Money Matters:

How the Illinois School Funding System Creates Significant Educational Inequities that Impact Most Students in the State

For:
Wednesday, October 7, 2009
Education Funding Advisory Board
State of Illinois Building
RM 16-503, 16th Floor
Chicago, IL

Presented by:
Ralph Martire
Executive Director
The Context:

BIG 'N RICH


- That would be the 27th largest economy of any nation in the world—greater than Egypt, Saudi Arabia, Colombia, Belgium, Sweden, Greece, Ireland, Portugal, Norway and Nigeria, to name a few.
Illinois GDP Growth Lags

But, IL Gross State Product Grew Less than U.S. or Midwest States, 1990-2007

Source: Bureau of Economic Analysis, US Dept. of Commerce
• **Between 1990 and January 1, 2008, Illinois lost 27% — 249,000 — of its manufacturing industry jobs.**

• **This loss was worse than both the Midwest (-23.2%) and the Nation (-23.9%).**
All job growth in Illinois came in the service sector.

For the most part, service sector jobs that pay less than manufacturing.

On average, most of these service jobs pay 29% less than the manufacturing jobs they replace.
### Why the Economic Problems? —Not Wasteful Spending

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>General Fund</td>
<td>$21,294</td>
<td>$27,429</td>
<td>$26,085</td>
<td>($1,344)</td>
<td>$30,536</td>
<td>($4,451)</td>
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<tr>
<td>Education</td>
<td>$7,957</td>
<td>$10,250</td>
<td>$9,309</td>
<td>($941)</td>
<td>$11,411</td>
<td>($2,102)</td>
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<tr>
<td>Health Care</td>
<td>$5,022</td>
<td>$6,469</td>
<td>$7,896</td>
<td>$1,427</td>
<td>$7,202</td>
<td>$694</td>
</tr>
<tr>
<td>Pension</td>
<td>$1,230</td>
<td>$1,584</td>
<td>$3,587</td>
<td>$2,003</td>
<td>$1,764</td>
<td>$1,823</td>
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<tr>
<td>Human Services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Services</td>
<td>$3,456</td>
<td>$4,452</td>
<td>$3,934</td>
<td>($518)</td>
<td>$4,956</td>
<td>($1,022)</td>
</tr>
<tr>
<td>All Other</td>
<td>$3,629</td>
<td>$4,675</td>
<td>$1,359</td>
<td>($3,316)</td>
<td>$5,204</td>
<td>($3,845)</td>
</tr>
</tbody>
</table>
Percentage Increases in Illinois General Fund Spending (Net of Pension Ramp) versus Inflation
FY2000 - FY2010

- State Spending Decrease: 10.8%
- Compound ECI/Gov't: 50.5%
- Simple ECI/Gov't: 41.7%
- Compound ECI/All: 43.4%
- Simple ECI/All: 36.7%
- Compound MWCPI: 28.8%
- Simple MWCPI: 25.8%
• Why the Economic Problems?  
  — NOT OVERALL TAX BURDEN

• Illinois’ total state AND local tax burden, as a percentage of personal income ranks only 41st in the nation.

• The second lowest tax burden in the Midwest to Missouri (Missouri is all of one-tenth of one percent lower).

• Illinois also ranks only 45th in state spending as a percentage of GDP among the states (BEA data)
Education now matters more than ever to economic prosperity:

- Generally: unemployment rates are highest for those with the least education.

- Wages are now tied to education as well.
In real (2006) dollars, between 1980 and 2006, only those with at least a college degree experienced any gain in hourly income, with growth of 14.3%

- Real median hourly wages for all other education categories declined
- Less than a high school diploma fell by 28.7%
- Only a high school education declined 8.7%
- Some college but no degree declined 4.3%
- You gotta learn to earn!
Wages for Minorities lag Whites

Real wages for Whites increased modestly between 1980 and 2007, but:

- The White-Hispanic wage gap is larger in amount, but increased by a smaller percentage, growing from $3.82 in 1980 to $5.34 in 2007, an increase of 39.7% over 1980.

- Real wages for African-Americans declined. The hourly wage gap between Whites and African-Americans grew from $1.52 in 1980 to $3.44 in 2007, an increase of 126.3% over 1980.
Illinois is the third most segregated state in K-12 education for blacks

- 82% of black children attend majority/minority schools
- 90% of white children attend virtually all white schools

(*Source: 2006 Education Trust study on segregation)
Minority school districts start out with $1,154 less per child to spend on education.

That’s the second worst gap in the nation.

(*Source: 2006 Education Trust study on segregation)
A Snapshot of What Is Illinois State & Local Revenue

- In 2006 (the most recent national comparison available), state and local revenue came from the following sources:

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Tax</td>
<td>38%</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>17%</td>
</tr>
<tr>
<td>Excise Tax</td>
<td>17%</td>
</tr>
<tr>
<td>Individual Income Tax</td>
<td>16.2%</td>
</tr>
<tr>
<td>Other</td>
<td>7.4%</td>
</tr>
<tr>
<td>Corporate Income Tax</td>
<td>4.4%</td>
</tr>
</tbody>
</table>

Source: Federal Tax Administrators Data
• This makes Illinois the 6th most reliant state on property tax revenue in the nation.

• Illinois is more reliant on property taxes than Florida, Nevada, Tennessee, Alaska, South Dakota, Washington and Wyoming — which don’t have income taxes.
WHY — EDUCATION

• **Illinois ranks 49th out of 50 states in the portion of education funding covered by state — versus local — revenue → just 28% of the cost.**

• **Illinois is the most reliant state on property taxes to fund schools in the nation.**

(National Education Association Data)
Illinois Total Property Tax Revenue Growth Vs. State Median Income Growth

- Total Property Tax Revenue Growth: 42.12% (1990-2005), 17.41% (2000-2005)
- State Median Income Growth: 2.84% (1990-2005), 0.83% (2000-2005)

All data inflation adjusted to 2008
Income Data: US Department of Census
Property Tax Data: IL Department of Revenue
• **The Foundation level of funding is set by the Illinois General Assembly.**

• **Based upon the ability to pay Foundation Level with property tax revenue, school districts are divided into three groups.**

• **Flat Grant:** districts whose property tax revenue exceeds 175% of the Foundation level of funding. Just over four percent of all Illinois districts, educating about 4.5% of all students, fall into this funding category.

• **Alternative:** districts whose property tax revenue funds between 93 and 175% of the Foundation level of funding. Fifteen percent of all districts, or 18% of all students, fall into this category.

• **Foundation:** Districts whose property tax revenue covers 93% or less of the Foundation Level. Eighty-one percent of all districts, and 77% of all students, fall into this funding category.
Foundation formula districts receive significantly less than the amount received by flat grant and alternative formula districts in property tax revenue, meaning they rely far more heavily on state support.

Equalized Assessed Valuation (EAV) is a proxy for a school district’s local property wealth available to be taxed. The average EAV of flat grant districts is more than 5 times greater than foundation-formula districts.

Average Teacher Salary

Percentage of Teachers with Masters Degree

Total and Instructional Spending Differentials

- On average, Flat Grant districts spend $4186 more in total per pupil spending than Foundation Formula school districts.

- When it comes to instructional expenses, Flat Grant districts spend $2324 more per student on average than do Foundation Formula districts.

Regression of ISAT Performance Vs. Per-pupil Instructional Expenditure for School Districts with 3-8% Low Income Rates

*Linear regression is a statistical analysis that shows the correlation of two or more variables, in this case, how per-pupil expenditures correspond to ISAT test scores. The regression line (heavy red) represents the predicted test score results a school district should obtain, given a specific level of instructional expenditure.*
Regression of ISAT Performance Vs. Per-pupil Instructional Expenditure for Districts with 27-32% Low Income Rates

Overall ISAT 2006

Per Pupil Instructional Expenditure

Active
Model
Conf. interval (Mean 95%)
Conf. interval (Obs. 95%)
• As of 2007, the median instructional expense per child in Illinois was $5,079, which is 13 percent **LESS THAN** the national median.

• Median per pupil spending in Illinois was $9,083 in 2007, ranking 44th in the nation.

*Data from the national Center for Education Statistics*
• Forty-nine (49) out of the 52 flat grant districts in Illinois are located north of I-80.

• Flat grant districts, on average, spend 36% more on operational expenditures, and 33% more on instructional expenditures, than all school districts south of I-80.

http://www.isbe.net “IL State Report Cards”
Then there’s the issue of poverty

- UW-Madison researchers in the mid-1990’s found that to attain similar academic results:
  - For every dollar spent on a non-at-risk child, 159% more—or $2.59—must be spent on an at-risk child.*

- At least 38 states provide some poverty-based funding. Recent attempts to enhance poverty funding were undertaken in Maryland, New York, and Rhode Island.

*From Andrew Reschovsky and Jennifer Imazeki. “The Development of School Finance Formulas to Guarantee the Provision of Adequate Education to Low-Income Students,” published by the National Center for Education Statistics.
The EAV of school districts with the greatest amount of low income is 5 times less than that of the percentage of the districts with the smallest low income population.

*LIR – means Low Income Rate

Per Pupil Spending:
Highest vs. Lowest Poverty Districts

Operational Expenditures

Instructional Expenditures

http://www.isbe.net “IL State Report Cards”
The percentage of students meeting or exceeding ISAT standards in the districts with the lowest levels of poverty is markedly different from those districts with the highest levels of poverty.

Percentage Meeting plus exceeding
PSAE (2006)

The disparity between those districts meeting AYP corresponds directly to a school district’s LIR.

Percentage of African-American Students in High and Low Poverty Schools

- Highest Poverty districts: 55.04%
- Lowest Poverty Districts: 1.28%
Percentage of Students in Districts with Poverty Rate of 30% or Greater

- %White of Total White Pop: 21.60%
- %Black of Total Black Pop: 92.83%
- %Hispanic of Total Hispanic Pop: 66.45%

RACE MATTERS
FY2010 GRF Appropriations by Agency as a Percent of Total
TOTAL GRF: $26.085 Billion

- Illinois State Board of Education: 28.0%
- Higher Education: 7.7%
- Human Services: 15.1%
-ve Constitutional and Judicial Offices: 2.3%
- Pensions: 0.5%
- Juvenile Justice: 0.5%
- Natural Resources: 0.2%
- Public Health: 0.5%
- Corrections: 5.1%
- Agriculture: 0.16%
- Children and Family Services: 3.3%
- Health Care and Family Services: 29.8%
- Other: 4.4%
- Aging: 2.5%
- Other: 4.4%
- Higher Education: 7.7%
- Human Services: 15.1%
- Legislative Constitutional and Judicial Offices: 2.3%
- Pensions: 0.5%
- Juvenile Justice: 0.5%
- Natural Resources: 0.2%
- Public Health: 0.5%
- Corrections: 5.1%
- Agriculture: 0.16%
- Children and Family Services: 3.3%
- Health Care and Family Services: 29.8%
- Other: 4.4%
- Aging: 2.5%
- Illinois State Board of Education: 28.0%
Illinois’ State FY2010 Budget Breakdown

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>APPROPRIATIONS</strong></td>
<td>$26.08 B*</td>
</tr>
<tr>
<td><strong>ONE-TIME, NONRECURRING REVENUES</strong></td>
<td></td>
</tr>
<tr>
<td>Debt Proceeds from issuance of five-year Pension Notes</td>
<td>$3.466 B</td>
</tr>
<tr>
<td>Federal Stimulus</td>
<td>$1.843 B</td>
</tr>
<tr>
<td>Fund Sweeps</td>
<td>$.356 B</td>
</tr>
<tr>
<td>Debt Restructuring</td>
<td>$.600 B</td>
</tr>
<tr>
<td><strong>TOTAL NONRECURRING REVENUE</strong></td>
<td>$6.265 B**</td>
</tr>
</tbody>
</table>

*Note: The FY2010 budget figure does NOT include at least $3.2 B in past due, unpaid bills carried forward from FY2009—and there is NO revenue source to pay this amount.

**Note: That means over 21% of the FY2010 budget is covered with one-time, nonrecurring revenues not available in FY2011.
Mounting Pressure

Required Yearly Pension Payments:
FY 2006 - FY 2045

THE RAMP
Illinois' FY2011 Starting Budget Shortfall—Minimum

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Replacement of one-time FY2010 revenues and debt</td>
<td>$6.265 B</td>
</tr>
<tr>
<td>First installment of five-year Debt Service on Pension Notes</td>
<td>$0.800 B</td>
</tr>
<tr>
<td>Carry Forward of Operating Deficits from FY2009/2010</td>
<td>$4.0 B</td>
</tr>
<tr>
<td>Increase in required pension contribution under the Pension Ramp*</td>
<td>1.2 B</td>
</tr>
<tr>
<td><strong>TOTAL MINIMUM FY2011 STARTING DEFICIT</strong></td>
<td><strong>$12.265 B</strong></td>
</tr>
</tbody>
</table>

* In 1995, Illinois passed a pension ramp bill requiring significant, annual increases in the state's contribution to its public employee retirement systems, to make up for a decades long practice of failing to make the full, employer contribution into the system. That is why the pension contribution escalates by $1.2 billion next year. It is also why Illinois has an unfunded liability in excess of $74 billion today.
WHAT SHOULD BE:

FAIR ➔ PROGRESSIVE

RESPONSIVE ➔ TO MODERN ECONOMY

STABLE ➔ DURING POOR ECONOMIES

EFFICIENT ➔ DOESN’T DISTORT PRIVATE MARKETS

BUT ISN’T
The Illinois Structural Deficit
(How Revenue Growth Will Not Keep Pace With The Cost of Current Services)

$24 Billion

WHICH CREATES:

*Adjusts solely for historic rates of inflation and population growth, and assumes normal economic growth.
Income Growth in the United States 1979-1999  
(Real 1999 Dollars)  
*Source U.S. Census Data

Percent Change

Fair? Responsive?

Bottom 60% Next 20% Top 20% Top 15% Top 1%
State & Local Tax Burden as a Percentage of Income

<table>
<thead>
<tr>
<th>Income Range</th>
<th>Average Income</th>
<th>Tax Burden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $16,000</td>
<td>$8,900</td>
<td>12.7%</td>
</tr>
<tr>
<td>$16,000 – $30,000</td>
<td>$22,600</td>
<td>11%</td>
</tr>
<tr>
<td>$30,000 – $48,000</td>
<td>$38,500</td>
<td>10%</td>
</tr>
<tr>
<td>$48,000 – $77,000</td>
<td>$61,100</td>
<td>9.2%</td>
</tr>
<tr>
<td>$77,000 – $148,000</td>
<td>$101,400</td>
<td>7.7%</td>
</tr>
<tr>
<td>$148,000 – $295,000</td>
<td>$203,600</td>
<td>6.2%</td>
</tr>
<tr>
<td>$295,000 or more</td>
<td>$1,322,100</td>
<td>4.6%</td>
</tr>
</tbody>
</table>
Revenues of Goods and Services as a Percent of Gross State Product: Illinois

Year | Services as a percent of GSP | Goods as a percent of GSP
--- | --- | ---
1965 | 36% | 32%
1975 | 41% | 26%
1985 | 53% | 20%
1996 | 59% | 18%
2007 | 60% | 13%
**Quinn’s Proposal vs. HB174**

<table>
<thead>
<tr>
<th>Revenue Source/Adjustment</th>
<th>Quinn At 4.5% (personal rate) and 7.2% (corporate rate)</th>
<th>HB174 At 5% (personal rate) and 5% (corporate rate)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Income Tax (net of refund fund)</td>
<td>$4,721</td>
<td>$6,422</td>
</tr>
<tr>
<td>Local Government Distributive Fund LGDF</td>
<td>($327)</td>
<td>($223)*</td>
</tr>
<tr>
<td>Personal Exemption Cost</td>
<td>($872)</td>
<td>($1,047)</td>
</tr>
<tr>
<td>Total Personal Income</td>
<td>$3,522</td>
<td>$5,152</td>
</tr>
<tr>
<td>Corporate Income Tax (net of refund fund)</td>
<td>$366</td>
<td>$31</td>
</tr>
<tr>
<td>LGDF</td>
<td>($36)</td>
<td>($3)</td>
</tr>
<tr>
<td>Total Corporate Income</td>
<td>$330</td>
<td>$27</td>
</tr>
<tr>
<td>Sales Tax Base Expansion</td>
<td>$0</td>
<td>$450 - $600</td>
</tr>
<tr>
<td>Double Residential Property Tax Credit from 5% to 10%</td>
<td>($493)**</td>
<td>($493)***</td>
</tr>
<tr>
<td>Increase State EITC from 5% to 15% of Federal</td>
<td>($83)</td>
<td>($167)</td>
</tr>
<tr>
<td>Net Revenue to State General Fund</td>
<td>$3,276</td>
<td>$4,969 - $5,119</td>
</tr>
</tbody>
</table>

* In FY 2010 (only), $20.8 million per month will be diverted from the LGDF to the Common School Fund. Hence the LGDF cost will increase by $249 million starting in FY 2011.
** $500 cap not modeled.
*** $1500 cap not modeled.

For More Information:

Center for Tax and Budget Accountability

www.ctbaonline.org

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