

TAX FACTS



Taxpayers' Federation of Illinois

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STATE GOVERNMENT -- A MAJOR FUNDER OF LOCAL GOVERNMENTS

By Kurt Fowler

Kurt Fowler is an undergraduate at Northwestern University, majoring in Political Science and Urban Studies. He was a past intern for the Illinois Fiscal Policy Council (formerly the Illinois Tax Foundation).

State governments are major funders of their local governments, some more than others. On average, state governments provide over 33% of all local revenue, ranging from close to 23% in Colorado to over 66% in the state of Vermont. (Chart A)

It has long been known that the Illinois state governments' support of K-12 education, as a percentage of total cost, is one of the lowest in the country. We find this to be true; most recent Bureau of Census data shows the Illinois state governments' portion of education funding to be about 34%, ranking the state 48th in the nation. (Chart B) However, when it comes to state support for all local government programs (inclusive of education), we see a small improvement in Illinois' ranking. State funds account for 29% of total local government revenue, which ranks Illinois 42nd among the states. (Chart A) This would suggest that Illinois places, comparatively, a lower priority on funding education at the state level, instead favoring other local government programs. This is indeed the case; when education is excluded, Illinois ranks 14th in funding other levels of local governments, providing close to 25% of

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NOTES FROM THE INSIDE. . .

By J. Thomas Johnson

This issue of Tax Facts has been a little delayed as we needed to confirm some of the numbers for “Illinois Revenue Sharing” programs we have been researching. I think it was worth the wait. I’m sure you have often heard us say that state government is a funder rather than a provider of government services. One of our most significant providers are Illinois’ close to 7000 units of local government. Although not as generous as others, the first article in this issue compares Illinois state government’s level of local government support to that of other states. The second article reviews the distribution of the benefits provided by 11 of the state’s largest support programs. Both of the articles were authored by interns that have been working with the Federation over the past year and I’m quite happy with the work product developed by Kurt and Joe while they were with us.

One of the most revealing findings is that local governments rely on close to 30% of their total funding from state government and the other is that over 30% of state own source revenue (total revenues less federal funds) are used to support local government services. We spend most of the time when discussing and debating the state budget, about the revenues and expenditures of the General Funds of the state, but what we found in this analysis was that a significant portion (over 35%) of the revenue sharing spending actually occurs in other state funds. This fact and the fact that the spending is through several different programs results in the total spending being not as “visible” as those supported by the General Funds. It speaks to another issue we are working on with the Institute of Government and Public Affairs at the University of Illinois and that is the spending that occurs outside the General Funds of the state. We will report on that subject on an upcoming issue of Tax Facts.

In the meantime we hope the information provided by Kurt and Joe is as of interest to you as it has been to us.

their total funding, slightly above the national average level of support. (Chart C)

Illinois still makes more than half, 51%, of its local government transfers to local school districts, but this is low—ranking 45th, comparable, as expected, to its lower ranking of state support for education. (Chart D)

There are several reasons for the state’s low ranking in funding education. Illinois’ dependence on local property taxes to support local governments is by far the largest in the country, but the fact that the state is more generous with other local government functions, compared to other states, is in part an explanation. Another potential contributor is the fact that in Illinois the downstate teachers’ retirement system is entirely state run but is not included in the calculation of the percentage contribution to local education support. If this significant cost was borne by local school districts and the current pension contributions were converted to state support for local education, Illinois’ ranking would certainly be improved. Federal funding of K-12 education does little to impact the ranking, as Illinois falls right in the middle, at 25th in terms of federal government funding as a percentage of total local education revenue sources.

Local government revenue sharing and school funding programs have been independently created and structured over decades. The final result of those policy decisions has produced the intergovernmental fiscal relationships that are currently in effect.

CHART A

Rank	State	State Funding As Percent of Local Revenue
1	Vermont	66.72%
2	Arkansas	53.39%
3	New Mexico	51.82%
4	Delaware	47.18%
5	Hawaii	46.65%
6	Michigan	42.78%
7	Minnesota	42.65%
8	Wisconsin	41.11%
9	West Virginia	40.84%
10	California	39.98%
11	Mississippi	39.96%
12	Idaho	38.72%
13	Wyoming	38.30%
14	Kentucky	37.74%
15	Arizona	37.39%
16	Montana	36.47%
17	Oklahoma	36.31%
18	Alabama	36.19%
19	Ohio	35.94%
20	Pennsylvania	35.78%
21	North Carolina	35.27%
22	Nevada	34.98%
23	Massachusetts	34.39%
24	Indiana	34.36%
25	Utah	34.23%
26	Oregon	33.69%
27	Alaska	33.60%
28	Virginia	32.91%
29	Kansas	32.85%
30	Iowa	32.84%
31	New Hampshire	31.85%
32	Maine	31.72%
33	Washington	31.69%
34	Louisiana	31.52%
35	New York	31.49%
36	South Carolina	31.25%
37	North Dakota	31.20%
38	Rhode Island	30.24%
39	Maryland	29.75%
40	Tennessee	29.69%
41	Connecticut	29.27%
42	ILLINOIS	28.64%
43	Georgia	28.43%
44	New Jersey	27.79%
45	Texas	27.78%
46	Missouri	26.87%
47	Nebraska	24.77%
48	South Dakota	24.46%
49	Florida	23.87%
50	Colorado	22.95%
National Average		33.63%

CHART B

Rank	State	State Funding As Percent of Education Budget
1	Vermont	88.48%
2	Hawaii	84.76%
3	Arkansas	75.97%
4	New Mexico	71.24%
5	Minnesota	65.81%
6	Idaho	65.52%
7	Delaware	62.97%
8	Washington	62.42%
9	Alabama	60.19%
10	California	59.91%
11	North Carolina	58.85%
12	Alaska	58.45%
13	Kansas	58.38%
14	West Virginia	58.10%
15	Kentucky	57.89%
16	Nevada	57.49%
17	Michigan	57.26%
18	Utah	56.35%
19	Mississippi	53.84%
20	Wyoming	52.88%
21	Oregon	52.80%
22	Oklahoma	51.17%
23	South Carolina	50.68%
24	Wisconsin	50.08%
25	Montana	49.36%
26	Arizona	48.53%
27	Indiana	48.51%
28	Iowa	46.53%
29	Tennessee	46.08%
30	New York	45.40%
31	Georgia	45.16%
32	Maine	44.48%
33	Ohio	44.11%
34	Louisiana	43.88%
35	Texas	43.22%
36	Colorado	42.41%
37	Massachusetts	42.11%
38	Maryland	42.01%
39	New Jersey	41.25%
40	Missouri	41.12%
41	Virginia	40.99%
42	Florida	39.44%
43	Rhode Island	38.69%
44	New Hampshire	38.58%
45	Connecticut	38.47%
46	North Dakota	36.08%
47	Pennsylvania	35.76%
48	ILLINOIS	33.78%
49	South Dakota	33.23%
50	Nebraska	33.00%
National Average		48.33%

CHART C		State Funding as % of Local Revenue (Education Excluded)
Rank	State	
1	Pennsylvania	35.79%
2	New Mexico	34.43%
3	Wisconsin	34.27%
4	Arizona	31.14%
5	Mississippi	30.69%
6	California	30.68%
7	Michigan	30.36%
8	Ohio	29.87%
9	Wyoming	29.76%
10	North Dakota	26.89%
11	Minnesota	26.58%
12	Virginia	25.88%
13	Massachusetts	25.49%
14	ILLINOIS	24.71%
15	Nevada	24.28%
16	Montana	24.09%
17	New Hampshire	24.00%
18	New York	23.93%
19	Iowa	22.71%
20	Louisiana	22.60%
21	Oregon	21.93%
22	Arkansas	21.89%
23	Indiana	21.39%
24	Oklahoma	20.90%
25	Idaho	20.40%
26	Delaware	20.20%
27	Rhode Island	19.89%
28	North Carolina	19.69%
29	Vermont	19.35%
30	Tennessee	18.76%
31	Nebraska	18.62%
32	South Dakota	17.19%
33	Alabama	16.86%
34	Florida	16.15%
35	Missouri	15.18%
36	Maryland	14.76%
37	Utah	14.36%
38	Maine	14.31%
39	Connecticut	14.03%
40	Washington	13.95%
41	South Carolina	13.62%
42	Texas	13.52%
43	West Virginia	13.06%
44	Georgia	12.54%
45	Colorado	12.54%
46	Kentucky	12.34%
47	Kansas	11.14%
48	Hawaii	9.64%
49	Alaska	9.06%
50	New Jersey	8.09%
National Average		23.14%

CHART D		State Education Funding as % of Total Transfers to Local Government
Rank	State	
1	Vermont	90.87%
2	Hawaii	89.52%
3	New Jersey	88.18%
4	West Virginia	87.75%
5	Alaska	86.45%
6	Kentucky	85.54%
7	Delaware	84.19%
8	Arkansas	82.89%
9	Connecticut	81.94%
10	Kansas	81.66%
11	Maine	80.91%
12	Utah	77.89%
13	Maryland	77.69%
14	Georgia	77.36%
15	South Carolina	77.15%
16	Texas	74.72%
17	Alabama	74.20%
18	Washington	72.10%
19	Oklahoma	71.75%
20	Rhode Island	70.42%
21	Missouri	68.96%
22	Idaho	68.70%
23	Indiana	67.52%
24	North Carolina	66.39%
25	Montana	66.31%
26	Massachusetts	65.58%
27	New Hampshire	65.22%
28	New Mexico	64.96%
29	Colorado	64.40%
30	Minnesota	63.20%
31	Tennessee	62.12%
32	Michigan	61.79%
33	South Dakota	61.55%
34	Iowa	60.24%
35	Oregon	59.69%
36	Louisiana	58.39%
37	Virginia	57.94%
38	Nebraska	57.00%
39	Florida	54.79%
40	North Dakota	54.20%
41	Mississippi	53.98%
42	Nevada	52.95%
43	Wisconsin	52.70%
44	Ohio	52.33%
45	ILLINOIS	51.14%
46	Wyoming	51.02%
47	New York	50.73%
48	California	47.66%
49	Arizona	46.59%
50	Pennsylvania	45.78%
National Average		59.85%

FUNDING LOCAL GOVERNMENT: ILLINOIS' LARGEST REVENUE SHARING PROGRAMS

By Joe Sculley

Joe Sculley is a graduate student in the practical track of political science at the University of Illinois at Springfield. He served as a Legislative Intern for Taxpayers' Federation of Illinois during the spring legislative session and has continued as a Research Assistant over the course of the year.

In the previous article, Kurt Fowler, explored state and local government's fiscal relationship here in Illinois compared to other states. States have long been "funders" of services provided directly by local governments and their employees. These funds are supported by state imposed taxes and distributed in various ways, some through "revenue sharing" programs, and others through state aid formulas, such as the Illinois General State Aid formula for school districts.

The Illinois Legislative Research Unit issues an annual report called the *Catalog of State Assistance to Local Governments* that identifies more than 230 different programs that provide state support here in Illinois for our close to 7000 units of local government. We have chosen 11 of the largest state revenue sharing programs for a more in-depth review of how the state supports its local governments. We have added to those identified, the state's contribution to teacher pension programs because these expenditures represent a state cost that covers a significant portion of the benefit cost of local government employment. Total distributions under these 11 programs totaled over \$13 billion in fiscal year 2009 or 31% of the state's own source revenues for that year.¹ Combined they represented the largest expenditure of own source state revenues.

On the following page is a list of the programs that we evaluated and the total dollar amount for each expenditure in fiscal year 2009.

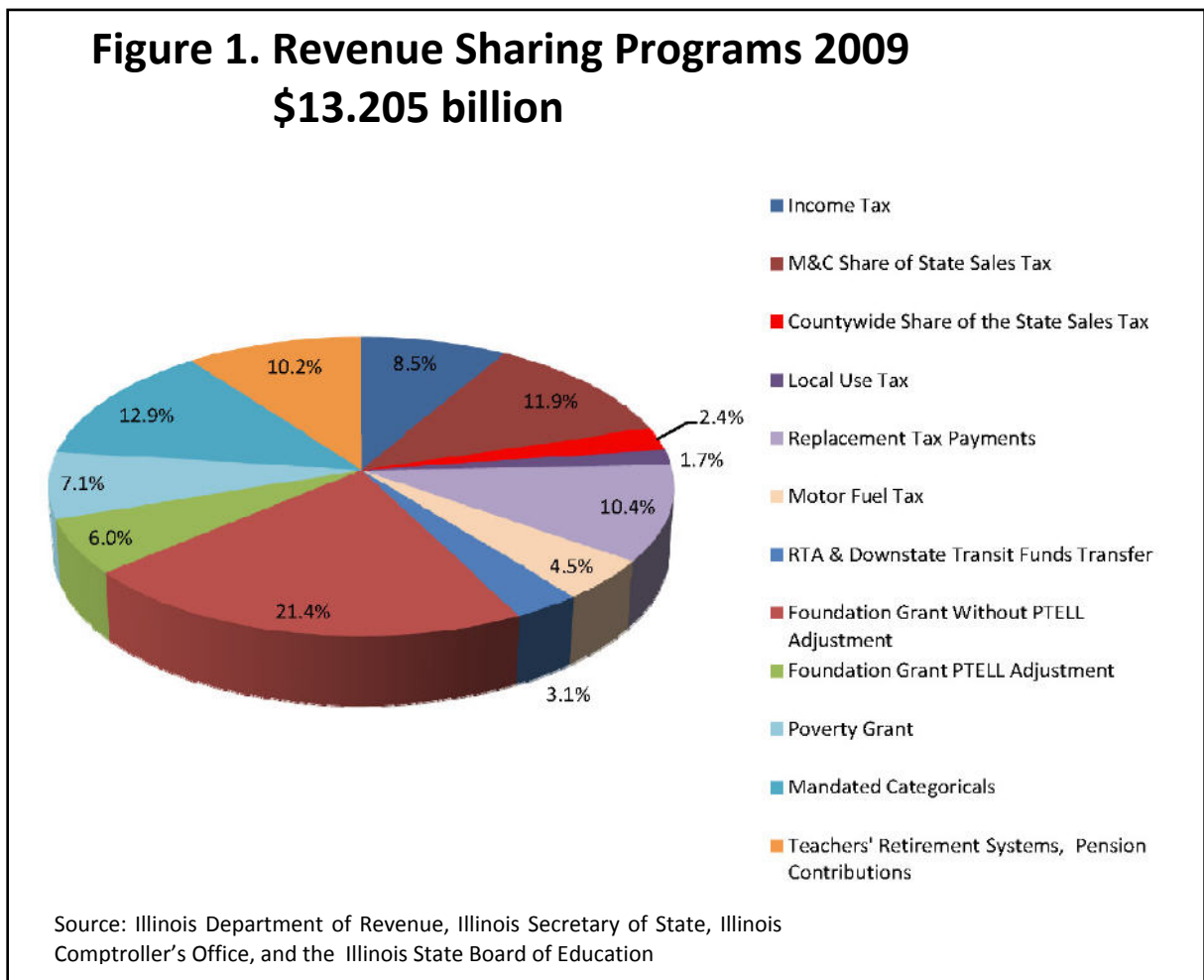
¹ According to the Illinois Office of the Comptroller's Traditional Budgetary Financial Report for FY 09, the total appropriated funds revenues totaled \$58.353 billion of which \$16.383 billion were federal funds leaving eligibility less than \$42 billion of state own source revenue.

Tax Sharing Programs

Local Share of State Income Tax	\$1.118 billion
Local Share of Personal Property Replacement Tax	\$1.368 billion
Municipal and County Share of the State Sales Tax	\$1.569 billion
Countywide Share of the State Sales Tax	\$322 million
Local Use Tax	\$221 million
Transit Authority Fund Matches	\$411 million
Motor Fuel Tax	\$589 million

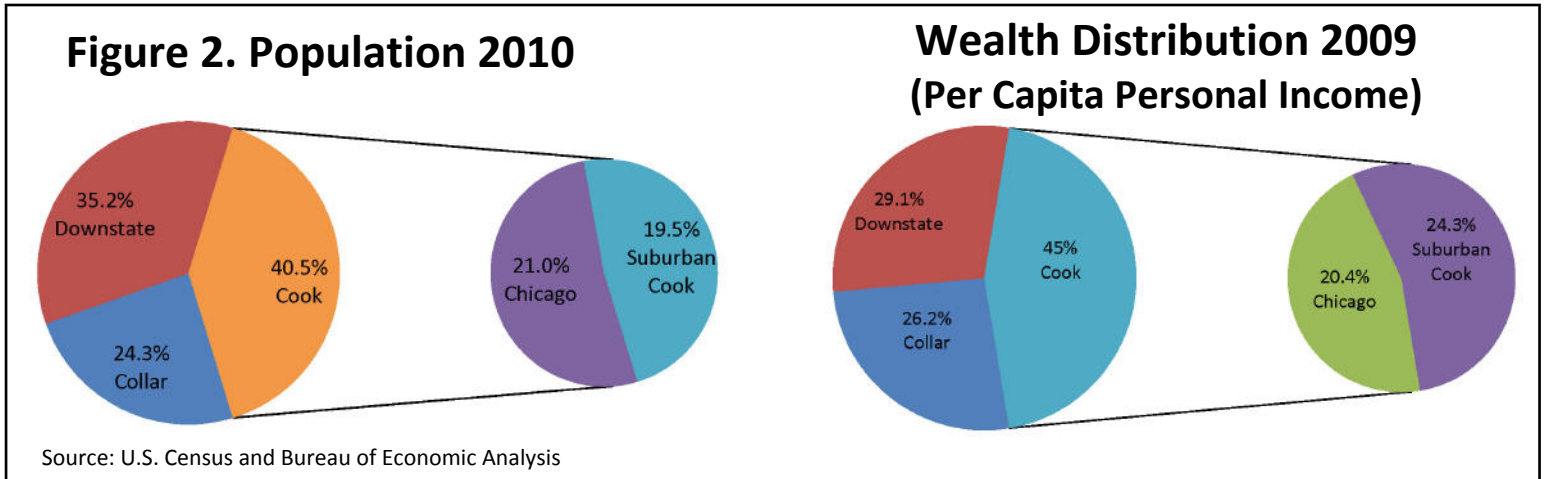
State Aid Payment to K-12 School Districts

Foundation Grant Total	\$3.619 billion
Foundation Grant without PTELL Adjustment	\$2.83 billion
PTELL Adjustment to Foundation Grant	\$789 million
Poverty Grant	\$941 million
Mandated Categoricals	\$1.699 billion
Teachers' Retirement Service Pension Payment	\$1.347 billion



POPULATION AND WEALTH

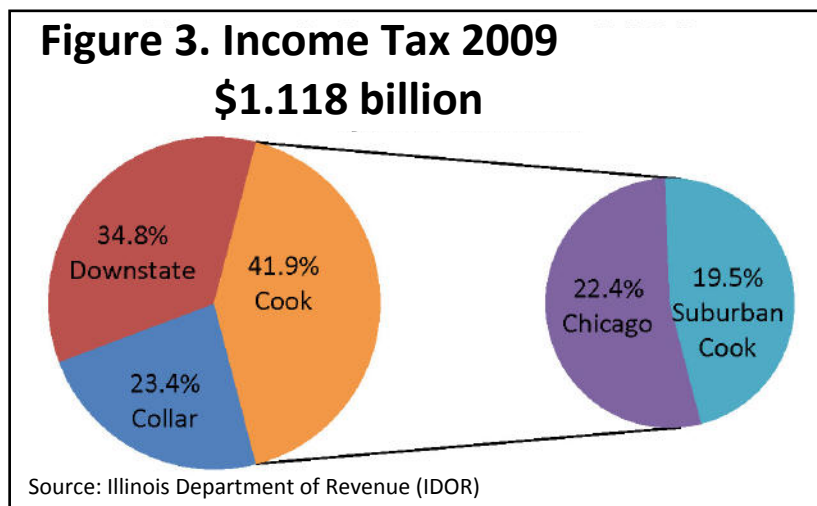
Earlier this summer we analyzed the geographical sources of state revenues and compared them to the 2010 US Census population data and personal income reported by the Bureau of Economic Analysis. We will use the same method of comparison to help understand how the state's revenue sharing programs are distributed geographically. The following tables show how population and wealth (personal income) are geographically distributed across the state.



STATE INCOME TAX DISTRIBUTION

Prior to the tax increase enacted in 2011, 10% of state income tax collections, after funds are set aside to pay refunds, were distributed to municipalities and counties based on their proportional share of the state's population. This percentage was reduced to 6% for the period of the temporary tax increase enacted in 2011 which resulted in maintaining the distribution ratio at pre-tax rate levels.

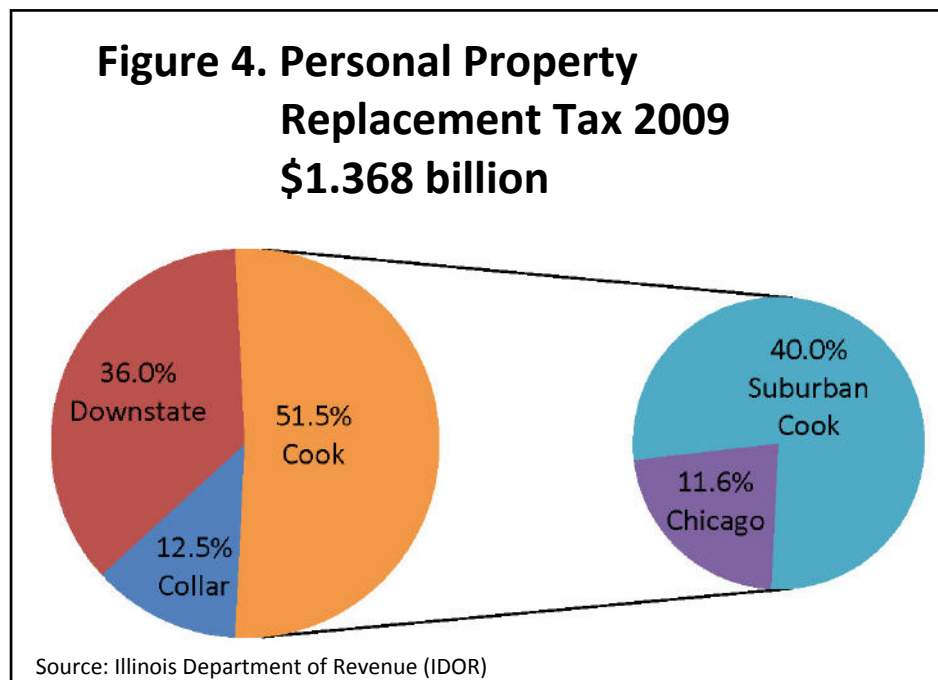
\$1.118 billion was shared in fiscal year 2009 under this program. The distribution was based on the 2000 US Census data which has been progressively updated throughout the decade. Municipalities and counties may request a special census be conducted by the US Bureau of the Census in order to more accurately measure population between the decennial census rotations. The results are then reflected in future distributions.



PERSONAL PROPERTY REPLACEMENT TAX DISTRIBUTION

The income tax surcharges on businesses, the invested capital tax, and portions of the taxes on electricity and telecommunications are returned to local governments to make up for the corporate personal property tax that was abolished in 1979. The distribution for this tax allocates 51.65% to taxing districts (including schools) in Cook County based on each district's percentage of total personal property tax collections received in Cook County in 1976. The remaining 48.35% is allocated to the taxing districts in the other 101 counties based on each district's percentage of total downstate personal property taxes collected downstate in 1977.

\$1.368 billion was distributed in fiscal year 2009 from the Personal Property Replacement Tax fund to local governments. The chart below shows the geographic distribution of these funds.



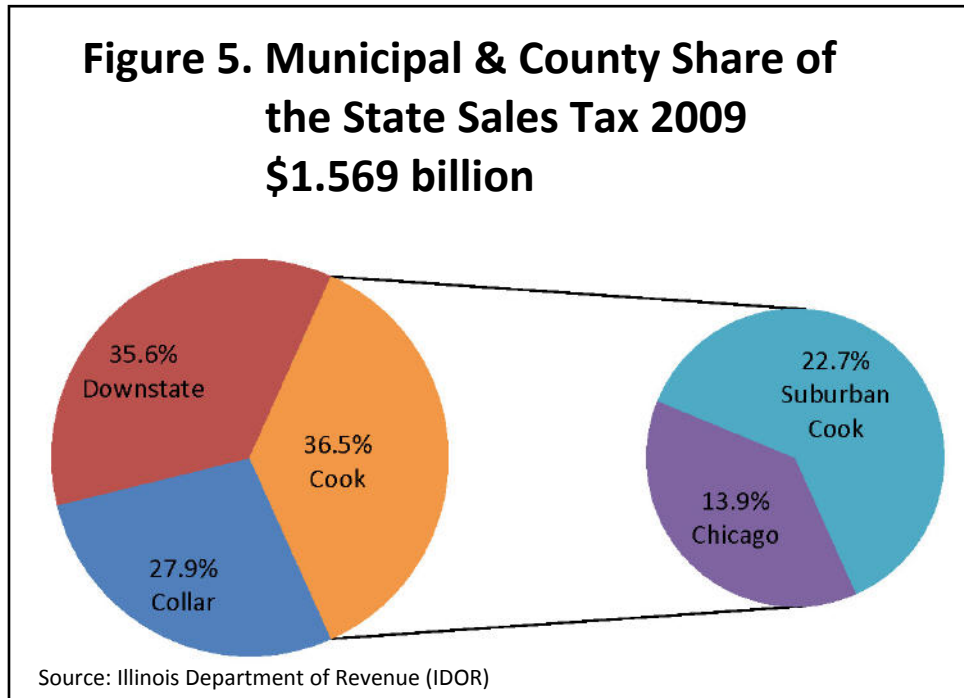
The distribution formula used for this program is obviously dated. Over the past 35 years the geographical distribution of investment in personal property has changed and the historical percentage used in the calculation are most likely not indicative of actual personal property investments that exist today. In fact, we know the population distribution has changed dramatically in the last 35 years. Local governments exist today that were created after the base year. Population growth in some areas of the state, particularly the collar counties, has been significantly greater than the rest of the state which would be reflective of base redistribution.

MUNICIPAL AND COUNTY SHARE OF STATE SALES TAX AND USE TAXES DISTRIBUTION

Distribution for this local government revenue source is based on the point of sale. 16% of the 6.25% state Retailer's Occupation Tax on general merchandise (1% of the 6.25% state rate) is

distributed to the municipality or county where the sales occurred (the county's share is for sales received in the unincorporated area of the county). The same is true for 100% of the state 1% sales tax on food, drugs and medical supplies.

\$1.569 billion was distributed under this program in fiscal year 2009.



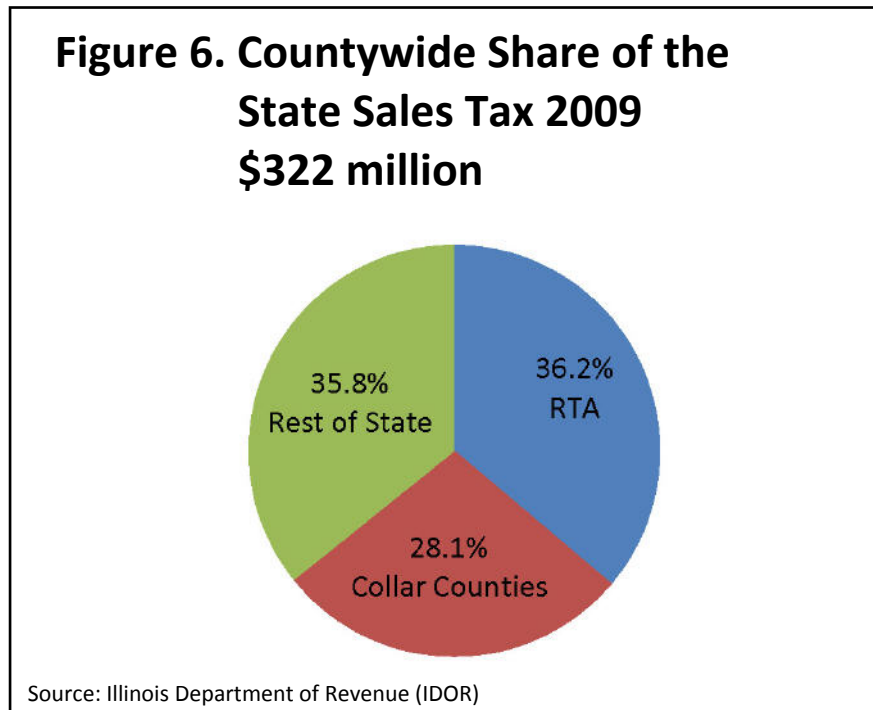
Most noticeable is that Cook County is receiving a lower percentage of the total distribution than both its proportion of the state's population or its wealth. Suburban Cook's portion share of the county sales tax collection is higher than its share of the state population while Chicago's is lower. We encountered this issue when looking at tax burdens over the summer. Chicago, with all its major shopping areas, makes up a lower portion of the state sales tax revenue and our analysis suggested various reasons that this occurring. One factor lies in the higher income level in suburban Cook outside Chicago. Another is because Chicago has significantly fewer registered motor vehicles than the rest of the state – only 12% of the total compared to its 21% population share. This is an important factor because automobile purchases represent about 25% of the total sales tax base. Fewer vehicles suggests less proportional fuel consumption. Further, Cook County and Chicago have an additional tax on motor fuel of 6 cents and 5 cents per gallon, respectively. Due to the total price of motor fuel, drivers in Chicago may divert their gasoline purchases until they are in less expensive jurisdictions. Also, the lack of "big box" retailers and "food deserts" that are often cited as a concern in parts of Chicago may also have an impact. Having fewer choices as to where to purchase goods is bound to have an impact on the shifting sales tax collections to other areas.

This argument is reinforced by the collar counties 27.89% share of this tax distribution which was higher than their recorded population or wealth. This suggests sales in Suburban Cook are potentially higher due to the previously identified reasons. Downstate Illinois' sales are reflective of their population but not their wealth; possibly attributable to its greater share of vehicle registrations (44% of the state total) and motor fuel consumption.

COUNTYWIDE SALES TAX

4% of the 6.25% State Retailer's Occupation Tax on general merchandise (.25% of the state's 6.25% rate) is returned to the county where the sale occurred in all counties except Cook, where the share is distributed to the Regional Transportation Authority (RTA).

According the Illinois Department of Revenue's Annual Report, in 2009 \$205.9 million was disbursed to county governments in Illinois (except Cook County) and the RTA received \$116.8 million of the Countywide Sales Tax for a total of \$322 million. The chart below reflects the geographic distribution of the countywide share of the state sales tax.



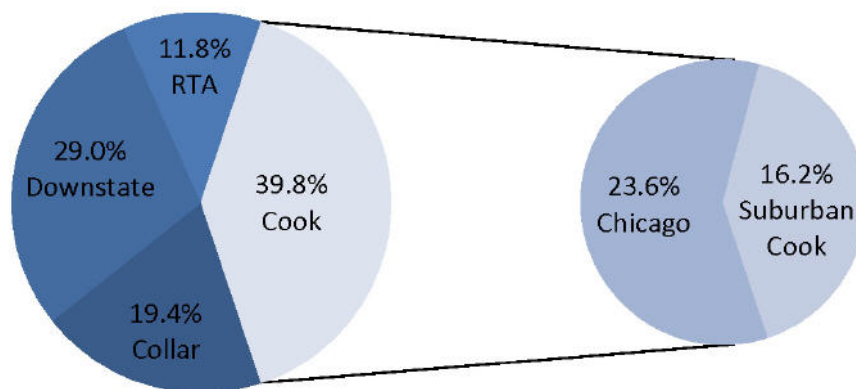
These percentages are representative of the previous findings regarding the city of Chicago's lower sales tax base and again denote the observed variation between the respective population and wealth of each region.

LOCAL SHARE OF USE TAX

The local share of the Use Tax is 1.25% of the 6.25% state tax on general merchandise and the 1% tax on food and drugs purchased outside of Illinois. Of the total collected, \$37.8 million is retained by the state and is deposited in the “Build Illinois” fund. The remainder is distributed as follows: 20% to the city of Chicago, 10% to the RTA, .06% to Metro-East Public Transportation Fund and the remaining balance to counties and cities based on relative share of the local government’s population outside of the city of Chicago.

The local government’s share of the Use Tax totals \$220.6 million when the “Build Illinois” fund is deducted from the total of \$258.3 million. The following chart reflects the geographic distribution of the local share of the use tax without the “Build Illinois” funds.

**Figure 7. Local Share of the Use Tax
2009 \$221 million**



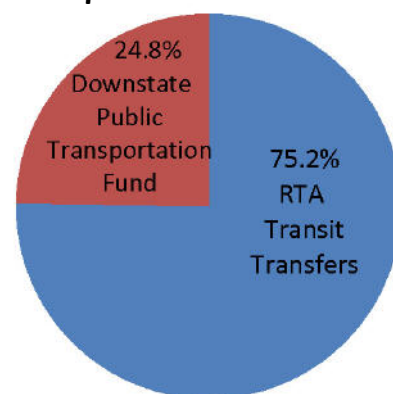
Source: Illinois Department of Revenue (IDOR)

The percent distributed is not reflective of the population or the point of sale basis as has been presented in previous discussions. This is because of the automatic distribution mechanism in the formula, where the city of Chicago and the RTA get a predetermined percentage of the revenue disbursement which then skews the distribution for the rest of the state.

THE RTA AND DOWNSTATE TRANSIT FUND TRANSFERS

Funds are transferred to support public transportation agencies from state resources based in part on a proportional match of taxes imposed by the districts. For example, originally, the state matched 25% of the funds generated by the RTA sales tax. This match was increased to 30% in 2008. The RTA received \$309.1 million under these programs. Downstate public transportation districts received \$101.7 million for a total of \$410.8 million.

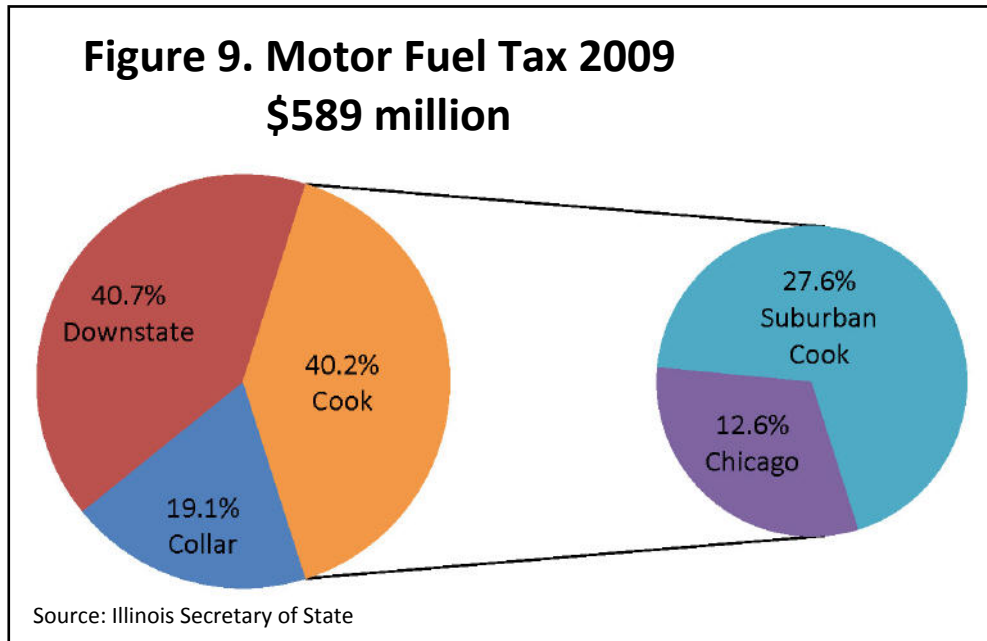
**Figure 8. Transfers to Public
Transportation 2009
\$411 million**



MOTOR FUEL TAX

The Motor Fuel Tax (MFT) is disbursed through a statutory formula. 54.4% of collections, after transfers to the Grade Crossing Protection Fund, the Boating Act Fund, and the Vehicle Inspection Fund, along with the administrative costs of the Department of Revenue (DOR) and Department of Transportation (DOT), are distributed by the DOT to municipalities, counties and road districts. The local MFT is distributed as follows: 49.1% goes to municipalities, 16.7% to counties with a population of 1,000,000 or greater (Cook County), 18.3% goes to counties with a population less than 1,000,000 and 15.9% to road districts and townships. Municipality disbursements are based on population, whereas the downstate county share is based on the number of motor vehicle license fees received from residents of the county and the township share is based on proportional mileage of township roads.

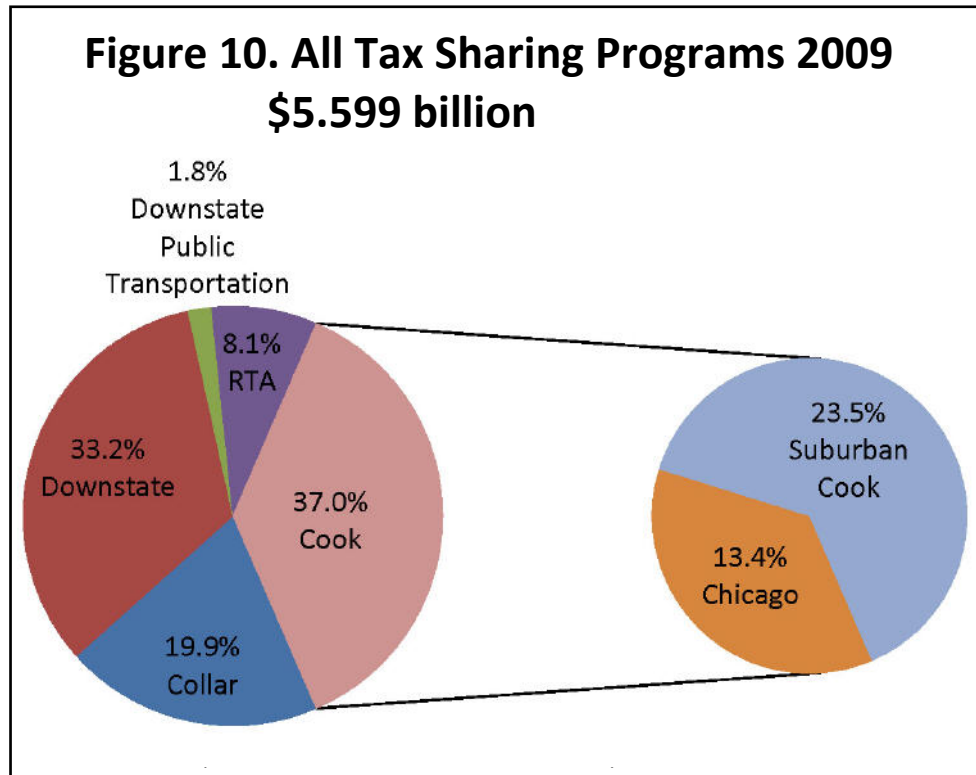
The total amount distributed to local governments from the Motor Fuel Tax fund was \$589 million in fiscal year 2009.



The Motor Fuel Tax is collected by the state of Illinois at the distributor level, as opposed to the retail level like other point of sale taxes. Therefore, a point of sale distribution of this revenue source would be highly skewed toward the location of the distributor.

TOTAL TAX SHARING PROGRAMS

We identified \$5.599 billion of Illinois' spending through these tax sharing programs in fiscal year 2009. The following chart represents a combined geographical distribution of the tax revenue sharing programs observed in our analysis.



The total distribution under these programs closely tracks with the population of the respective areas of the state. The RTA funds are not localized to Cook County since some of the sales taxes that are collected, and then matched, are from the collar counties, helping to explain some of the differences in population and wealth.

STATE AID TO K-12 SCHOOL DISTRICTS

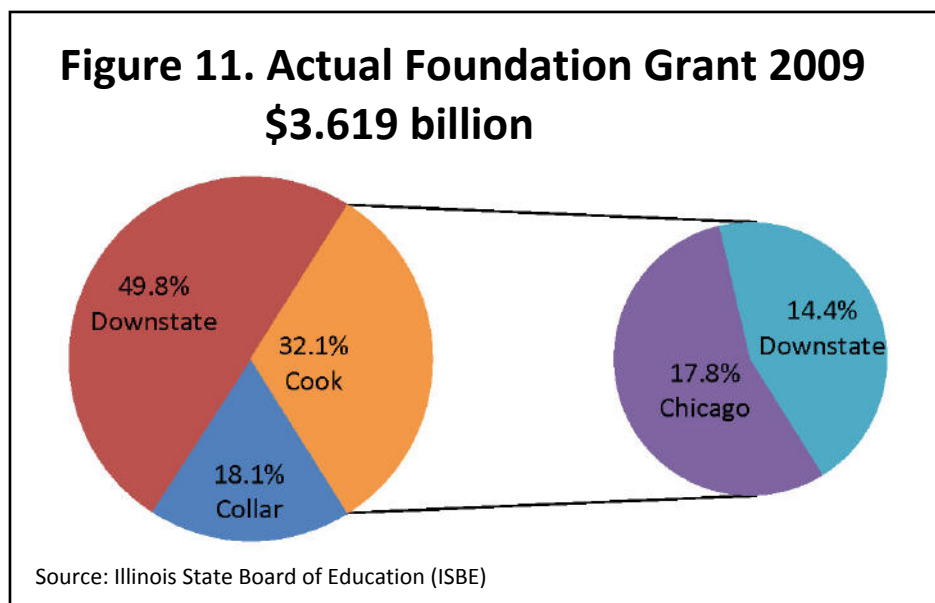
The state's 879 school districts receive multiple forms of funding from the state through General State Aid (GSA) and various mandated categorical programs. The GSA program is often referred to as the program developed to equalize resource availability between the state's economically diverse school districts. However, the GSA program is really made up of three separate, but interdependent, programs that all adhere to different formula calculations. The Foundation Grant was designed to measure the availability of local resources by measuring the equalized assessed valuation per student. It has been adjusted by excluding from the calculation the valuation growth that has exceeded the growth in the consumer price index for Property Tax Extension Limitation Law (PTELL) impacted school districts. For our analysis we have separated the two calculations because they significantly affect the distribution of funding through the GSA program. The final GSA formula

provided is the Poverty Grant which delivers fully state funded resources based on the concentration of students that are considered eligible for “poverty level” support as is measured by the Department of Human Services (currently measured at 200% Federal Poverty Level).

In the June 2010 issue of Tax Facts, Ted Dabrowski analyzed the growth of GSA between 2000 and 2009. He found that spending on education had increased by an average of 4.9% per year. This is not an outrageous growth rate, but when analyzed further Dabrowski finds that the increase was comprised mainly of the rising cost of the PTELL adjustment and the growth in Poverty Grant funding rather than an increase in the cost of the basic Foundation Grant. In fact, between the years of 2000 and 2009 the PTELL adjustment and the Poverty Grant had grown by 1,615% and 211% respectively. The Foundation Grant spending level remained virtually unchanged.

FOUNDATION GRANT

Foundation Grant funding exclusive of the poverty grant totaled \$3.62 billion in fiscal year 2009. The following graph is the geographic distribution of the Foundation Grant.



If property wealth is the determining factor when calculating the Foundation Grant; then why do the property wealthy areas of Cook County and the collar counties receive almost 50% of the grant? The answer lies in the Property Tax Extension Limitation Law (PTELL) adjustment for these areas. Only 63% of the total EAV in Chicago Public Schools (CPS) was used in the GSA calculation, even though 100% of the EAV was subject to property tax. PTELL is capping the amount of property wealth that is used in GSA calculations. Figure 12 is a geographical distribution of the benefit for local areas from the PTELL adjustment.

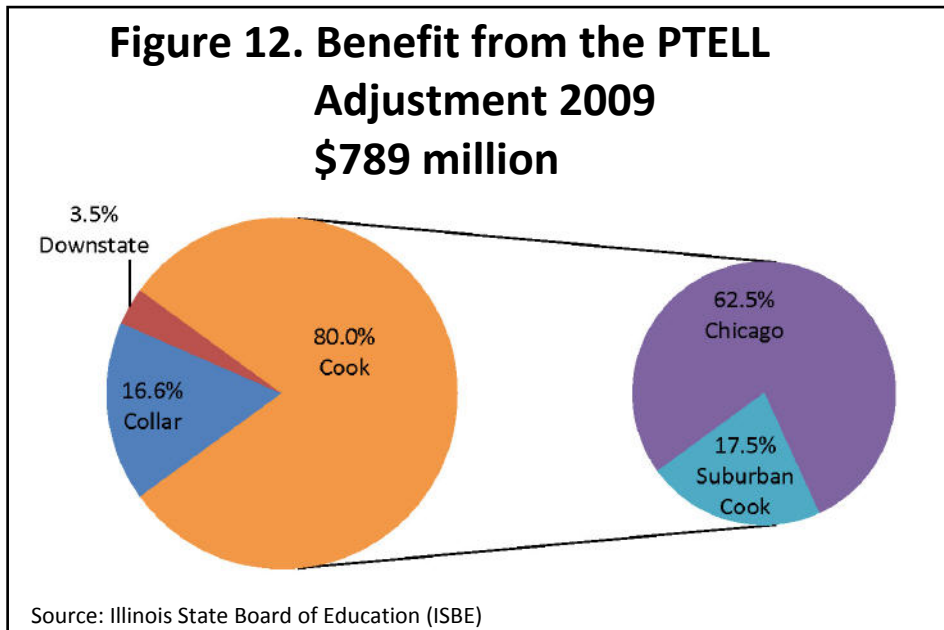
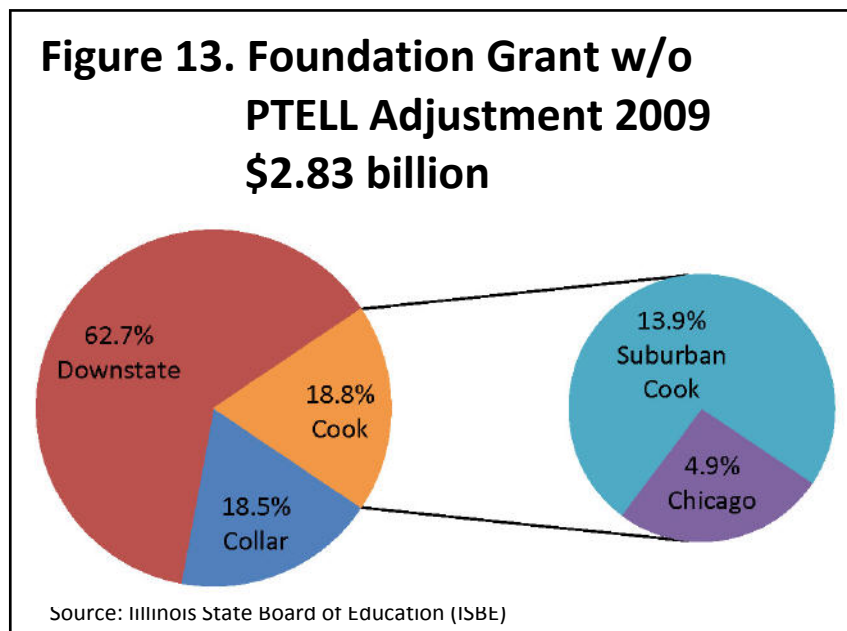


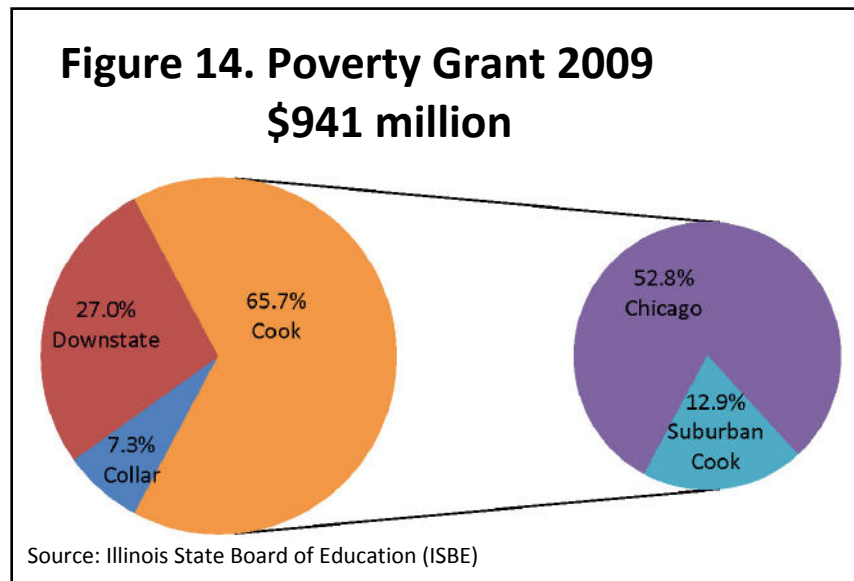
Figure 13 represents how the Foundation Grant is distributed when PTELL is accounted for separately.



Downstate school districts receive a greater share of the Foundation Grant compared to its portion of the state's population due to its lower property wealth (EAV) per student.

POVERTY GRANT

The Poverty Grant totaled \$941 million in fiscal year 2009. The following chart represents the geographical distribution of the Poverty Grant.



Cook County, especially CPS, is the largest beneficiary of this aspect of the General State Aid formula due to the larger concentration of eligible students in this part of the state. This is likely due to the change in the Poverty Grant that occurred in 1999², along with the passage of All Kids and the combined effort to enroll children in All Kids, which then increased enrollment in DHS services.

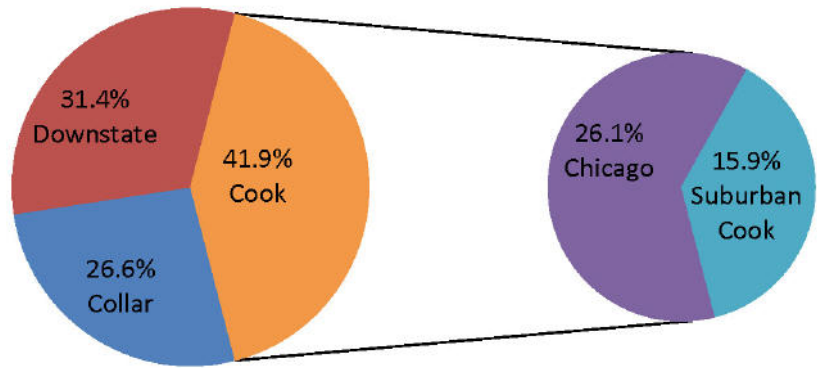
Over the past 15 years, PTELL and the Poverty Grant have completely changed how schools are funded in Illinois. For more information on how GSA has evolved over the past 15 years see Ted Dabrowski's in-depth analysis of the components of the General State Aid formula and its effects which can be found as a two-part series in the April 2010 and June 2010 editions of *Tax Facts* located at our website.

MANDATED CATEGORICALS

Mandated categorical funding provides reimbursement for nine programs required by the state of Illinois and consist mostly of special education and transportation funding. Mandated Categoricals totaled \$1.699 billion in 2009 and the geographic distribution can be observed in Figure 14.

² The formulation mechanism for the Poverty Grant was modified in 1999. Previously, the poverty grant was distributed by using the US Bureau of the Census' measurement of the Federal Poverty Level (FPL) where the threshold to qualify was 100% FPL. The new formulation is measured at 200% FPL, on a curve linear scale, and is measured by the Illinois Department of Human Services through those who enroll in DHS programs.

Figure 15. Mandated Categoricals 2009
\$1.699 billion



Source: Illinois State Board of Education (ISBE)

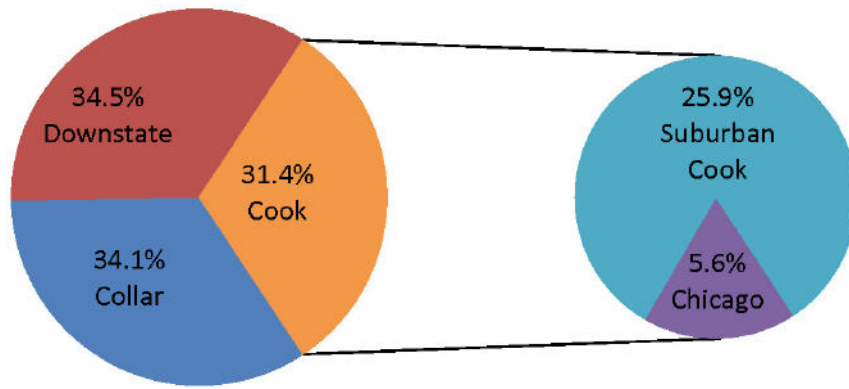
Special education funding is different for Chicago Public Schools when compared to the rest of the state which helps explain why their distribution is much higher than their share of the state's population. Chicago receives a block grant from the state of Illinois to reimburse mandated special education spending, whereas the remainder of Illinois is individually funded through the state's categorical programs. As the graph shows, this block grant does indeed create a disproportional amount of funding to CPS when compared to population or its wealth measurement.

TEACHERS' PENSION PAYMENTS

We have included in our "revenue sharing" analysis payments made to the Downstate Teachers' Retirement System (TRS) and the amount paid to the Chicago Public Schools as a contribution to the district's separate pension program. We consider these expenditures as state support for local governments as it reflects a cost of local government employment rather than state employment. Given the expenditure's size it reflects a significant use of the state's own source revenue. To calculate the geographical distribution of TRS pension payments we identified the employee credible earnings of each school district and assigned them to their corresponding county as identified by the State Board of Education. Although there is a slight mismatch between the pension payment year (2009) and the district earnings we used (2011), we believe it reasonably reflects the geographic distribution of the state's TRS pension payments. Chicago Public Schools operate under their own pension system. While Illinois has historically contributed to the CPS pension system, the state's contributions are much lower compared to the amount contributed to TRS.

The state of Illinois contributed \$1.272 billion to the Downstate Teachers' Retirement System in fiscal year 2009 and \$75 million to the Chicago Public Schools pension system in the same year. The following reflects the geographical distribution of this expenditure.

Figure 16. Teachers' Pension Contributions 2009
\$1.347 billion³



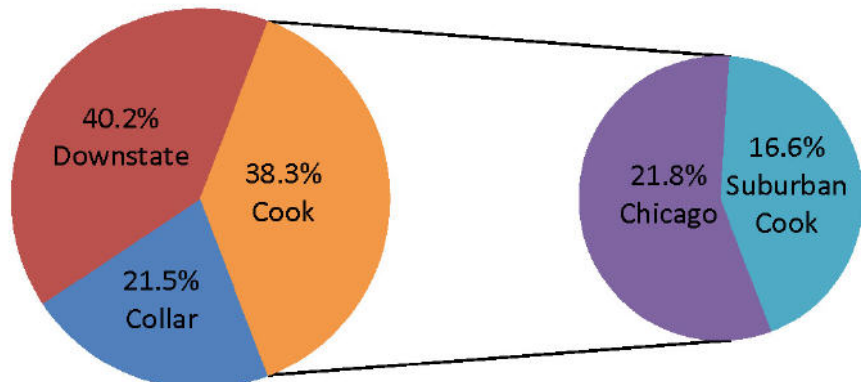
Source: Teachers Retirement System (TRS) & Illinois Office of the Comptroller

We make two observations. First, the relatively low share attributed to CPS is due to its separate program and the state's funding level decision and the other is the large percentage attributable to suburban Cook and the collar counties. The second observation is likely attributable to the higher salaries of teachers in these geographical areas when compared to other school districts in Illinois.

TOTAL K-12 EDUCATIONAL FUNDING

State spending on education under these programs totaled \$7.607 billion and was geographically distributed as follows.

Figure 17. K-12 Education Funding 2009
\$7.607 billion



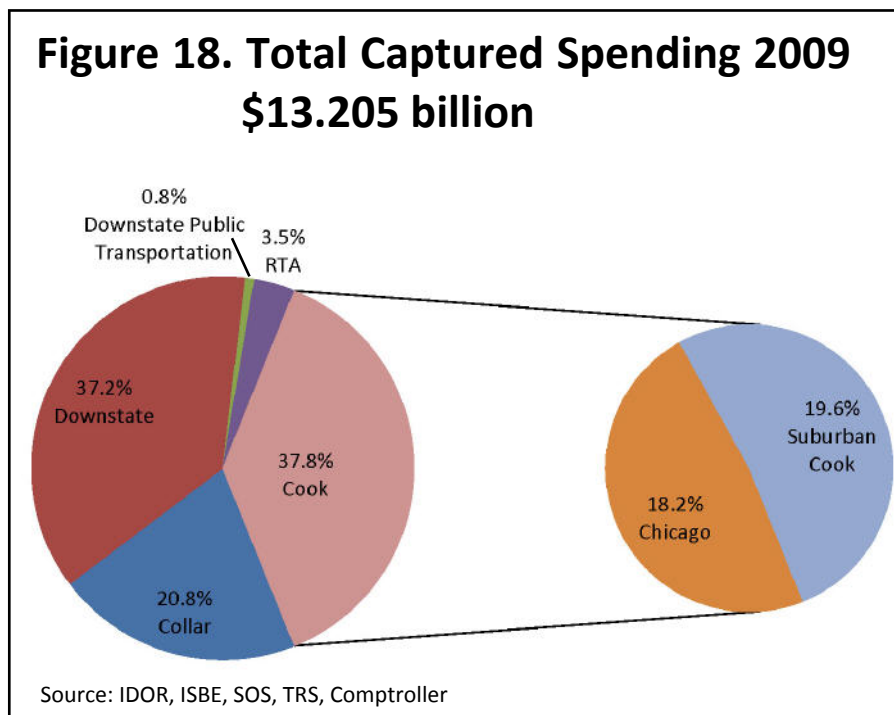
Source: ISBE, TRS, Comptroller

³ We obtained the geographic distribution of what teachers in school districts paid into TRS and then took the total that was paid to TRS by the state and used the same percentages for the distribution.

Although it was noted that the distribution under the PTELL adjustment greatly favored Cook County and the collar counties, especially CPS, the overall distribution is more balanced, in part due to the collar counties and downstate's benefit from the Teachers' Retirement System contributions. It should also be noted that downstate receives 50% of the overall Foundation Grant, which remains the largest funding source of K-12 Education in Illinois.

"REVENUE SHARING"

The total "revenue sharing" program costs comprise a significant portion of state spending, almost 31% of own source state revenues. When these programs are reviewed individually we observe geographical differences that vary significantly from their relative population or wealth. This is a result of different formulas used to make distributions. However, when we look at the total programs we notice that state spending ties more closely to each areas population and wealth contribution, with downstate being a slight winner on both bases.



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