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JUST THE FACTS: HOW DOES SCHOOL FUNDING IN ILLINOIS COMPARE?

TAX FACTS

By Rob Ross

Robert Ross received his M.A. in Economics from the University of Illinois in 2013. His research focuses on local and state public finance, including property taxation.

Two facts frame the debate on school finance in Illinois. First, average revenues per student in Illinois are almost exactly equal to average revenues per student in the entire United States according to statistics compiled by the National Education Association (NEA) in its "Rankings and Estimates" publication. In 2010, average US public school revenues per student¹ were \$12,402. The average in Illinois was \$12,614.² In terms of *overall funding*, Illinois has the 22nd highest level of funding among states. This has been the case for at least the past six years: In 2004, Illinois ranked 26th in the nation in terms of revenues per student.³

Second, again turning to NEA's "Rankings and Estimates," Illinois relies more than any other state on *local* funding for its schools. On average, 65 percent of school funding in Illinois comes from local sources, while the average across the US is only 43 percent. Most of the revenues contributed by local

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NOTES FROM THE INSIDE...

By Carol S. Portman

This edition of *Tax Facts* attempts to put school funding in Illinois into perspective. Rob Ross has used federal census data to look at state **and** local funding of our public schools and to compare that to other states. He has chosen a data set that includes all available resources, not the more common per pupil spending that can ignore pensions and capital spending. Interestingly (to me at least), Rob found that Illinois lands squarely in the middle of the pack.

The research makes the important point that while there are significant differences in resources available per student – Illinois' high reliance on local property taxes to fund schools assures that result – the differences in Illinois are generally comparable to those in other states. As an aside, although not the point of the piece, the data shows that Illinois schools receive relatively less federal money than do schools in the country as a whole, a recurring phenomenon.

Overall Rob's piece gives a solid picture of where school funding stands in Illinois relative to other states.

The second article in this edition is an excerpt from <u>Fixing Illinois</u>, an effort by two former presidents of the Taxpayers' Federation – Jim Nowlan and Tom Johnson – to identify issues that must be dealt with to allow Illinois to move past the paralyzing fiscal crisis and to resume its position as a leader among states. Jim and Tom make some provocative suggestions; if you are intrigued, I encourage you to read the whole book. schools are raised through property taxes, which contributes to Illinois' rank of 8th among states in terms of local property tax revenues per capita.⁴

Given this high reliance on local revenues, there are large differences in local resources available to students in Illinois. The median for the bottom 10 percent of school districts is less than \$2,200 in local revenues per student, while median for the top 10 percent of school in districts is more than \$15,700 in local revenues per student.⁵ This variation in property wealth across communities raises concerns over equity in funding between students in different districts.

Without some redistributive mechanism, students in property-poor districts would have few resources for education, leaving them financially unable to provide students with a quality education. On the other hand, too much redistribution can also have negative consequences for total available school resources.

California's experience with Proposition 13 is an example of how too much redistribution of educational resources can be detrimental to overall education funding levels. Proposition 13 drew its impetus from 1971 and 1976 California Supreme Court rulings in which the court ruled that a property-tax based finance system for schools was unconstitutional because the amount of funding going to different districts was disproportionately favoring the wealthy. The court ruled that the state had to make the distribution of revenue more equitable, which the legislature did by capping local revenue

that a school district could receive and distributing excess amounts among the poorer districts. Property owners in affluent districts, however, perceived that the benefits of the taxes they paid were no longer enjoyed exclusively by the local schools. This contributed to a "property tax revolt" and the passage of Proposition 13, which placed severe limitations on local property tax revenues.⁶ As a result, California slipped from ninth in the nation in terms of local school funding to 46th over the next 35 years. Many believe this happened because taxpayers were willing to pay higher property taxes only as long as those taxes were funding their schools.⁷ The overall effect of a large redistribution of education dollars was a net decrease in total education funding.

The optimal amount of redistribution of education dollars lies somewhere between complete equality and no redistribution at all. Some inequality in resources per student is both inevitable and beneficial, while too much, as demonstrated in California, is avoidable and detrimental to school funding. The challenge of school funding, then, is to design a system that simultaneously allows local preferences for education to be expressed through local property tax levels but also ensures that all students have access to enough resources for a quality education.

This article is different from many others on Illinois education financing in two ways. First, we make no reference to the commonly seen "foundation level" of spending-per-student. Second, we use "revenues per student," rather than "spending per student" as the primary unit of analysis. Our concern in this article is to take a broad view of education funding, comparing Illinois to other states in terms of "total money in the system." Since spending per student figures exclude a number of major expenditures like capital projects and pension costs (famously carried by the state for school districts outside Chicago), it does not give a complete picture of the resources available for education. This article attempts to generally describe the distribution and sources of state and local revenue among school districts in Illinois and make comparisons to other states.

Our data comes from the 2012 Census of Governments conducted by the US Census Bureau. This data includes revenue data on nearly every school district in the United States, and is collected according to standard survey practices developed by the Census Bureau. It includes 13,478 school districts nationwide that utilized roughly \$600 billion in revenues to educate approximately 48 million students in FY2011. It also includes data on 851 Illinois school districts that utilized roughly \$28 billion to educate approximately 2 million students in FY2011.

Table 1 on page 4 shows the distribution of Illinois school districts' revenues in 2012. Illinois is one of only 16 states to have separate, overlapping school districts for elementary and high schools. The figure shows elementary, high school, and unified school districts separately because these three types of districts spend significantly different amounts per student. Table 1 shows that Illinois's lowest

TABLE 1. Distribution of Illinois School District Revenues: FY2011							
	Min.	10th Percentile	25th Percentile	Median	75th Percentile	90th Percentile	Number of Districts
Elementary Districts							
United States	\$884	\$8,536	\$10,166	\$13,601	\$17,660	\$24,337	2496
Illinois	\$7,691	\$9,655	\$10,902	\$12,749	\$15,127	\$18,008	376
High School Districts							
United States	\$7,612	10,045	\$12,661	\$16,278	\$20,110	\$25,000	428
Illinois	\$9,435	\$12,366	\$13,685	\$16,065	\$19,154	\$24,768	97
Unified Districts							
United States	\$4,421	\$9,114	\$10,100	\$11,743	\$14,555	\$18,688	10,457
Illinois	\$7,180	\$9,992	\$10,545	\$11,384	\$12,490	\$14,298	377
Data: 2012 Census of Governments							

revenue districts (those at the 25th percentile and below) have slightly more resources than those in other states. Illinois median districts have about the same available resources as median districts in other states (50th percentile), and Illinois highest revenue districts (those at the 75 percentile and above) have slightly less revenues than high revenue districts in other states. Overall Illinois schools have access to resources comparable to the rest of the country.

How do disparities among school districts within Illinois compare with other states?

In general, equality in funding can be measured by the difference between spending per student in rich and poor districts. It is misleading, however, to simply pick the richest and poorest districts and compare them, since these districts represent the most extreme cases, and may not represent the majority of districts in a state.

For this section we divided all school districts into two groups per state. The first group is comprised of the middle 80 percent of districts in the state in terms of revenues per student. The second is comprised of the richest and poorest deciles (top and bottom 10 percent of school districts) in the state. The first group characterizes the overall level of funding equality in the state, while the second group illustrates the extremes of inequality between the richest and poorest districts in each state. Table 2 on page 5 shows per student resources for the median school district and for those at the 10th and 90th percentiles. Table 3 on page 6 shows median per student resources for the top and bottom deciles in each state.

In terms of median revenues per student for the middle 80 percent of school districts, Illinois ranked 24th highest among US states and

TABLE 2. Distributions of Revenues Per Student in U.S. States							
Inner 80% of Districts							
	Maximum	Minimum					
	(90th	(10th					
	percentile of	percentile of					
State (Rank)	all districts)	all districts)	Median				
District of Columbia (1)	\$29,029	\$29,029	\$29,029				
Alaska (2)	\$43,180	\$14,671	\$25,449				
New York (3)	\$28.422	\$16,443	\$20,421				
Wyoming (4)	\$33.446	\$16,409	\$19,884				
New Hampshire (5)	\$30,290	\$12,996	\$17,960				
Connecticut (6)	\$24,227	\$15,046	\$17,517				
New Jersey (7)	\$23,310	\$14,586	\$17,299				
Vermont (8)	\$22,934	\$12,942	\$16,433				
Massachusetts (9)	\$24,021	\$12,946	\$16,274				
Rhode Island (10)	\$20,902	\$13,391	\$15,929				
Maryland (11)	\$17,467	\$13,512	\$14,977				
North Dakota (12)	\$24,672	\$11,381	\$14,806				
Pennsylvania (13)	\$18,051	\$12,444	\$14,582				
Delaware (14)	\$19,200	\$12,103	\$14,526				
Maine (15)	\$22,051	\$11,285	\$14,445				
Nebraska (16)	\$19,655	\$11,834	\$14,388				
Hawaii (17)	\$13,917	\$13,917	\$13,917				
Wisconsin (18)	\$16,783	\$12,097	\$13,405				
Montana (19)	\$25,122	\$8,995	\$13,234				
New Mexico (20)	\$22,288	\$9,888	\$13,221				
Nevada (21)	\$43,891	\$9,606	\$12,361				
Minnesota (22)	\$14,987	\$10,442	\$12,260				
lowa (23)	\$14,187	\$10,825	\$12,181				
ILLINOIS (24)	\$17,797	\$9,930	\$12,140				
Kansas (25)	\$14,739	\$10,051	\$11,830				
West Virginia (26)	\$14,214	\$10,900	\$11,753				
Ohio (27)	\$15,875	\$9,909	\$11,553				
Colorado (28)	\$18,174	\$9,077	\$11,378				
Washington (29)	\$20,095	\$9,616	\$11,349				
Louisiana (30)	\$19,762	\$9,705	\$11,226				
Texas (31)	\$16,989	\$9,468	\$11,203				
Indiana (32)	\$13,156	\$9,801	\$11,097				
Virginia (33)	\$13,593	\$9,304	\$10,864				
South Dakota (34)	\$14,589	\$9,065	\$10,714				
Oregon (35)	\$21 <i>,</i> 538	\$9,087	\$10,685				
Georgia (36)	\$12 <i>,</i> 588	\$9,284	\$10,479				
Michigan (37)	\$13,280	\$9,165	\$10,428				
South Carolina (38)	\$13,517	\$8,779	\$10,329				
Arkansas (39)	\$12,867	\$9,097	\$10,313				
Missouri (40)	\$14,333	\$8,607	\$10,260				
Kentucky (41)	\$12,068	\$9,261	\$10,207				
North Carolina (42)	\$12,116	\$8,761	\$10,166				
California (43)	\$20,845	\$8,219	\$10,006				
Florida (44)	\$11,606	\$9,011	\$9,948				
Alabama (45)	\$11,422	\$8,828	\$9,692				
Arizona (46)	\$25,400	\$7,068	\$9,583				
Mississippi (47)	\$11,799	\$8,034	\$9,393				
Utah (48)	\$14,476	\$6,774	\$9,089				
Oklahoma (49)	\$12,276	\$7,704	\$8,963				
Idaho (50)	\$15,512	\$6,936	\$8,931				
Tennessee (51)	\$9,876	\$7,665	\$8,472				

TABLE 3. Distributions of Revenues Per Student in U.S. States								
	Lowe	st Decile	Highest Decile					
		Rank		Rank				
State (Rank)	Median	(High to Low)	Median	(High to Low)				
Alabama	\$8,461	40	\$12,720	48				
Alaska	\$10.938	14	\$49,533	3				
Arizona	\$6.680	50	\$163.663	1				
Arkansas	\$8.843	35	\$14.135	40				
California	\$7.836	44	\$41.009	6				
Colorado	\$8,715	38	\$21,641	23				
Connecticut	\$14,525	3	\$25,407	19				
Delaware	\$10,537	18	\$20,007	25				
Florida	\$8.926	32	\$12,761	47				
Georgia	\$8.892	34	\$13.757	44				
Hawaii	\$13,917	5	\$13,917	43				
Idaho	\$6,743	49	\$22,622	21				
ILLINOIS	\$9,465	23	\$20,538	24				
Indiana	\$9,465	24	\$14,033	41				
lowa	\$10,629	17	\$15,514	38				
Kansas	\$9,745	21	\$16,518	33				
Kentucky	\$9,022	30	\$13,018	45				
Louisiana	\$9,451	25	\$24,818	20				
Maine	\$9,809	20	\$26,627	15				
Maryland	\$13,193	7	\$18,921	28				
Massachusetts	\$12,453	8	\$28,279	11				
Michigan	\$8,962	31	\$15,707	37				
Minnesota	\$10,069	19	\$16,760	32				
Mississippi	\$7,788	45	\$12,528	49				
Missouri	\$8,325	41	\$16,474	34				
Montana	\$8,311	42	\$31,120	9				
Nebraska	\$11,303	13	\$21,920	22				
Nevada	\$9,322	26	\$90,130	2				
New Hampshire	\$12,045	10	\$41,961	5				
New Jersey	\$14,088	4	\$26,074	16				
New Mexico	\$9,289	27	\$31,949	8				
New York	\$15,619	2	\$33,730	7				
North Carolina	\$8,553	39	\$12,957	46				
North Dakota	\$10,857	15	\$28,804	10				
Ohio	\$9,595	22	\$19,166	27				
Oklahoma	\$7,266	47	\$14,013	42				
Oregon	\$8,753	37	\$27,400	13				
Pennsylvania	\$12,019	11	\$19,415	26				
Rhode Island	\$13,284	6	\$25,970	17				
South Carolina	\$8,121	43	\$14,798	39				
South Dakota	\$8,809	36	\$17,859	30				
Tennessee	\$7,454	46	\$10,437	50				
Texas	\$9,163	28	\$25,516	18				
Utah	\$6,756	48	\$16,827	31				
Vermont	\$12,368	9	\$27,255	14				
Virginia	\$8,896	33	\$16,021	35				
Washington	\$9,150	29	\$28,192	12				
West Virginia	\$10,778	16	\$16,002	36				
Wisconsin	\$11,743	12	\$18,303	29				
Wyoming	\$15,877	1	\$42,129	4				
Data: 2012 Census of Governments								

Washington DC. In terms of the median revenues per student of the poorest 10 percent of school districts, Illinois had the 23rd highest median at \$9,460. In terms of the richest decile, Illinois had the 24th highest median.

Figure A illustrates this visually. It shows the distributions of the inner 80 percent of school districts in each state ordered by the difference between the 90th 10th and percentiles, smallest to largest. The triangle illustrates the median per student resources, while the length of the line illustrates the difference between the top 10 percent and the bottom 10 Illinois ranked 21st percent. highest in that difference. These figures indicate that differences in available resources per student within Illinois are comparable to differences within other states.

How much does the State of Illinois contribute to local K-12 education?

We know that many Illinois students would not have access to sufficient resources for a



quality education without a redistributive mechanism. The state of Illinois has a complicated system that distributes state revenues to local school districts. The system has a number of elements, and often analyses We calculated the relative state contribution as a rate given by dividing state revenues by the sum of state and local revenues for each district. A district with a contribution rate of 50 percent, then, would receive \$1 in state funding

TABLE 4. State, Local and Federal Funding in Illinois and the U.S. (\$ in billions)							
	State	Local	Federal	Total			
Illinois	\$9.7 (35%)	\$15.7 (56%)	\$2.6 (9%)	\$28.0			
U.S.	\$266.0 (44%)	\$268.7 (44%)	\$73.4 (12%)	\$608.1			
Data: 2012 Census of Governments							

for every \$1 of locally raised funds. Notice that this calculation does not include federal funding. There are two reasons we have excluded federal money from our calculation. First, these funds are not distributed

look only at one part or another, but not at the system in its entirety. In this section, we describe relative state contribution rates for Illinois school districts. **Table 4** compares state, local, and federal funding in Illinois to that in the entire U.S. at the discretion of state lawmakers, and so are not a focus of this paper. Second, federal monies account for a small portion of the overall funds in the system.

Figure B on page 8 shows the distribution of Illinois relative state contribution rates. On average, Illinois spends \$0.62 for every \$1.00 in



locally raised revenues, with a minimum state contribution of \$0.09 for every \$1.00 of locally raised revenues, and a maximum of \$19.00 for every \$1.00 of locally raised revenues. Twentytwo percent of Illinois students attend school districts with a state subsidy rate greater than 50 percent.

It may be the case that larger school districts generate more revenues per student than do small districts. If this were true, comparisons of revenues across large and small districts would be problematic, since differences in revenues per student would not simply be due to local wealth and state policy. To determine if this were an issue, we ran a linear regression of revenues per student on number of students and determined that there is little correlation between school district size and per pupil resources. The analysis indicates that only 2 percent of the variation in revenues per student across districts can be explained by variation in district attendance.

So far we have focused on the majority of school districts and avoided looking at the extreme districts. However, looking at the extremes – the districts with the highest and lowest relative state contribution rates for each type of district, can offer some insight. (We also added Chicago Public School District 299 because it is the largest district in the state.)

TABLE 5a. City of Chicago School District 299						
Students	405,644					
	\$ in 2010-2011 School Year	% of Total Revenues				
Total Revenues Per Student	\$13,957					
State Revenues	\$5,498	39%				
Local Revenues	\$5,700	41%				
Federal Revenues	\$2,758	20%				
Data: 2012 Census of Governments						

TABLE 5. Extremes in Relative State Contribution, by Type of District, Plus Chicago								
District Name	County	District Type	Total Revenues Per Student	Total State Revenues Per Student	Total Local Revenues Per Student	Total Federal Revenues Per Student	State Contribution Rate	Relative State Contribution Order
Pembroke CC School District 259	Kankakee	Elementary	\$14,941.78	\$9,849	\$1,442	\$3,651	87%	1
Bannockburn School District 106	Lake	Elementary	\$35,451.78	\$3,152	\$31,548	\$751	9%	376
Webber Township HS District 204	Jefferson	High School	\$11,851.35	\$8,095	\$2,953	\$804	73%	1
Lake Forest Comm HS District 115	Lake	High School	\$28,201.96	\$3,388	\$24,357	\$456	12%	97
East St. Louis District 189	St. Clair	Unit	\$15,900.65	\$11,899	\$594	\$3,407	95%	1
Byron Comm Unit School District 226	Ogle	Unit	\$17,991.34	\$2,564	\$14,489	\$938	15%	377
Chicago Unit District 299	Cook	Unit	\$13,957.00	\$5,498	\$5,700	\$2,258	49%	

Table 5 shows how districts without localrevenues receive more state aid, and vice versa.And it shows that in terms of funding, Chicagoschools are very average.

Chicago School District 299 accounts for nearly 20 percent of all the students in the state. It is

very close to the state median in terms of state and local revenues per student as shown in **Table 5a**.

Figure C shows the relationship between local property tax revenues and the relative state contribution rate. Generally, the pattern



observed (the lower the local revenues per student the higher the state contribution) is due to the state's foundation formula, which determines state subsidies based on local property wealth. Poor districts receive significantly more state revenues than do rich districts. It is important to note, however, that the minimum state contribution rate is \$0.09 for every \$1.00 of locally raised revenues. Even the wealthiest districts in Illinois receive some state funds.

Conclusions

In terms of total resources available to K-12 education, Illinois is neither the richest nor the poorest state in the US. Indeed, on most measures of funding levels, Illinois falls near the middle. Illinois schools do differ in terms of resources available, but those differences are not exceptional compared to differences across the US. Finally, the state devotes significant resources to closing the gap between the richest and the poorest districts, paying more than half the costs of educating about a quarter of Illinois students.

ENDNOTES

- ¹ Using average daily attendance during the 2010-2011 school year.
- ² "Rankings and Estimates: Rankings of the States 2012 and Estimates of School Statistics 2013." <u>http://</u> www.nea.org/home/54597.htm. National Education Association, December 2012.
- ³ "Rankings and Estimates: Rankings of the States 2004 and Estimates of School Statistics 2005." <u>http://www.nea.org/assets/docs/HE/05rankings.pdf</u>. *National Education Association*, December 2012. The difference between 22nd and 26th should not be considered significant.

- ⁵ US Census Bureau Data. <u>http://www2.census.gov/govs/school/elsec11.txt</u> Analysis by author.
- ⁶ BallotPedia. <u>http://ballotpedia.org/California_Proposition_13_%281978%29</u>
- ⁷ Eric Hanushek and Alfred Lindseth. Schoolhouses, Courthouses, and Statehouses. Pinceton and Oxford: Princeton University Press. 2009. Page 65.

⁴ Ibid.

FIXING ILLINOIS: POLITICS AND POLICY IN THE PRAIRIE STATE

By Jim Nowlan and Tom Johnson

In May, the University of Illinois Press released Fixing Illinois: Politics and Policy in the Prairie State. The authors are both former presidents of the Taxpayers' Federation of Illinois. The book is a primer on Illinois state government, with 98 recommendations for policy change. Below are excerpts from the chapter on Economic Development, with recommendations as numbered in the book; endnotes are not shown.

From Fixing Illinois: Politics and Policy in the Prairie State. Copyright 2014 by the Board of Trustees of the University of Illinois. Used with permission of the University of Illinois Press.

The Illinois economy is struggling. The state's finances are a shambles of debt and unfunded obligations. In April 2014 the state's unemployment rate was 7.1 percent, 43rd among the states. From the worst employment peak of November 2000, Illinois lost 655,700 jobs and had regained only 221,400 of those jobs by March 2014. The state's image has been battered by the fact that four of Illinois's past seven governors have served prison time for public corruption or white-collar crime.

"The situation is currently as bad as I have ever it." declares veteran seen economic development professional Steve McClure, referring to the state's environment for building the economy. "I think people should appreciate that businesses in the state don't have to stay here."

Politics and Policy in the

"We have to improve, if nothing else, the image of Illinois," says David Vite, former president of the Illinois Retaile Merchants J. ThorFlorida ranked twenty-ninth at \$1.82 per \$100 Association.

We asked the Illinois economic development professionals what the state could do to improve its business climate. They responded with these recommendations:

- Reduce workers' compensation liability insurance costs;
- Reduce the corporate income tax rate;
- Put the state's fiscal house in order;
- Provide stability and predictability about the future; and
- Change the perception that Illinois is a corrupt state in which to do business.

Illinois ranked fourth-highest in the country in 2012 in workers' compensation rates for injured workers, at \$2.83 per \$100 dollars of compensation and 151 percent of the median for the states. Neighboring lowa ranked thirtysixth at \$1.90 per \$100 dollars of compensation, and Indiana was forty-ninth at \$1.16.

of payroll, and Texas ranked thirty-eighth at

\$1.60 per \$100. This means that an Illinois firm with 100 employees at an average per capita payroll of \$50,000 pays \$50,500 more annually in workers' compensation insurance premiums than a Florida employer and \$61,500 more than a Texas employer.

In 2011 the Illinois legislature made changes to the workers' compensation law, and rates came down 13 percent by 2013, yet more needs to be done. For example, the changes did not alter the causation standard according to which the employer is responsible for the entire medical and disability costs of an injury, even if the workplace contributed absolutely nothing to its cause. All that lawyers for the injured have to do is persuade the arbitrators that the workplace "might have" or "could have been" a contributor to the injury, even if the injury occurred outside the workplace.

43. Follow twenty-nine states and enact a law that requires the workplace to be the prevailing or primary cause of an injury before claims are compensable.

State government budget woes also worry business owners. Illinois has more than \$120 billion in unpaid bills and unfunded pension and healthcare obligations, more than any state in the nation; this level represents more than \$9,000 in debt for every person in Illinois. Business leaders who think about locating in, or moving from, Illinois are concerned that further tax hikes on business may be required in the future to address the massive debt problem facing the state. A theme that ran through many of the responses to our survey: businesses planning to make long-term commitments in a community and state want the peace of mind of knowing that the political system will stay level-headed and stable for the duration. They want one less thing to worry about.

The issue of predictability and stability for the future was the focus of an April 2013 conference at the Federal Reserve Bank of Chicago about state fiscal policies and economic growth. Northwestern University economist Therese McGuire observed that "evidence is mounting that fiscal policy uncertainty can be harmful to the economy by making businesses cautious to invest. consumers unwilling to make purchases and financial institutions unwilling to lend." McGuire went on to quote corporate executives who had told her several years earlier that "[c]ertainty/predictability in state taxes is much more important in business location and hiring decisions than is the level of state taxes."

In 1994 Illinois adopted what are commonly referred to as the "sunset laws." Any sales or income tax exemption or credit enacted after that date would automatically expire on the five-year anniversary of its enactment. We believe this provision negatively impacts two cornerstones of a good tax system predictability and stability.

For example, the state's temporary research and development tax credit of 6.25 percent was re-enacted in 2012 for another five years. Yet business tax departments can only wonder if it will be there after the five-year period expires.

45. Repeal the automatic tax sunset laws and replace them with a permanent joint committee of the General Assembly that would provide ongoing review of our overall state and local tax structure.

In 2013, the Illinois legislature created a business advisory committee to help the director of the Illinois Department of Commerce and Economic Opportunity, which is to meet twice a year. The committee's sole responsibility is to oversee the devising of an economic development plan for the state.

In 2005 Indiana established a much more robust way of involving business leaders in that state's economic development activities through the creation of the Indiana Economic Development Corporation (IEDC) and the Indiana Economic Development Foundation. The governor appoints members to and himself chairs the governing board of the corporation, which comprises leading CEOs of major companies as well as heads of smaller entrepreneurial companies.

The IEDC board must approve investments from the Twenty-First-Century Research and Technology Fund, a \$40 million fund that invests in new, often technology-oriented ventures. The fund issues loans that can be converted into stock of the new ventures. The IEDC board also must approve any business incentive project deals of more than \$3 million that come from the several somewhat typical economic development incentive programs operated by the state Department of Commerce.

Since the governor chairs the quarterly meetings of the IEDC, participation by the business leaders on the board is strong. The related foundation, a 501(c)(3) nonprofit corporation, raises money from private sources, largely from utility companies that benefit directly from new business in the state. The foundation can spend money in ways state government cannot; for example, it can purchase tickets to sporting events and provide other amenities when hosting new business prospects.

According to Eric Shields, policy director for the IEDC, state government leaders are pleased with this private-public partnership, which is free from much state regulation and thus has proved to be nimble and highly responsive to interest from businesses. In addition, the perspectives of the business leaders have been of significant value to the governor in his economic development work as well as that of the state Department of Commerce.

46. Create a true private-public partnership between the Illinois governor and the business community by creating a somewhat independent business development corporation along the lines of the IEDC and its Foundation.

Water: Illinois' ace in the hole?

As many readers wring their hands over an apparently bleak future for Illinois, we may have a long-term ace in the hole—water. We would be wise to manage our great water resources well, while much of the rest of the United States dries up.

Over the course of the past three decades, Illinois has lost a great number of generally prosperous and well-educated residents to the South and the Southwest. But severe water shortage problems are developing there, particularly in the Southwest. The water level in the great artificial reservoir Lake Mead (in southern Nevada, below the Hoover Dam) has been dropping since 1980 and is now near a level at which the federal government will start cutting the amounts of water going to Arizona and Nevada.

Predictive models of the consequences of global warming suggest further parching of the Southwest and the West in the decades to come. And "[c]limate models that predict drying for the Southwest also prophesy wetter times in the upper Midwest," according to William deBuys, author of A Great Aridness: Climate Change and the Future of the American Southwest. Water prices will undoubtedly rise rapidly in drying areas and restrictions on usage may become uncomfortable, even unacceptable. People and business may begin to trickle back to Illinois—if we are ready for them.

"We are still a water-rich state. Come join us," declares H. Allen Wehrmann, retired head of the center for groundwater science at the Prairie Research Institute at the University of Illinois. We have the Great Lakes, which account for 20 percent of the world's fresh water, as well as rivers and aquifers with copious amounts of water.

In 2006 Rod Blagojevich promulgated an executive order that created a statewide water planning program, and the scientists and engineers have projected water demand to 2050. Their work counts three million more people in the metropolitan Chicago area by 2050; nevertheless, the water supplies should be quite adequate if there is good planning and management. The state now has the Illinois Water Inventory Program, yet is has not been funded by the state in recent years.

Lake Michigan provides the drinking water for Chicago and many suburbs, though the amount of draw-down is limited by a U.S. Supreme Court decision from the 1960s. Nevertheless, the amount of Lake Michigan water allocated should be adequate to serve customers until 2050, again so long as responsible conservation and planning measures are implemented.

The suburbs on the outer rim of metropolitan Chicago are not able to hook into Lake Michigan water, so these generally growing suburbs worry about their future sources. Even in their case there should not be any major problems if there is planning for the future that includes conservation as well as the development of additional surface water resources, for instance, the Fox and Kankakee Rivers. Downstate has vast untapped water resources from surface water—think the Mississippi and Illinois Rivers, among others—and from shallow sand and gravel aquifers.

Wars have been fought over water throughout history. The precious nature of water is obvious, except maybe to those of us who take our riches for granted. As Wehrmann observes, "You can't do good planning if you don't know how much water you're using now."

56. Support and fund the statewide water planning work into the future.

Focusing on Fundamental Factors

"Economic developers have reached a turning point," say Steven Koven and Thomas Lyons, "from a focus on attracting firms and toward a new emphasis on attracting the people who can create and sustain businesses with their knowledge and skills." For example, says entrepreneur Aksh Gupta, rather than provide a struggling mature company with \$150 million in tax benefits, "Give \$30,000 to 5,000 small companies to encourage them to locate in Illinois."

Michigan governor Rick Snyder is shifting economic development incentives in his state from "hunting" for relocating business to "economic gardening" at home in support of businesses with the potential to grow. Snyder is using a venture capitalist's approach to state-level economic development. Venture capitalists are in the business of finding promising companies and helping them grow by investing the right amount of money at the right time. Snyder has, in some cases, done away with long-term tax credits and property tax abatements and replaced them with shortterm financial assistance.

57. Shift state economic development from a focus on recruiting outside business to one of recruiting talented people to incubators such as 1871 in Chicago. Further, provide short-term financial support at critical periods in a business's growth rather than long-term tax credits and abatements.

At the conference held at the Federal Reserve Bank of Chicago discussed above, the economist Therese **McGuire** auoted executives who observed, "Firm-specific tax breaks are viewed as not only unfair but also a signal of a weak, if not desperate, government." According to Koven and Lyons, who base their observations on a survey of economic development studies, "With few exceptions, incentives will not effectively influence firm location decisions. The truly important factors in business location decisions are transportation considerations, labor quality and markets." In order to contribute to an business climate that encourages and attracts entrepreneurs, Koven and Lyons say, the following factors are important:

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- Educational resources, especially higher education
- Quality of labor
- Quality of government
- Telecommunications, and
- Quality of life

Illinois is rich in educational resources, quality of labor, and telecommunications. The state's quality of life overall is decent, though the winters can be long and cold. Illinois has faltered in the quality of its government, as has been noted throughout this book. The present governor and future governors, as well as the legislature, will have to work assiduously to straighten out state finances and provide for a stable, predictable fiscal future.