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*The mission of the Center for Governmental Studies includes education of the public on important public policy issues. This article is one in a series of policy briefs designed to provide an objective view of an issue.*

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**Issue:** *Educational Funding in Illinois: Some Thoughts for Reform*

The question of how best to fund public education has plagued Illinois for years. Someone has to pay. The questions are easy to list:

- How much education must be provided to assure equal opportunity for all students?
- Who should pay for that education?
- How much should they pay?

The questions have not proved easy to answer. Educators and government leaders started debating them as long ago as 1905 and they are still searching for answers today.

It is timely now, as the legislature acts to “reup” the state’s present school aid funding formula, to take a longer look at how Illinois funds its public schools and at how that funding impacts the quality of education for Illinois children.

**How is public education funded in Illinois now?**

The responsibility for public education resides within the powers reserved to the states by the federal constitution. Regardless of how much rhetoric is bandied about at the federal level, the majority of funding for public education will remain the responsibility of each state. How the states have individually chosen to accept that responsibility is varied and disparate. The majority of funds for public education (93% for most school districts) are raised through taxes levied — either locally or at the state level — on income, sales, or property.

The 1970 Illinois constitution stipulated that “The state has the primary responsibility for financing the system of public education.” (Art. 10, Sec. 1) However, the Illinois General Assembly has never appropriated sufficient funds to achieve that goal. A statewide constitutional referendum in the early 1990’s, which also would have placed more responsibility for school funding at the state level, received majority support from the voters, but failed because constitutional changes in Illinois require approval by a super-majority of voters. *By default, then, major responsibility for funding public education in Illinois has always been, and remains, at the local level.*

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## Where does the money to fund Illinois public schools come from?

Money to fund public education in Illinois comes primarily from two sources. Most of the money (53% in 2000) comes from property taxes levied by each local school district. On average, about a third of the money (38% in 2000) comes from the state, which derives its revenues for education from state lottery proceeds and from its general fund. The balance comes from federal aid and a mixture of other, non-tax sources. The state's general fund share of the dollars comes from a variety of taxes, but primarily from the state's income and sales taxes.

Local school districts, however, have been limited to the use of only one tax: the property tax. This is where the rub between the public schools and the private citizen emerges.

## What is the problem in relying on the property tax to finance education?

The property tax is a regressive tax: the amount of property tax paid by an individual is not necessarily related to that individual's income. Further, the property tax is the most visible and painful (hardest to pay) tax in both good and bad economic times. Because of these factors, the property tax is the tax most strongly opposed by Illinois taxpayers.

The property tax in Illinois is based on the assessment of property. Property taxes increase in direct proportion to the increase in assessed property values. As the economy grows, the demand for real

estate also grows, property increases in value, and so property taxes go up. Since property values, and hence taxes, may increase faster than incomes, property owners often find a higher and higher percentage of their income going to pay their property taxes. This is exactly what happened during the 1980's Chicago suburban real estate boom. Property values, in some instances, increased at an annual rate of 15-20%, while the consumer price index (CPI) grew at a 5% rate and wages increased 3-5%. It is little wonder that the resulting public outcry forced the legislature to address the question of property tax relief.

The Property Tax Extension Limitation Law (PTELL), better known as *tax caps*, was first enacted in 1991. Initially, it applied only to the Chicago suburban collar counties. These were the same counties that had experienced the most significant real estate value inflation. The legislature extended the mandatory application of the law to suburban Cook County in 1995. Legislative action also allowed the law to be applied to downstate counties on a county-by-county basis by voter referendum. Slowly tax caps have spread over Illinois as a reaction to rising property values and the resulting heavier property tax burdens. Tax caps now are in effect in thirty-five Illinois counties.

The topic of tax caps is discussed at length in the issue of *Policy Profiles* entitled "*Tax Caps: A Look at the Arguments*" published in March 1999. This issue is available from the Center for Governmental Studies by mail or on the web at [www.cgsniu.org](http://www.cgsniu.org).

## How does PTELL, or tax caps, affect education?

The effect is simple. The property tax caps established by PTELL restrict the annual increase in a school district's property tax revenues from existing property to the rate of increase in the consumer price index (CPI) or 5 per cent, whichever is less. The underlying premise is that this rate will keep property tax increases at a rate equal to the increase in taxpayers' incomes, thereby avoiding the geometric rate of increase experienced by suburban property holders in the 1980's.

From a taxpayer's perspective, the tax caps have worked. Property tax growth has slowed dramatically. Property taxes as a portion of an individual's income have either remained constant or declined in capped counties. Property owners now have more control over how much their local schools can spend on education.

On the other hand, many school districts affected by the tax caps have been placed in a bind. Due to factors largely beyond the control of school officials, education costs, especially in rapidly growing school districts, have been increasing at a rate considerably higher than the CPI. This means that schools have had to cut real (constant dollar) spending even while the public has been demanding better performance and accountability from the schools.

School districts, as a result, have been forced to resort to repeated and numerous referenda — some just to maintain their ability to levy the

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maximum tax allowed by law — and many of these referenda have failed as voters continue to rebel against higher property taxes. In the last year, 248 Illinois school districts — more than 25% of all school districts — have held referenda seeking voter permission to levy higher property taxes.

In other words, the Illinois system of education finance places most of the tax burden on a tax — the property tax — that Illinois voters and taxpayers are very reluctant to support. *Thus, raising tax dollars to support education at the local level is difficult and growing ever more so.*

Citizen perceptions and responses to Illinois taxes, and especially to the property tax, are discussed in detail in the issue of *Policy Profiles* entitled “*Citizen Perception of Illinois Taxes*” published in April 2001. This issue is available from the Center for Governmental Studies by mail or on the web at [www.cgsniu.org](http://www.cgsniu.org).

## **How does Illinois try to assure that each child receives equal access to an education?**

To assure that all students have equal access to public education, regardless of the taxable wealth of the local district in which they live, Illinois has devised a school funding formula designed to establish a base level of expenditure per pupil. This base amount, used in state aid calculations for years, is known as the *foundation* level, or the minimum amount that each district should have available to spend on its students. The concept of a foundation level is an appropriate basis

upon which to build the state’s school funding formula.

The foundation level was based on a study of school expenditures in a selected number of districts from around the state. These districts were chosen in an effort to represent the various regions of the state and the variances in cost levels encountered in a diverse state such as Illinois.

Most recently revised in 1998, the school funding formula does not prohibit individual school districts from increasing their tax effort to provide more spending than required by the foundation level. Also, the formula assures each district of some small amount of state aid regardless of its local tax effort.

## **Does the foundation level assure equal access to education for all Illinois children?**

Not really. The foundation funding formula contains several major areas of concern.

*1. The foundation level is not based on a representative sample of school districts.*

The districts selected as the basis for determining the cost of education were not truly representative of the school districts serving the majority of students in the state. The districts with the highest per pupil expenditure were considered non-representative, and were consequently removed from the study. The districts included in the final draft of the study were predominantly communities serving homogeneous

populations of students. The foundation level which resulted from this study did not take into account either student diversity or exceptional student needs.

*2. The foundation level has not been appropriately adjusted over time.*

To be effective, the foundation level requires a periodic reappraisal to assure that it is not becoming financially outdated. In 1998, the Illinois General Assembly established a \$100 increase for each of the following three years. This increase approximated the historical CPI for the period, but it did not reflect the rate of increase in educational costs.

Further, the increase did not provide school districts with any gain on inflation. The increase also did not make any headway towards overcoming the adequacy concern. It did not effectively raise the level of school financial resources. *While research has failed to demonstrate that more money necessarily results in higher educational achievement, there is more opportunity for students when more money is available to a school system.*

*3. The foundation level has not been adjusted for geographical considerations.*

The foundation level also requires serious analysis to determine if it truly represents the appropriate spending average for the “minimum assured” school program in various geographic regions of the state. There is evidence that the same amount of money buys different amounts of service depending upon geographic location in Illinois. For instance, a number of annually

conducted surveys have demonstrated major differences in the salaries required to attract teachers between downstate Illinois and the state's northeast quadrant.

#### *4. Not all school districts confront the same educational problems.*

Not all school districts operate in the same kind of environment. Educational costs differ in urban, suburban, and rural environments. For instance, school districts located on the edge of the Chicago suburban area have experienced significant student population growth. A number of downstate districts have conversely experienced declining or stagnant enrollments. The rapidly growing school district has measurably different needs from the declining district. These different needs impact the funding requirements.

Most importantly, school districts serving large numbers of disadvantaged students confront cost problems very different from those facing schools in affluent neighborhoods. The foundation formula does not take such differences into account.

#### *5. The foundation formula is not linked to desired educational outcomes.*

The foundation level is not based upon any relationship to the desired outcomes of the educational process. This is a major failure.

Unfortunately, specific goals for student achievement have never been established. Further, there is no definitive Illinois study that determines

the costs associated with achieving different academic goals. Until that process is completed, and the true cost of providing the appropriate education for an "average" student determined, the foundation level will never be more than a political compromise. *Without knowing educational goals and their related costs, there can be no assurance that the tax money invested in education will produce the educational outcomes demanded by the taxpayers.*

#### *6. The foundation level does not provide for educating students with special needs.*

The present foundation level makes no provision for paying the higher costs associated with educating handicapped students, gifted students, bilingual students, students from disadvantaged backgrounds, or those students with social or emotional problems which do not correspond with the public school norm. Yet, the public schools are required by law to provide the education that such students require. To make matters worse, such students are not evenly distributed among the state's school districts.

Illinois has attempted to offset the higher funding costs associated with teaching academically challenged students through categorical grants. The grant amounts have been even less realistic than the foundation levels. Historically, these categorical grants have not been funded at their full level. The combined foundation and categorical grant amounts have not approached the level required to provide full funding for students with special needs.

#### *7. The foundation level has failed to achieve equity for all children.*

The notion that the present foundation level gives equal access to education for all Illinois children is a mockery. It is a mockery when two schools can exist within fifty miles of each other and one supports its students with per capita spending of \$18,000 per year while the "foundation level" of \$4,325 per year supports students in the other district. Yet such severe differences in per pupil spending are common throughout the state.

*With such disparity levels, a foundation level of \$4,325 a year gives no assurance of equity.*

### **What can be done?**

The Illinois General Assembly needs to make changes in at least two areas. First, it must address the inadequacies of the present foundation level system for funding state aid. Second, it must revolutionize the way revenue is obtained for the public schools.

#### **1. Improve the foundation level**

The state needs to acknowledge that the questions of equity and adequacy are interrelated. Illinois has achieved neither and the answer is not reduction to the minimum. There needs to be a way to provide those districts with higher needs students with increased support to meet those students' needs. The foundation level can address this concern.

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## *A. Provide a more realistic foundation level.*

Illinois needs to have attainable, well thought-out, minimum levels of performance expectation for all students. These levels need to be stated in the form of measurable goals. All school districts should be expected to achieve at the required minimum level. The state then needs to determine the base line support level necessary to pay the costs of meeting these goals *in each part of the state*. This base line support then would become the foundation level of state assured support for “regular” students in their respective parts of the state.

The discrepancy in costs associated with living in different sections of the state can be determined by using any of several regional cost comparison studies which already exist, or it could be developed from information contained in the annual financial reports and district enrollment information. The Illinois State Board of Education regularly collects both sources of data.

## *B. Adjust the foundation level for special needs students.*

The new foundation level then needs to be adjusted by differential weighting for the various categories of special needs students and students from low socio-economic backgrounds. These weighting factors can be applied as a multiplier to the base level of student support.

These adjustments need not all be implemented at once. The implementation of this plan could be

coupled with a gradual phase out of the categorical grants, with grant funds reallocated to help underwrite the enhanced foundation levels.

## **2. Alter the source of funding for education**

The Illinois General Assembly should also revolutionize the way the revenue is obtained for public schools. Education cannot be left to the vagaries associated with either citizen reaction to property taxes or the disparities in wealth between different areas of the state and different school districts. People in the poorest section of the state care just as much as the people in the wealthiest area of the state about the education of their children. They just may not be able to afford as much of it. The state has the obligation to help equalize such disparities.

Such equalization was envisioned by the framers of the 1970 Illinois constitution when they wrote into that document the provision directing the state to provide the “primary” source of funds to pay the cost of public education in Illinois. This constitutional directive has never been met.

Any effort to achieve that constitutional objective would either require major reductions in spending on other state services — an unlikely alternative at best — or an increase in one or both of the state’s existing major taxes — the income tax or the sales tax. To make the latter more acceptable to taxpayers, such increases could be coupled with a major reduction in local property taxes levied to support the public schools. Another alternative, of course, would be to raise

state funds through the imposition of a state levied property tax, again with provisions to offset some portion of the new levy with reductions in existing local school property taxes.

Illinois does have room for a tax increase. In a recent Wall Street Journal article, Illinois did not rank in the top ten states for combined local and state taxes. Local choice would still not be impacted. Citizens in local districts could still choose to tax themselves above the required funding level.

## **Are such changes possible?**

Other states have taken such steps. Michigan has transferred local school funding to the state. New Jersey has dramatically increased the “foundation level” for individual student support.

The purpose of educational funding is not to limit school resources, but rather to fund education at an equitable level for all students. Every student has the right to receive an adequate education. All students should have the right to the equality of opportunity regardless of their circumstances or the circumstances of the local community in which they live. This goal can only be achieved in Illinois through courageous and vigorous action by the state’s legislators, and especially by the legislative leadership.

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*Policy Profiles plans to develop and circulate essays derived from a variety of perspectives on the reform of the state system of aid to education in Illinois. This first such perspective provides a view of Illinois' public school finance problem as seen by an educational finance leader in one of the state's local unit school districts.*

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