TAX FACTS

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STATE FUNDING OF ILLINOIS EDUCATION

Let's Clear Things Up

Part 1 of 2

By Ted Dabrowski

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Executive Summary

When assessing education spending, what may surprise many is that Illinois has not suffered a shortfall of education dollars over the last twenty years - far from it. From 1989 to 2008, K-12 education spending in Illinois rose by 211%, from 7.9 billion to $24.6 billion. In real terms, that's 62%[1].

Nor has the system lacked state support. While the 2008 headline figures assert the state provides only 34.6% of education financing[2], the reality is that when the locally funded, property-rich districts are stripped from the calculation, the remaining 77% of the education system receives much more than 34.6%. In fact, after accounting for the state's unfunded pension contributions, the state provides almost 50% of total education spending. Add the Fed's 8.8% contribution and there is sufficient centralized funding to

[1] ISBE 2008 Annual Report. State, Local, and Federal Sources.

[2] The property rich districts have been defined as the 56 Flat Grant and 138 Alternative Grant Districts in Illinois. While these districts make up 23% of total education spending in Illinois, only 8.2% of their total funds are provided by state dollars. After removing them from the calculation, 675 Foundation Districts remain, making up 77% of the ADA and 73% of total education spending.

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NOTES FROM THE INSIDE. . .

By J. Thomas Johnson

Included in this issue of Tax facts are two articles that I believe shed greater transparency on issues regarding state and local finance. The first is the first of a two part series on Illinois funding of K-12 education. I had the opportunity to work with the author, Ted Dabrowski, when I chaired Governor Quinn's Taxpayer Action Board last year. He was Lead Consultant to the Education Committee. I was impressed with his work and asked him if he would explore some of the funding issues in a little more depth than could occur in that effort. The result is the two part series that you will see in this issue and the next of the Tax Facts. I find some of his revelations of significant interest. (Given the rhetoric around school funding issues would you expect to see one of the programs growing in cost at more than 1600% in just nine years?) I'm confident that both of these articles will open some eyes on programs that need re-evaluation.

The second article is written by Jim Nowlan, the part-time research director for the Illinois Tax Foundation. We often hear how Illinois ranks on tax and revenue measures and Jim wrote this paper after we discussed our frustrations on how rankings can be misleading. I think Jim's analysis makes a lot of sense and I think you will as well.

The next several Tax Facts' issues will continue to focus on how Illinois state government spends its resources (limited as they are these days) on various programs. I'm learning a lot and I think you will as well.

qualify for majority control -- and for accountability of the system's educational outcomes.

So if Illinois' most-needy schools have consistently received more funds, and if the state plays the leading role, why does our system continue to struggle? This two-part report on education finance, focused on the state's key spending formulas, identifies several issues.

A key problem in Illinois is not the lack of funds in education, but rather the convoluted and non-transparent funding formulas that mask where and how dollars are spent. Whether by chance or design, complex formula changes over the past decade have led to major policy shifts in education spending, rendering the state's main funding formulas less effective in meeting their original goals. Even worse, a lack of transparency has obscured these significant policy shifts from the public, while allowing several large spending programs to grow at remarkably fast rates.

Take, for example, the General State Aid formula (GSA), the state's main education funding source. The primary goal of the $4.6 billion GSA is the equalization of education dollars across the state through higher Foundation Level payments. This goal, however, has been greatly diluted by property tax relief subsidies (the PTELL Adjustment) that have been funded with GSA dollars since 2000. The PTELL Adjustment, which redirects GSA resources toward property tax-capped districts, grew an alarming 1,615% over the past nine years, reaching $780 million in 2009.

The GSA's goal of equalization has been further diluted by increasingly larger Poverty Grants, which reached $1.15 billion in 2010. Also funded with GSA dollars, they are up 322% in just eleven years[3].

The net result is this: in 2000, 88% of all GSA funds went toward the Foundation Level for all Illinois children. By 2009, that percentage had fallen to 62%. This fact, however, is largely unknown due to the lack of transparent GSA reporting.

Amazingly, despite their sheer size, influence, and complexity, the Poverty Grant and the PTELL Adjustment do not exist as budget line items. Their spending totals and hyper-growth trends are nowhere to be found in the budget. Even more telling, the PTELL Adjustment does not even merit a mention or description in the budget's GSA notes – it's just too complex. Simply put, the process for tracking the flow of money within the system has become too cumbersome and difficult to decipher.

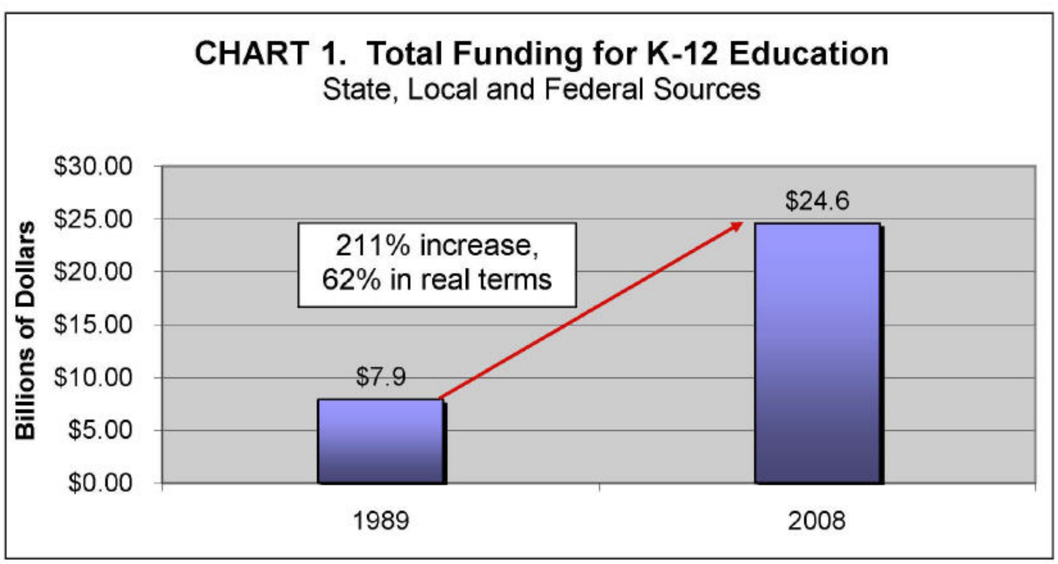
Compounding the above are stale Special Education formulas that determine how over $1.5 billion is distributed statewide. A multifaceted blend of block and categorical grants, combined with, again, complex formulas, leads to another confusing funding situation. It is no exaggeration to say that it is unclear just how many special education dollars are spent per pupil in Illinois.

Illinois needs change and innovation to confront its educational crisis. Fortunately, many good education reform ideas exist. But reform will not fully materialize until concern over educational outcomes intersects with disillusionment with the state's unwieldy funding system.

The current crisis offers a real opportunity to overhaul the flow of our education dollars – away from bureaucratic organizations and convoluted formulas and more directly toward students and schools. This time around, Illinois' leaders should favor simplicity and transparency to improve the state's educational outcomes.

INPUTS ARE NOT THE PROBLEM

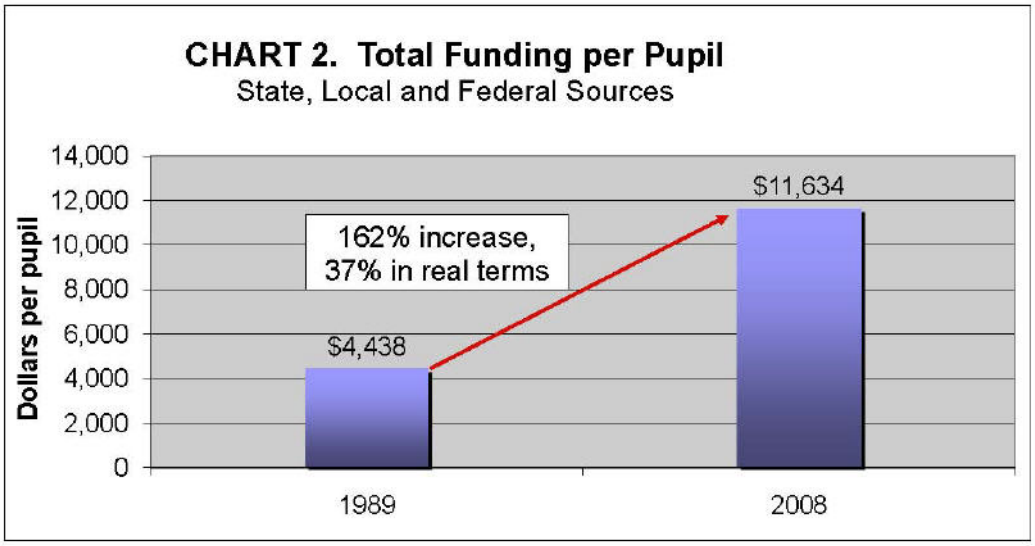
Though demands for increased funding would imply otherwise, education spending in Illinois has increased in almost every measurable way over the past 20 years. Total funding for education in Illinois (local, state, and federal sources) have more than tripled from $7.9 billion in 1989 to $24.6 billion in 2008, a 211% increase and an average of over 6% annually[4].



[3] PTELL Adjustment and Poverty Grant data provided directly by ISBE.

[4] ISBE 2008 Annual Report

More importantly, per pupil expenditures have also increased **(chart 2)** from $4,438 in 1989 to $11,634 in 2008, a 162% increase. Adjusted for inflation, that increase is 37% over the same period[5].



Within that overall growth, individual spending classes have also grown significantly. Special Education and other Categorical Funds have grown by 5.2% per annum since 2001, while Poverty Grant funding has grown by an average of 13.7% per annum in that time period[6].

Though spending has grown unequivocally in Illinois, the distribution and quality of that growth warrants a deeper review. This is particularly true in the area of state spending.

THE STATE'S CONTRIBUTION TO EDUCATION -- MUCH GREATER THAN PUBLICIZED

For the past two decades, consistent spending growth has come from the three main funding sources – local, state, and federal.

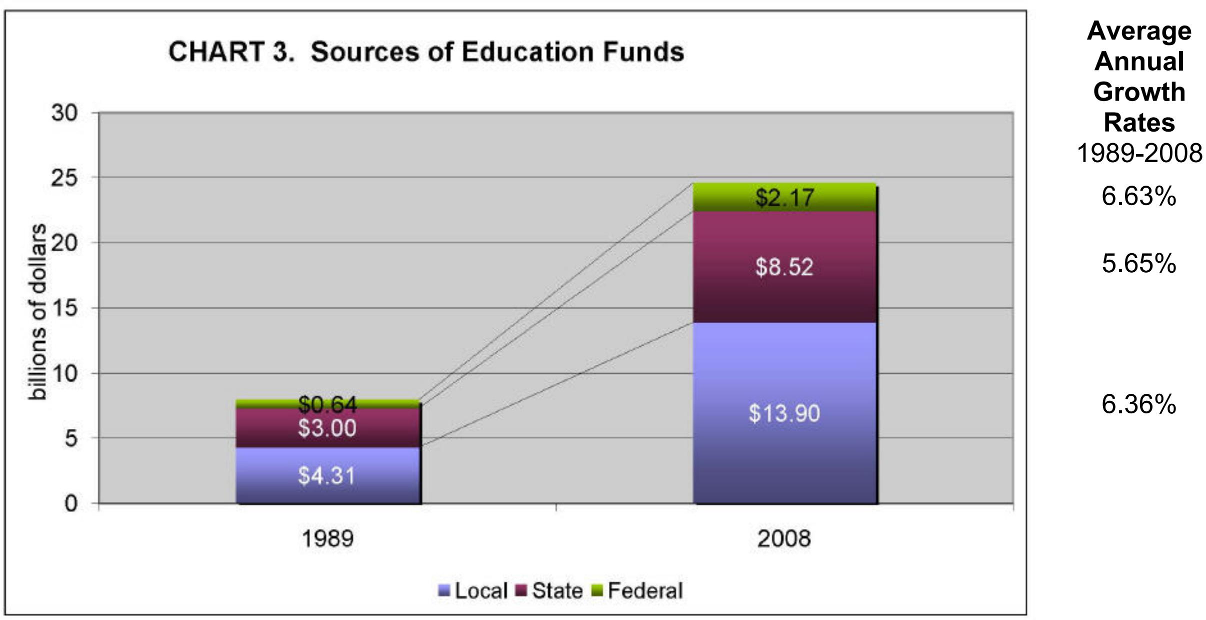


Chart 3 shows all three have nearly tripled their contribution to education. Nevertheless, concerns about state spending exist, as state contributions have lagged local spending every year since 1989.

This shortfall has led to calls for an increase in the state's share of total education spending, which in 2008 stood at 34.6%[7]. In this statistic, Illinois ranks 49th nationally, ahead only of Nevada. Proponents for more state involvement have largely blamed Illinois' poor

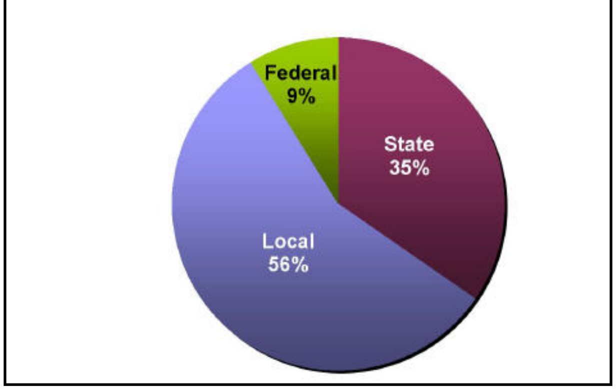
[5] ISBE 2008 Annual Report
[6] Data provided directly by ISBE.

[7] ISBE 2008 Annual Report

educational outcomes on the failure of the state to increase its share of total spending.

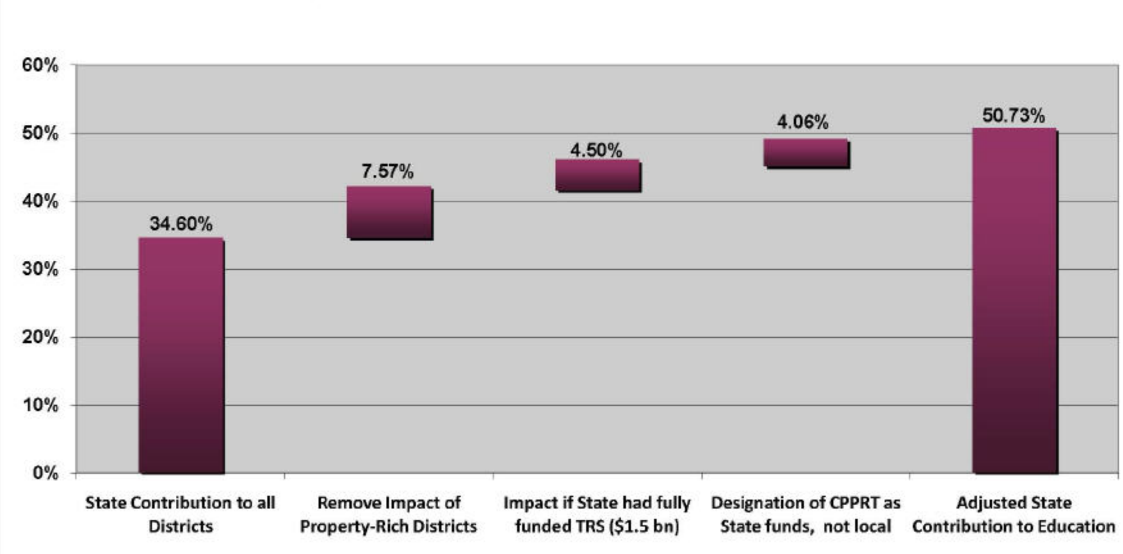
This 34.6% statistic, however, is misleading. Given Illinois's historic preference for local control, there are many districts with very high local spending shares that skew the state statistic decidedly downward. The New Trier district, for example, which spends close to $18,000 per student, almost $6,000 above the state average, is a case in point.

CHART 4. Share of 24.6 bn in Total Education Spending - 2008



The state contributes only 3.4% to New Trier, while local funds support a full 95% of the district's school spending[8]. The state's small percentage contribution to New Trier is a reflection of the district's relative property wealth and the large per pupil dollars it chooses to spend from its available local tax sources. Clearly, including wealthier districts in the overall calculation has helped to skew the state's average numbers down to the 34.6% level.

CHART 5. Adjusted State Contribution to Education - 2008



[8] The individual district spending totals (state, local, and federal) were provided by directly by ISBE.

It is important, therefore, to remove the property-rich districts (56 Flat Grant and 138 Alternative Grant districts) and their total education spending from the calculation. By removing these districts, which represent 23% of the total average daily attendance (ADA) but only 8.2% of total state funds, a more true picture can emerge of the state's actual contribution to Illinois's remaining 77% of students. (A detailed description of the different grant categories is included in a later section).

Chart 5 calculates the percentage contribution the state provides to those districts most in need – the Foundation Level Districts and other state supported schools. For this exercise, three adjustments are made to the 34.6% headline number:

1. Flat Grant and Alternative Grant districts are removed from the spending totals. The State contribution to education increases by 7.57 percentage points[9].

[9] The 2008 State, Local, and Federal Resources from ISBE's 2008 Annual Report were adjusted by removing all Alternative and Flat Grant Districts from the spending totals. The individual district spending totals (state, local, and federal) were provided by ISBE in excel file FS0708.xls.

2. The Teachers' Retirement System (TRS) is assumed to be have been fully-funded in 2008. Adding back the $1.5 billion that went unfunded, the state's percentage contribution rises by 4.50 percentage points.[10]
3. The state-collected Personal Property Replacement Tax (CPPRT) is treated as a state source of funds, as it technically is, adding 4.06 percentage points the state's contribution (ISBE accounts for the CPPRT as a local source)[11].

After these adjustments, the state is responsible for over 50% of total education spending for most of those in attendance in the system[12], and significantly more than the 34.6% headline number.

Further, the Federal government's role in spending must be considered. Over 90% of the Fed's contributions go to the Foundation Grant districts, with Chicago receiving almost 50% of the total. Many of these districts receive 7-15% percent of their total funding from the Federal Government.

The main point is as follows: Illinois' educational system, excluding the locally-funded, property-rich portion, is funded by state and federal sources that provide in excess of 55-60% of total education funding. That is certainly much more than is often publicized by the press and proponents of increased centralized funding, and sufficient to qualify the state as the controlling stakeholder.

So if Illinois' most-needy schools have consistently received more funds, and if the state plays the leading role, why does our system continue to struggle? To get this answer, it is important to analyze how and where those state funds are spent.

THE DISTRIBUTION OF ILLINOIS' STATE EDUCATION DOLLARS - TRACKING THE FLOW

The State's proposed contribution was approximately $8.5 billion in 2009-2010[13], making up approximately 34% of all education spending. $7.6 billion of those funds go directly to education, while another $0.9 billion funds the Teachers' Retirement System (note that the state's TRS payment is not sufficient to meet the required pension funding levels). In **Table 1**, the $8.5 billion is broken out into its main categories, and the spending formulas of the two biggest categories – the GSA and the Special Education Categoricals – are analyzed.

General State Aid. Not only is the GSA the largest pool of state funds going into education, it is also the least understood. The primary goal of the GSA is to equalize or reduce differences in spending across the entire state by assuring that property-poor school districts achieve a minimum amount of spending per pupil, the so-called Foundation Level. The secondary goal is to distribute Supplementary State Aid, in the form of poverty grants, to districts with low-income populations, as measured by the DHS. The poverty grant is not separately appropriated, but is a categorical grant within the GSA.

[10] Assumes that one-third of $1.5 billion unfunded TRS payment was allocated to Flat Grant and Alternate Grant districts.

[11] 2007's CPPRT of $782 million (ISBE Annual Report) was used as a proxy for 2008.

[12] An alternate method to determine the impact of the three adjustments was also performed. The adjustments were all done within the District Spending File, which does not include state spending on non-district entities and, therefore, has a different starting base. While the results lead to a slightly different a build-up, the outcome is a 16-percentage point increase in the role of state spending.

[13] ISBE FY10 Budget Book

TABLE 1. Total State Spending - 2010 Budget
(in millions)

General State Aid			$	4,722
Equalization Funds	$	2,992		
Poverty Grant		941		
PTELL Adjustment (Property Tax Relie		789		
Special Education Categoricals			$	1,537
Special Ed - Personnel Reimbursemen	$	460		
Special Ed - Transportation		430		
Special Ed - Children Services		334		
Special Ed - Private Tuition		181		
Special Ed - Orphanage Tuition		120		
Special Ed - Summer School		12		
Other Mandated Categoricals			$	1,295
Regular Transportation	$	351		
Early Childhood		393		
Curriculum and Instruction		284		
Other		267		
Teachers Retirement System			$	903
Total State Spending			$	8,456

The GSA formula is complex and difficult to understand. The algorithm is based on local property taxes, relative property wealth across districts, and poverty concentration levels – all difficult issues, even when assessed individually. Further, after amendments to the formula in 2000 to adjust for property tax caps (PTELL adjustments), the formula has become too convoluted. But perhaps most importantly, there is a dearth of budgetary reporting on the GSA. The State Budget fails to break out the GSA into its main components or to provide trends that exhibit how these policies have impacted the funding results.

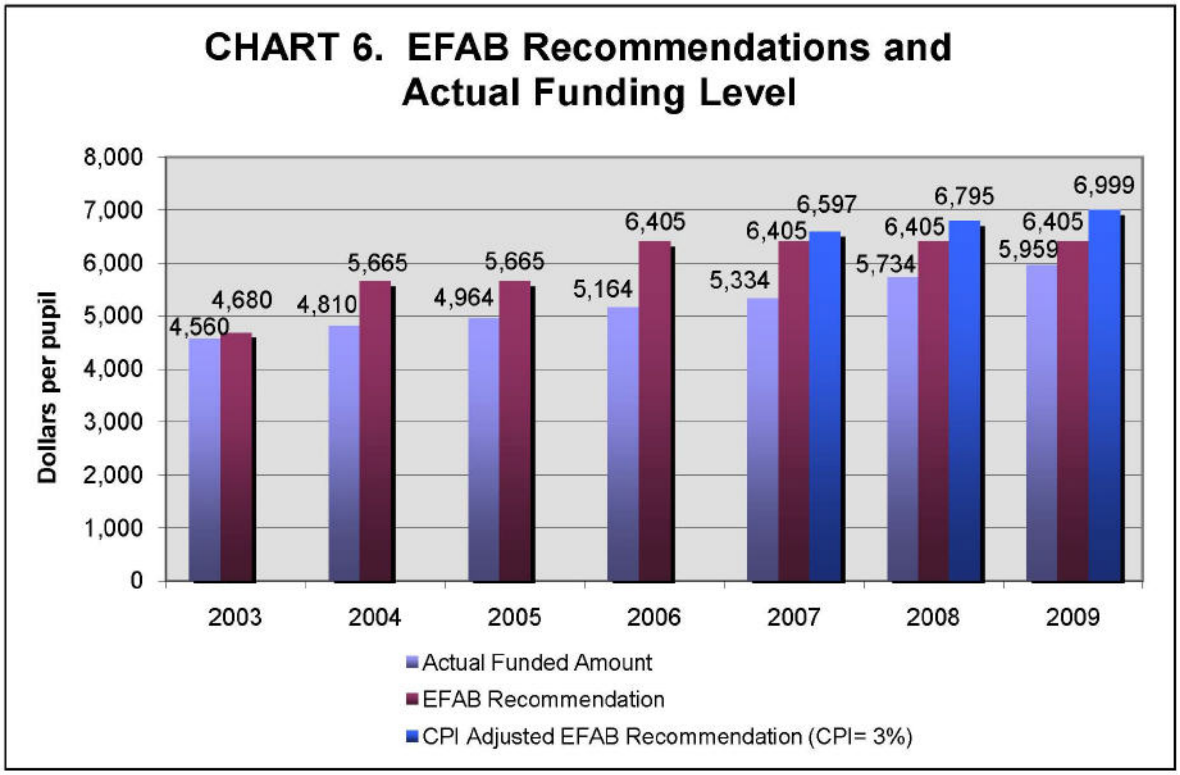
Before delving deeper into key problems within the GSA, however, it is important to understand how the GSA funds equalization and which types of districts are the primary beneficiaries.

The Foundation Level In Illinois, General State Aid funds exist to ensure that each child has access to a sound education. To satisfy that goal, each year the state appropriates an amount to provide a minimum funding level per child, called the Foundation Level. A special unit called the Education Funding Advisory Board (EFAB), established by the legislature in 1997, recommends this Foundation Level.

Once EFAB establishes the Foundation Level, the State then determines how much each school district should be able to collect locally, based on the assessed valuation of property within the district and an assumed[14], reasonable tax rate that is consistently applied across all districts. If the Assumed Available Local Resources derived from this “reasonable tax” per pupil are lower than the Foundation Level, the State makes up the difference according to a formula where the poorest districts (those with the fewest available local resources) get the most State money per pupil.

Until FY02 the Illinois legislature fully funded the Foundation Level grants as defined in the 1997 statute. Then in 2003, the Foundation Level was set at $4,680 per pupil, but the legislature funded only $4,560 **(see chart 6 on page 8)**. This trend of under-funding has continued in every year since FY03. In FY06 the Foundation Level was determined to be $6,405, but the Legislature appropriated only $5,164, a gap of approximately $1,240 per pupil. The foundation level has not been reset since 2006, but

[14] The assumed tax rates are 1.05%, 2.30%, and 3.00% for high school, elementary, and unit districts, respectively.



assuming a consumer price index (CPI) of 3%, it would have been $6,999 in 2009, when the State funded just under $5,959.

THE DISTRIBUTION OF FOUNDATION LEVEL FUNDS

The Foundation Level funds described above are distributed to three different categories of GSA districts[15] **(see Table 2)**:

1. **Foundation Districts.** These are districts with relatively low per pupil property tax resources or those with property tax caps that limit local tax resources (PTELL districts). They have Assumed Available Local Resources per pupil at less than 93% of the funded Foundational Level ($5,959 in 2009). They receive the difference between the funded Foundation Level amount and the Assumed Available Local Resources per pupil.

2. **Alternate Districts.** These are relatively property-rich and receive significantly less aid than Foundational Districts. They have assumed Available Local Resources per pupil between 93% to 175% of the funded Foundational Level.

3. **Flat Grant Districts**. These are the wealthiest districts in Illinois. They have assumed Available Local Resources per pupil greater than 175% of the funded Foundational Level and receive a Flat Grant of $218 per student.

TABLE 2. 2008/09 General State Aid Districts and Enrollment

	Districts	Pct	Enrollment	Pct
Foundation	675	77.7%	1,479,081	77.1%
Alternate	138	15.9%	353,991	18.4%
Flat Grant	56	6.4%	86,496	4.5%
Total	869	100.0%	1,919,568	100.0%

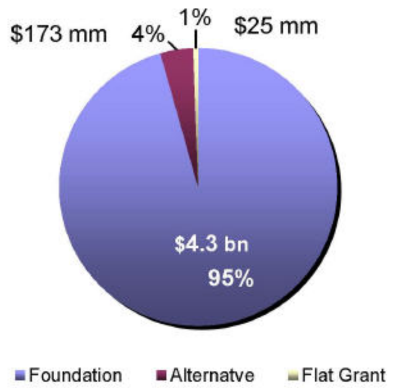
TOTAL GSA ENTITLEMENT DISTRIBUTIONS

Embedded in each district's GSA entitlement are both the Foundation Level funds, adjusted for the effect of PTELL laws, and Poverty Grant funds, as determined by that district's poverty count and poverty concentration.

Chart 7 shows the progressive nature of the state's full GSA distributions, with almost all of the $4.6 billion in GSA funds going to Foundation type districts (77% of the State's districts and

[15] Does not include non-district state entities (i.e., Sp Ed co-ops) or Lab/Alt/Safe districts.

CHART 7. Share of 2009 $4.6 bn GSA by District Category



2009 GSA Per Capita by Category Type
dollars per student

Foundation Districts	$2,926
Alternative Districts	$487
Flat Grant Districts	$289

95% of total GSA funds)[16]. The wealthiest (Flat Grant) districts, by contrast, receive only $25 mm or 0.5% of the total. These charts confirm the notion that state funds support those districts that have relatively low property tax resources per student or that face significant property tax caps.

In the distribution of funds to the four main regions (shown below)[17], both Chicago and Downstate receive a share of funds larger than their enrollment percentage. For Downstate, this is a function primarily of its low relative property wealth. For Chicago, this reflects the fact that it is a PTELL district (property tax capped district), and is therefore eligible for additional subsidies from the GSA in the form of the PTELL Adjustment. Further supporting Chicago's GSA funding is its large share of the $940 million Poverty Grant Fund, of which it receives 52%.

As was noted earlier, both the PTELL Adjustment and the Poverty Grants have gained in influence. Since they now make up over 36% of the total GSA, their impact has a major significance for the distribution of Foundation Level funds, as well as for certain regions or districts. This impact is highlighted below.

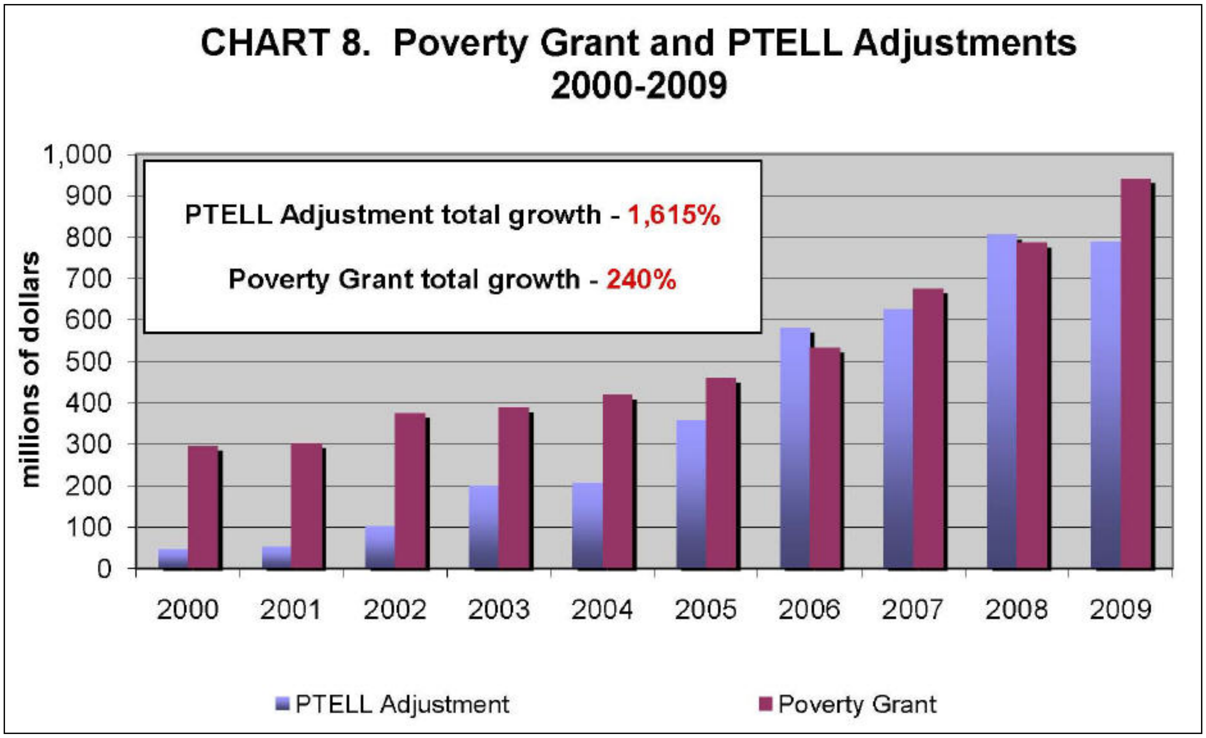
THE FORMULAS FALTER

The Impact of the Poverty Grant and the PTELL Adjustment on Equalization

Most policy makers are led to believe that the GSA fulfills its main intent of funding equalization. However, over the past 10 years that goal has been greatly diminished by the soaring PTELL Adjustment and the Poverty Grants[18]. **Chart 8 on page 10** exhibits the rapid growth of the PTELL Adjustments (aka Double Whammy Adjustment or Property Tax Relief) and the Poverty Grants,

	2008/09 District Enrollment		2008/09 GSA in millions of dollars		GSA Per Capita
	Enrollment	Pct	GSA	Pct	$ per student
Chicago	358,404	18.6%	1,140	25.0%	3,180
Other Cook	359,301	18.7%	642	14.1%	1,786
Collar	545,865	28.4%	724	15.9%	1,327
Downstate	661,853	34.4%	2,055	45.1%	3,105
Total	1,925,423	100.0%	4,561	100.0%	2,369

[16] Provided directly by ISBE
[17] Provided directly by ISBE.
[18] Data provided directly by ISBE.



Hence, the PTELL Adjustment was carved out of the GSA in order to provide subsidies to the affected districts. In 2009, 461 of the state's 869 districts were subject to PTELL, though only 296 districts benefited financially from the PTELL Adjustment.

The Poverty Grant. The Poverty Grant is distributed as a categorical grant directly from the GSA appropriation and is meant to support those students that qualify as low-income per the Department of Human Services (DHS). For those districts below a 15% poverty concentration limit (low-income student count as a percentage of total attendance), a flat $355 is provided per low-income student. For those districts with a concentration level higher than 15%, a more complex and curvilinear formula is used. The formula, $294 + (2700 * concentration level^2) = Poverty Grant per Student, allows for a maximum amount of $2,994 per low-income student.

The new Poverty Grant formula, established in 1999, changed the low-income count methodology from the use of the static 1990 Census to numbers provided directly by the DHS. Additionally, it allowed for the curvilinear treatment of poverty concentrations, rather than a step-up methodology.

The resultant changes and phase-ins of the new formula have led to the significant increases in

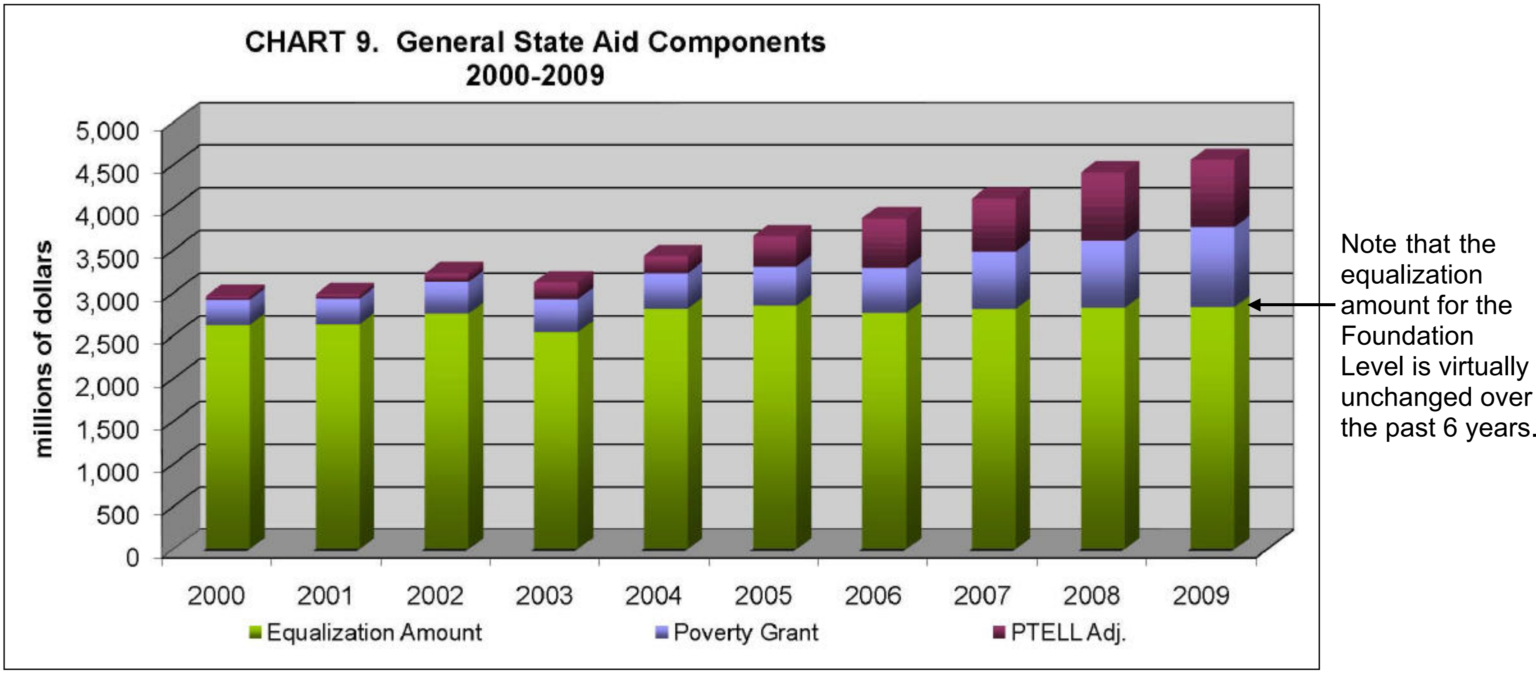
both of which are funded with GSA dollars, but which do not have specific line item reporting. Because their size and growth rates are not transparent, their influence on the Foundation Level has not been visible.

The PTELL Adjustment. The PTELL Adjustment has grown exorbitantly from only $46 million in 2000 to almost $780 million in 2009 – an increase of 1,615%. These subsidies are a result of the General Assembly's agreement in 2000 to provide effective property tax relief, through the use of appropriated GSA funds, to school districts that were negatively impacted by property tax cap laws (PTELL – Property Tax Extension Limits Legislation) passed in the 1990's.

Jurisdictions subject to PTELL must limit the growth of their yearly property tax levies to the rate of inflation or 5%, whichever is lower (unless higher amounts are approved by referendum). This law has limited each jurisdiction's ability to raise the local tax dollars necessary to cover the increased costs of education, despite the significant increases in their property values.

the Poverty Grant total. In just nine years the Poverty Grant has tripled, to $940 million in 2009, as poverty counts and concentration levels have increased significantly with the new DHS count.

The Net Impact of the PTELL Adjustment and the Poverty Grant. The net result of this increased use of GSA funds for the Poverty Grant and the PTELL Adjustment is that Equalization funds have not grown at all. **Chart 9** shows when we subtract both the Poverty Grant and PTELL Adjustment expenditures from the total GSA, no additional funds have been available for equalization over the past six years. This means that, effectively, even though the Foundation Level has grown by 23.8% since 2004 (from $4,810 to $5,959 in 2009), it has been almost entirely funded by local property taxes.



It is no surprise, then, that as the PTELL Adjustments and Poverty Grants started to increase significantly in 2003-2004, Illinois began to have difficulties in funding the full amount of the EFAB recommended Foundation Level.

At issue is not the validity of property tax relief or poverty grants as serious policy initiatives. Rather, the problem is that significant policy changes to the GSA have occurred in the obscurity of low transparency and overly complex formulas. For the last decade, the hyper growth rates of two embedded GSA items have seriously impacted the effectiveness of equalization across the state – yet, neither is reported as a line item in the budget. As a matter of fact, the PTELL Adjustment is not even described in the state budget – it is too confusing.

When funding formulas become too convoluted, when their results are not clearly reported, and when they shift policy in non-transparent ways, the time may have come to revamp the flow of education dollars.

Special Education Dollars. The second largest state spending pool in K-12 education is that for Special Education. The rationale for how Special Education (Sp Ed) funds are distributed across the state is unclear. Two different methodologies and formulas are used in the state: one for the Chicago District 299 and one

TABLE 3. Sp Education Spending and Sp Educ Population Count by District 299 and the Remainder of the State*

	2008/09 Actual Expenditures		2007/08 Population Count		Spending per Student	
	District 299	Non-District 299	District 299	Non-District 299	District 299	Non-District 299
Private Facilities	$ 73,374,048	$ 80,921,889	1,166	8,397	$ 62,928	$ 9,637
Personnel	81,383,676	357,677,250	8,481	74,130	9,596	4,825
Transportation	117,675,950	274,692,476	11,170	78,082	10,535	3,518
Summer School	5,983,824	4,873,880	9,714	55,385	616	88
Totals	**$ 278,417,498**	**$ 718,165,495**	**30,531**	**215,994**		

* Amounts are approximate, as population counts are from 2007-2008, while expenditures are from 2008-2009.

for the rest of the state. The results lead to remarkably different per capita spending numbers.

The first problem arises from the use of a block grant for Chicago District 299 and individual categorical funds for the rest of Illinois. Chicago District's Special Ed categorical grants were block granted into a single grant in 1995, eliminating the onerous bureaucracy needed to monitor, control, and report spending under the multiple categorical grants. Effectively, the district was granted increased responsibility in spending its Special Ed funds. The rest of Illinois, however, continues to be individually funded by the six main Special Ed categorical funds. It must maintain a burdensome reporting and monitoring bureaucracy in each district and school within the state. This problem alone provides a significant opportunity for restructuring how Special Ed funds are distributed in Illinois.

The second problem arises from the continued use of an outdated and legacy 1995 formula that determines a fixed split of Special Education funds, by category, between Chicago and the rest of Illinois. The funds are divided based on the proportions of Special Ed category costs that existed in 1995. Needless to say, significant changes have occurred in the past 15 years and the formulas do not reflect those changes.

Table 3 highlights how demographics, time, and/or reporting controls can render a funding formula ineffective in just a few years. The numbers are based on work done by HJR24, the Special Education Task Force currently reviewing Special Ed financing. Table 3 shows Special Ed expenditures for FY 2009 for District 299, as well as for the rest of the state, and calculates a per-student spending for each category.

Using the current Special Ed population counts, as reported directly by individual districts to ISBE, there are significant discrepancies in the per student expenditures between the two regions. The difference in spending is remarkable and raises the question as to whether Chicago is overspending or the rest of Illinois underspending. Can the cost differentials between the two regions, circled above, be so large? Or is it related to poor monitoring of Special Ed populations, making the per student numbers irrational?

According to the Senate Task Force, if District 299 were to be funded based on the rest of the State's per-capita spending, total Special Ed spending would decrease by $241 million. On the contrary, if the rest of the State were to use Chicago's per-capita spending, the total cost would rise by approximately $1.3 billion.

Private Tuition. The final item to be reviewed **(see Table 4)** is that of Private Tuition, which has gained significant attention given its rapid nine-year trajectory. Due to both increases in the number of special education students placed in private facilities, as well as rapidly rising costs, Private Tuition spending has risen by 277% in just nine years. This line item, within the context of the Special Education Funding analysis carried out by both the HJR 24 Task Force and ISBE[19], has been a particular focus of special education funding reform.

As was noted in the previous section, there are concerns that the formula is no longer equitable given the disparities in spending across various regions in the state. Further, it appears to provide fiscal incentives for private placement of students, which obviously leads to much higher costs.

The task force and the ISBE report express concerns that the special education formulas are overly complex and disjointed, and that they contribute to inequities within the system.

[19] Draft: Analysis of and Policy Alternatives for Special Education Funding in Illinois. American Institute for Research. Tom Parish. January 21, 2010.

SUMMARY

Most education debates in Illinois revolve around the need for more funds and a greater involvement of the state in education funding. Rather than debate the inputs, however, leaders should better understand what those monies are funding, deliberate how and where the funds are spent, and focus on improving educational outputs.

Additionally, the state's formulas should not allow for large spending categories to stealthily appear. These formulas should be periodically reviewed to assure their efficacy in a dynamically changing economic environment. Illinois' outdated funding formulas clearly call for a debate, review, and change in the flow of the State's education dollars. The current crisis offers a real opportunity to overhaul the flow of our education dollars – away from bureaucratic organizations and convoluted formulas and more directly toward students and schools. Illinois' leaders should favor simplicity and transparency to improve the state's educational outcomes.

The only way this will happen in a consistent manner is if the State elevates the level of transparency in its financial reporting. Many of

TABLE 4. Special Education Mandated Categoricals (in millions of $)

Program Name	FY01	FY09	FY10 Request	'01 vs '10 Pct Change	'01 vs '10 Pct CAGR	'09 vs '10 Pct Change
Personnel	$ 300	$ 426	$ 460	53%	5%	8%
Transportation	206	383	430	109%	9%	12%
Funding for Children	228	331	334	46%	4%	1%
Private Tuition	48	152	181	277%	16%	19%
Orphanage	127	102	120	-6%	-1%	18%
Summer School	7	11	12	71%	6%	9%
Totals	**$ 916**	**$ 1,405**	**$ 1,537**	**68%**	**6%**	**9%**

the issues discussed in this paper do not come from readily accessible financial reports. Nowhere are the PTELL Adjustments and Poverty Grants reported on a summary basis, nor are their growth rates and geographic destinations easily identified. In the next issue of Tax Facts, the GSA will be analyzed in more detail, highlighting further issues in how state funds are distributed.

HOW THE ILLINOIS TAX FOUNDATION EVALUATES COMPARISONS AND RANKINGS

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People are fascinated by comparisons and rankings among the states. The rankings provide context in which to evaluate public finance and performance measures.

Yet comparisons should be viewed with caution. For example, some rankings lack the full context in which they should be evaluated; other rankings include too much in a comparison, effectively comparing apples with oranges. Other rankings fail to appreciate the differing capacities of states to fulfill their financial commitments.

Below we illustrate these cautionary tales and provide readers our perspectives on the most illuminating ways to compare Illinois with other states on financial indicators.

First, compare state and local rankings together, rather than just state rankings alone. Some analysts compare burdens for *either* the state or local levels of government. Local governments are, however, creatures of the states; residents pay taxes to both state and local governments, and costs of major governmental functions such as education and transportation are shared by the two levels of government. Thus, we find it more telling to compare tax burdens of state *and* local governments.

This reporting of combined tax burdens also makes sense because in Illinois the state imposes a lighter tax burden than the typical state while its local governments extract a heavier burden from their residents than do most states. For example, Illinois ranked 41st among the states in total state taxes as a percent of personal income (a ranking of #1 would represent the highest taxes).[1]

On the other hand, property taxes in Illinois as a percent of personal income in 2007 represented

[1] Unless otherwise noted, the figures in this essay are taken from the U.S. Bureau of the Census, *State and Local Finances for 2007*, as reported by the Washington State and Minnesota Departments of Revenue.

$40.44 per $1,000 of income (4.04 percent), ranking the state 12th highest, versus a national average of 3.4 percent.

For many years, Illinois has imposed a lighter than average burden among the states from its income and sales taxes, which are largely state taxes. For example, Illinois ranked 36th in state income tax revenue in 2007, 40th among the states in state sales tax revenue as a percentage of personal income. At 7.3 percent, Illinois has a relatively high corporate income tax, ranking the state 14th on this indicator.

Second, compare states on their respective total *taxes*, rather than on their *total revenues*. Major state and local taxes are comparable; all the states tax some combination of property, income and sales, and generally all three. Non-tax revenues depend upon the traditions of the respective states, and are somewhat misleading if compared. For example, Illinois has a strong tradition of non-governmental hospitals, often religious in origin; in other states, governments at the regional and local levels have taken responsibility for the hospital function.

As a result, according to the US Census Bureau, in 2007 Illinois governments derived only $1.26 billion from government hospital revenues, whereas neighboring Indiana, with half Illinois' population, generated $2.57 billion from hospital revenues. A few states operate liquor states, and generate governmental revenues; Illinois does not. Illinois has a tradition of strong, private colleges and universities, which reduces the reliance on state institutions; western states have few private colleges and large public systems.

Possibly as a result of these differences, state to state, in reliance on government to provide functions, the Federal Tax Administrators, using Census Bureau data, found total state and local government revenues in Illinois in 2007 to rank 46th among the states on a percentage of personal income basis. In contrast, Illinois ranks 27th on the more familiar basis of total tax collections.

Third, use *percentage of personal income* as the basis for comparison, rather than *per capita* indicators.

Illinois personal income per capita in 2007 was 105 percent of the national average of 100 percent; Illinois is a little wealthier than average. Connecticut, the wealthiest state, has 142 percent of the national average in per capita income. In contrast, poor states such as Alabama and Mississippi have personal income per capita of just 84 percent and 73 percent, respectively, of the national average.

It would be unfair to compare states with such varied fiscal capacities on measures of, say, tax revenue per capita. Mississippi could have a far higher tax rate than Connecticut and still produce much less per capita than the latter state; measuring tax revenue capacity as a percentage of personal income provides a more even comparison of tax burden.

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By the way, use of these indicators tends to lower Illinois' rankings. For example, in 2006 Illinois ranked 15th in per capita state and local tax revenue, and dropped to 27th on the basis of such tax revenue as a percent of personal income.

Finally, use all rankings and comparisons with some caution.

The dollar differences between a 24th and 26th ranking may be miniscule, and thus insignificant. More meaningful would be to compare a state's ranking with the top ten states and the bottom ten. This will provide a decent context for understanding tax burdens. Also look closely at the actual fiscal figures listed in the rankings. These figures provide the raw data on which the rankings are based. On some rankings, the spread of the actual figures might be quite narrow; in others, quite broad.

So how does Illinois compare. In summary, compared with other states, Illinois imposes a moderate to moderately low tax burden on its citizens. In 2007, state and local taxes as a percentage of personal income ranked Illinois 27th among the states with a burden of $109.04 per $1,000 of personal income (10.9 percent) versus a national average of 11.3 percent. Since 1995, Illinois rankings on state and local total taxes have ranged from 28th to 34th among the states.

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