTNAM	$94,811,760	3.9%
WABASH	$109,105,776	3.1%	BOND	$130,846,316	4.0%
RANDOLPH	$358,714,010	3.1%	WARREN	$190,683,315	4.0%
EDWARDS	$48,255,827	3.2%	PIKE	$153,945,425	4.0%
CUMBERLAND	$94,216,786	3.2%	MENARD	$211,808,356	4.0%
JERSEY	$239,787,204	3.3%	MONTGOMERY	$309,594,191	4.0%
OGLE	$1,481,671,960	3.3%	MCLEAN	$2,936,105,774	4.0%
PIATT	$323,023,718	3.3%	SHELBY	$213,480,616	4.1%
EFFINGHAM	$453,770,063	3.3%	MERCER	$92,777,359	4.1%
WOODFORD	$986,670,494	3.3%	KNOX	$566,656,744	4.2%
JASPER	$205,873,070	3.3%	HAMILTON	$49,299,020	4.2%
LIVINGSTON	$870,779,958	3.4%	GALLATIN	$43,007,082	4.2%
POPE	$33,114,334	3.4%	MASON	$200,404,827	4.2%
CLARK	$152,458,453	3.4%	LEE	$504,454,811	4.2%
WILLIAMSON	$680,279,357	3.4%	MORGAN	$428,000,278	4.3%
WHITESIDE	$915,676,666	3.5%	MOULTRIE	$155,593,939	4.3%
CLAY	$114,119,796	3.5%	FULTON	$312,766,247	4.3%
CHAMPAIGN	$3,103,295,474	3.5%	IROQUOIS	$383,091,358	4.3%
MADISON	$3,695,748,345	3.5%	WINNEBAGO	$4,509,365,211	4.3%
PULASKI	$27,964,216	3.5%	DEKALB	$1,959,488,765	4.3%
CHRISTIAN	$359,880,909	3.5%	MARSHALL	$159,530,526	4.4%
MACOUPIN	$722,085,786	3.5%	BROWN	$49,144,455	4.4%
RICHLAND	$162,799,172	3.6%	SCOTT	$50,030,989	4.5%
DEWITT	$353,501,116	3.6%	STEPHENSON	$527,569,231	4.5%
BOONE	$924,178,649	3.6%	HENDERSON	$73,321,387	4.5%
MASSAC	$149,371,860	3.6%	CASS	$104,046,433	4.6%
MONROE	$620,447,147	3.6%	FORD	$198,073,678	4.7%
LAWRENCE	$96,013,168	3.6%	STARK	$102,945,262	4.9%
WHITE	$130,144,823	3.6%	MCDONOUGH	$269,973,083	4.9%
			STATEWIDE	**$424,798,745,629**	**2.6%**

Note: The term "operating tax rate" (OTR), is defined in Illinois statute as "all school district property taxes extended for all purposes, except Bond and Interest, Summer School, Rent, Capital Improvement, and Vocational Education Building purposes." A county's overall OTR was found by adding the product of each county's school district's EAV and OTR and then dividing this sum by the total EAV for a particular county.

School districts struggling with small tax bases and high tax rates are seeing an alarming trend. When families in property-poor districts choose to move to schools with lower property tax rates, the school districts they leave are further harmed by the resulting loss of property taxes and children in their district. This has been a common occurrence in many Illinois communities as families are leaving property-poor districts to move to a school that they believe will provide a better education for their children.

It should be emphasized that large amounts of local revenue collected for education do not necessarily mean a district imposes a high tax rate. In actuality, the opposite is more likely the case. Often, districts with the highest per capita rates for property taxes attributable to schools have the lowest property tax rates. The inequities that exist in local government education funding is not necessarily based on the amount that each taxpayer pays, but rather the rate that a district pays to provide a formidable amount of revenue for its schools.

The problem for many struggling school districts is that by living near areas of wealth that are able to provide low-taxed educational funding at a high per capita rate, property-poor districts must significantly increase their tax rates to levels where their educational spending approaches the spending of the neighboring wealthy districts. If the poor districts are not able to adequately fund education compared to their wealthy neighbors, they will risk losing families to other districts, thereby lowering their tax base, and making a bad situation even worse.

The Center for Tax and Budget Accountability expressed their concern on this issue in one of their briefings entitled "School Funding Reform Fact Sheet":

> *Because the state does not fund its fair share of schools, the primary responsibility for education funding falls on local property taxes. This is what makes the system unfair. It ties the quality of the public education a school can give a child to the wealth of the community in which that child lives. If a child is fortunate enough to live in a wealthy community, her locally funded public schools will be top notch. If on the other hand, she lives in a low income area, her school simply will not have the money to provide a quality education. Tying the quality of the public education a child receives to the wealth of her local community is not just unfair, it is both morally and socially wrong.*

Not only does the disparity in the tax rates of school districts become an issue for funding local schools, but it also can impact economic development patterns as well. Areas that impose higher tax rates to fund education create a disincentive for future development in their community. Businesses looking to relocate do not want to pay for property taxes at high rates, so they look elsewhere. This entices businesses and residents to relocate into previously undeveloped areas, or developed property-wealthy districts with lower property tax rates. As a result, property-wealthy districts with low tax rates have a competitive advantage over property-poor districts in not only their ability to spend more on schools, but also in obtaining future economic development.

2006-2007 School Year Financial Statistics by County

Sorted by Education Local Revenue per Average Daily Attendance

	Local Revenue	2006-07 ADA	Local Revenue per ADA
DUPAGE	$1,625,128,080	150,074	$10,829
LAKE	$1,351,325,787	128,820	$10,490
GRUNDY	$96,245,850	10,850	$8,871
COOK	$6,165,508,941	713,730	$8,638
PUTNAM	$7,351,252	859	$8,562
JO DAVIESS	$26,237,975	3,183	$8,244
MCHENRY	$397,268,819	49,478	$8,029
KANE	$838,791,318	106,444	$7,880
WILL	$804,448,150	103,201	$7,795
KENDALL	$138,176,540	18,657	$7,406
LASALLE	$115,723,588	16,335	$7,084
MCLEAN	$162,124,710	22,912	$7,076
DEKALB	$112,892,778	16,174	$6,980
PIATT	$22,026,179	3,207	$6,868
OGLE	$66,332,435	9,844	$6,738
DEWITT	$17,650,722	2,643	$6,678
CHAMPAIGN	$145,419,674	21,810	$6,667
JASPER	$9,055,328	1,359	$6,662
WINNEBAGO	$279,948,320	42,619	$6,569
MARSHALL	$9,055,205	1,382	$6,553
SANGAMON	$169,879,602	26,320	$6,454
STARK	$6,860,430	1,070	$6,411
CARROLL	$15,724,480	2,465	$6,380
ROCK ISLAND	$134,201,479	21,480	$6,248
PEORIA	$163,709,225	26,225	$6,242
TAZEWELL	$116,284,877	18,651	$6,235
LEE	$29,538,816	4,777	$6,183
LIVINGSTON	$42,048,438	6,843	$6,145
MONROE	$30,264,495	4,926	$6,143
LOGAN	$20,471,621	3,371	$6,073
WHITESIDE	$54,387,169	9,090	$5,983
BUREAU	$31,812,812	5,330	$5,968
WOODFORD	$44,167,030	7,721	$5,721
MCDONOUGH	$18,470,557	3,230	$5,718
DOUGLAS	$15,413,231	2,703	$5,702
JACKSON	$36,735,533	6,538	$5,619
FORD	$12,906,286	2,407	$5,362
COLES	$33,211,229	6,283	$5,286
MORGAN	$25,052,423	4,787	$5,233
MENARD	$12,445,133	2,400	$5,185
MADISON	$202,760,965	39,719	$5,105
STEPHENSON	$33,658,412	6,694	$5,028
KANKAKEE	$87,444,718	17,450	$5,011
IROQUOIS	$23,625,803	4,742	$4,982
EDGAR	$14,589,076	3,023	$4,826
ADAMS	$42,460,068	8,821	$4,814
RANDOLPH	$18,952,123	3,986	$4,755
MOULTRIE	$9,039,276	1,919	$4,710
MACON	$72,644,884	15,469	$4,696
HENDERSON	$4,579,563	976	$4,691
CRAWFORD	$13,961,757	2,998	$4,657
MACOUPIN	$39,595,916	8,533	$4,640
WASHINGTON	$8,953,694	1,938	$4,619
MONTGOMERY	$19,636,725	4,349	$4,515
ST. CLAIR	$185,175,154	41,229	$4,491
HENRY	$36,082,168	8,316	$4,339
CALHOUN	$2,740,637	634	$4,324
MASON	$13,287,965	3,075	$4,322
BROWN	$2,974,857	692	$4,301
BOONE	$41,711,004	9,763	$4,272
PIKE	$10,420,386	2,513	$4,147
CLINTON	$21,121,507	5,156	$4,097
JERSEY	$10,783,141	2,681	$4,022
EFFINGHAM	$22,832,768	5,687	$4,015
WARREN	$9,974,750	2,500	$3,989
WILLIAMSON	$35,824,017	8,995	$3,983
MERCER	$5,385,055	1,377	$3,910
KNOX	$26,795,017	6,952	$3,854
HANCOCK	$12,732,663	3,328	$3,826
VERMILION	$48,473,628	13,021	$3,723
RICHLAND	$8,720,525	2,386	$3,654
CHRISTIAN	$18,452,750	5,058	$3,649
MASSAC	$8,533,624	2,367	$3,606
JEFFERSON	$20,203,582	5,653	$3,574
SHELBY	$11,858,650	3,334	$3,557
FULTON	$17,735,178	5,046	$3,515
SCOTT	$3,041,620	873	$3,486
SCHUYLER	$4,196,970	1,212	$3,461
PERRY	$9,518,257	2,778	$3,427
BOND	$7,446,295	2,180	$3,416
GALLATIN	$2,834,137	830	$3,413
WABASH	$5,986,938	1,758	$3,407
JOHNSON	$5,764,608	1,699	$3,392
UNION	$10,170,546	3,039	$3,347
CASS	$7,067,699	2,113	$3,345
MARION	$22,729,997	6,858	$3,314
WHITE	$7,325,273	2,262	$3,238
FAYETTE	$9,242,895	2,985	$3,097
HAMILTON	$3,560,402	1,150	$3,095
GREENE	$6,360,687	2,066	$3,078
WAYNE	$7,343,538	2,493	$2,946
POPE	$1,446,197	500	$2,895
CLAY	$6,524,994	2,272	$2,872
EDWARDS	$2,638,243	930	$2,835
CUMBERLAND	$4,910,816	1,745	$2,814
CLARK	$7,763,261	2,848	$2,725
SALINE	$9,435,485	3,888	$2,427
LAWRENCE	$5,224,707	2,177	$2,400
ALEXANDER	$2,469,373	1,076	$2,295
FRANKLIN	$14,204,135	6,229	$2,280
PULASKI	$1,855,289	1,058	$1,754
HARDIN	$1,037,964	601	$1,726
TOTALS	**$14,738,118,847**	**1,908,198**	**$7,724**

While there are large variances between tax rates throughout school districts, the difference in the amount of revenue that the local taxing bodies provide for each school district can be even more pronounced. On a per school district basis, the amount that each local taxing body provides for each student, according to the Illinois State Board of Education's average daily attendance statistics, range from $1,418 in a Franklin County school district to as high as $32,454 per student at a district in Lake County.

A table displaying the average amount that each county's local taxing bodies provide for their schools is shown on the previous page. This table shows that local revenues range from an average of $10,829 per student in DuPage County to as low as $1,726 per student in Hardin County. From a geographic standpoint, the majority of the higher figures in this category are found in northern Illinois near Chicago, where the lower per-pupil figures tend to be found in downstate and southern Illinois.

Another concern with Illinois' education funding system is that the system appears to create large funding gaps between the highest and lowest poverty districts. According to a 2008 report entitled, "The Funding Gap" issued by The Education Trust, Inc., Illinois has one of the worst spending gaps in the nation. The report looked at the total amount of state and local revenues received by each district for the school years spanning 1999 through 2005. The study focused on the distribution of state and local resources in order to answer the question of whether or not state funding patterns are equitable. Results of the study are shown below.

Poverty Funding Gaps Over Time: 1999 - 2005

State	Gap between Highest and Lowest Poverty Districts		Poverty Gap Change in Dollars 1999-2005	State	Gap between Highest and Lowest Poverty Districts		Poverty Gap Change in Dollars 1999-2005
	1999	2005			1999	2005	
New York	-$3,426	-$3,068	$358	Georgia	$245	$82	-$162
Illinois	**-$1,568**	**-$2,235**	**-$668**	Washington	$64	$87	$23
New Hampshire	-$723	-$1,340	-$617	Iowa	-$4	$108	$112
Pennsylvania	-$1,218	-$1,055	$163	Mississippi	$192	$151	-$41
Delaware	-$1,052	-$954	$98	California	$11	$154	$143
Michigan	-$682	-$759	-$78	North Dakota	$183	$159	-$23
Nevada	-$189	-$680	-$491	Rhode Island	$197	$266	$68
North Carolina	$337	-$603	-$939	Oklahoma	$312	$271	-$42
Montana	-$500	-$505	-$5	South Carolina	$166	$302	$136
Wisconsin	-$28	-$468	-$439	Indiana	$126	$322	$197
Maine	-$9	-$331	-$321	Maryland	-$981	$395	$1,376
Alabama	-$309	-$328	-$19	Tennessee	$729	$454	-$275
Kansas	$388	-$284	-$672	Wyoming	-$59	$468	$527
Vermont	$2,193	-$264	-$2,457	Arkansas	$18	$541	$523
Louisiana	-$421	-$241	$180	Oregon	$659	$647	-$13
South Dakota	$240	-$228	-$468	Utah	$799	$739	-$60
Idaho	$457	-$185	-$642	Connecticut	$615	$825	$210
Texas	$280	-$165	-$445	Ohio	-$77	$833	$910
Arizona	-$198	-$143	$55	Kentucky	$801	$878	$77
Colorado	-$133	-$126	$7	New Mexico	$495	$923	$427
Virginia	$234	-$122	-$356	Massachusetts	$1,435	$1,396	-$39
Missouri	$480	-$104	-$584	Minnesota	$1,368	$1,629	$261
West Virginia	$22	-$19	-$40	New Jersey	$568	$2,712	$2,145
Florida	$350	-$18	-$368	Alaska	$684	$6,523	$5,839
Nebraska	$384	$66	-$318	**USA**	**-$848**	**-$938**	**-$90**

Notes: The Source's data contains no adjustment for low-income students. For the data, a negative number indicates that fewer dollars were provided to high poverty districts. Hawaii is not included because it operates as a single state-wide school district.

Source: http://www2.edtrust.org

As shown in the previous table, the study ranked Illinois has having the second worst spending gap in the nation in 2005 ahead of only New York. The national report criticized Illinois' negative ranking stating,

> "*The Illinois pattern is particularly troubling, given that the state has for years had the second largest per-student gap in the country. But bad apparently wasn't bad enough: the state has slipped from a per-student funding gap of $1,568 in 1999 to $2,235 in 2005."*

(This report can be found at the Education Trust Inc.'s website at the following address: http://www2.edtrust.org).

The Role of the State in Funding Education

Those opposed to relying on property taxes to fund the majority of educational funding argue that the State should increase their role in education funding to make the system more equitable. They believe State funding would allow revenues to be redistributed to schools throughout the State in a manner that would improve school funding equity. In order to accomplish this, these groups suggest future State-spending increases accompanied by reforms to the current State education funding structure. The following section looks at the State's current education funding structure, including the funding formula, and discusses why many are hesitant to give the State a larger role in school funding.

Few would argue the point that inequities in local school funding exist. However, just because the system provides disparities does not mean that every district would be open to change. For example, why would a school district that is able to provide for their local schools with relatively low property tax rates and successful schools want to alter the way schools are currently funded?

Districts that are self-sufficient point out those inequities in school funding do not necessarily always benefit the wealthy districts. This is especially true when analyzing how the State funds elementary and secondary education through the current general state aid formula. In order to understand these inequities, a basic understanding of the formula is necessary.

Illinois' general state aid formula is often considered complicated due to its various formulas and multiple variables, but its essence can be rooted in just two variables: the Equalized Assessed Value (EAV) of property within a school district, and the district's Average Daily Attendance (ADA). The EAV is the main contributor in determining a district's Available Local Resource (ALR) amount, while the ADA determines the number of students that will receive a calculated per pupil amount. A brief description of all of the pertinent items and formulas that make up the general state aid formula are shown on the following page as provided by the State Board of Education at the following website: http://www.isbe.state.il.us/funding/pdf/gsa_overview.pdf.

Calculation of General State Aid

Calculation of Available Local Resources and Local Percentage:

Available Local Resources (ALR) = (GSA EAV x RATE + CPPRT) / ADA

Local Percentage = ALR / FLEVEL

Where:

RATE = 2.30% if Elementary 1.05% if High School 3.00% if Unit
Foundation Level (FLEVEL) = $5,959 for 2008-2009
CPPRT = Corporate Personal Property Replacement Taxes
EAV = Equalized Assessed Valuation
ELR = Extension Limitation Ratio
GSA = General State Aid
OTR = Operating Tax Rate
ADA = The Greater of the Prior Year Best 3 Months Average Daily Attendance

or

Prior Three-Year Average

GSA EAV = smaller of (Budget Year EAV, Extension Limitation EAV)

And Where:

Extension Limitation EAV = Prior Year EAV x Extension Limitation Ratio

$$\text{Extension Limitation Ratio} = \frac{\text{(Budget Year EAV x Budget Year Limiting Rate)}}{\text{(Prior Year EAV x Prior Year OTR)}}$$

These variables decide which of three formulas are used to calculate the amount of aid for a particular school district. The three formulas are the foundation formula, the alternate formula, and the flat grant formula.

Foundation Formula

General State Aid is calculated using the Foundation formula if the district Local Percentage is less than 93%. The formula is:

GSA Foundation = (FLEVEL – ALR) X ADA

For example, School District A has a GSA EAV amount of $55 million, a unit rate of 3.0%, a CPPRT amount of $143 thousand, and an ADA of 1,200. Using the formula from above, these figures equate to an Available Local Resource (ALR) value of $1,494. Since this amount makes up 25.0% of the statutorily defined foundation level of $5,959, the foundation formula is utilized. The ALR amount of $1,494 million is then subtracted from the Foundation Level amount of $5,959 and multiplied by the ADA level of 1,200 for a General State Aid Foundation entitlement of $5.358 million.

Alternate Formula

If the Local Percentage is greater than 93% but less than 175%, then the Alternate Formula is used. This formula provides between 7% and 5% of the FLEVEL per ADA. It is intended for those districts not quite wealthy enough to qualify for a flat grant, which will be discussed next. The formula is:

GSA Alternate = FLEVEL x ADA x {.07 - [(Local Percentage - .93) / .82] x (.02)}

For example, School District B is calculated to have a Local Percentage of .99 or 99%. This falls between 93% and 175%, so the alternative method is used. The minimum percentage of .93 is then subtracted from District B's percentage of .99 for a value of .06. This number is then divided by .82 and then multiplied by .02 for a value of .0015. This value is then subtracted from .07 and then multiplied by the foundation level of $5,959 to come up with the amount per ADA, which is $408. Finally, this number is multiplied by School District B's ADA of 1,000 students, resulting in a gross GSA entitlement of $408,000.

Flat Grant Formula

School districts that are considered comparatively wealthy (have a percentage of foundation level greater than 175%), utilize the flat grant formula. The formula is:

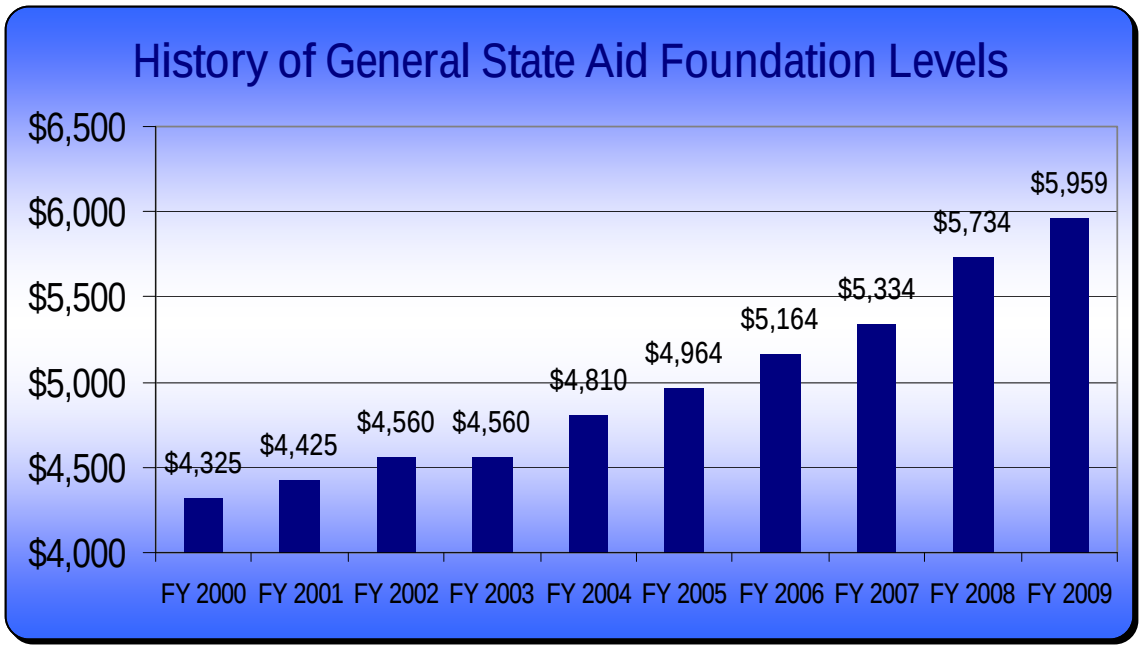
GSA Flat Grant = ADA x $218

For example, if School District C has an ALR amount of, say, $10,500, which is 176% of the 2008-2009 foundation level of $5,959, they must use the flat grant formula because their percentage of foundation level is greater than 175%. As a result, School District C's ADA value of 2,000 is multiplied by the flat grant rate of $218, resulting in a gross GSA entitlement of $436,000.

Formula Statistics

According to 2007-2008 State aid statistics from the State Board of Education, 686 of the 944 (72.7%) Illinois school districts receiving State aid used the foundation formula, 133 or 14.1% of the districts used the alternate formula, while only 51 districts (5.4%) qualified for the flat grant formula. Seventy-four districts are classified as laboratory and alternative/safe schools and are operated by Regional Superintendents. These schools also receive General State Aid, but their entitlements are calculated differently than other school districts.

The Foundation Level is the one of the variables that is typically updated (and increased) on an annual basis. The value of the foundation level is raised as a way to increase the amount of State aid that districts qualifying for the Foundation Level receive. The following graph illustrates the history of the foundation level over the past ten years.



The three formulas previously discussed are not the only ways that State aid can be distributed to districts. The General State Aid Formula also enables itself to supplement additional aid to school districts that need further help that the base portion of the formula does not provide. This additional aid comes through two formats: the poverty grant and the hold harmless aid.

The Poverty Grant

The poverty grant gives school districts with low-income students additional aid to provide for their district. To determine the poverty grant, a district's concentration level (DCR) is determined by dividing the district's Department of Human Services' three-year average low-income count by the prior year best three months average daily attendance. If the DCR is less than 15% then the district receives a flat grant of $355 per low-income student. Otherwise, the following formula is used to calculate the poverty grant:

$$[294.25 + (2700\ (DCR)^{\wedge}2)] \times \text{Low-Income Count}$$

There is also a hold-harmless provision for the poverty grant where no district will receive less in their poverty grant than they received in FY 2003.

Hold Harmless Aid

The other method of supplemental assistance comes through the hold harmless portion of the General State Aid formula. This provision assures that no school district will receive less GSA than it did in FY 1998. The hold harmless provision began during the 1996-1997 school year to help school districts that were losing GSA funding due to

changes in the GSA formula. For the 2007-2008 school year, $23.5 million was allotted to Illinois school districts due to the hold-harmless provision.

Some question the reasoning why the annual funding of the hold harmless provision continues given that it has now been over ten years since the provision was first enacted. As it is now, the provision can benefit those schools with declining attendance because their funding in the base year of FY 1998 (the year that it is compared to) would have been based on a year with significantly higher attendance figures. These districts qualify for the hold-harmless payments because their State aid entitlement in FY 1998 with higher attendance figures is higher than they would receive under the formula now with lower attendance figures.

Should these districts still get the same amount of aid even though their attendance has dropped and it has been over ten years since the provision was introduced? Probably not, but, because these school districts have now grown accustomed to receiving these additional funds, it becomes very difficult to take this funding away in future years. As a result, the hold harmless provision continues.

Data Analysis

In school districts throughout the Illinois, wealthier districts typically fund their schools at higher per-pupil levels than poorer districts. However, this discrepancy in levels cannot be blamed on how the State currently calculates education funding distributions. The State's three different general state aid formulas are set up to distribute more aid to the poorer districts, while only giving the wealthy districts a minimum amount per pupil. This system gives the less-wealthy districts a crucial amount of funds without which they could not financially survive.

To understand this more clearly, compare a district like Hinsdale Township H.S. District 86 in DuPage County with a district like East St. Louis School District 189 in St Clair County. Hinsdale, one of the wealthier districts in Illinois, has a large amount of available local resources for funding education so they qualify for the Flat Grant formula. As a result, they receive the minimum amount of $218 per pupil.

On the other hand, East St. Louis, a district with approximately 90% of its students considered as low-income students, is one of the poorest districts in the State. The small amount of local resources they receive qualifies them for the foundation formula. This foundation formula allows East St. Louis to receive approximately $5,277 per pupil from the State for the 2008-2009 school year. Therefore, the East St. Louis School District will receive $5,059 more per student from the State aid formula than Hinsdale will receive.

But even with this large discrepancy between the amounts given to school districts at different sides of the spectrum, many argue that still more should be done to help the poorer districts. Here is the reason. In the example given above, Hinsdale is able to provide a local resource per pupil amount of $11,493 for its students during the 2008-

2009 school year. Combine this figure with the $218 flat grant provided by the State, Hinsdale is able to provide a combined total of $11,711 for its students.

In contrast, combining East St. Louis' local resource amount of $682 per pupil with the $5,059 per pupil amount in State aid, and the total amount provided to East St. Louis students is still only $5,959 per pupil. Therefore, even when receiving $5,059 per pupil more in State aid than Hinsdale, East St. Louis' amount per pupil in funding is still $5,752 less than students at Hinsdale will receive. This discrepancy is why many feel that more should be done to help the poorer districts in Illinois.

The poverty grant does offset some of this discrepancy. For example, because of East St. Louis's high low-income concentration level of 90%, they are set to receive a poverty grant amount of $2,460 per low-income student for the 2008-2009 school year. This equates to an additional $19.4 million in State aid for the East St. Louis school district. In comparison, Hinsdale with a low-income concentration level of only 0.9%, will only receive $135,017 in additional aid from the poverty grant. But even with this added assistance, districts like East St. Louis are still not able to reach the levels seen from wealthier districts like Hinsdale.

When combining all of the sources for General State Aid for the 2006-2007 School Year, over $6.3 billion was distributed to school districts throughout Illinois. Statewide, the average Illinois school district received approximately $3,310 per ADA. (ADA in this section refers to the Average Daily Attendance during the 2006-2007 school year). On page 22 is a table displaying the average amount of State aid that schools received by county. As shown, the average State entitlement ranged from $8,992 in Alexander County to $1,325 per ADA in DuPage County.

When analyzing the per-pupil funding amounts from State and Local sources, it is not surprising that DuPage County would have the largest amount of Local revenue per ADA in the State at $10,829 per pupil, but yet the smallest amount of State revenue per ADA at $1,325 per pupil. This is because the amount of available local resources that DuPage county school districts are able to generate allows them to finance their schools without much need for State assistance. Conversely, counties like Alexander County had among the lowest Local revenue per ADA values in the State, which is why they qualified for the highest average of State aid per ADA in Illinois.

Provided on page 23 is a map of the average State revenue per ADA by county. The map illustrates that the southern portions of Illinois generally receive more State aid per pupil than the rest of the State. On a statewide basis, Illinois students received $3,310 in total State aid on average. The Collar Counties were entitled the smallest amount of aid by region at $2,162 per pupil, while Cook County was entitled $3,537 per pupil. The rest of the State, on average, was entitled a much higher amount of aid at $4,004 per pupil.

On page 24 is a map of the average local revenue per ADA by county. Again, not surprisingly, the distinctive areas of change for local education funding is very similar

to the State aid map, but in a converse manner. On a statewide basis, Illinois students on average received $7,724 in aid from local sources. The higher values of local funding per ADA fell in the northern regions of the State. The Collar Counties received the largest amount aid by region at $9,325 per ADA, compared with $8,638 for Cook County, and $5,416 for the remainder of the State.

Finally, on page 25 is a map of average revenues per ADA by county when combining State and Local revenues. Not surprisingly, because of the State's reliance on the property tax, the combined State and Local map is very similar to the local revenue map. Like the local funding map, the highest totals are generally found in Northeastern part of Illinois because of their higher local resource levels. There are also pockets of high per pupil totals in Southern Illinois from the counties that receive high levels of State funding.

For the previous analysis on Illinois education funding levels, the data come directly from the Illinois State Board of Education's 2006-2007 school year financial statistics. While the General State Aid formula calculates the Average Daily Attendance based on average ADA levels over the previous three school years, for the purposes of calculating the funding per ADA, the Board's 2006-2007 ADA totals were utilized.

The information from the Illinois State Board of Education was provided on a per district level. The Commission grouped the information on a county level in order to provide a geographic summary of the different levels of funding in different regions of the State. It must be stressed that higher levels of funding in one county does not mean all school districts in that county are at those higher levels. Similarly, counties with an average level of funding that is considered low does not mean that all school districts in that county have lower levels of funding.

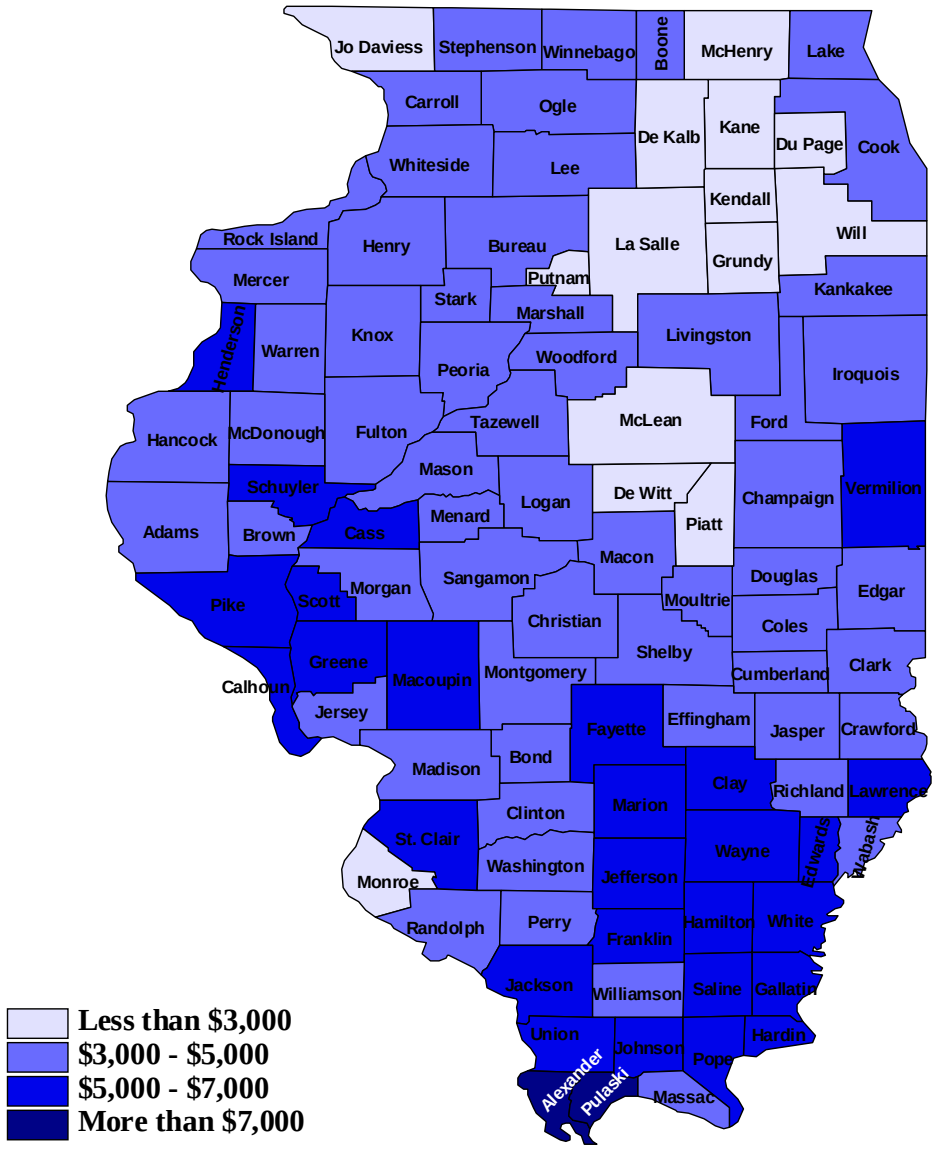
2006-2007 School Year Financial Statistics by County

Sorted by Education State Revenue per Average Daily Attendance

	State Revenue	2006-07 ADA	State Revenue per ADA
ALEXANDER	$9,676,121	1,076	$8,992
PULASKI	$8,606,850	1,058	$8,137
HARDIN	$3,841,778	601	$6,388
CALHOUN	$3,738,518	634	$5,898
MACOUPIN	$49,560,554	8,533	$5,808
LAWRENCE	$12,515,545	2,177	$5,749
CLAY	$13,039,832	2,272	$5,739
WAYNE	$14,129,684	2,493	$5,669
HAMILTON	$6,459,467	1,150	$5,616
ST. CLAIR	$230,748,837	41,229	$5,597
MARION	$38,193,491	6,858	$5,569
SCHUYLER	$6,748,275	1,212	$5,566
GALLATIN	$4,602,041	830	$5,543
PIKE	$13,911,882	2,513	$5,536
SALINE	$21,381,636	3,888	$5,500
FRANKLIN	$33,975,818	6,229	$5,455
POPE	$2,709,298	500	$5,423
CASS	$11,426,241	2,113	$5,408
WHITE	$12,218,154	2,262	$5,400
SCOTT	$4,701,489	873	$5,388
JACKSON	$35,058,930	6,538	$5,363
JEFFERSON	$30,099,050	5,653	$5,324
UNION	$16,092,192	3,039	$5,295
HENDERSON	$5,115,507	976	$5,240
GREENE	$10,780,075	2,066	$5,217
EDWARDS	$4,826,121	930	$5,187
FAYETTE	$15,314,385	2,985	$5,131
JOHNSON	$8,701,275	1,699	$5,120
VERMILION	$65,520,621	13,021	$5,032
BOND	$10,792,999	2,180	$4,951
CLARK	$14,082,916	2,848	$4,944
BROWN	$3,418,724	692	$4,943
MASSAC	$11,558,304	2,367	$4,884
SHELBY	$16,108,691	3,334	$4,831
PERRY	$13,392,250	2,778	$4,821
WABASH	$8,472,745	1,758	$4,821
CRAWFORD	$14,280,606	2,998	$4,763
CHRISTIAN	$23,872,721	5,058	$4,720
WARREN	$11,656,959	2,500	$4,662
CUMBERLAND	$8,017,770	1,745	$4,594
IROQUOIS	$21,743,874	4,742	$4,585
MASON	$13,804,331	3,075	$4,490
RICHLAND	$10,691,339	2,386	$4,480
HANCOCK	$14,896,996	3,328	$4,477
KANKAKEE	$78,025,600	17,450	$4,472
MONTGOMERY	$19,418,888	4,349	$4,465
RANDOLPH	$17,783,431	3,986	$4,462
JERSEY	$11,936,175	2,681	$4,452
MACON	$68,699,055	15,469	$4,441
FULTON	$22,271,625	5,046	$4,414
WILLIAMSON	$39,219,876	8,995	$4,360
EDGAR	$13,000,911	3,023	$4,301
MERCER	$5,915,355	1,377	$4,295
STEPHENSON	$28,396,426	6,694	$4,242
EFFINGHAM	$24,095,401	5,687	$4,237
WASHINGTON	$8,210,162	1,938	$4,236
CARROLL	$10,417,920	2,465	$4,227
BUREAU	$22,419,411	5,330	$4,206
KNOX	$28,502,811	6,952	$4,100
ADAMS	$35,814,095	8,821	$4,060
MCDONOUGH	$13,107,974	3,230	$4,058
HENRY	$33,659,783	8,316	$4,047
CLINTON	$20,826,264	5,156	$4,039
LIVINGSTON	$27,516,252	6,843	$4,021
MENARD	$9,457,203	2,400	$3,940
WINNEBAGO	$167,135,752	42,619	$3,922
MORGAN	$18,531,456	4,787	$3,871
COLES	$24,295,370	6,283	$3,867
MADISON	$153,321,255	39,719	$3,860
PEORIA	$100,589,537	26,225	$3,836
WHITESIDE	$34,370,013	9,090	$3,781
FORD	$8,794,709	2,407	$3,654
MOULTRIE	$6,902,929	1,919	$3,597
STARK	$3,841,622	1,070	$3,590
ROCK ISLAND	$76,863,118	21,480	$3,578
LOGAN	$12,013,052	3,371	$3,564
COOK	$2,524,502,461	713,730	$3,537
MARSHALL	$4,846,663	1,382	$3,507
JASPER	$4,662,356	1,359	$3,430
SANGAMON	$89,220,732	26,320	$3,390
LASALLE	$55,261,427	16,335	$3,383
WOODFORD	$25,873,152	7,721	$3,351
BOONE	$32,142,988	9,763	$3,292
DOUGLAS	$8,707,644	2,703	$3,221
OGLE	$31,556,754	9,844	$3,206
LEE	$15,188,161	4,777	$3,179
TAZEWELL	$57,301,145	18,651	$3,072
CHAMPAIGN	$66,381,309	21,810	$3,044
DEKALB	$47,717,496	16,174	$2,950
WILL	$280,337,128	103,201	$2,716
JO DAVIESS	$8,590,740	3,183	$2,699
KENDALL	$49,655,069	18,657	$2,662
KANE	$280,282,549	106,444	$2,633
MONROE	$11,958,918	4,926	$2,428
LAKE	$299,580,469	128,820	$2,326
MCLEAN	$53,046,785	22,912	$2,315
PIATT	$7,020,125	3,207	$2,189
DEWITT	$5,703,683	2,643	$2,158
MCHENRY	$104,260,183	49,478	$2,107
PUTNAM	$1,551,767	859	$1,807
GRUNDY	$16,375,431	10,850	$1,509
DUPAGE	$198,844,705	150,074	$1,325
TOTALS	**$6,316,408,163**	**1,908,198**	**$3,310**

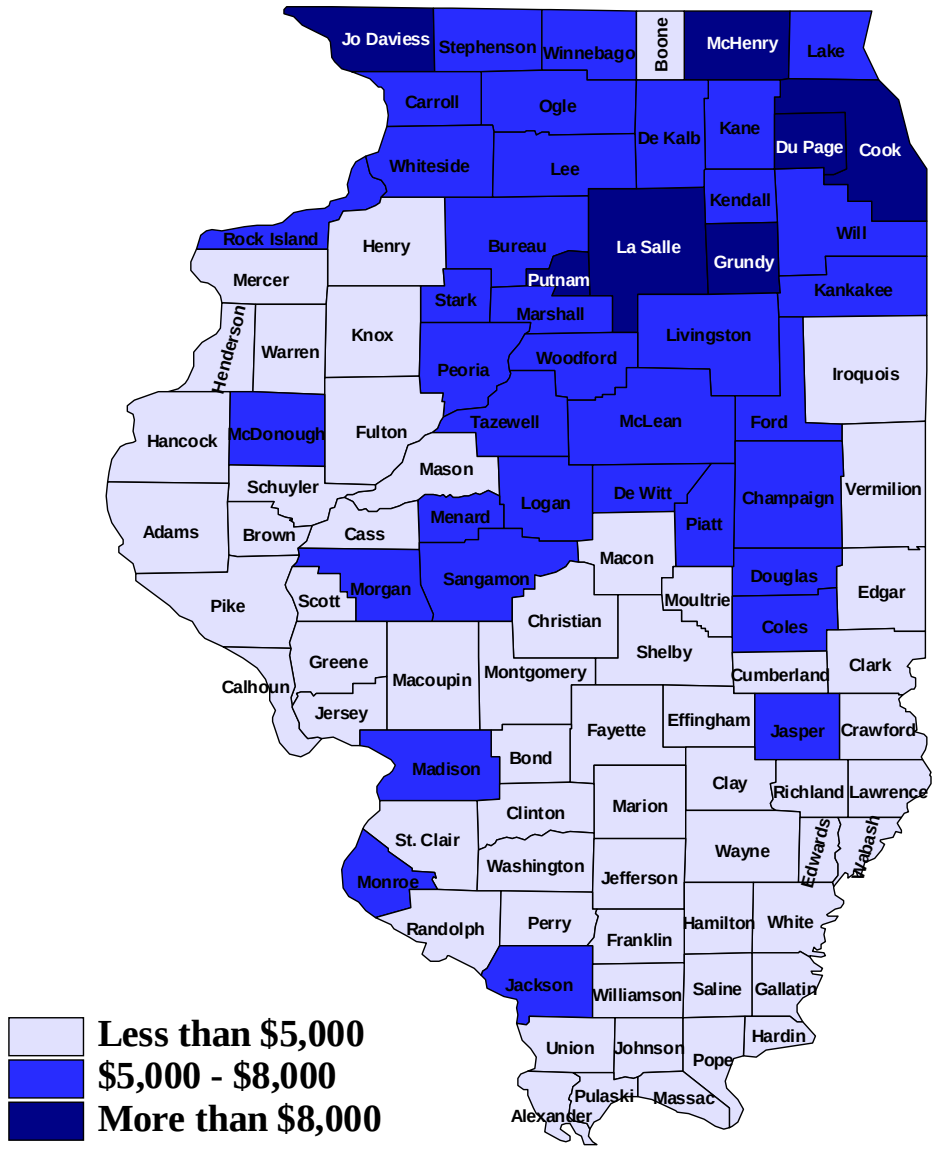
Average State Education Funding per ADA

(2006-2007 School Year)



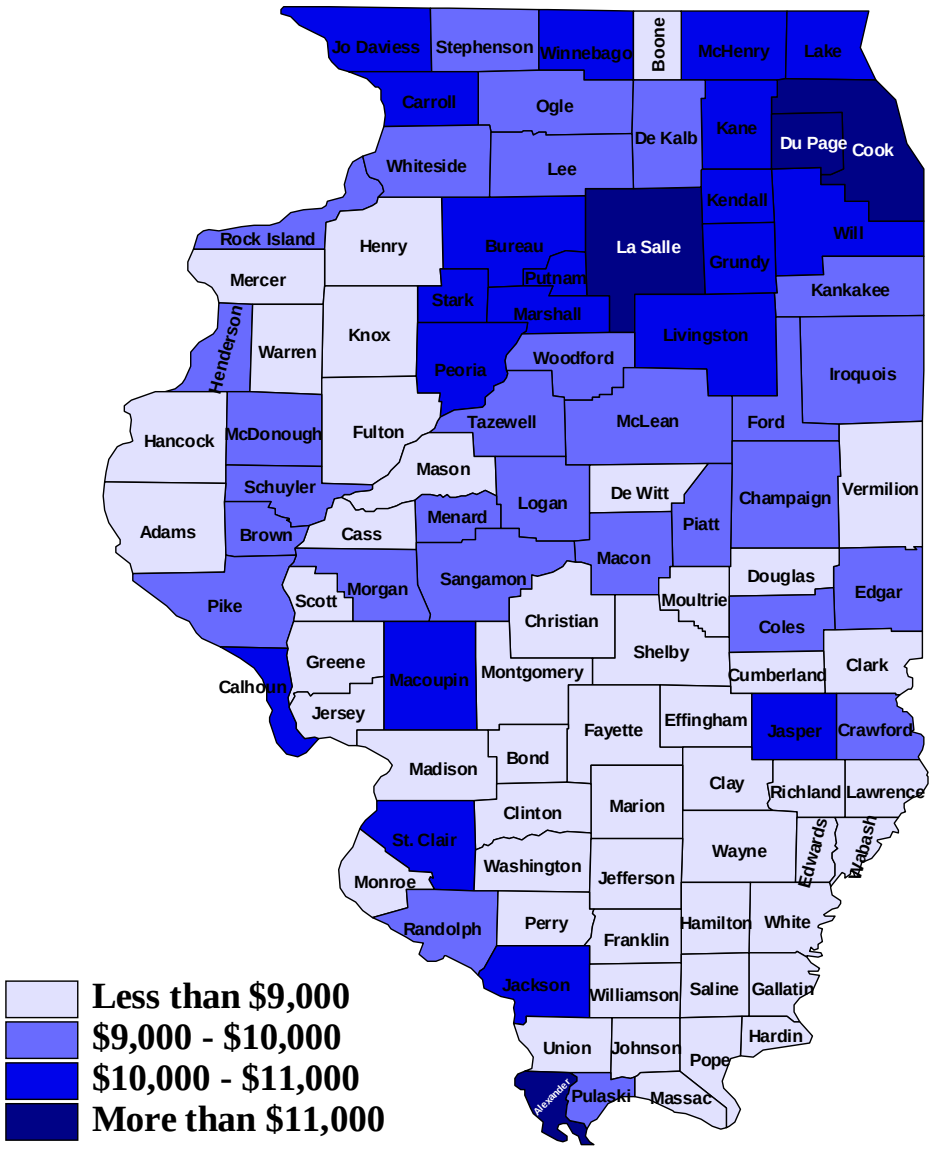
Average Local Education Funding per ADA

(2006-2007 School Year)



Total Local and State Education Funding per ADA

(2006-2007 School Year)



Education Funding Issues and Concerns

As the system currently exists, there will always be districts that receive higher amounts of funding per pupil than other districts. As a result, inequalities in some capacity will inevitably exist when analyzing the funding of education in Illinois. If this inequality was to be ultimately addressed so that every district in the State would receive the same amount of funding, the per-pupil level of support would have to be raised to the level of the highest per-pupil funding district in the State, which for the 2006-2007 school year was $32,454 per student for a small district in Lake County. This, unfortunately, is unrealistic as increasing every district to this per-pupil value would be extremely costly for the governments and residents of Illinois. *(Note: While this per-pupil value of $32,454 could be considered an outlier because of the extent that this district's value is higher than all other districts, the average per-pupil value for the ten highest local revenue per-pupil districts was $23,231, which is still considerably higher than the Statewide median level of local funding of $5,914 per student).*

While it may be unrealistic to reach the highest levels of school funding in the State, many hope that more can be done to bring those in the lower levels of funding, at least, closer to the middle. Many advocate that this can be done by allowing the State to take a larger role in education funding by distributing education-intended revenues in a more equitable manner. However, there are several reasons why there are those against the State having a greater role in funding education in Illinois.

The first reason is due to the effect that State funding typically has on property-wealthy school districts. Because of how State funding and the State-aid formula is constructed, wealthy districts are, in effect, penalized for being able to provide significant financial support to their districts. Through the property tax, they create "too much" revenue in terms of available local resources for their school districts, which causes them to receive very little State financial support. Wealthy districts bring in significant tax dollars for their local governments as well as creating significant revenues for the State (through income and other taxes). As a result, the taxes they pay are supporting not only their local schools, but also many schools throughout Illinois.

To illustrate this point, it is helpful to look at the areas of Illinois which produce the most revenue for the State. While it is difficult to put a dollar amount to every revenue source by county, for the purpose of this example, the report will use personal income earned per Illinois county as its component base. (These figures came from the following website: http://www.bea.gov/regional/index.htm). As the table on the following page indicates, there were eight counties that generated, by each county's percentage of the total, more revenue for the State than they received in State aid for the 2006-2007 school year.

For example, DuPage County residents made up 9.8% of all Illinois personal income in 2006. (We make the assumption then that DuPage residents make up approximately 9.8% of State revenues). In contrast, DuPage County only received 3.2% of the State revenue allocated to schools for the 2006-2007 school year. Therefore, DuPage County supplied the State with significantly more revenues than they received in education

related State aid. Conversely, a county like St. Clair generated only 1.6% of State income totals, yet received 3.7% of the State's allocation of education funding.

It is in districts where this "revenue vs. allocation" contrast exists that there is a fear that increasing the reliance on State taxes would make the system even more unbalanced to them. They are concerned that they would get back only pennies out of every dollar sent to the State. With local educational funding, even though the amount of property taxes that wealthier districts pay to fund education in their community can be significant, homeowners can be satisfied that the tax dollars collected from their properties are used in their communities and not redistributed throughout the State.

Illinois Counties that Generated More State Education Related Funding than it Received
(Based on 2006-2007 Financial Statistics)

County	County % of Total Personal Income in Illinois	County % of Total State Allocation of Education Funding	Component Difference between Personal Income & State Education Funding
DUPAGE	9.8%	3.1%	-6.7%
COOK	45.2%	40.0%	-5.2%
LAKE	7.7%	4.7%	-3.0%
MCHENRY	2.4%	1.7%	-0.7%
DEWITT	0.6%	0.1%	-0.5%
MCLEAN	1.1%	0.8%	-0.3%
WILL	4.6%	4.4%	-0.2%
CHAMPAIGN	1.1%	1.1%	-0.1%

This is not the case in State funding, as the tax dollars collected in one region are used throughout the State and do not necessarily remain in their communities. Although most "tax swap" proposals would replace reduced local taxes with like amounts of other State taxes, these replaced dollars would likely come from taxes that significantly impact these wealthier districts (i.e. income taxes, sales taxes, etc.).

Opponents have expressed their concern that, while an income tax increase would be permanent, long-term property tax relief may not be guaranteed. There is a fear that these tax swap plans would not prevent districts from asking for more property tax money through referenda in the future after the tax swap has taken place. The idea of paying higher State taxes with no guarantee for future property tax increases is why residents and legislators in these areas are hesitant to support any change to the current system.

In addition, local officials are apprehensive about giving the power over these "replaced local funds" to the State, where changes can be made without their approval. This leads to another major concern with a move toward more State funding; that a decrease in the role of local governments in funding education would undermine local control and accountability. While education experts continue to debate over correlations between local control and student achievement, many in the education community desire to have the control over financial decisions to be centered around the taxpayers of a specific district and not reliant on the State as a whole to make education financial decisions.

Without local control, those opposed to increasing the State's portion of funding education claim that citizens have less reason to closely monitor local school spending if the school is spending "someone else's money". In contrast, pressure from voters and taxpayers ensures that they are held accountable for how locally-raised funds are spent. They also feel that local officials are more likely to have knowledge of a community's specific needs, opportunities, resources, and choices, and, therefore, are able to determine the best price to pay for high-quality schools in their area. They believe that a "one cost fits all" foundation level by the State would mean losing much of this information, resulting in inefficiencies, unfilled needs, and waste.

Opponents to a larger State role also fear that moving away from local funding and local control will give rise to a welfare mentality among those districts receiving State subsidies. Their argument is that dependency on State funding reduces the willingness of local government officials and taxpayers to invest in, or to supervise, their own schools. Some believe that student achievement suffers when local control is weakened.

Another argument for keeping the current local control status is that local property tax funding creates an incentive for a district's residents to monitor the local public schools and see that a good education is being provided. This is because homeowners in districts with successful schools are rewarded with rising property values, whereas residents in districts with unsuccessful schools often experience falling property values. Those against a larger State role in education funding believe that this incentive causes school personnel to strive to provide high quality and efficient schools. This concept creates a competition between school districts to provide the best education possible, or risk losing students, as well as tax dollars, to better-performing districts.

Equalization proponents argue that it is unfair for wealthy districts to generate revenue for education with lower property tax rates because it forces poor districts to set a higher tax rate to generate a comparable amount of funds. However, wealthy districts contend that even though their property tax rates are lower, higher home values require them to pay a higher amount of property taxes, and subsequently, higher mortgage payments. As a result, some would contend that lower mortgage payments due to lower home values offset the benefits of the wealthier districts (higher home values, lower tax rates). The extent of this offset remains a subject of debate.

Is More Funding Necessary?

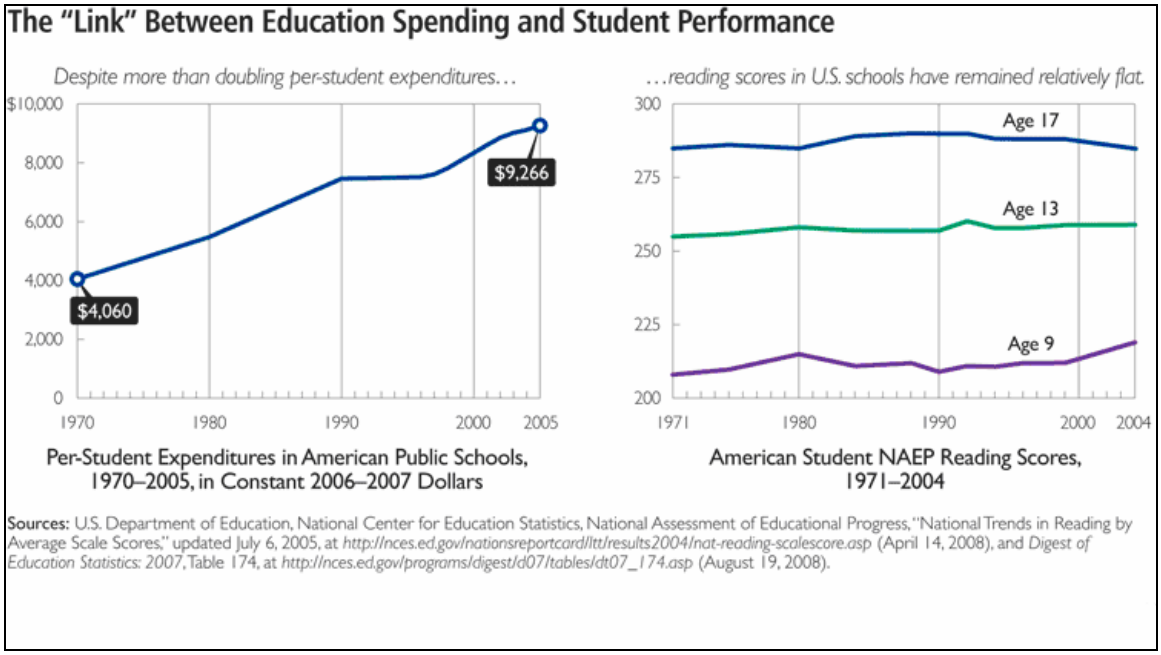
Does more money for schools really make a difference? Again, this is a question whose answer depends on who you ask. Many education organizations like 'A+ Illinois' believe that it makes a significant difference. They write on their website:

> *"Improved school funding helps create better school quality, providing the critical resources to decrease class size, attract, train, and retain high quality teachers, and update textbooks, equipment and materials."*

In a September 2008 article entitled, *"How the Illinois School Funding System Creates Significant Educational Inequities that Impact Most Students in the State"*, the Center for Tax and Budget Accountability also responds to the subject stating:

> *"The 23 percent of Illinois students fortunate enough to attend school in wealthy Flat Grant and Alternative Formula districts, receive a better education, with higher quality teachers and significantly more spent on instruction, that do the vast majority of Illinois students—the 77 percent who attend Foundation Formula districts. In turn, those same children attending Flat Grant and Alternative Formula schools out-perform their peers academically, and at least some of that enhanced academic performance correlates to enhanced funding."*

Other groups contend that there is very little or no correlation between performance and education spending. For example, The Heritage Foundation recently wrote an article entitled, *"Does Spending More on Education Improve Academic Achievement?"* In their article, they included the following graph which suggests that, despite the per-student increases in expenditures, reading scores in U.S. schools have remained flat.



The Heritage Foundation acknowledges that public perception polls indicate that Americans believe that insufficient funding is a top problem facing public schools in their communities. However they argue that spending increases do not necessarily result in an improved education performance:

> *"Continuous spending increases have not corresponded with equal improvement in American educational performance. Long-term measures of American students' academic achievement, such as long-term NAEP reading scale scores and high school graduation rates, show that the performance of American students has not improved dramatically in recent decades, despite substantial spending increases. The lack of a correlation between long-term education spending and performance does not suggest that resources are not a factor in academic performance, but it does suggest that simply increasing spending is unlikely to improve educational performance."*

While the correlation between financing and performance on a State level may or may not exist, most would agree that the success of Illinois school districts ultimately depend on the decisions and leadership of each individual school district. The Institute of Government and Public Affairs may have said it best when they wrote in their publication "*The Illinois Report 2008*":

> *"Few would argue that money alone is the solution to the educational challenges that Illinois faces today. But very few would argue that money doesn't matter at all. We characterize the relationship between funding and school achievement as necessary but not sufficient to ensure academic success, particularly in a world with rapidly expanding knowledge, technology and media that make it more complex for everyone."*

Ideas for Changes in Education Funding

The issue of increasing education funding has been discussed for decades. The concept of transforming Illinois' education funding structure continues to create a bountiful amount of opinions on how this should be accomplished. The following section provides a brief look at some of these ideas and some of the issues that may prevent these plans from becoming a reality.

Governor Edgar's Commission on Property Tax Reform

In 1998, Governor Edgar established the Governor's Commission on Property Tax Reform, to identify problems with the State and local tax structure and recommend potential solutions to those problems. Specifically, he charged its members to: "…examine options on local property tax reform and to submit recommendations on how to achieve reform, including the possibility of a tax swap."

The commission discussed several different ways in which a property tax swap might be accomplished. In doing so, implementation obstacles were realized that go beyond the general arguments for and against a property tax swap that have been discussed so far. In large part, the concerns in the commission's findings that would hinder a property tax reduction proposal from becoming a reality then still hold true a decade later. The following section summarizes the commission's findings.

Although the Governor's Commission sought to develop a simple, straightforward tax swap proposal, none of the proposals that were developed adequately addressed the principles the commission set forth. During the extensive deliberations, unrelated tax issues were continuously faced because of several significant challenges associated with Illinois' tax structure. Therefore, the Governor's Commission on Property Tax Reform agreed that the charge of developing a simple "tax swap" proposal that is fair and equitable to all taxpayers is not possible until certain state and local tax policy issues were addressed.

Most importantly, each of the models studied exhibited an imbalance between current tax payments and potential reductions for businesses and individuals, amplified by the classification of property in Cook County. As the models pointed out, an overall tax swap addressing all classes of taxpayers in the State results in disparities of benefit between those classes. Businesses pay approximately half of all property taxes in the State, but produce less than one-fifth of revenue through the corporate income tax. This notion is amplified in Cook County where commercial and industrial properties pay a tax on a higher percentage of value than homesteads. Since businesses pay more than half of the property taxes in Illinois, a straight income-property tax swap would allow businesses to receive half of the relief while contributing much less in new income tax revenue.

Furthermore, the classification of property in Cook County presented other problems. The interaction between classification and State equalization has magnified the differences among different types of taxpayers in Cook County and has created differing tax burdens between Cook County businesses and their counterparts in the surrounding counties. The most difficult issue associated with property tax reform relates to the concurrent problems of classification in Cook County and the Illinois Department of Revenue's multiplier, which is derived from its sales ratio studies, on those assessments.

In addition, the commission identified five less obvious factors that would hinder the transition associated with an income for property tax swap. These factors included the following: (1) the lack of a reliable mechanism capable of guaranteeing that property taxes would not increase over time following a property tax reduction; (2) the fact that geographic balance of property tax relief and new revenue sources was unlikely; (3) the notion that education funding reform that helps produce a more balanced model throughout different regions of the State is absent in a straight swap; (4) a proliferation of local taxing authorities in Illinois has led to higher property taxes and makes it more difficult to control local government spending and thus local property tax collections; and (5) the lack of public pressure for reform. As a result, the commission chose to release their findings without endorsing any single tax swapping plan.

The Education Funding Advisory Board

In December 1997, the Illinois Education Advisory Board (EFAB) was created to make recommendations to the General Assembly for the Foundation Level and for the Supplemental General State Aid grant level. In one of its earliest reports in December 2000, EFAB recommended that the State should increase General State Aid to school districts, provide poverty grants to more schools, give additional flexibility to districts with declining enrollment, and increase funding for early childhood education.

In August of 2002, the Education Funding Advisory Board released a follow-up report entitled, "Recommendations for Systemic Reform of Funding for Elementary and Secondary Education in Illinois." The report contained several recommended changes to Illinois' education system, which included topics such as minimum enrollment levels, increased consolidations, and transportation issues. However, the major change recommended by the Board was a reduction in local property taxes coupled with a higher State income tax and broader State sales tax, along with an increase in the foundation formula.

The Education Funding Advisory Board contended that changes in the property tax system were necessary to "result in a fairer, more equitable structure that promotes affordable housing, creates an attractive tax climate for new jobs, and ensures a high standard of educational opportunities." To assist in accomplishing this goal, the Board had several recommendations. The first was to conduct a Cook County Classification Study to find alternatives that would minimize or eliminate the negative impacts of

classification while observing the unique nature of Cook County's properties and property distribution.

The Advisory Board also recommended that property taxes for education purposes in Illinois should be reduced between 25% and 50%. At the time, it implied property tax reductions between $2.3 and $4.6 billion. The Board recommended accomplishing this through a tax abatement program with abated revenues provided by the State. The following was their suggestions to how the program would work:

- *Based on increased revenues described below, each year the General Assembly would appropriate funds for a School District Property Tax Relief Grant.*

- *In December of each year, the Department of Revenue would calculate the amount of property tax abatement for each school district. The amount of the abatement for each district would be in the same proportion as the district percentage of Education fund revenues calculated as the product of the district EAV for the preceding year multiplied by the 2000 Education fund tax rate. The tax rate used in the calculation would remain constant through time.*

- *Mechanically, the abatement would be implemented as follows. The Department of Revenue would calculate and send the State grant proceeds to the county or counties, based on the percentage of EAV in each county, designated for the individual district. This would be transparent to the district, which would continue to file its levy in December of each year. The county clerk(s) upon receipt of the education fund levy, would calculate the tax rate of the district for education purposes subject to all legal restrictions (authorized authority, PTELL, etc.) that exist. Once the Education fund extension was determined, that amount would be reduced by the amount of the State grant. Education fund rates would be recalculated to a lower level, given the reduced extension, and tax bills distributed.*

To fund these changes, the Board recommended that the State income tax should be increased. They also suggested closing tax loopholes and removing special incentives and exclusions and graduating personal exemptions, based on adjusted gross income. In addition, they recommended that further revenues should be raised from the sales tax by broadening the sales tax base, and from gaming revenues by increasing its taxes.

The Education Funding Advisory Board also recommended that the General State Aid formula foundation level should be increased to a range of $5,665 to $6,680 per pupil, up from the current level of $4,560 (FY 2003 level).

In April 2005, EFAB released another follow-up (and most recent) report entitled, "Illinois Education Funding Recommendations". This report can be found at the following website: http://www.isbe.state.il.us/efab/pdf/final_report_4-05.pdf. The following is a summary of those recommendations.

Recommendations of the Board

1) The Methodology used by EFAB be adjusted using the Employment Cost Index.
2) The FY 2006 General State Aid Foundation Level should be $6,405.
3) The FY 2006 Supplemental General State Aid Poverty Grant is to be adjusted by the Employment Cost Index, as well. This would set the per pupil range from a minimum of $367.07 up to a maximum of $3,096.06.
4) The continuing appropriation for General State Aid and Supplemental General State Aid should be reenacted with no sunset provision.

The Board stated that their recommendations would, "provide significant increases in General State Aid Funding and create a more adequate funding level statewide."

Since the Board made these recommendations, the foundation level has indeed increased, but has yet to meet the recommendations of the EFAB report. In FY 2009, the foundation level is $5,959 per pupil. While this per pupil value is only $446 less than EFAB's FY 2006 recommendation amount of $6,405, if the Employment Cost Index (with an average rate of 4.0% over the last three years) is applied to their FY 2006 recommendation, their FY 2009 recommendation level would be at approximately $7,205 per pupil. Therefore, the current FY 2009 foundation level amount of $5,959 per pupil is approximately $1,246 per pupil less than the Board would recommend.

The current poverty grant minimum is still set at a value of $355, which is below the Board's recommendation of $367.07. Under current law, neither the poverty grant nor the foundation level amounts are adjusted by the recommended Employment Cost Index. These values are currently adjusted though the legislative process and are typically set during budget negotiations for each fiscal year.

Most Recent Education Funding Legislation (SB 2288)

While there have been several pieces of legislation that proposed significant changes to the education funding structure over the last several years (HB 0750, SB 0750, etc), the latest version came in the form of SB 2288, which entails many of the recommendations of the EFAB report.

The following are highlights of SB 2288:

- **Increase Individual Income Tax Rate from 3% to 5%.** The new rate would be for taxable years beginning on or after January 1, 2010.

- **Increase Corporate Income Tax Rate from 4.8% to 8%.** The new rate would also be for taxable years beginning after January 1, 2010.

- **Create Family Tax Credit.** This provision would offer an individual income tax credit for each taxpayer who is a natural person filing single or is a married person filing separately that reports total annual income of less than $26,847 or is a married couple filing jointly or a natural person filing as head of household that reports total annual income of less than $53,694. This refundable tax credit would range from $45 to $240, depending on the taxpayer's filing status and total annual income. The credit would begin with taxable years beginning on or after January 1, 2009.

- **Create the School District Property Tax Relief Fund.** Beginning in FY 2010, the General Assembly shall appropriate *$2.9 billion* to the School District Property Tax Relief Fund for the purposes of offering property tax relief. An amount equal to 80% of the total amount appropriated would be used to fund the aggregate amount of minimum property tax relief grants that would be distributed to all school districts. The remaining 20% would be used to fund the aggregate amount of supplemental property tax relief grants that would be distributed to all high property tax effort school districts. An education tax abatement would be implemented to carryout this property tax relief.

- **Create the Invest in Illinois Fund.** Beginning in FY 2010, the General Assembly shall appropriate *$1.0 billion* from the General Fund to the Invest in Illinois Fund. This fund is created to fund capital programs for infrastructure that will support economic growth, education, transportation, tourism and other capital needs generated by demographic changes across the State.

- **Create the Higher Education Operating Assistance Fund.** Beginning in FY 2010, the General Assembly shall appropriate *$300 million* from the General Fund to the Higher Education Operating Assistance Fund. An amount equal to 75% of all monies shall be paid to the Board of Higher Education and 25% shall be paid to the Illinois Community College Board for grants to the schools for their ordinary and contingent expenses.

- **Create the School Improvement Partnership Pool Fund.** Monies in the School Improvement Pool Fund would be used to provide districts with demonstrated academic and financial need quality, integrated support systems, small school initiatives, literacy coaching, proven programs, and after school programs. At least *$75 million* for the 2009-2010 school year, *$150 million* for the 2010-2011 school year, *$225 million* for the 2011-2012 school year, and at least *$300 million* for the 2012-2013 school year shall be deposited into this Fund.

- **Create the Early Childhood Fund.** SB 2288 provides that at least *$45 million* for the 2009-2010 school year, at least *$90 million* for the 2010-2011 school year, at least *$135 million* for the 2011-2012 school year, and at least *$180 million* for the 2012-2013 school year shall be deposited into the Early Childhood Fund. This fund shall be used by the ISBE to support the Illinois

- **Special Education Reimbursement.** SB 2288 makes changes concerning special education reimbursement for personnel. The bill provides minimum reimbursement levels for various special education teacher personnel.

- **Foundation Level Increase.** The bill would increase the foundation level for schools from $5,734 in the 2007-2008 school year to the Education Funding Advisory Board's recommendation for the 2006-2007 school year, as inflation adjusted to the 2009-2010 school year total of $6,974. This Foundation Level of support would be reached over a 4-year, phase-in period and adjusted for inflation annually.

- **Poverty Level Increase.** The poverty level grants would be adjusted by a cost-of-living formula provided in the legislation.

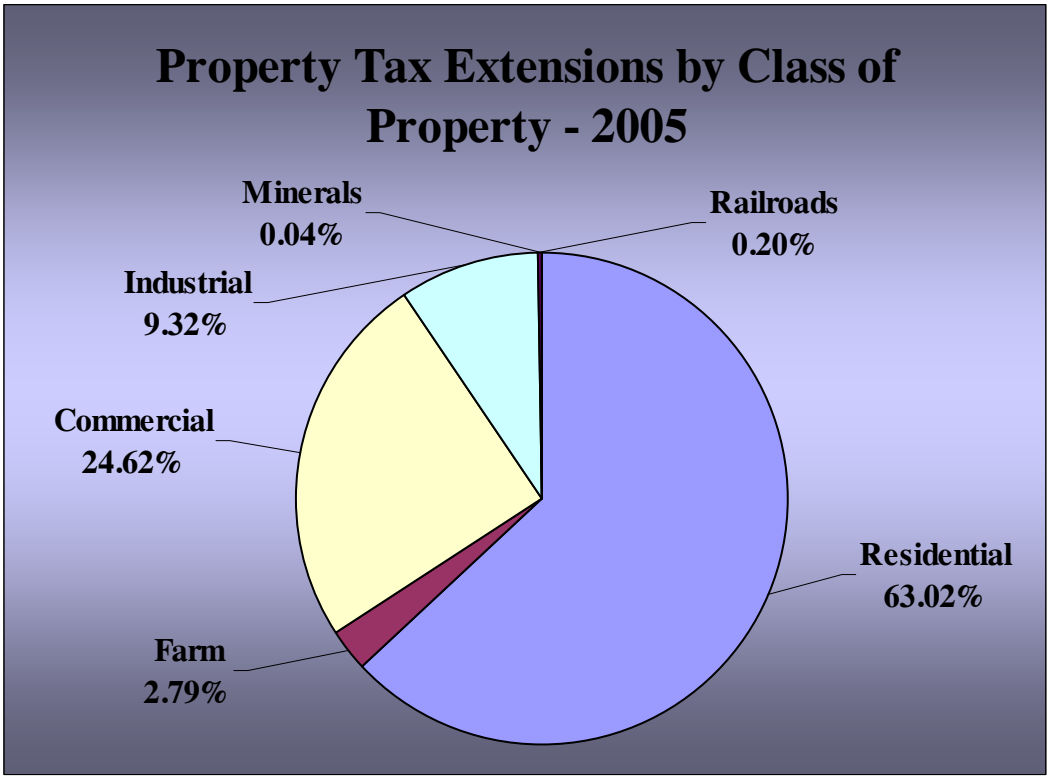
- **Annual Adjustments.** SB 2288 provides formulas based on the Consumer Price Index and the Employment Cost Index that would increase certain amounts annually in relation to the behavior of those indexes.

SB 2288 failed to get the support necessary to bring this proposal up for a vote. As a result, SB 2288 remains stalled in the Senate.

Again, this piece of legislation is just one example of the many education funding plans that have been introduced over the last several years. While the details have varied from plan to plan, the overall idea is the same: to increase the State's role in funding education by increasing State taxes and to decrease the local government's role by lowering the local property taxes through property tax abatements.

Other Related Issues

Even though several legislative sessions have been completed since the time of the Governor's Commission on Property Tax Reform report, the factors that were discussed that would hinder the transition associated with an income for property tax swap still exist. The latest property tax statistics show that residential property made up 63.02% of total property tax extensions in tax year 2005, followed by commercial property at 24.62%, industrial property at 9.32%, and farm property at 2.79%. A chart showing this breakout is shown below.



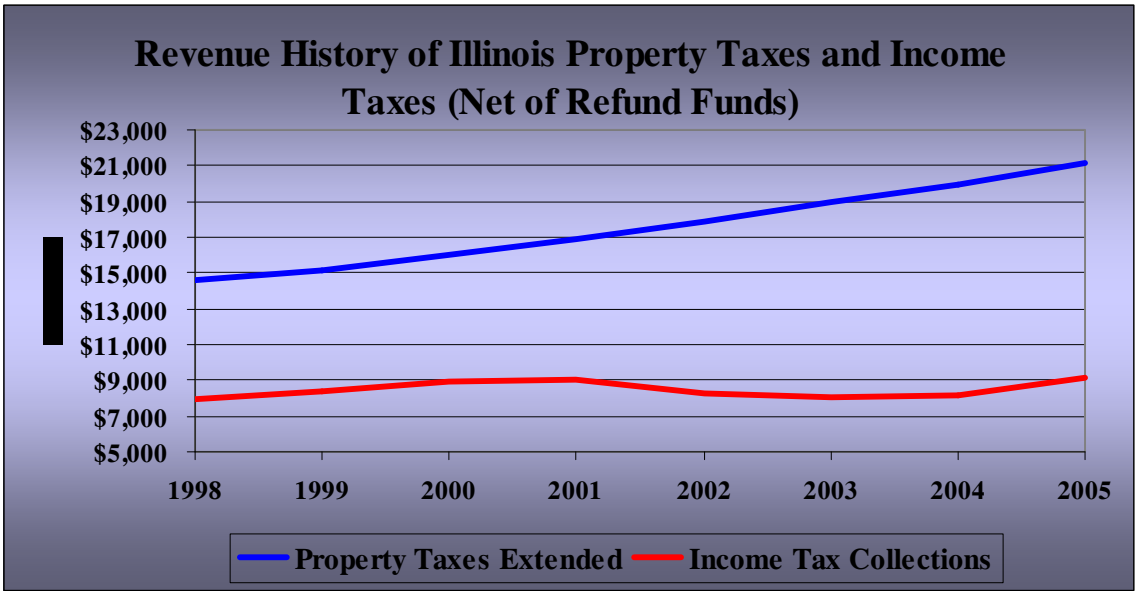
In addition, the latest income tax totals show that corporations (s-corporations not included) paid just 16.4% of total income tax revenues in FY 2008. Individuals paid the remaining 83.6%. Because individuals pay nearly 84% of the income taxes, but only 63% of property taxes, most property tax swap proposals that increase income taxes and lower property taxes would greatly benefit the business sector.

Another factor that may hinder the idea of using the income taxes as a revenue source during a swap is the fact that the income tax can be a volatile source. Although net (total less refund funds) individual income tax receipts increased 9.7% and net corporate income tax receipts increased 6.3% in FY 2008, history has shown that their growth is highly reliant on the economic environment. For example, during the last economic downturn, net corporate income tax revenues declined 40.3% between FY 2000 and FY 2003. The individual income tax experienced a 6.6% decline in net

revenue in FY 2002. During that same time, the amount of property taxes extended continued to increase.

The following graph emphasizes this volatility of the income taxes (net individual and net corporate combined) and the stability of the property tax between 1998 and 2005 (the most recent property tax year of data from the Department of Revenue). During this timeframe, total property taxes extended continued to grow at a consistent pace (5.2% average growth) with the lowest growth rate in 1999 at 3.8%. The income taxes, on the other hand were inconsistent.

The income taxes combined to have an average growth of 3.2% during this time period, which is less than the lowest growth rate in property tax extensions during this time period. In addition, the income taxes experienced years of negative growth in both FY 2002 (-8.4%) and in FY 2003 (-2.4%). Because of this, any funding proposal that relied on economic related tax sources like the income tax to fund education must factor in that these sources are much more volatile than the stable property tax and could provide a year of negative growth in revenues in any given year.



The sources most discussed in a tax swap are the individual and corporate income taxes and the sales tax. The tables shown below are provided as useful tools in estimating how much revenue could be generated by increasing a source's tax rate to a certain level. The figures in both tables are based on the FY 2008 revenue actuals.

Individual Income Tax: How much would a tax increase generate?

$ in millions

	Tax Rate	Gross Revenue	To Refund Fund	Net Revenue	Difference from Current
Current Rate:	**3.00%**	$11,187	$1,091	$10,096	
Increase Rate by 0.25%	**3.25%**	$12,119	$1,182	$10,938	**$841**
Increase Rate by 0.50%	**3.50%**	$13,052	$1,273	$11,779	**$1,683**
Increase Rate by 0.75%	**3.75%**	$13,984	$1,363	$12,620	**$2,524**
Increase Rate by 1.00%	**4.00%**	$14,916	$1,454	$13,462	**$3,365**
Increase Rate by 1.25%	**4.25%**	$15,848	$1,545	$14,303	**$4,207**
Increase Rate by 1.50%	**4.50%**	$16,781	$1,636	$15,144	**$5,048**
Increase Rate by 1.75%	**4.75%**	$17,713	$1,727	$15,986	**$5,889**
Increase Rate by 2.00%	**5.00%**	$18,645	$1,818	$16,827	**$6,731**

Note: Figures are based on FY 2008 actuals (gross).The amount to the refund fund is 9.75% for FY 2009.

Corporate Income Tax: How much would a tax increase generate?

$ in millions

(Under the Illinois Constitution, the corporate income tax rate shall not exceed the individual income tax rate by more than a ratio of 8 to 5. The numbers shown below reflect this ratio.)

If Indivdual Income Tax Rate is….	Corporate Tax Rate Can Be…	Gross Revenue	To Refund Fund	Net Revenue	Difference from Current
3.00%	**4.80%**	$2,201	$385	$1,816	
3.25%	**5.20%**	$2,384	$417	$1,967	**$151**
3.50%	**5.60%**	$2,568	$449	$2,118	**$303**
3.75%	**6.00%**	$2,751	$481	$2,270	**$454**
4.00%	**6.40%**	$2,935	$514	$2,421	**$605**
4.25%	**6.80%**	$3,118	$546	$2,572	**$757**
4.50%	**7.20%**	$3,302	$578	$2,724	**$908**
4.75%	**7.60%**	$3,485	$610	$2,875	**$1,059**
5.00%	**8.00%**	$3,668	$642	$3,026	**$1,211**

Note: Figures are based on FY 2008 actuals (gross).The amount to the refund fund is 17.5% for FY 2009.

Sales Tax: How much would a tax increase generate?

$ in millions

	Tax Rate	Revenue	Difference from Current
Current Rate:	**5.00%**	$7,215	
Increase Rate by 0.25%	**5.25%**	$7,576	**$361**
Increase Rate by 0.50%	**5.50%**	$7,937	**$722**
Increase Rate by 0.75%	**5.75%**	$8,297	**$1,082**
Increase Rate by 1.00%	**6.00%**	$8,658	**$1,443**
Increase Rate by 1.25%	**6.25%**	$9,019	**$1,804**
Increase Rate by 1.50%	**6.50%**	$9,380	**$2,165**
Increase Rate by 1.75%	**6.75%**	$9,740	**$2,525**
Increase Rate by 2.00%	**7.00%**	$10,101	**$2,886**

Note: Figures are based on FY 2008 actuals.

A Look Back at Michigan's Tax Swap

Like Illinois is now, in the early 1990s, the state of Michigan was heavily reliant on the property tax to fund education in their state. In 1994, however, the people of Michigan voted to drastically change how their children's education was funded. The following section provides a basic summary of the Michigan tax change and includes various opinions on the merits of this funding maneuver now that it has been over a decade since the tax change was first imposed.

The Proposal

In the early 1990s, Michigan was among the nation's top five states for average property tax paid. Given this fact and the state's climate for education funding reform, the Michigan legislature eliminated local school property taxes in July 1993. This change reduced annual funding for Michigan's public schools by nearly $7 billion beginning in the 1994-1995 school year. As a result of this decrease, the legislature began examining a means of replacing this revenue. This examination culminated six months later with the legislature's passage of legislation permitting Michigan's voters to choose between two revenue proposals—(1) Proposal A and (2) the Statutory Plan—that reduced reliance on local property taxes.

The legislature placed Proposal A on the ballot for a March 1994 vote and provided that should Proposal A fail, the Statutory Plan would take effect. Proposal A increased the state sales tax from 4% to 6%, limited future assessment level increases, and allowed different classes of property to be taxed at different rates for school operating purposes. In addition, the approval of Proposal A would trigger a package of related tax changes, including a state education property tax for school operations and an income tax decrease from 4.6% to 4.4%. In contrast, the Statutory Plan would have increased the income tax from 4.6% to 6.0%, increased the personal exemption, implemented a state education property tax of 12 mills on nonresidential property, and increased the business tax rate from 2.35% to 2.75%.

The Results

Michigan voters approved Proposal A on March 15, 1994, a decision that dramatically shifted the source of education funding from local to state sources. Between FY 1994 and FY 1995, the state's share of kindergarten through twelfth grade funding increased from 37% to 80%. This increase resulted in a simultaneous decrease in local funding, as the property tax portion decreased from 63% to 20%.

In an effort to evaluate the effects of Proposal A, the Michigan Department of Treasury's Office of Revenue and Tax Analysis wrote a paper in December 2002 entitled, "School Finance Reform in Michigan, Proposal A: Retrospective". (Found at the following website: http://www.michigan.gov/documents/propa_3172_7.pdf). Some of the findings were very positive:

> *Proposal A dramatically decreased the amount of property taxes paid by Michigan residents and limited future increases...Michigan residents and businesses have seen large decreases in the millage rates assessed on their property. In 1993, the average statewide millage rate for all property was 56.64 mills. In 2000, the statewide average homestead millage rate was 31.54 mills and the nonhomestead rate was 50.10 mills.*

But the report also notes that:

> *Local school debt millage has increased since Proposal A. The number of school districts participating and the amount of new bonds issued through Michigan's School Bond Loan Program have increased dramatically. Since 1994, the number of school districts participating has jumped from 42 to 130 districts, an increase of 210 percent. The total amount of qualified debt outstanding increased from $4.1 billion in 1994 to $11.1 billion in 2001.*

Per-pupil levels were found in the report to improve:

> *Proposal A dramatically improved funding equity among school districts by creating a minimum per pupil foundation allowance and by accelerating funding for the low-revenue school districts more quickly than the other school districts. Funding for the lowest-revenue districts was immediately increased to the minimum foundation allowance, which was $4,200 for school year 1994-95. At the same time, increases in the foundation allowance for most other school districts were limited to approximately one half the dollar increase for low-revenue districts. As a result, Proposal A has reduced the funding gap between rich and poor districts in absolute dollar and percentage terms.*

A Michigan State University study in 2003 also analyzed Proposal A and formulated three ways that school districts in Michigan were affected by the tax change. These ways (which can be found at http://news.msu.edu/story/2394/&perPage=50) are shown below.

- *Most rural districts are better off because their per-pupil foundation allowance (the amount of money the state allocates to schools per student) has increased dramatically. Others, however, are worse off because big enrollment declines have overwhelmed increases in the per-pupil foundation allowance.*

- *Most suburban districts are also better off because they have seen rapidly rising enrollments. With more students comes more money from the state.*

- *Most central city and low-income suburban districts are worse off under Proposal A because of declining enrollments and slow growth in the per-pupil foundation allowance, the authors found.*

The Detroit News also did a study on the funding change (which can be found at http://www.detnews.com/specialreports/2003/proposala/index.htm) and found that there are still questions on whether schools are better off:

> *The gaps between rich and poor schools districts were supposed to narrow after the state approved Proposal A in 1994 with a promise to slash taxes and level the economic playing field -- and to some extent they have. But a Detroit News analysis of the money schools spend on teachers and textbooks -- as opposed to administrative, overhead and other costs -- shows districts remain divided into haves and have-nots. That means that what a child's education is worth still depends mostly on where they live.…And while Michigan spends more than other states on teaching its kids, the share of its total spending that actually makes it into the classroom is among the lowest in the nation, an analysis of federal finance records shows.*

There is also concern with the state revenue sources that are now heavily relied upon to fund Michigan's education system. The Daily Herald discusses this concern at the following website: http://blogs.dailyherald.com/node/370, the highlights of which are shown below:

> *"The problem with this method of funding is it's dependent on sales tax and sin taxes and income tax, all of which become very unstable when the economy is down and that's what's happened in Michigan," said Shirley Bryant, spokeswoman for Birmingham Public Schools, a suburban Detroit district annually ranked among the state's best.*
>
> *…[In 2001, during the last economic downturn] people lost jobs and stopped buying items. Income and sales tax revenue plummeted. Not just in Michigan, but across the country. In Illinois, state education funding was cut, but local property taxes made up for it. In Michigan, there were no local tax dollars to cover the gap. The funding swap law banned local property tax increases for school operations. So schools had to cut. Now education groups are calling for additional tax increases to restore school funding, including a statewide property tax. "We're going to have to raise taxes," said David N. Plank, co-director of Michigan State University's Education Policy Center.*
>
> *…A similar situation likely could have occurred [in Illinois] had schools relied more on state taxes. As the economy dipped, so too would have their state funds, and Illinois schools would have had to make cuts or call for tax increases locally or statewide. Granted, the proposals in Illinois are less extreme than Michigan's. But the underlying problem is the same: If schools rely more on state dollars, what do they do when those dollars dry up?*

CONCLUSION

In 2002, the Commission on Government Forecasting and Accountability also released a report on education funding in Illinois and discussed many of the same topics shown in this report. In the six years since that report was released, while there has been an abundance of new information and tweaks to the current education funding systems, the concerns over the inequalities and inadequacies that existed then, still remain today.

As the disparity in the amounts Illinois residents pay for property taxes continues to grow, so will the amount of pressure put on lawmakers to change how education is funded. The inequities that exist in local school funding have prompted many to look at plans that would give the State a greater role in the funding of education. State revenues would then be redistributed in what some consider as a more equitable manner.

Unfortunately, a simple plan that would "swap" property taxes with State taxes is not as easy as it sounds. This is because any tax swap scenario would create "winners" and "losers". The difficult task for legislators is to come up with a plan that will relieve some of the inequitable tax burdens that are afflicting Illinois residents, while at the same time keeping the number of "losers" to a minimum.

A successful property tax swap will be one that is able to lower property taxes and is able to replace lost revenue with an equitable amount of State funds. The system must allow self-reliant school districts to be able to receive the same amount of funding they are used to receiving, or the proposal would be considered a failure. At the same time, State funds must be redistributed to poor districts in a way that will allow their spending per pupil levels to near those of the wealthy districts to create a more equitable system. How this will be accomplished is unfortunately still unknown.

In the end, changes in the Illinois tax structure may need to be addressed for a formidable tax swap plan to work. The Cook County classification system will continue to be a problem in creating an equitable tax swap as long as their system continues to shift a larger property tax burden onto commercial and industrial property taxpayers. In addition, as Michigan has learned, relying on State sources that are economically driven can develop drop-offs in crucial State-driven revenue sources. In these cases, safeguards have to be developed for these situations or funding levels may suffer.

As inequitable as the property tax system appears to be, there are many that feel that property tax reform is not a good idea. The local control that accompanies local property taxation allows school districts to make their own decisions on financial decisions regarding their schools. They feel that lowering property taxes and replacing this revenue with State sources would undermine local control and accountability. They also fear that student achievement would suffer as a result of weakening this local control.

The arguments for and against changing the way education is funded in Illinois appear to be valid. There is little argument that inequities exist in educational funding and in local property taxation. The question becomes: are these inequities worth the political headaches of reforming the system, or should Illinois citizens make the best of the system they currently have? Lawmakers will have the unenviable task of answering these questions in the months and years to come.

BACKGROUND

The Commission on Government Forecasting and Accountability (CGFA), a bipartisan, joint legislative commission, provides the General Assembly with information relevant to the Illinois economy, taxes and other sources of revenue and debt obligations of the State. The Commission's specific responsibilities include:

1) Preparation of annual revenue estimates with periodic updates;
2) Analysis of the fiscal impact of revenue bills;
3) Preparation of "State Debt Impact Notes" on legislation which would appropriate bond funds or increase bond authorization;
4) Periodic assessment of capital facility plans;
5) Annual estimates of public pension funding requirements and preparation of pension impact notes;
6) Annual estimates of the liabilities of the State's group health insurance program and approval of contract renewals promulgated by the Department of Central Management Services;
7) Administration of the State Facility Closure Act.

The Commission also has a mandate to report to the General Assembly ". . . on economic trends in relation to long-range planning and budgeting; and to study and make such recommendations as it deems appropriate on local and regional economic and fiscal policies and on federal fiscal policy as it may affect Illinois. . . ." This results in several reports on various economic issues throughout the year.

The Commission publishes several reports each year. In addition to a Monthly Briefing, the Commission publishes the "Revenue Estimate and Economic Outlook" which describes and projects economic conditions and their impact on State revenues. The "Illinois Bond Watcher" report examines the State's debt position as well as other issues directly related to conditions in the financial markets. The "Financial Conditions of the Illinois Public Retirement Systems" provides an overview of the funding condition of the State's retirement systems. Also published are an Annual Fiscal Year Budget Summary; Report on the Liabilities of the State Employees' Group Insurance Program; and Report of the Cost and Savings of the State Employees' Early Retirement Incentive Program. The Commission also publishes each year special topic reports that have or could have an impact on the economic well being of Illinois. All reports are available on the Commission's website.

These reports are available from:

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