



Jennifer Ross
Director of Education Policy and Initiatives
400 Chatham Road Suite 100-A
Springfield, Illinois 62704
217-638-3175ph
217-698-7678 fax
JMRoss@jdrossandassociates.com

The Illinois Business RoundTable

Memo

From: Lou Mervis, Chairman, IBRT Education Task Force
Jennifer Ross, Director of Education Policy and Initiatives
Date: 4/28/2005
Re: Education Issues Alert—School Finance

SCHOOL REVENUES AND SPENDING

The purpose of this Issues Alert is to examine proposed legislation that would increase state sales taxes and income taxes, and then to reduce local school reliance on the property tax. In this issue, we will examine characteristics of the three primary school revenues—property taxes, income taxes, and sales taxes---by three basic finance criteria: **Reliability**—which revenue source provides the most certainty of funding; **Adequacy**---which revenue source has the most robust growth; and **Sustainability**—will the proposed revenues address school spending needs over time?

For context we have analyzed school revenue growth from local, state, and federal sources from 1986 forward. We have also documented source revenue growth rates—income taxes, sales taxes, and property taxes---over this same period, focusing on a narrower timeframe from 1993 forward. By so doing, we are able to recognize the impacts of property tax caps on the local revenues as they were implemented following the 1992 legislation.

In this context, it must be acknowledged that while overall education revenues from all sources have increased significantly, the overall growth rate in education spending has consistently outstripped the growth rates of all school revenues during this period. The figures will speak for themselves.

Clearly, there are other elements by which to measure our school funding. How will the state assure that more money will improve student learning? If funding equity is a primary state finance goal, should our distribution formula be based on student needs and follow the student directly to the school, rather than the district? Should the state directly bear the burden of school costs, without having greater ability to control the growth and direct the spending? These issues and others related to funding will be examined in future alerts.

We hope this will be helpful in identifying a rationale for school revenue restructuring that is grounded in facts and driven by a vision of the state’s role in improving education throughout Illinois.

Background on Elementary and Secondary Public Education In Illinois

An Overview

By any measure, public education in Illinois is a large enterprise. In 2004, nearly 2.1 million students were enrolled in over 4,000 K-12 public schools. Over 150,000 teachers, administrators and other school personnel were employed in nearly 900 school districts. Nearly \$19 billion in local, state, and federal education was spent on this essential government service, of which local revenues totaled \$9.7 billion; state revenues totaled \$7.3 billion, and federal revenues totaled \$1.9 billion. According to the most recent National Education Association statistics, nationally in 2004 Illinois ranked 8th in teacher salaries (\$52,950), 10th in current expenditures per pupil (\$9,839), and 22nd in student/teacher ratio (15.4).

Education Spending in Illinois 1995-2003

State has led funding increases for education during period

- Analysis of local, State, and Total Illinois School Revenues
Local revenues increased from \$6.5 billion in 1995 to \$9.7 billion in 2003, or 49%
State revenues increased from \$3.8 billion in 1995 to \$6.9 billion in 2003, or 82%
Total revenues increased from \$11.7 billion in 1995 to \$18.9 billion in 2003, or 62%.

State funding for local schools, while higher growth, is far more variable

- Analysis of growth rates of local, state, and total revenues
Local revenues grew on average 5.3%, ranging from 4.20% to 6.75%
State revenues grew on average 7.6%, ranging from -4.14% to 16.6%
Total revenues grew on average 6.3%, ranging from 1.93% to 9.36%

State funding is variable because primary state revenues are variable

- Analysis of primary state revenue sources
Individual income tax revenues grew on average 4.6%, ranging from -6.57% to 11.5%
Sales tax revenues grew on average 4.7%, ranging from -1.14% to 7.45%
Corporate income tax revenues grew on average .63%, ranging from -22.5% to 18.9%

Impact of variable funding on sustainability of proposal

- What happens when state spending decreases?
Overall state funding for education decreased five times in past 25 years (1981, 1982, 1988, 1992, and 2003)
Income tax receipts declined in three of the past four years
Sales tax receipts declined in two of the past four years

Education cost increases make any revenue-only solution unsustainable

- Analysis of Education Funding Advisory Board Recommendations

2002	2003	2004	2006
\$4,560	\$4,680	\$5,665	\$6,405

Average annual increase in education costs: 8.1%
No revenue source exists whose growth rate can match this level of increase

Finding 1 The property tax is the most reliable funding source for education

Finding 2 Variability within the income and sales taxes make the proposal inadequate

Finding 3 The state's inability to control cost growth make the proposal unsustainable