



Money Matters:

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

For:

Wednesday, October 28, 2009

Illinois State Board of Education – Budget Hearing

Crowne Plaza Hotel, Plaza Room H

3000 South Dirksen Parkway

Springfield, Illinois

Presented by:
Ralph Martire
Executive Director

1



THE CONTEXT:

BIG 'N RICH

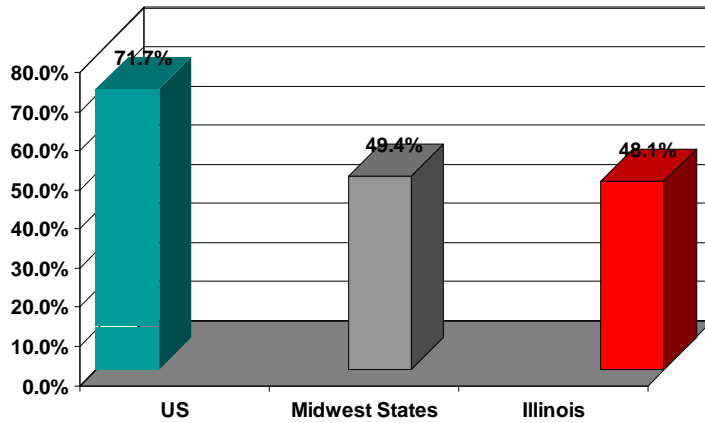


- **IN 2008, ILLINOIS RANKED FIFTH NATIONALLY WITH A GROSS STATE PRODUCT IN EXCESS OF \$633 BILLION (BEA).**
- **THAT WOULD BE THE 27TH LARGEST ECONOMY OF ANY NATION IN THE WORLD- GREATER THAN EGYPT, SAUDI ARABIA, COLOMBIA, BELGIUM, SWEDEN, GREECE, IRELAND, PORTUGAL, NORWAY AND NIGERIA, TO NAME A FEW.**

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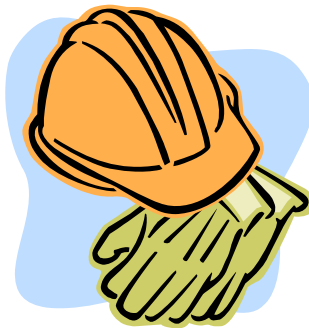
ILLINOIS GDP GROWTH LAGS

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%).**



LOW-END SERVICE
JOBS GROW

FOR OVER TWO DECADES NOW:

- **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**

5

IS ILLINOIS PROFLIGATE?

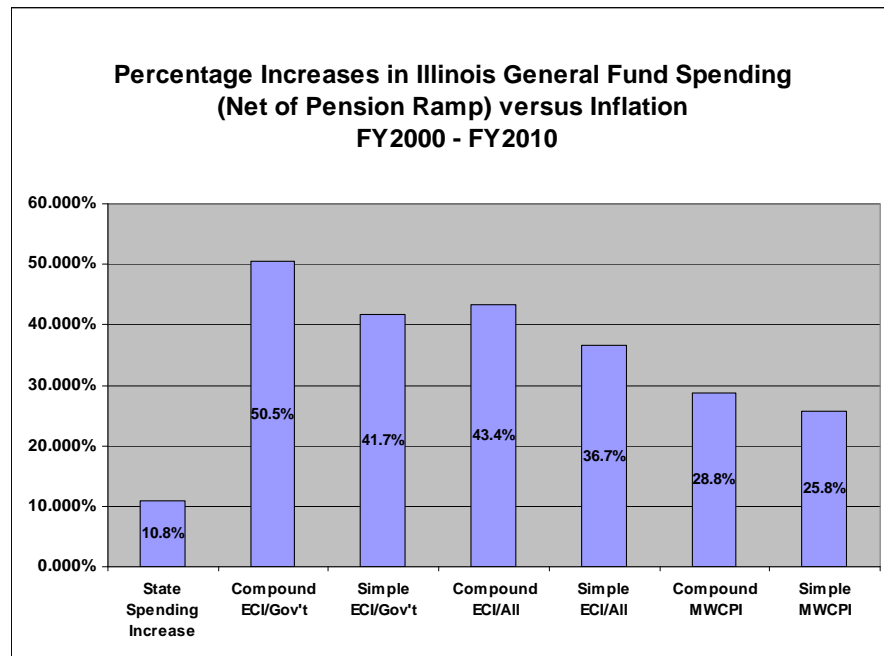
WHY THE ECONOMIC PROBLEMS? —NOT WASTEFUL SPENDING

Real Changes in General Fund Spending
FY2000 - FY 2010

| Category | FY 2000 Actual | FY 2000 Adj to FY 2010 (MW CPI) | FY 2010 Enacted | Diff FY 2000 Adj - FY 2010 (MW CPI) | FY 2000 Adj to FY 2010 (ECI) | Diff FY 2000 Adj - FY 2010 (ECI) |
|--------------|-------------------|--|--------------------|--|---------------------------------------|---|
| General Fund | \$21,294 | \$27,429 | \$26,085 | (\$1,344) | \$30,536 | (\$4,451) |
| Education | \$7,957 | \$10,250 | \$9,309 | (\$941) | \$11,411 | (\$2,102) |
| Health Care | \$5,022 | \$6,469 | \$7,896 | \$1,427 | \$7,202 | \$694 |
| Pension | \$1,230 | \$1,584 | \$3,587 | \$2,003 | \$1,764 | \$1,823 |
| Human | | | | | | |
| Services | \$3,456 | \$4,452 | \$3,934 | (\$518) | \$4,956 | (\$1,022) |
| All Other | \$3,629 | \$4,675 | \$1,359 | (\$3,316) | \$5,204 | (\$3,845) |

6

NOT SO MUCH!



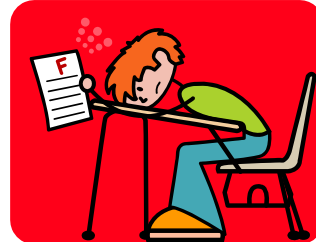
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**ILLINOIS IS LOW TAX
OVERALL**

- **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)**

8

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.**

IMPACT OF EDUCATION ON WAGES

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

STILL SEPARATE. . . .

- **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)

... STILL UNEQUAL

- **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:**

| | |
|------------------------------|--------------|
| PROPERTY TAX | 38% |
| SALES TAX | 17% |
| EXCISE TAX | 17% |
| INDIVIDUAL INCOME TAX | 16.2% |
| OTHER | 7.4% |
| CORPORATE INCOME TAX | 4.4% |

SOURCE: FEDERAL TAX ADMINISTRATORS DATA

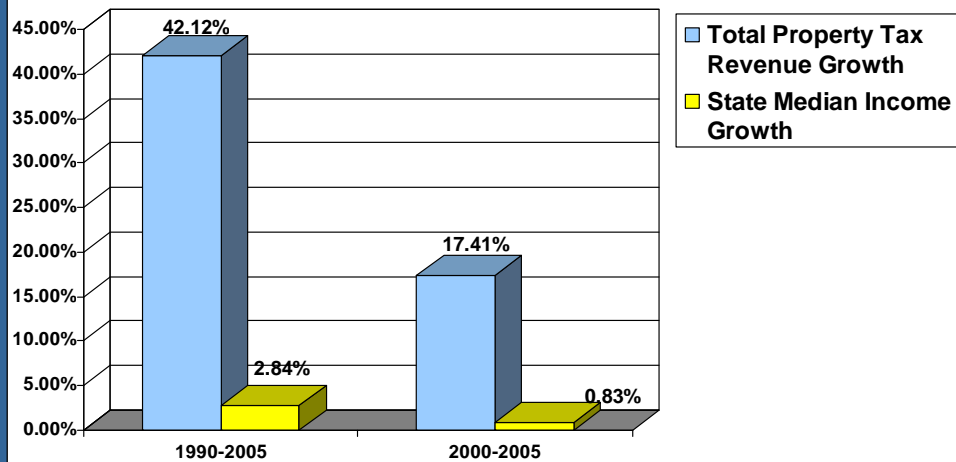
- **THIS MAKES ILLINOIS THE 6TH MOST RELIANT STATE ON PROPERTY TAX REVENUE IN THE NATION.**
- **ILLINOIS IS MORE RELIANT ON PROPERTY TAXES THAN FLORIDA, NEVADA, TENNESSEE, ALASKA, SOUTH DAKOTA, WASHINGTON AND WYOMING – WHICH DON'T HAVE INCOME TAXES.**

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

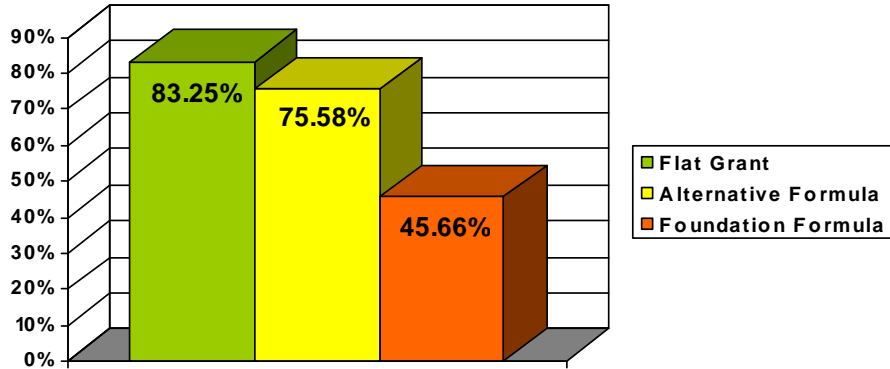


All data inflation adjusted to 2008
 Income Data: US Department of Census
 Property Tax Data: IL Department of Revenue

- **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.**

PROPERTY TAXES

Property Taxes as a Percentage of District Revenue

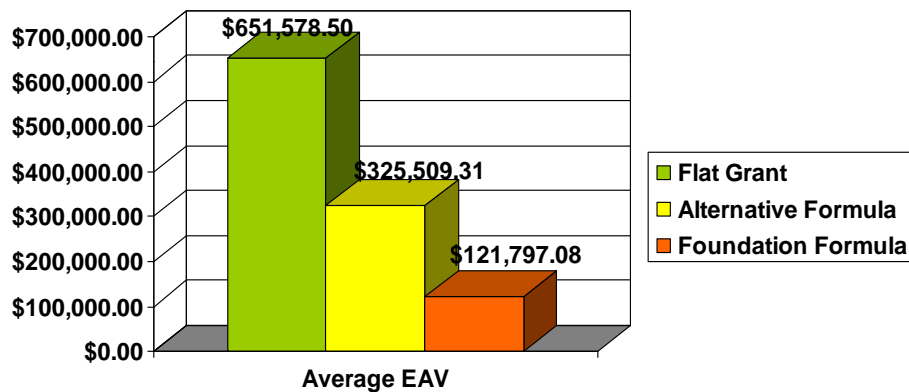


Foundation formula districts receive significantly less than the amount received by flat grant and alternative formula districts in property tax revenue, meaning they rely far more heavily on state support.

<http://www.isbe.net> - "2007 IL Report Card"

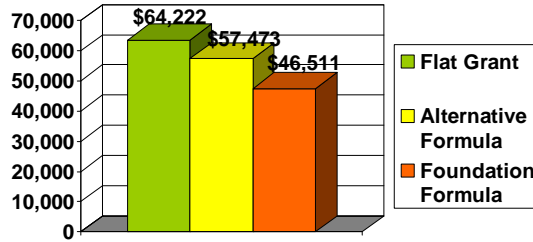
SCHOOL DISTRICT TYPE

Equalized Assessed Valuation by School District Type

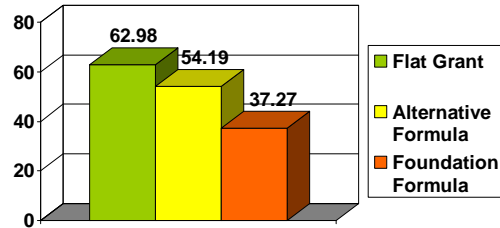


Equalized Assessed Valuation (EAV) is a proxy for a school district's local property wealth available to be taxed. The average EAV of flat grant districts is more than 5 times greater than foundation-formula districts.

Average Teacher Salary



Percentage of Teachers with Masters Degree



<http://www.isbe.net> "2007 Illinois Report Card"

TOTAL AND INSTRUCTIONAL SPENDING DIFFERENTIALS

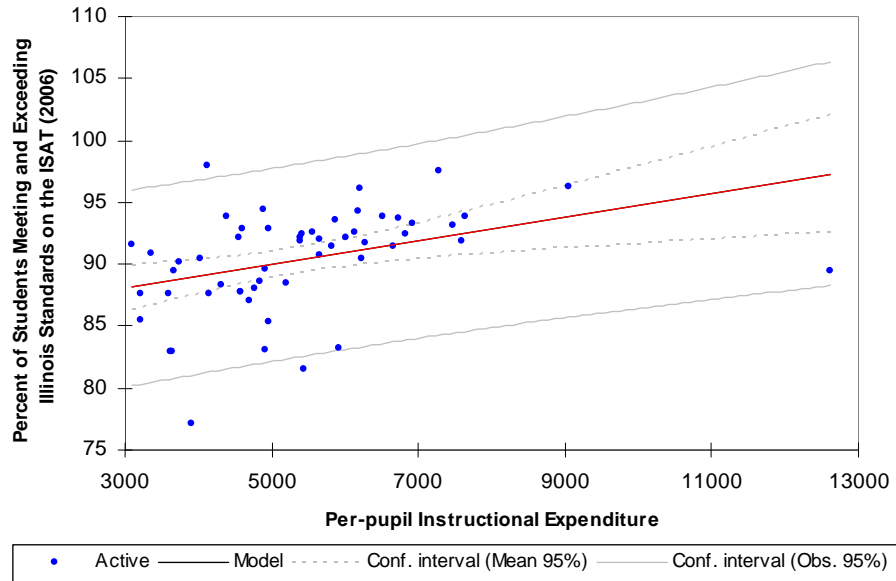
➤ On average, **Flat Grant districts spend \$4186 more** in total per pupil spending than Foundation Formula school districts.

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

<http://www.isbe.net> "2007 Illinois Report Card"

YEAH, \$ DOES APPEAR TO MATTER

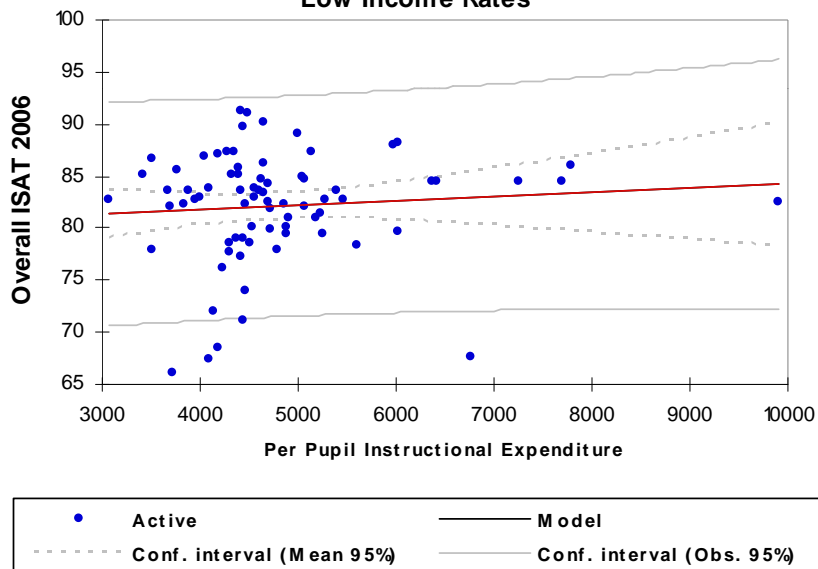
Regression of ISAT Performance Vs. Per-pupil Instructional Expenditure for School Districts with 3-8% Low Income Rates



*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.

YEAH, \$ DOES APPEAR TO MATTER

Regression of ISAT Performance Vs. Per-pupil Instructional Expenditure for Districts with 27-32% Low Income Rates

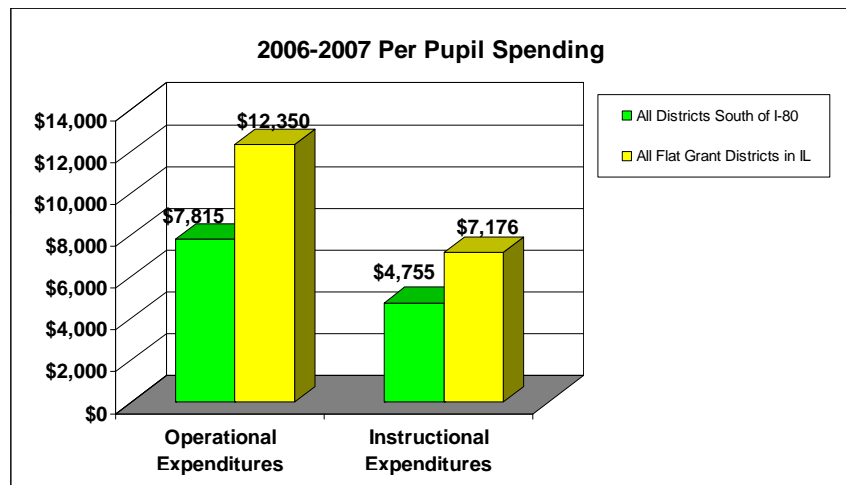


NOT MAKING IT

- **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**

IT IS A STATEWIDE ISSUE



- 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.

THEN THERE'S POVERTY AND ELL

- **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.***

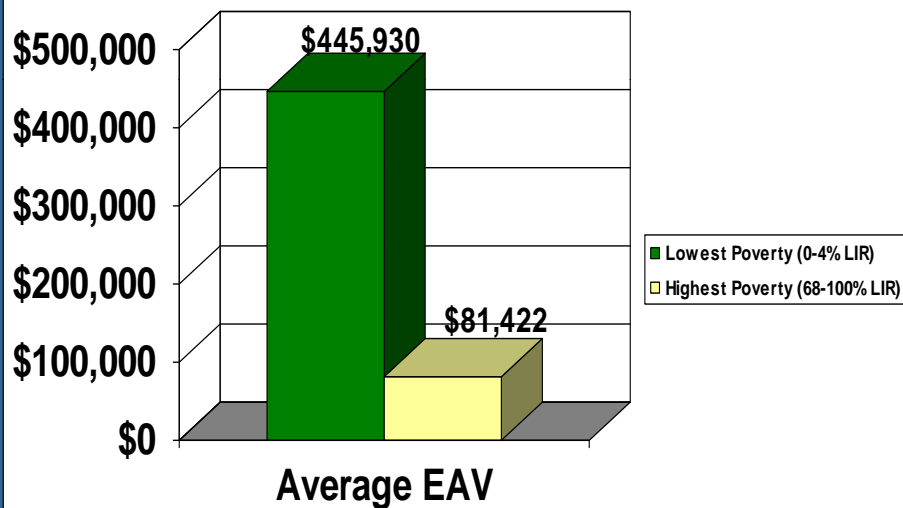
- **AT LEAST 38 STATES PROVIDE SOME POVERTY-BASED FUNDING. RECENT ATTEMPTS TO ENHANCE POVERTY FUNDING WERE UNDERTAKEN IN MARYLAND, NEW YORK, AND RHODE ISLAND.**

- **ELL IS STARTING TO BE RECOGNIZED AS REQUIRING FUNDING ADJUSTMENTS (E.G. NEBRASKA 83% MORE, KANSAS 97% MORE AND NEW YORK 100% MORE)****

*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.

**FROM WILLIAM J. MATHIS, "WILL WE KEEP THE PROMISE, TRENDS IN ADEQUACY STUDIES AND FUNDING RECOMMENDATIONS FOR POVERTY AND ENGLISH LANGUAGE LEARNER STUDENTS: 1999-2008."

Low Income Focus Equalized Assessed Valuation

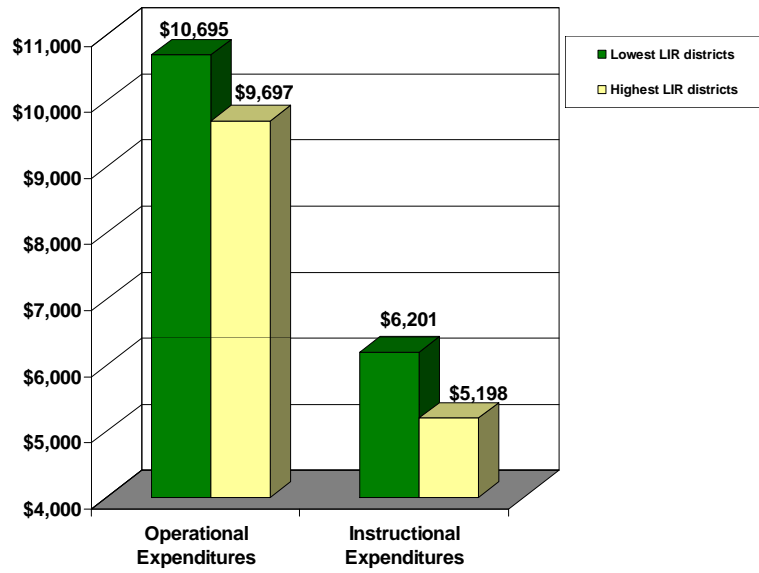


The EAV of school districts with the greatest amount of low income is 5 times less than that of the percentage of the districts with the smallest low income population.

*LIR – means Low Income Rate

LOW INCOME

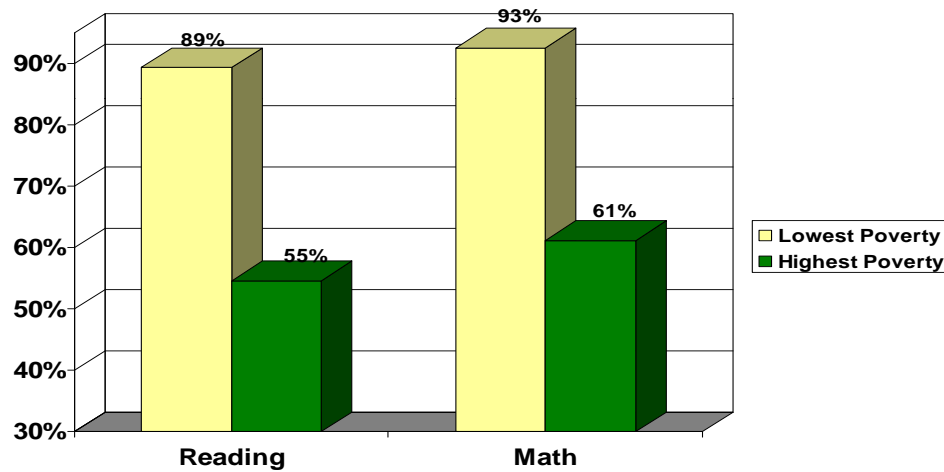
**Per Pupil Spending:
Highest vs. Lowest Poverty Districts**



<http://www.isbe.net> "IL State Report Cards"

MONEY MATTERS

**Percentage of students meeting or exceeding
ISAT Standards (Grade 6, 2006)**

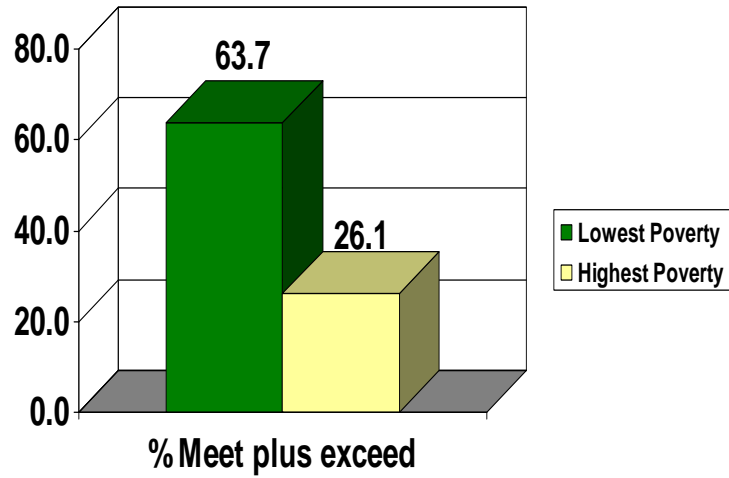


The percentage of students meeting or exceeding ISAT standards in the districts with the lowest levels of poverty is markedly different from those districts with the highest levels of poverty.

<http://www.isbe.net> "2007 Illinois Report Card"

POVERTY MATTERS

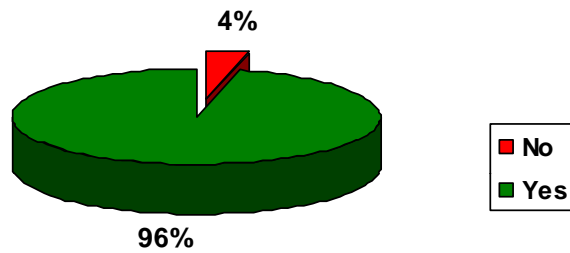
**Percentage Meeting plus exceeding
PSAE (2006)**



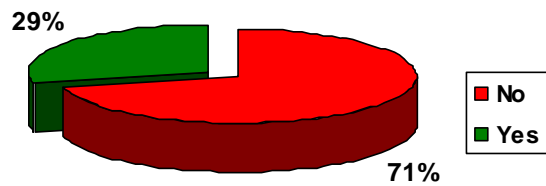
<http://www.isbe.net> "2007 Illinois Report Card"

LOW INCOME MATTERS

Lowest LIR Districts Making AYP



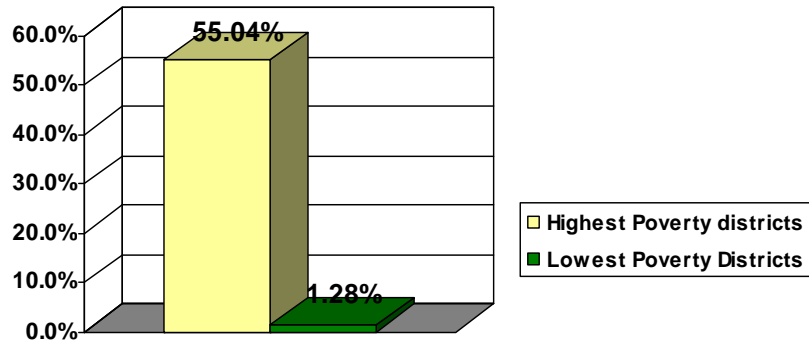
Highest LIR Districts Making AYP



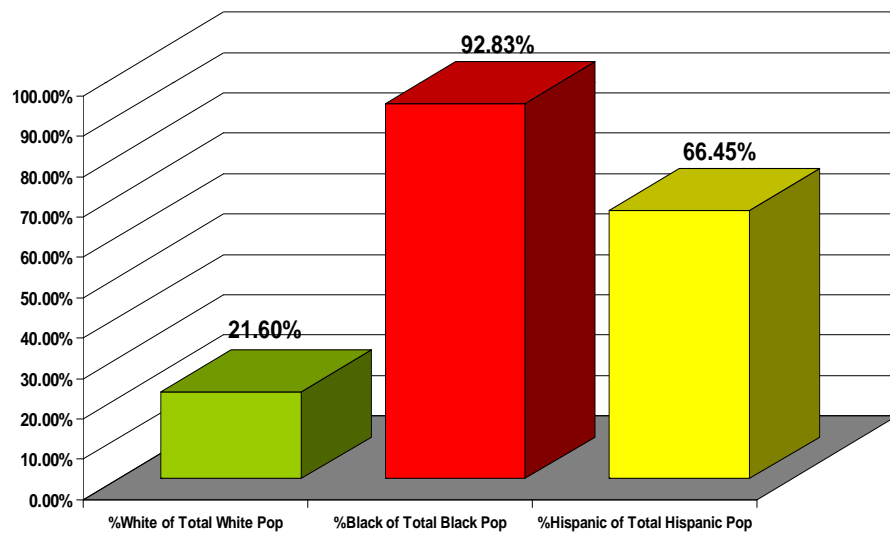
The disparity between those districts meeting AYP corresponds directly to a school district's LIR.

<http://www.isbe.net> "2007 Illinois Report Card"

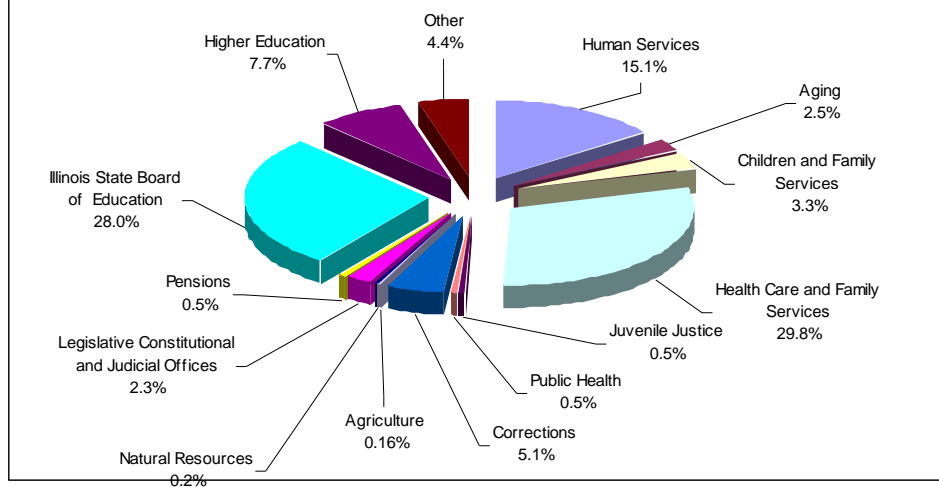
Percentage of African-American Students in High and Low Poverty Schools



Percentage of Students in Districts with Poverty Rate of 30% or Greater



**FY2010 GRF Appropriations by Agency as a Percent of Total
TOTAL GRF: \$26.085 Billion**



Illinois' State FY2010 Budget Breakdown

| | |
|--|--------------------|
| APPROPRIATIONS | \$26.08 B* |
| ONE-TIME, NONRECURRING REVENUES | |
| Debt Proceeds from issuance of five-year Pension Notes | \$3.466 B |
| Federal Stimulus | \$1.843 B |
| Fund Sweeps | \$.356 B |
| Debt Restructuring | \$.600 B |
| TOTAL NONRECURRING REVENUE | \$6.265 B** |

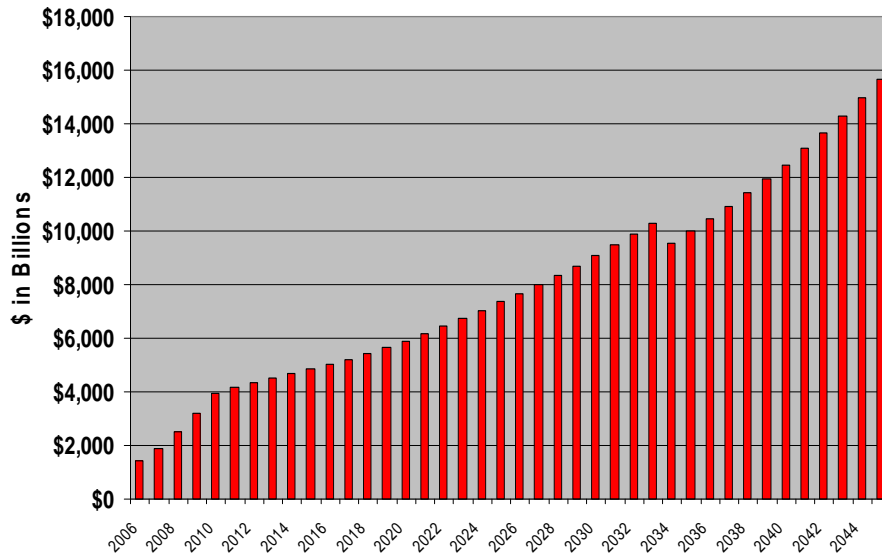
* Note: The FY2010 budget figure does NOT include at least \$3.2 B in past due, unpaid bills carried forward from FY2009—and there is NO revenue source to pay this amount.

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

THE RAMP

MOUNTING PRESSURE

Required Yearly Pension Payments:
FY 2006 - FY 2045



AND WORSE IN 2011....

| Illinois' FY2011 Starting Budget Shortfall—Minimum | |
|---|-------------------|
| Replacement of one-time FY2010 revenues and debt | \$6.265 B |
| First installment of five-year Debt Service on Pension Notes | \$.800 B |
| Carry Forward of Operating Deficits from FY2009/2010 | \$4.0 B |
| Increase in required pension contribution under the Pension Ramp* | 1.2 B |
| TOTAL MINIMUM FY2011 STARTING DEFICIT | \$12.265 B |
| <p>* 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.</p> | |

**ELEMENTS OF A SOUND AND
FAIR FISCAL SYSTEM**

WHAT SHOULD BE:

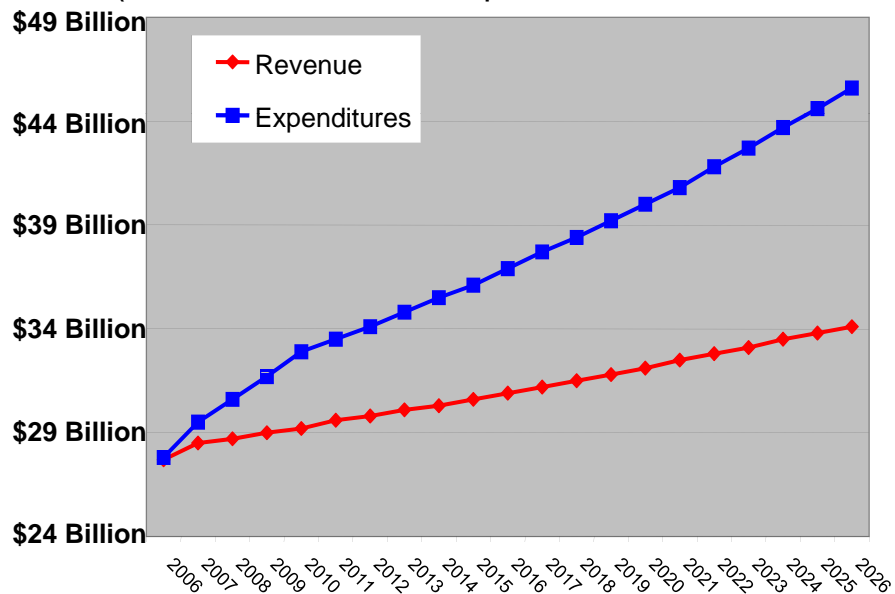
- FAIR** → **PROGRESSIVE**
- RESPONSIVE** → **TO MODERN ECONOMY**
- STABLE** → **DURING POOR ECONOMIES**
- EFFICIENT** → **DOESN'T DISTORT PRIVATE MARKETS**

BUT ISN'T

STRUCTURAL DEFICIT

WHICH CREATES:

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

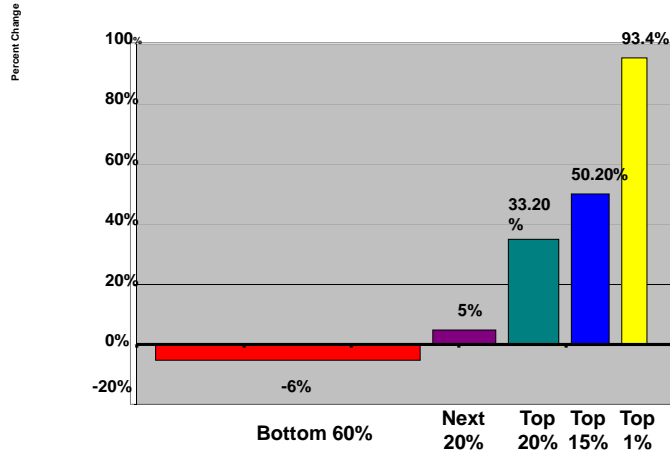


*Adjusts solely for historic rates of inflation and population growth, and assumes normal economic growth.

INCOME INEQUALITY

FAIR? RESPONSIVE?

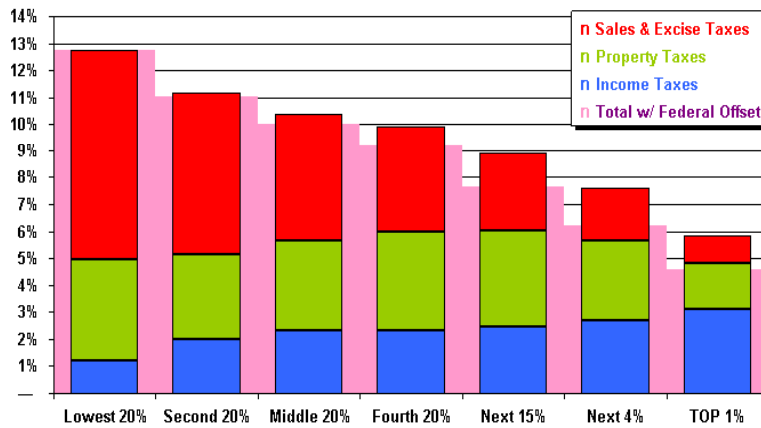
Income Growth in the United States 1979-1999
(Real 1999 Dollars)
*Source U.S. Census Data



REGRESSIVE

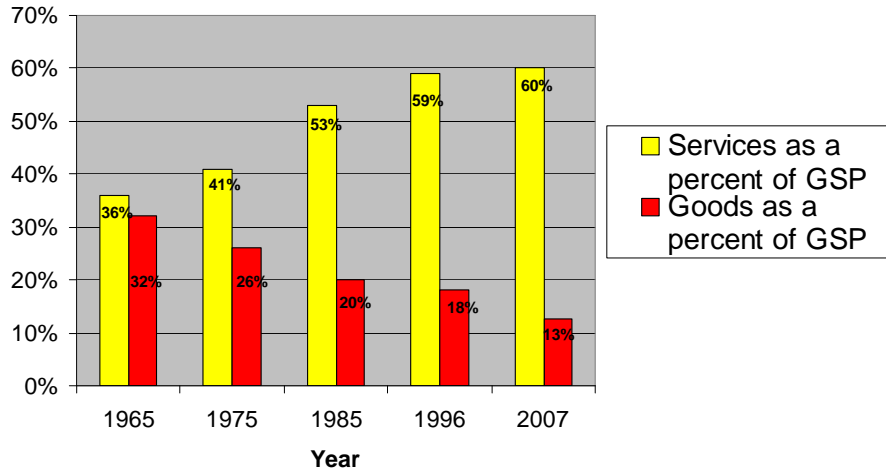
FAIR? RESPONSIVE?

STATE & LOCAL TAX BURDEN AS A PERCENTAGE OF INCOME



| Income Range | Less than \$16,000 | \$16,000 – \$30,000 | \$30,000 – \$48,000 | \$48,000 – \$77,000 | \$77,000 – \$148,000 | \$148,000 – \$295,000 | \$295,000 or more |
|----------------|--------------------|---------------------|---------------------|---------------------|----------------------|-----------------------|-------------------|
| Average Income | \$8,900 | \$22,600 | \$38,500 | \$61,100 | \$101,400 | \$203,600 | \$1,322,100 |
| Tax Burden | 12.7% | 11% | 10% | 9.2% | 7.7% | 6.2% | 4.6% |

Revenues of Goods and Services as a Percent of Gross State Product: Illinois (SIC: 1965 - 1996, NAICS: 2007)



QUINN'S PROPOSAL VS. HB174

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

* 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.

Source: Center for Tax and Budget Accountability calculation based on final FY 2010 revenue assumptions by the Illinois Commission on Government Forecasting and Accountability, obtained August 23rd, 2009, and Illinois Department of Revenue's sale tax impact estimate of \$450 million, obtained August 25th, 2009.

FOR MORE INFORMATION:

**CENTER FOR TAX AND BUDGET
ACCOUNTABILITY**

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