

**OVERVIEW OF THE STRUCTURE OF THE ILLINOIS
SCHOOL FINANCE SYSTEM**

To

The Illinois State Board of Education

By

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EXECUTIVE SUMMARY

The purpose of this overview paper is to examine the formula-driven components of the support allocated by the state of Illinois to its school districts and, among other things, to determine the relationships between such aid and school district spending, wealth, and tax effort.

Based on the information presented in this report, we conclude that the Illinois school finance system is inequitable for both students and taxpayers. Despite the existence of state aid programs that are either wealth equalized (Formula Grant) or sensitive to some student needs (Poverty Grant), the amount of revenue distributed by them is not sufficient to overcome the impact of local revenue, which is more than twice as large, strongly associated with district wealth, and inversely related to student need. Due to the impact of district wealth, districts that make lower tax effort tend to raise higher amounts of local revenue.

In addition, while spending has kept pace with inflation over the last decade. It is unclear whether spending is sufficient to meet student needs and to promote the fulfillment of state student performance expectations.

Our concern is that the parameters that drive the allocation of state formula support – including the foundation level and the amounts of funding driven by the Poverty Grant formula – have little meaning beyond assuring that total state aid does not exceed the revenue that the state is willing to provide for school districts. We suggest that the state undertake an analysis of district needs using several of the methodologies other states have used to estimate district revenue needs, which have been used in some states to build new school finance systems. Years ago, Illinois used the successful school district approach to develop a base cost (a foundation level for students with no special needs); that approach should be updated in light of recent changes in state education standards and student performance expectations. In addition, the state should use the professional judgment approach, in combination with the evidence-based approach, to develop a comparative base cost and a set of student weights designed to reflect the added cost of serving students with special needs (by category of need to the extent that there is a variation in specific types of need across school districts). With such information the state should develop a school finance system that is sensitive to all the needs of school districts, promotes wealth equalization, and works in conjunction with local funds to assure adequate and equitable funding for students and equitable tax rates for taxpayers. A full discussion of the methodologies used in these three approaches is discussed on pages 16-17 of this report.

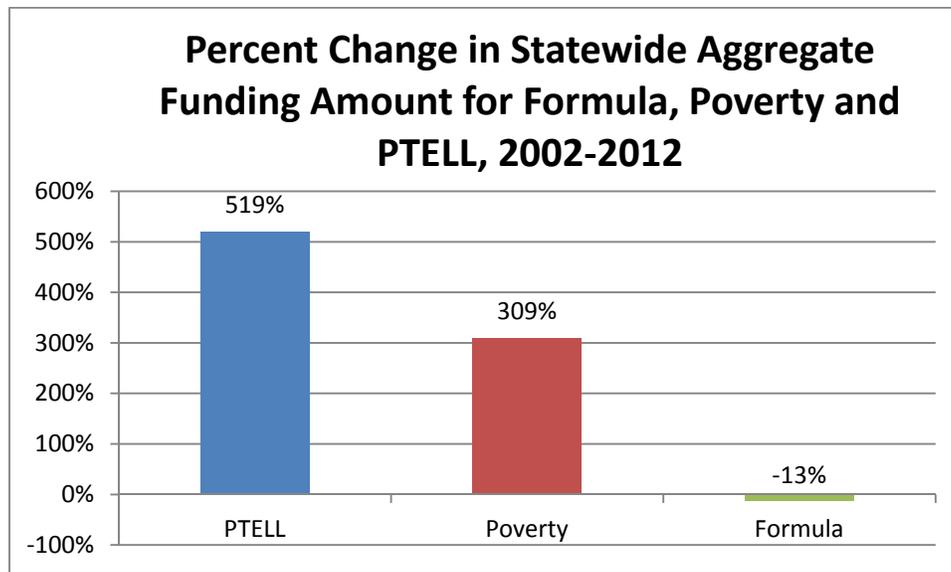
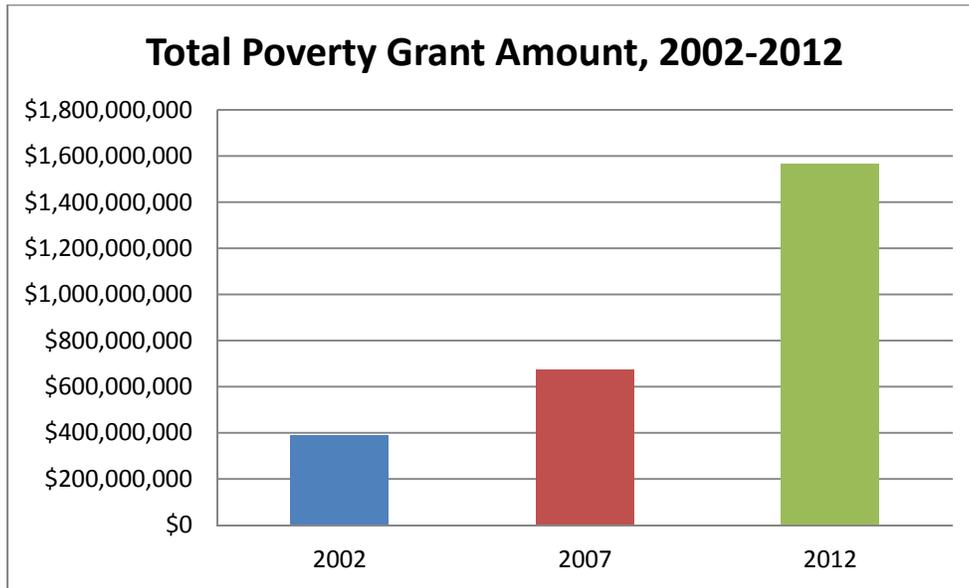
About two-thirds of all state funding for public schools in Illinois is allocated to school districts through two formulas, the Formula Grant and the Poverty Grant, each of which uses a mathematical procedure that considers school district characteristics such as size (enrollment), the presence of students from low income families, and/or the wealth of school districts to determine how much aid each district will receive.

The Formula Grant is based on the foundation program concept, under which a target level of revenue is established for each district based on a per student amount (the foundation level) and state aid is the difference between that amount and the amount of local revenue generated at a uniform property tax rate (rates differ for elementary, high school, and unit districts); this approach is referred to as “wealth equalization” because wealthier districts receive less funding than property poor districts receive (where wealth is equalized assessed value of property per student). As part of this grant, the state provides support in recognition of the impact of the Property Tax Extension Limitation Law (PTELL). The budgeted foundation level in Illinois was \$6,119 per student in FY2012 (the same level it had been in FY2010 and FY2011) although it was prorated at about 95 percent based on available funds.¹ Even the wealthiest districts receive a minimum level of state aid under the Formula Grant.

The Property Tax Extension Limitation Law (PTELL) was approved for collar counties (DuPage, Kane, Lake, McHenry and Will) in 1991 and for Cook County in 1994. Since that time other counties have been allowed to vote on the issue of whether to make their districts subject to PTELL. The PTELL, also known as tax caps, imposed a limit on the growth in tax extensions or dollars collected. Local governments subject to PTELL are limited in that their tax extensions may grow by no more than the lesser of the Consumer Price Index (CPI) or 5 percent. Beginning in FY 2000, an adjustment was added to the Formula Grant calculation that can alter the Equalized Assessed Value (EAV). For districts subject to PTELL, the calculation of local resources uses either a district’s Real EAV or the Extension Limitation EAV. The Extension Limitation EAV is the EAV used in the prior year’s GSA calculations, multiplied by an index. That index represents the maximum growth allowed in the district’s extension under PTELL. Over time, the Extension Limitation EAV for many districts has grown much more slowly than districts’ actual EAV amounts. The cost of the adjustment rose as the gap between these values grew. However, without the adjustment, GSA calculations would assume more in local wealth than some districts could actually collect.

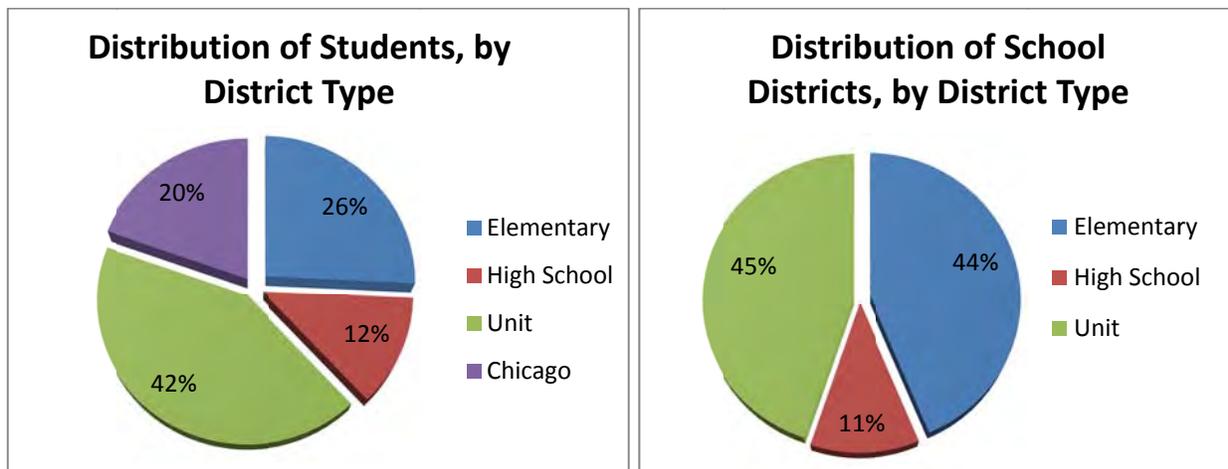
¹ APA used information for fiscal years 2002 (01-02), 2007 (06-07), and 2012 (11-12) in doing its work; the latest data available for all of the types of information APA examined (enrollments, revenues, expenditures, state aid, and district wealth) was for 2012. Although APA did not examine information for FY2014 (13-14), preliminary state aid information for FY14 is as follows: Formula Grant, \$2.746 billion; PTELL, \$300 million; and Poverty Grant, \$1.930 billion.

The Poverty Grant provides state aid per student to school districts in direct proportion to each district's proportion of students from low income families using a count of students provided by the Department of Human Services; this grant is not wealth equalized. The magnitude of revenues distributed by the GSA Poverty Grant has been rising steadily over time, from \$388 million in FY2003 to \$1.567 billion in FY 2012.



In order to understand the impacts of these formula grants, it is important to be aware of certain factors, such as the needs of students, and the wealth of school districts, which are beyond the control of school districts. In 2012 there were 859 school districts in Illinois (excluding university-based laboratory schools and alternative/safe schools) for which we obtained useable information; of those districts, 375 were elementary districts, 98 were high school districts, and 386 were unit districts (385

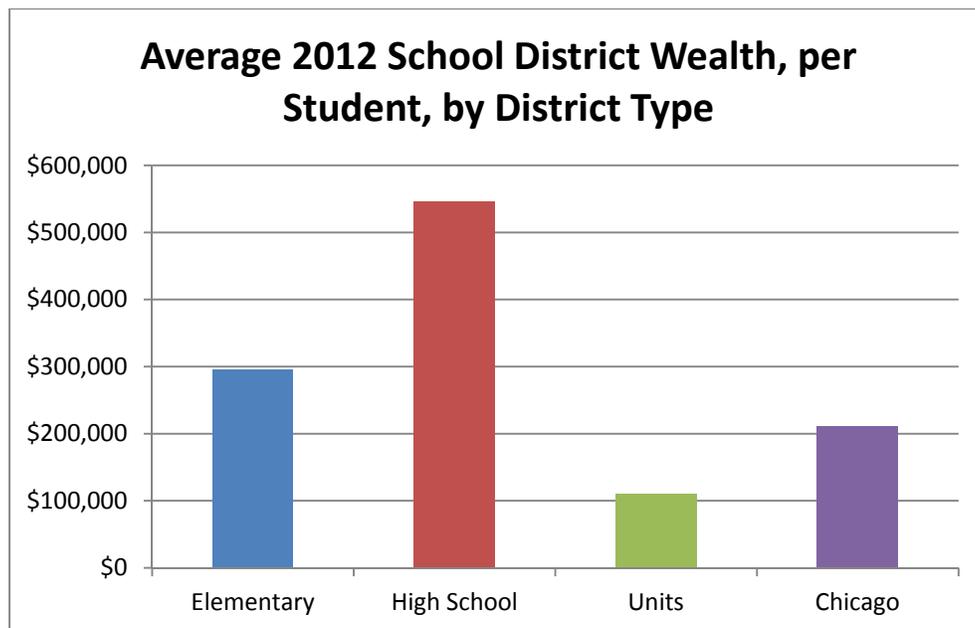
unit districts excluding Chicago). Of the more than two million students in all districts, 62 percent were in unit districts (including Chicago – Chicago itself enrolled almost 20 percent of all students in the state), nearly 26 percent were in elementary districts, and 12 percent of students were in high school districts.



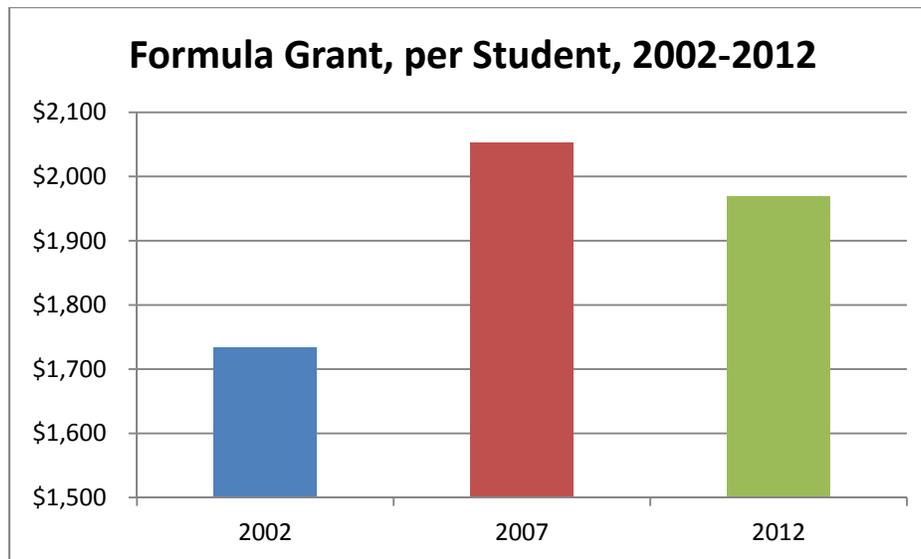
On average, 15.9 percent of students in Illinois participate in special education programs, 3.8 percent of students have limited-English proficiency (LEP), and 39.8 percent of all students are eligible for free or reduced-price lunch. If students with these three needs were weighted to reflect the expected cost of serving them appropriately (using add-on weights of 1.10 for special education, .75 for LEP students, and .40 for students eligible for free and reduced-price lunch, which reflect the experience of APA in developing such weights in numerous states) and need ratios were calculated for all school districts, the statewide average ratio would have been 1.36 in 2012 – that is, it would have cost about 36 percent more to serve all students than it would have cost if no students had any special needs. While the average need ratio is similar across the three types of districts, Chicago’s need ratio, at 1.60, is dramatically higher than the average ratios for elementary, high school, or unit districts. The statewide average need ratio has grown over time, rising from 1.30 in 2002 to 1.33 in 2007 to 1.36 in 2012, which is indicative of growing cost pressures that are beyond the control of districts.

In 2012, on average the wealth of school districts was about \$240,000 per student, which had risen 80 percent over what it had been in 2002; it should be noted that the averages discussed in this overview are simple averages for all school districts being examined and not weighted, or accounting for, averages that take the enrollment of each district into consideration. Elementary districts had average wealth of about \$295,000 in 2012, while high school districts had \$547,000 in average wealth and unit districts had \$111,000 in average wealth in 2012 (Chicago had \$211,000 in property value per student, which had grown by 154 percent between 2002 and 2012). The variation in wealth across

districts was very high in 2012 and was a bit higher than it had been in 2002, which indicates that the Formula Grant had to work hard to overcome the uncontrollable wealth disparity across school districts.



The Formula Grant provided about \$1,969 per student in 2012, which, while greater than it had been in 2002 was below its level in 2007. While elementary and high school districts received considerably less than the average amount as a Formula Grant (19 percent and 25 percent less, respectively), unit districts received almost 25 percent more than the average (although Chicago received about 45 percent less than the statewide average). While there was a moderate to high negative relationship between the Formula Grant and district wealth, indicating that the grant was equalized relative to district wealth, there was a moderate relationship between the grant and district need (as measured by the ratio of weighted to unweighted students).



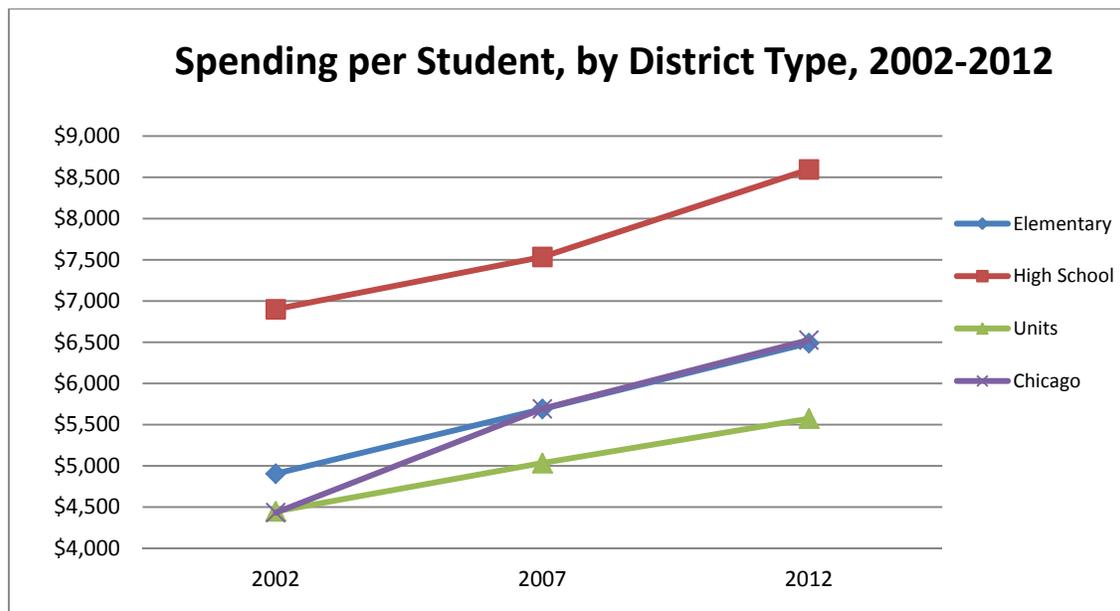
The Poverty Grant provided about \$430 per student in 2012, an amount nearly 3.5 times what it had been in 2002. While average Poverty Grant levels for elementary, high school, and unit districts were within \$115 per student of the statewide average, Chicago's Poverty Grant was almost \$1,420 above the statewide average (an amount that was 3.6 times what it had been in 2002). The Poverty grant was strongly related to student need and only had a mild wealth equalizing effect.

Local school districts provide a significant amount of revenue, about \$6,216 per student on average in 2012, an amount that was more than twice as much as all state revenue (including the Formula Grant, the Poverty Grant, and all other state support). Elementary districts generate almost 12 percent more than the statewide average in local revenue while high school districts raise almost 62 percent more than average, and unit districts produce 27 percent less than average (Chicago raised three percent less than average local revenue – Chicago's revenue rose by 68 percent between 2002 and 2012, about the same percentage as statewide average revenue increased [66 percent]). Local revenue was negatively related to the needs of school districts and strongly related to the wealth of school districts.

On average, the tax effort (which was calculated as local revenue for current operations per student divided by equalized assessed property valuation per student, expressed as a percentage of that wealth) that was made to generate local revenue was 3.27 percent of local wealth; while the tax effort in elementary and unit districts was lower than average (at 2.65 percent and 2.04 percent of wealth, respectively), the average tax effort of unit districts was 28 percent above the statewide average, at 4.18 percent of wealth (Chicago's tax effort was 2.87 percent, about 12 percent less than the statewide

average). Tax effort had almost no relationship to the needs of school districts and was moderately, negatively related to the wealth of school districts.

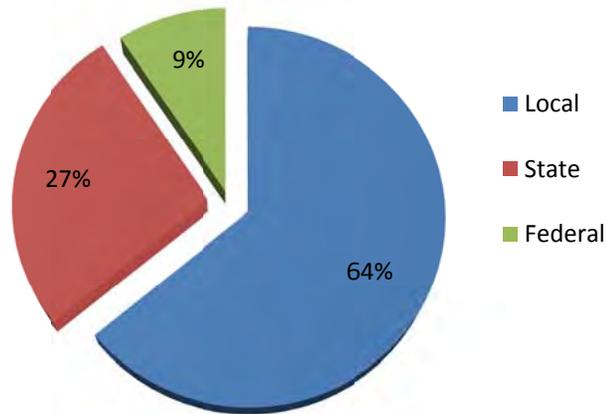
The combination of state and local revenue leads to district expenditures, which were \$8,529 per student, on average, in 2012 (looking at current operating expenditures excluding transportation, food services, and community services). Per student spending rose from \$6,338 in 2002 to \$7,403 in 2007; between 2002 and 2012, spending rose by 34.6 percent. Elementary districts spent about four percent more than average, high school districts spent about 30 percent more than average, and unit districts spent about 11 percent less than average (Chicago's spending was 22 percent above average²).



After taking the needs of districts into consideration, elementary districts spent about three percent more than the statewide average spent per weighted student (\$6,320), high school districts spent about 36 percent more than average, and unit districts spent about 12 percent less than average (Chicago spent three percent more than average). Between 2002 and 2012, spending per weighted student rose by 28 percent, which was about the rate of inflation for that decade. The variation in spending across school districts was relatively high in 2012 and the variation in spending grew between 2002 and 2012. There was almost no relationship between spending and district need and there was a strong relationship between spending and district wealth.

² Effective Fiscal Year 2010, legislative changes required by P.A. 96-0889 resulted in Chicago Public Schools making pension contributions to the Chicago Teachers' Pension Fund. School Districts other than Chicago Public Schools do not make such payments.

Average Distribution of Current Operating Revenue, per District, by Funding Source



As can be seen in the chart above, the state of Illinois contributes 27 percent of the total current operating revenue in each district, with the majority of funding, 64 percent, coming from local sources. The Illinois constitution (Il. Const. Art X. Sec. 1) states that "The State has the primary responsibility for financing the system of public education." With state funding well below 50 percent of current operating revenue in each district the data in the graph above clearly shows that the state is not the "primary" funder of education in Illinois.

NOTES ON DATA SOURCES AND DEFINITIONS

Data Sources:

Expenditures: Data provided by ISBE in file titled "6-25-13 Rev_Exp_Data 2002-2012"

Property Valuations: Data provided by ISBE in multiple files title "AV(year)"

Revenues: Data provided by ISBE in file titled "6-25-13 Rev_Exp_Data 2002-2012,"

State Aids: Data provided by ISBE in files titled "GSA Claims Most Recent Ten Years_June2013," "FY02 GSA Claim By District_6-28-13," and "Disbursement Files FY12 FY07 FY02"

Student Counts and Demographics: Data provided by ISBE in file titled "Demographic data without CTE"

Definitions:

Average

In this report we use the simple average, which is the sum of a set of figures divided by the number of items in the set. The simple average is not an accounting average (that is, as used in school finance analysis, the simple average could not be multiplied by the number of students to get the correct statewide total spending). The simple average is useful when districts, not students, are the unit of analysis.

Coefficient of Variation

The coefficient of variation (c.v.) for a set of figures is the simple standard deviation divided by the simple average. The c.v. has a low of .000, which indicates that there is no variation among the figures in the set. As used in school finance analysis, a c.v. of .800 or higher would not be unusual for wealth per student although a c.v. over .150 would be considered high for expenditure per student.

District Need

District need is the ratio of weighted students (see below) to unweighted students. If a districts had 4,200 weighted students and 3,000 unweighted students, its need would be 1.40, which indicates the cost of serving students is 40 percent above what the cost would have been if no students had any special, high cost needs.

Expenditures

In this report, expenditures, or spending, refers to current operating spending excluding spending for transportation, food services, and community services. Transportation is excluded because it varies among school districts for reasons that we could not control. Food services are excluded because they are generally considered to be of little or no net cost. Community services are excluded because they do not directly affect academic services for students.

School District Tax Effort

School district tax effort is imputed by dividing per student local school district revenues for current operations by districts wealth (equalized assessed property valuation per student); the figure is expressed as a percentage of property wealth, usually in the range of one to five percent.

Weighted Students

Weighted students reflect applying a set of weights to students with special, high cost needs, where the weights are indicative of the cost of serving such students relative to a base cost (the cost of serving students with no special needs). In this report, the following supplemental (above the base) weights were used: for students in special education programs, 1.10; for students eligible for free or reduced-price lunch, .40; and for limited-English proficient (LEP) students, .75. If a district had 2,000 students and 300 students were in special education programs, 800 students were at-risk of failing in school, and 60 of them were limited-English proficient (LEP) and if we assigned student weights of 1.10 to special education, .40 to at-risk students, and .75 to LEP students (based on the excess cost of serving such students in ways that would improve their chances of meeting state academic requirements), then there would be 2,695 weighted students (assuming groups with special needs were mutually exclusive) and the ratio of weighted to unweighted students would be about 1.35. That figure means that in that district, costs are 35 percent higher than they would have been if no student had any special, high cost need.

INTRODUCTION

This is a report to the Illinois State Board of Education (ISBE) by Augenblick, Palaich and Associates (APA). The purpose of this report is to provide background information about the structure of the Illinois school finance system, which is the set of procedures used by the state to distribute a majority of state support to the school districts that provide elementary and secondary education services to students throughout the state. APA is an education consulting firm located in Denver, Colorado that was founded in 1983. The firm has worked with numerous states to examine their school finance systems, evaluate the equity and adequacy of the revenues generated by such systems, and propose significant structural changes in those systems; our recommendations about the structural design of a state school finance system have been enacted by legislatures in such states as Kansas, Kentucky, Maryland, New Jersey, Ohio, and Pennsylvania. It is important to note that APA prepared a report for the Illinois Education Funding Advisory Board (EFAB) in 2001 which became the basis of recommendations EFAB made to ISBE several times (most recently in 2012) to set the value of the foundation level in the Formula Grant on the basis of a rational procedure (see below for further discussion).

The report provides an overview of the structure of the Illinois school finance system, compares the system to those operating in several other states that APA identified as being similar to Illinois in ways that are relevant to school finance, and examines the impacts of the school finance system on elementary districts, high school districts, and unit districts. The report provides background information about the historical development of school finance concepts that are universal across all states in addition to analyses of Illinois-specific data. Our hope is that the report will be useful to anyone who wants to gain a better understanding of school finance in Illinois, including members of the State Board of Education, state legislators and staff, school district administrators, teachers, parents, and taxpayers. The report is not written in a highly technical manner and tries to minimize the use of academic argot of the sort used by people who study school finance – we try to provide background and context when we do use terms of art so that readers do not need to be experts in the arcane world of school finance in order to gain an understanding of the policy issues that surround the topic.

When we examine a state's school finance system, we are interested in a variety of issues, including:

1. The structure of the system and how its several components work in order to distribute state funds to school districts;

2. The impact of the system on school districts in terms of their revenues, expenditures, and tax rates;
3. The levels of student equity and taxpayer equity achieved by the system, the amount of variation in per student spending and tax effort that exists among school districts, and what might explain any variations that are found; and
4. The adequacy of the system and the extent to which it assures that all school districts have levels of revenue sufficient so that school districts have a reasonable opportunity to meet state education standards and student academic performance expectations.

In order to examine these issues, APA gathered data from a variety of sources, including the National Center for Education Statistics (a unit of the U.S. Department of Education), the U.S. Census Bureau, and the Illinois State Board of Education (ISBE). We used national sources to facilitate comparisons of Illinois to other states and we used ISBE data to examine the enrollment, need, wealth, expenditures, state and local revenues, and local tax effort of school districts in Illinois in 2001-02, 2006-07, and 2011-12.

Based on our experience over the past 30 years, we have developed a set of characteristics that are associated with a strong school finance system – one that takes into consideration: (1) the uncontrollable differences that exist across school systems in any state; (2) state requirements that define how education must be organized and delivered; (3) state expectations for student performance – for which consequences might exist if expectations are not met; and (4) constitutional requirements of the sort that have led courts to reject existing school finance systems and require legislatures to reformulate them. While these characteristics, as shown below, are not specific to Illinois, they create a set of objectives that serve as a reasonable starting point in examining the strengths and weaknesses of any state’s school finance system.

Basic Characteristics of a Strong School Finance System

1. The allocation of state support is positively related to the needs of school systems, where needs reflect the uncontrollable demographic characteristics of students and school systems.
2. The allocation of state support is inversely related to the wealth of school systems, where wealth reflects the ability of school systems to generate revenue for elementary and secondary education.
3. The allocation of state support is sensitive to the tax effort made by school districts to support elementary and secondary education, which might consider some, but not all, local tax effort made on behalf of schools.

4. The amount of state support allocated to school systems reflects the costs they are likely to incur in order to meet state education standards and student academic performance expectations.
5. All school systems are spending at adequate levels and the variation in spending among school systems can be explained primarily by differences in the needs of school systems and the tax effort of districts and is not only related to differences in school district wealth.
6. School systems have a reasonable amount of flexibility to determine how much they want to spend and all systems have a similar opportunity to generate revenues to reach those spending levels.
7. School systems have a reasonable amount of flexibility to spend the revenues they obtain as they want, provided they are meeting, or making acceptable progress toward meeting, state education standards and student academic performance expectations.
8. The school finance system covers current operating expenditures as well as capital outlay and debt service expenditures.
9. State aid that is not sensitive to the needs of school systems and that is not wealth-equalized, such as incentive grants or hold harmless funds, are limited relative to state support that is need-based and wealth-equalized.
10. Property taxpayers are treated equitably, including the assurance that property is assessed uniformly within different classes of property and that low income taxpayers are relieved of some of the obligation to pay property taxes.
11. The state has a procedure to define and measure school finance equity for students and taxpayers and periodically assesses how equitable the school finance system is.
12. The state has a procedure to define and measure the adequacy of revenues school systems obtain for elementary and secondary education and periodically determines whether adequate revenues are available in all school systems.

The remainder of this report is organized as follows: first, we examine the structure of the Illinois school finance system; second, we compare Illinois to select other states in terms of the structure of the school finance systems, per student spending, and spending variation among school systems; and third, we examine the impact of the school finance system on school district spending, which allows us to discuss school finance equity and, to some extent, adequacy based on readily available data.

THE STRUCTURE OF THE ILLINOIS SCHOOL FINANCE SYSTEM

Overview of Formulaic State Aid

Perhaps the best way to begin to understand the Illinois school finance system – by which we mean that portion of all state support that is allocated to school districts through formulaic procedures (that is, mathematical formulas that are based on audited information for all school districts) – is to examine the total funds that are distributed through the system in the context of all funds that flow through the budget of the Illinois State Board of Education (ISBE) for elementary and secondary education.

In FY2012, ISBE oversaw a total budget of \$10.4 billion (\$10,392,076,005). Of that total, \$3.6 billion (\$3,580,834,200) were federal funds, including federal support for: (1) special education (through the Individuals with Disabilities Education Act); (2) students from low income families (through Title 1 of the No Child Left Behind Act [NCLB]); and (3) a wide variety of other federal interests (through other titles of NCLB and other grant programs).

Of the remaining \$6.8 billion overseen by ISBE, \$6,750,386,655 were grants from state general funds, most of which (\$6.2 billion) was for General State Aid (GSA, for \$4.4 billion) or mandated categorical support (\$1.8 billion): GSA was divided into two primary parts – the GSA Formula Grant (including the property tax adjustment, through the Property Tax Extension Limitation Law – PTELL) and the GSA Poverty Grant; mandated categorical support was primarily for special education and student transportation.

Ultimately, the portion of funds distributed through formulaic procedures to all school districts is contained in the GSA Formula Grant and the GSA Poverty Grant, which represented a budget recommendation of \$4,448,104,500 in FY2012, or 65.8 percent of all grants from state general funds in the FY2012 ISBE budget.

GSA Formula Grant

The GSA Formula Grant uses a “foundation program” as the basis of its distribution. The foundation program concept was developed more than a century ago and is the most popular formulaic procedure states used to distribute state support to school districts – almost every state uses some form of a foundation program to distribute a major share of its state support to school districts. Under a foundation program, the state sets a target level of revenue that is uniform (that is, the same amount – or foundation level – per student) across all school districts and defines state aid as the difference between that amount and the yield of a local property tax, the rate of which is common across all

districts. For example, if the foundation level was \$5,000 per student and in one district \$1,300 per student could be raised at the uniform tax effort and in another district \$4,200 per student could be raised at the uniform tax effort, then the first district would receive \$3,700 per student in state aid and the second district would receive \$800 per student in state aid. Using this approach, the state “equalizes” state support relative to the wealth of school districts so that all districts can generate the same level of revenue per student from a combination of state and local sources (even though the proportional contribution of state aid varies across districts, with lower wealth districts receiving more state aid per student and higher wealth districts receiving less state aid per student).

The foundation program became popular a few decades after states began providing any support to school districts (prior to the last half of the nineteenth century, state aid was typically allocated on an equal basis per teacher or per classroom) once states realized that local school districts were supplementing state support and creating dramatic differences in the quantity and quality of services provided across school districts. The foundation program is an attempt to promote student equity, in order to mitigate differences in per student spending across school districts, and to promote taxpayer equity, in order to alleviate the variation that exists across districts in their public school tax rates (which reflect, at least in part, the enormous variation in wealth [property value per student] that exists across districts). The ability of a foundation program to mitigate variations in spending and tax effort is directly related to the magnitude of the foundation level relative to the average per student spending of all districts – the higher the foundation level is relative to average spending, the less supplemental funds school districts provide, which leads to lower variation in spending across districts.

States differ in several important ways in how they implement the foundation program. First, states differ in how they set the foundation level; a few states have a rationale for that figure based on the per student spending level districts need to make in order to meet state-mandated resource requirements (such as numbers of personnel relative to students) or to meet state education accountability requirements while other states set a figure based on historical district spending levels and other states set the foundation level so that the total amount spent by the state meets the revenues made available by the legislature. As mentioned in the introduction, APA undertook an analysis of the foundation level for the Illinois Education Finance Advisory Board (EFAB) in 2001, which resulted in a recommended procedure to determine the foundation level and a specific level based on applying that procedure, which became the basis of recommendations EFAB made to ISBE on several occasions. The procedure we used to calculate a base cost – or foundation level – is called the “successful school district” approach and it is one of several methodologies that have been used by states to create a rational relationship between the base cost and a state’s education accountability

system, including student performance standards. The approach has been used by several states, sometimes in conjunction with other approaches, to set the parameters of the education finance system and it has been used in Maryland, Mississippi, New York, Ohio, and Pennsylvania to determine the foundation level in their foundation formulas. The approach is based on examining spending for instruction, administration, and plant operation and maintenance in school districts that meet or are considered to be on a path to meet state accountability requirements under the assumption that if school districts can be successful spending at particular levels, other districts should be able to accomplish the same result. The approach focuses on the efficiency with which districts allocate resources and eliminates the spending of districts considered to be inefficient. The approach only produces a base cost figure and does not determine district revenue levels necessary to serve students with special, high cost needs, including at-risk students.

States have used several different approaches to estimate the costs districts are likely to incur in order to meet state education standards, particularly those related to student academic performance. In order to make the allocation of state aid sensitive to cost factors that are beyond the control of school districts -- including those associated with student characteristics, such as participation in a special, high cost program, and district characteristics, such as size or location -- states have developed base cost figures, for students with no special needs enrolled in districts facing no special cost pressures, and weights for student and district characteristics, which are designed to estimate the added costs associated with those characteristics. The use of a base costs and weights allows state aid to consider the needs of individual school districts, which tend to vary considerably on the proportion of students who participate in different special needs programs as well as district characteristics. The most popular methodologies to determine those figures include the successful school district approach, the professional judgment approach, and the evidence-based approach; in addition, econometric approaches have been tried but they have had limited success in producing figures that states have used in their state aid formulas.

The successful school district approach examines spending figures for school districts (or, in some cases, schools) that meet state standards, or appear to likely to meet such standards in the not too distant future -- where spending excludes expenditures for special need programs. This approach sometimes includes a procedure to address spending efficiency, which no other approach uses. The approach only produces a base cost figure and assumes that every district that spends as much as the average of successful districts should be able to meet state standards provided that weights are developed using some other approach. Critics of the successful school district approach suggest that it is contaminated by the inability to disaggregate spending, which results in the base cost figure

duplicating the costs of serving students with special needs; our experience is that it is possible either to obtain actual spending for students with particular special needs or to estimate such spending, which allows that spending to be excluded so that the approach focuses only on expenditures that support all students.

The professional judgment approach costs out the resources that practitioners believe must be in place in order for school districts to meet state education standards. The approach engages numerous educators -- including teachers, principals, and district administrators -- in developing lists of the specific resource needs of districts, which are assigned either to the base or to students with special needs; resources include personnel, supplies, and technology, the costs of which are based on existing costs (such as salaries and benefits), or comparisons to other districts or states. The approach allows states to develop a base cost figure and a set of weights, which can be as specific as desired based on how panels of educators are organized to develop resource needs. Critics of the professional judgment approach are concerned that there are no constraints on the resources educators identify as being necessary; our experience is that educators tend to be parsimonious and the use of multiple levels of panels to review the work of other panels mitigates this concern.

The evidence-based approach costs out the resources associated with programs and services that research has shown to be valuable in improving student performance. While the logic of this approach is attractive to policymakers, evidence about the efficacy of education programs is limited; what evidence exists about how schools should be organized does not address meeting specific state student performance expectations (but, rather, only deals with statistically significant movement in the right direction) and does not speak to ancillary costs associated with providing education services, such as those associated with administration and plant maintenance and operation. Despite its limitations, the evidence-based approach has been combined with the professional judgment approach -- by providing a starting set of resources to educator panels that can be modified as necessary.

Years ago, states used these approaches separately or selected figures based on the lowest numbers that emerged from several approaches. Recently, states have been undertaking the approaches simultaneously and selecting figures based on which approach worked best under the circumstances -- based on data availability, educator participation, or other factors. In some cases, where different approaches have produced different figures, states have chosen to use the lower figure as a starting point and the higher figure as a goal to be reached over time.

One example of a state that has used these approaches to set the parameters of a school finance formula is Maryland. Maryland used the successful school district and the professional

judgment approaches and developed a base cost figure and several student weights. The state developed a new formula that simplified its previous system – by combining several programs into a single weight, and added new weights. It set the foundation level of the new system at the lower base cost level and phased the system in over five years, ending at the higher base cost level. Other states, including New Jersey and Pennsylvania, have also used multiple approaches to estimate the parameters that drive a school finance formula and implemented new systems over time.

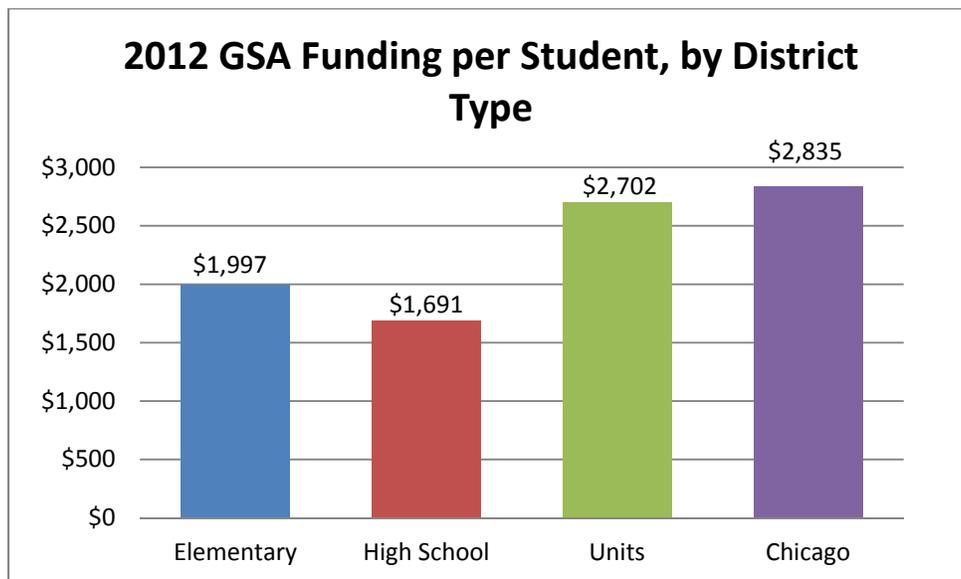
Second, states differ in whether they address the costs associated with students who have special needs (such as students at risk of failing in school, English-language learners, students participating in special education programs, and other students with special, high cost needs such as those in vocational-technical programs and gifted/talented students) through the foundation program; some states use “weighted” students in order to count students as the basis of distributing funds through the foundation program (where weights are factors that reflect the cost of serving students with special needs relative to the cost of serving students with no special needs).

Third, states differ in whether they require districts to actually make the tax effort specified by the foundation program (or the amount is simply used in calculating state aid but not required to be generated), whether districts are permitted to raise equivalent revenues using other tax sources than those specified in the foundation program (for example, local sales or income taxes could be used to generate revenue equal to the amount that would have been raised by a specified property tax rate), and how local wealth is measured (most states use the assessed value of property per student but some states include a sales tax requirement or combine personal income and property in determining local wealth). Fourth, states differ in how they deal with very wealthy districts that could generate the foundation level at the specified tax rate and require no state aid to do so; some states assure that all districts, regardless of wealth will receive some state support through the foundation program.

Finally, a few states operate what are sometimes referred to as “second tier” foundation programs that provide state aid to districts that exceed foundation level tax rates in order to raise additional funds and do so in a way that matches locally generated revenue per student at higher levels for less wealthy districts (and typically provides no state aid to districts above a specified level of wealth).

The budgeted foundation level in Illinois was \$6,119 per student in FY2012 (the same level it had been in FY2010 and FY2011). Due to less state revenue being available in FY2012 than was necessary to fully fund the proposed Formula Grants, the actual amount distributed was \$5,953 per student. The GSA Formula Grant used three different foundation programs that were applied to three sets of school

districts, each one defined by its relative wealth. The largest group of districts are those that are only able to provide less than 93 percent of foundation level revenues with local support at the specified tax rate (where there are three specified tax rates, none of which must actually be applied but all of which are used in calculating state aid: (1) 3.00 percent [that is \$3.00 per \$100.00 of property wealth] for unit districts; (2) 2.30 percent for elementary districts; and (3) 1.05 percent for high school districts – it should be noted that corporate personal property replacement taxes also contribute to local revenues). If a district can generate over 175 percent of foundation level revenue (that is, if a district could, at the specified tax rates, generate more than \$10,708.25 per student then it receives \$218 per student as a flat grant (flat grants are the same for all districts regardless of their wealth). When a district can generate between 93 percent and 175 percent of the foundation level on their own, it receives between five and seven percent of the foundation level using a formula that decreases from seven to five percent as district wealth rises (this is referred to as the “alternate” formula). In FY2012, 940 entities received GSA Formula Grants of which 865 entities were regular school districts (elementary, high school and unit districts) and 75 entities were Regional Office of Education (ROE) programs or lab schools (one each at the University of Illinois and Illinois State University and 73 alternative/safe schools). Of the 940 entities, 700 entities (645 school districts) received foundation program grants under the regular formula, 171 entities (157 school districts) received foundation program grants using the alternate formula, and 69 entities (63 school districts) received foundation program grants in the form of flat grants.



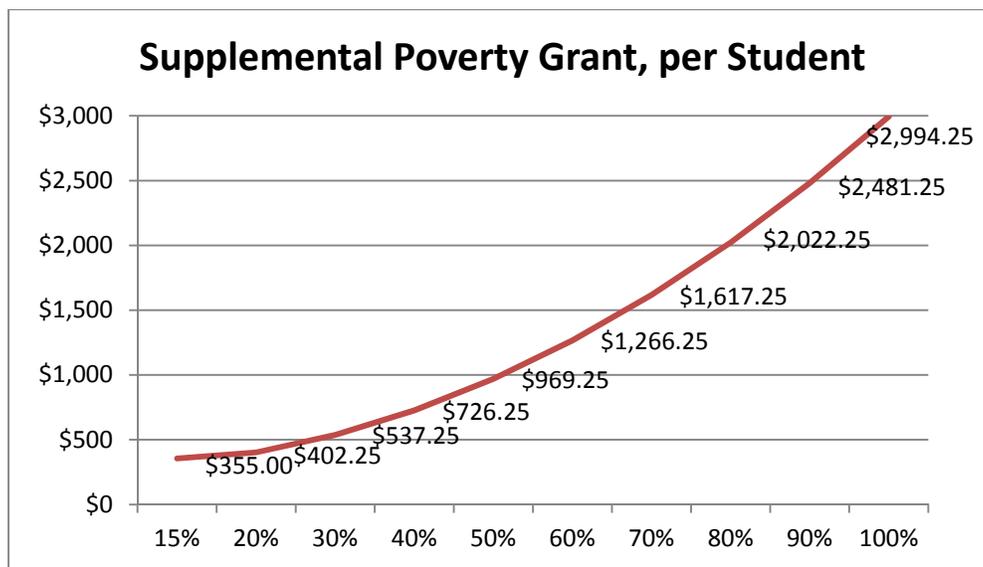
The state plays several important roles in determining the property wealth of school districts, primarily by assuring that most property is reassessed on a regular basis and that assessments are equalized so that they are accurate and comparable across the state (assessments are at one third of

market value). Since the state abolished the corporate personal property tax more than 30 years ago, it has assured that replacement revenues are provided to school districts and other units of local government.

GSA Poverty Grant

The GSA Poverty Grant provides state aid per student to school districts in direct proportion to each district's proportion of students from low income families (the district concentration ratio, or DCR) using a count of students provided by the Department of Human Services (based on the three year average of students receiving DHS services); this grant is not wealth equalized and all districts, regardless of wealth, receive a Poverty Grant. All districts received between \$355 and \$2,994.25 per low income student in FY2012 using the following formula: amount per low income student = \$294.25 + (\$2,700 times [DCR squared]) and all districts with a DCR less than 15 percent received \$355 per low income student.

Under this formula, if a district's DCR was between 0-15 percent, it received \$355 per student (of course, if a district had no low income students, it received no funds under the Poverty Grant). If a district had a DCR of 20 percent, it received \$402.25 per low income student, or \$80.45 per all students; if a district had a DCR of 50 percent, it received a Poverty Grant of \$969.25 per low income student, or \$484.63 per all students; and if a district had a DCR of 80 percent, it received a Poverty Grant of \$2,022.25 per low income student, or \$1,617.80 per all students (at a DCR of 100 percent, the district would receive \$2,994.25 per low income student, or \$2,994.23 per all students). To the extent that district wealth and DCR are inversely related – that is, the lower the property wealth then the higher the proportion of students from low income families – low wealth districts could receive a very high amount of state aid, combining the GSA Formula Grant and the GSA Poverty Grant.



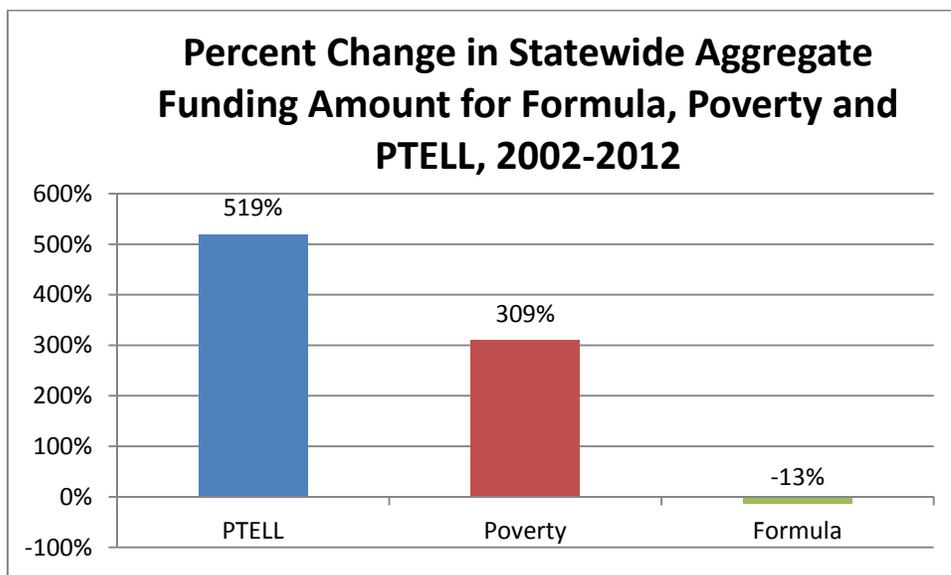
The magnitude of revenues distributed by the GSA Poverty Grant has been rising steadily over time, from \$388.2 million in FY2003 to \$1,567.3 million in FY 2012. That fact alone is not sufficient to suggest that the basis of identifying students, the concentration formula, and/or the base amount used to distribute funds are inappropriate, particularly given the economic environment of the last few years.

Many states provide state aid to school districts with high levels of students coming from low income families under the assumption that there is a relationship between poverty and low academic performance that can be addressed to some extent by additional resources. It is not unusual for such programs to be thought of as supporting “at-risk” students (students with a high probability of failing in school either by being held back, dropping out, or performing at a very low level). But states differ in how they identify students who may require extra support, how much they provide as support, whether such support is wealth equalized, and whether districts need to spend funds allocated on the basis of student poverty specifically for that purpose.

Most states identify students who need additional resources to improve academic performance indirectly, through the use of a proxy measure of family socio-economic status thought to be highly correlated with low student performance; they avoid the use of direct measures of performance due to a concern that if a direct measure were used, district would have a perverse incentive to maintain low performance in order to obtain more funding. While some states had developed complex measures of socio-economic status, including such factors as mother’s education level, personal income, or number of adults living at home, most states have moved to less precise indicators, such as eligibility for participation in the federal government’s free or reduced-price lunch program, because data were collected routinely by schools and data were updated annually (many of the more direct factors came

from Census Bureau data that was not updated more than every decade) – policy makers are well aware of the fact that free and reduced-price lunch data are more reliable for elementary school students than for middle or high school students. Free or reduced-price lunch data also tend to be consistent over time (while there might be trends in one direction or another over long periods of time, year-to-year change is not dramatic).

Many states use student weights to both determine how much revenue should be distributed for students in poverty and to equalize the distribution of those revenues. In general, such a weight, applied to students eligible for free and/or reduced-price lunch, would run from .20 to .50, although the weight can be under .10 and over .90 (where the weight would be multiplied by the foundation level and the number of eligible students to determine total funding – from which local property tax revenues might be deducted as in a foundation program). When weights are used, revenues allocated tend to be flexible in their use. States that use “categorical” programs to distribute funds for at-risk students do so without wealth equalization and with requirements for how funds should be used. In the past few years, the use of students weights has drawn interest for two reasons: (1) funds can follow students as they move across districts and (2) funds can be required to be spent at the schools the students attend rather than through district central offices (although sometimes programs for at-risk students are operated centrally to improve the efficiency with which they are provided).

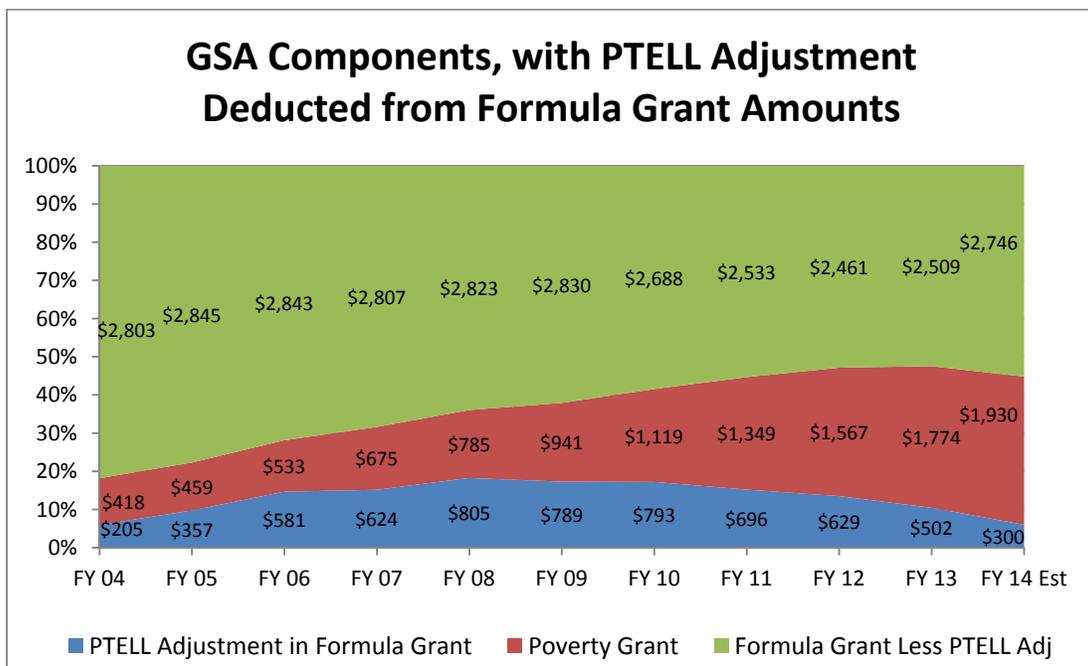


Property Tax Extension Limitation Law (PTELL) Adjustment

The Property Tax Extension Limitation Law (PTELL) was approved for collar counties (DuPage, Kane, Lake, McHenry and Will) in 1991 and for Cook County in 1994. Since that time other counties have been allowed to vote on the issue of whether to make their districts subject to PTELL. The PTELL,

also known as tax caps, imposed a limit on the growth in tax extensions or dollars collected. Local governments subject to PTELL are limited in that their tax extensions may grow by no more than the lesser of the Consumer Price Index (CPI) or 5 percent. Beginning in FY 2000, an adjustment was added to the Formula Grant calculation that can alter the Equalized Assessed Value (EAV). For districts subject to PTELL, the calculation of local resources uses either a district’s Real EAV or the Extension Limitation EAV. The Extension Limitation EAV is the EAV used in the prior year’s GSA calculations, multiplied by an index. That index represents the maximum growth allowed in the district’s extension under PTELL. Over time, the Extension Limitation EAV for many districts has grown much more slowly than districts’ actual EAV amounts. The cost of the adjustment rose as the gap between these values grew. However, without the adjustment, GSA calculations would assume more in local wealth than some districts could actually collect.

For the last two decades, the growth in property value in numerous school districts in counties where the Property Tax Extension Limitation Law (PTELL) was approved either by the state or through a county vote has been limited. As a result, the state allocates funds to school districts because of changes in the property wealth used to calculate the GSA Formula Grant. In FY2012, of the 865 school districts, 460 districts were in counties subject to PTELL and 364 districts benefited because their Extension Limitation equalized assessed valuation was lower than their actual equalized assessed valuation, which required aggregate PTELL adjustment payments of \$.6 billion. In effect, the PTELL Adjustment is state aid that substitutes for local revenue that would have been raised if property valuations had grown at market rates.



COMPARISON OF ILLINOIS TO SELECTED OTHER STATES

We felt it would be useful and interesting to compare Illinois to other states in a variety of ways since other states are dealing with many of the same issues that Illinois is facing; other states may not have solved all the problems but it is typically of value to examine what they are doing.

Given how cumbersome it would be to examine all other states, we wanted to focus on states that were “similar” to Illinois, particularly in terms of how elementary and secondary education is organized. We examined 10 factors in comparing Illinois to all other states: (1) enrollment in public K-12 schools; (2) the number of education agencies, which is mostly school districts; (3) the presence of one very large school district ; (4) the proportion of students eligible for free and reduce-price lunch; (5) the distribution of students by race; (6) the proportion of students participating in special education programs; (7) the education level of the population; (8) per capita income; (9) the proportion of the population in urban areas; and (10) the number of farms and farm acreage. In our view, these factors have an impact on the costs of providing education services, the availability of revenue to support services, the diversity of education needs, and the political diversity of the state. Using these factors, California, New Jersey, New York and Ohio appear to be most similar to Illinois while Florida, Michigan, Pennsylvania, and Virginia are close behind. The most prominent factors in identifying the eight comparable states were public school enrollment, the number of education agencies, and the proportion of students in special education. The eight comparable states tend to be in the northern part of the country (other than Florida and California), in the Midwest or East (other than California), among the largest states in the country, and with a large number of school districts (other than Florida and Virginia).

The Structure of the School Finance System

Background

The information in Table 1 (at the end of the report) provides a description of certain elements that tend to be present in modern school finance systems (those created in the past 40 years or so). None of the elements are described in sufficient detail that any state’s school finance system could be simulated (that is, its impact on each school district could be determined from the information provided). Rather, the purpose of the description is simply to ascertain broad similarities and differences between states in the bases of how they allocate state support to school systems.

Today, almost every state uses one or more mathematical formulas (if more than one, one is usually responsible for the majority of aid) to determine how much state support, and sometimes how

much locally generated support, will be available in each school system. The use of formulas avoids the need to make individual decisions for each school system, particularly given that each state has dozens, if not hundreds, of school systems. When states started providing any support to systems, the typical basis of allocation was an amount per teacher or per classroom, which was provided primarily to be sure that school systems could provide a program that met minimal state standards (states may have specified how many teachers were needed, how much teachers should be paid, and some amount for basic supplies and materials). The original concept was that states should ensure that every school system had sufficient revenue to provide a free, basic education fulfilling the intent of the education clauses that were included in almost every state constitution, which called for free public schools to be available throughout each state.

In the early years of the last century, states discovered that local systems supplemented state aid (or vice versa) and that there were dramatic differences in the revenues available to school systems, and therefore in the breadth and quality of the programs they offered, which was seen as causing an inappropriate level of inequality among school systems. Academic researchers determined that the variation in revenues across school systems was associated with the wealth of school systems (based on property wealth per student since property taxes are the source of most local revenue for public schools) and not on the tax effort of systems (that is, wealthier systems could have the same tax effort, or even lower tax effort, as poorer systems but could generate more revenue per student to supplement state support). By the middle of the 20th Century, many states had embraced a particular approach, the foundation program, to address spending inequality across school systems. As described earlier, a foundation program sets a target level of revenue for each system and pays as state aid the difference between that target amount and the amount generated locally using a level of tax effort that is common across all school systems. In this way, wealthier school systems and poorer school systems could have a common tax effort and generate similar revenue per teacher or per classroom or per student. A number of issues might still cause variation in the spending or tax rates of school systems since most states did not limit locally generated revenues for public education and, simultaneously, assured a minimum amount of state aid for every system, regardless of wealth.

School finance litigation, which emerged in the late 1960s and was pursued in most states, focused on whether the variation in per student spending, and local tax rates, resulted in states' not fulfilling constitutional requirements (as mentioned above). This "equity" litigation resulted in numerous states strengthening their foundation programs, including wealth-equalizing what had been separate programs designed to provide state aid for students with special, high cost needs, creating new basic aid approaches (commonly referred to as "reward-for effort" approaches, where state aid was

contingent on local wealth and tax effort – these approaches have mostly disappeared), or creating second tiers of formulas, in addition to foundation programs, that attempted to equalize, and sometimes limit, local revenues that exceeded foundation program targets.

States have always allocated support for services that have not been included in foundation programs, such as transportation, special education, or capital outlay and debt service. The states have used what have been referred to as “categorical” supports, which are often allocated on the basis of a fixed amount per student or a percentage reimbursement of approved expenditures (including 100 percent, or full funding of such expenditures) that does not take district wealth into consideration; categorical funding typically implies that funds generated must be spent for the purpose for which they were generated. During the era of equity litigation (roughly 1970-2000), many states integrated categorical programs into their foundation programs through the use of student “weights” (mentioned above), which are designed to count students as more than one full-time equivalent (FTE) student based on the relative cost of serving students with specific special needs as compared to students with no special needs (a student in a program that costs 60 percent of the cost of the basic program would be counted as 1.60 rather than 1.00 to account for such costs – thereby raising the target revenue associated with the foundation program). States vary dramatically in terms of which students are weighted, the number of weights used for a particular service, such as special education, and the magnitude of the weights; states vary as to the extent to which weights reflect the actual cost of providing services.

In the past decade states have become more rigorous about setting the parameters (figures such as \$5,000 per student or a weight of 1.35) that drive the mathematical equations in their school finance formulas. Early on, the parameters may have reflected not much more than the total amount of funds available for distribution to all school districts (that is, applying a particular set of parameters resulted in aggregate statewide spending that was equal to the total funds made available). But some states have undertaken detailed studies of not just the cost of providing particular services but the cost of providing services in a way likely to result in students meeting state student performance objectives (which may be different from what is actually being spent). A second round of school finance litigation has been filed based on the premise that it is unconstitutional when states do not fund schools at a level where they have a reasonable chance of meeting state standards, including student academic performance (it should be noted that the Supreme Court of Colorado rejected this approach in its May 2013 decision in the *Lobato* case).

Structure

The information in Table 1 provides short descriptions of characteristics of the state school finance systems in Illinois, which has been discussed in more detail above, and the eight states selected for comparison to Illinois (California, Florida, Michigan, New Jersey, New York, Ohio, Pennsylvania, and Virginia). The first thing to note about the states is the variation in the number of school districts they have. Florida has a relatively low number of districts (67), while California has a large number (1,043). At 865, Illinois has a relatively larger number of districts in comparison with the other states listed in Table 1.

Looking at the next column in the table, it is seen that all of the comparison states use the foundation program approach in distributing state aid to school systems. While there are several approaches used by states to set the foundation program target level of revenue for each school district in the state, the most common approach is to set a base level of funding for all students, which might be adjusted by using student weights for students with particular needs. In most cases the target amount per student is simply a figure set by the legislature that may not be based on the costs of education programs; in New York the base level of funding does include a cost of education figure, in addition to a variable for pupil need and regional costs. The base level in Illinois is set through the successful school district approach, adjusted based on available local resources, which takes into account property value and corporate and personal property taxes.

A basic requirement of all school finance formulas is a procedure to count students. Essentially states differ in regard to: (1) whether they use average daily attendance (ADA, students who actually are in school) or average daily membership (ADM, students who systems expect to serve even if they are not in attendance); and (2) how often they count students, which varies from a few days (which may be spread over the course of an entire year or not) to every day school is in session. Illinois uses ADA and counts students frequently; most of the comparator states use ADA or ADM to count students and also count frequently. Of the comparison states, only New Jersey relies on a single day count.

All of the comparison states require a contribution from school district in order for them to receive the foundation program funding. Most of the states deduct the yield of a statewide common property tax rate from each district's target revenue in order to determine state aid under their foundation programs. Mill levies range from just under five mills in Florida to 22 mills in Ohio. In Virginia, a common levy is used to reach a statewide goal of local districts paying a fixed percentage (45 percent) of aggregate foundation program target revenues. It is impossible to compare the property tax rates across states given differences in the way property is assessed (both the rate that residential

property is assessed and the relationship between the assessment rate for residential property and the assessment rates for other types of property, such as commercial, industrial, or agricultural). As a result of using property taxes as the basis of the local contribution to the foundation program, these comparison states measure the relative wealth of school systems using property value (typically on a per student basis). A few states (New Jersey, New York and Virginia) combine property value with personal income and/or the sales tax base in measuring the fiscal capacity of school systems.

Most states provide additional support to school systems for students with special needs, including those students considered to be at risk of failing in school, students with individual education plans who participate in special education programs, English-language learners (ELL) or limited-English proficient (LEP) students, and gifted and talented students (students in other programs, such as vocational, technical, or agricultural programs may also receive supplemental state aid). States vary considerably in how they identify students, how they allocate aid to such students, and how much aid they allot. In most cases, the states in this comparison use the count of students eligible for free and reduced-price lunch as the basis of counting at-risk students, including Michigan, Pennsylvania and Virginia. Ohio adjusts funding for at-risk students based on demographic characteristics of the school district resident population.

Student weights are typically used as the basis of supporting special education, which are applied to the actual count of students by disability (since weights may be differentiated by disability). Florida, New York, Ohio and Virginia all use this approach. Other states, such as Pennsylvania and New Jersey apply the weight to a fixed percentage of all students. In Illinois, the state reimburses districts for a set percentage of actual special education expenditures in the prior year through the form of a block grant type model known as the 'Funding for Children Requiring Special Education Services' program.

While most of the comparison states provide added support for ELL students, the way they provide this support does vary. In Illinois, the Bilingual Education Grant reimburses current year costs for programs offering five or more class periods of ELL instruction per week. In Virginia and Ohio funding is resource based, being derived from a state-set student to teacher ratio, while in Pennsylvania, Florida and New Jersey a student weight is used, ranging from 1.167 in Florida to a maximum of 2.43 in Pennsylvania. Many states across the country also provide added support for gifted/talented students and most that do use student weights – it is not unusual for states to set a fixed proportion of students as the basis of counting gifted students. While Virginia provides for one teacher unit per 1000 students for gifted/talented programs, Illinois, along with many of the other comparison states, does not offer specific additional support for gifted/talented students. California distributes a set amount, based on

prior year funding, Florida provides funding through its special education funding, and New Jersey includes funding for gifted/talented students in its district adequacy budget calculations.

Illinois and some of the other comparator states also provide added support based on characteristics of school districts that are thought to have cost impacts that are beyond the control of school districts. Illinois provides additional funds for large districts (defined as those with populations exceeding 500,000) through a general education block grant and an educational services block grant (Article 1D of the Illinois School Code lists the additional programs that are included in these block grants). California, Florida, Michigan, New York, Ohio, Pennsylvania and Virginia provide additional aid for relatively small or isolated school systems, and New York and New Jersey also make adjustments for declining enrollment.

A number of states provide wealth-equalized support for systems that levy tax rates in excess of those required under the foundation program. While this is not widespread, it helps to address the issue of unlimited, unequalized local funds that allow systems to spend above foundation program target levels. Of the comparison states, New Jersey provides equalization aid to districts that cannot fund their adequacy budget on their own.

Almost all of the comparison states provide specific funds for student transportation; those states that do not may include such expenditures in their target revenues under the foundation program. Some states, such as New York, California and Illinois, reimburse districts based on the actual costs incurred for transportation (either full reimbursement or a percentage of total transportation expenses). Some states provide funds on a per pupil basis (Virginia), while others provide a fixed per mile amount per student (New Jersey). In cases where transportation expenditures are not included in the foundation formula, state aid is not wealth equalized.

State support for capital outlay and debt service is particularly difficult to describe in a small amount of space since most states define allowable projects in detail, allow local systems to provide support within limits based on assessed value of property, and vary in how state aid is provided – in some cases states provide no support (Michigan) while in others they provide support based on instructional units (Florida) or a fixed state share of expenditures (New Jersey).

K-12 Spending, Numbers of Personnel, Teacher Characteristics and Teacher Salary

Table 2 shows a plethora of information about school system spending and how Illinois compares to the eight comparable states in terms of spending per student, the variation in spending across school systems, statewide average staffing levels for different types of employees, and teacher

characteristics. The figures in Tables 2 (and Table 3) are organized in the following way: (1) national average figures are shown in the top row in italics; (2) all Illinois figures are shown in the second row, are bolded, and are in a relatively large font; and (3) the figures for the eight other states are shown in separate rows below Illinois, including a row for the simple average of the eight states – where figures in any of the eight states are higher than those for Illinois (or are “better” in columns 3 and 4 in Table 2), they are bolded

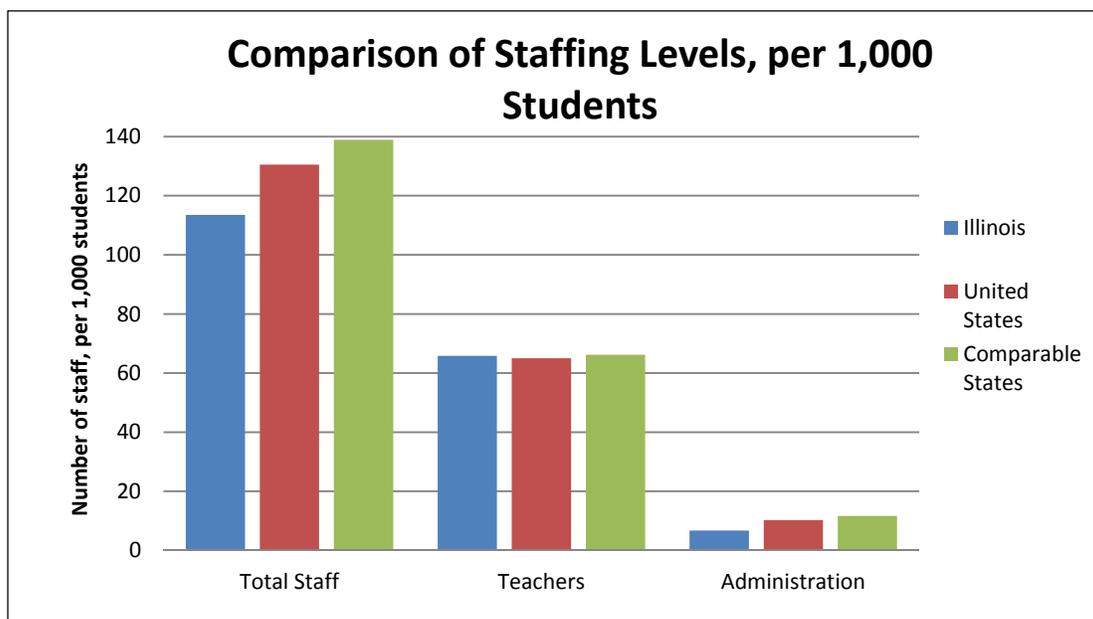
Spending

Column 1 of Table 2 shows per K-12 student spending in 2008-09 (the latest year for which data are available from the National Center for Education Statistics, which need to be used in order to make state to state comparisons). At \$11,592 per student, spending in Illinois was 5.1 percent below the average of the comparable states but 9.5 percent above the national average. When such spending is adjusted by interstate cost-of-living differences (column 2), spending in Illinois is just below the average of the comparable states although four of the states had higher cost-of-living adjusted spending levels than Illinois. The variation in spending among school districts in Illinois (column 3) is moderate, with a coefficient of variation of .153 (the coefficient of variation is the standard deviation for a group of cases divided by the average of the cases – our experience suggests that at .150, the coefficient of variation for spending is at a level where it is important to understand more about the causes of the disparity, which will be discussed below when we focus our attention on Illinois school districts), which is at the national average and slightly higher than the average of the comparable states; but five of the comparable states had less variation in spending across their school districts than was the case in Illinois. The relationship between per student spending and district wealth (column 4) is fairly strong in Illinois, well above the average of the comparable states and the national average – all eight comparable states had a weaker relationship between spending and wealth than Illinois. This relationship is of interest because, as discussed above, one of the primary purposes of equalizing state aid to school districts is to alleviate the variation in spending, and its relationship to wealth, that would likely exist if state aid were not provided. In column 5, district spending has been analyzed to take into consideration student needs and cost-of-living differences in order to show the extent to which all districts reach a national average index of 90.0; Illinois is well above that average, and over four of the eight comparable states, which suggests that spending levels in Illinois are comparatively high.

Numbers of Personnel and Teacher Characteristics

The figures in columns 6-9 of Table 2 indicate the statewide average number of staff per 1,000 students in 2008-09, a measure of staffing that facilitates comparisons across states. School districts in Illinois

employed fewer people than the comparable states – slightly fewer teachers, far fewer administrative staff, and far fewer total staff (Illinois was 18.3 percent below the average of the comparable states and 13 percent below the national average).



Average teacher salaries in Illinois were 4.2 percent above the average of the comparable states (8.5 percent more than the average salary in the comparable states adjusted by regional cost-of-living differences) and 12.4 percent above the national average. Looking at the two factors that drive teacher salaries (years of experience and education level), the average years of experience of teachers in Illinois was slightly below both the average of the comparable states and the national average while the proportion of teachers with more than a bachelor-level degree was above average. The benefit rate paid to personnel in Illinois was slightly above the average for the comparable states.

Student Needs

One of the ways states differ from each other is the impact of different student needs, which may have significant cost implications (differences between states mask differences among school districts, which are likely to be much greater than differences between states). In columns 2-4 of Table 3, the proportions of students in special education programs, students eligible for free and reduced-price lunch, and students whose parents are not fluent in English (an indicator of ELL or LEP students for whom state by state data are unavailable) are shown relative to the student population shown in column 1. Illinois has a slightly higher proportion of students in special education programs (14.9 percent), which is just above the comparison state average and higher than the national average. Illinois also has an average proportion of students eligible for free and reduced-price lunch (46.2 percent),

which is slightly higher than the comparison state average while being slightly lower than the national average. Illinois has a relatively high proportion of students whose parents are not fluent in English (19.3 percent), which is higher than the comparison state average and the national average.

One way to compare states in terms of student needs is to examine the ratio of weighted to unweighted students, where students with special needs have been weighted to reflect the cost of serving them relative to the cost of serving students with no special needs. We used weights for the three categories of special needs students based on APA's analyses of the cost of serving such students in several states where recent "costing-out" studies have been undertaken (added weights – above 1.00 – of 1.10 for special education, .40 for at-risk students, and .75 for ELL/LEP students). For Illinois, the ratio of weighted to unweighted students is 1.49, which means it is expected that statewide expenditures would be 49 percent higher than they would be if no students had special needs. The Illinois need ratio is slightly higher than the need ratio of the comparison states and the national average.

THE IMPACT OF THE ILLINOIS SCHOOL FINANCE SYSTEM ON THE STATE'S SCHOOL DISTRICTS

Introduction

As part of our examination of the Illinois school finance system, we wanted to devote some effort to understanding how the system impacts school districts in the state. As discussed earlier, the primary reasons why states have school finance systems, which allocate state aid to school districts, and do not expect school districts to generate the revenues they need to provide education services on their own include: (1) reducing what would otherwise likely be dramatic differences in per student spending across all school districts; (2) assuring that resources are available to meet the needs of students, which can vary across the state based on the attendance of students who require special education services, students who are at-risk of failing in school, and students with English language difficulties (sometimes referred to as limited-English proficient [LEP] students or English-language Learners [ELL]); (3) alleviating what would otherwise likely be large disparities in the tax effort school districts would need to make in order to generate the revenues required to support education services; and (4) providing incentives for school districts to provide education services in ways that comply with, or are consistent with, state policy.

As has been discussed previously, states use formulaic procedures designed to take into consideration the needs of school districts and their own ability to provide some local support in order to distribute their funds in ways that promote the first three objectives; they typically use targeted grant programs to promote the fourth objective. In effect, accomplishing the first three objectives would address two objectives of any school finance system – to promote fiscal “equity” and “adequacy.” Because equity and adequacy are terms that are used loosely by state and local policymakers, as well as by education interest groups, we thought we should define what we mean by these terms. Defining the terms allows us to measure as precisely as possible how well the school finance system in Illinois is doing in terms of equity and adequacy.

Based on our work over many years and in many states as well as studies prepared by the academic community, we believe that equity in school finance has three dimensions:

1. Student fiscal equity means that the per student spending of all school districts in a state is either almost the same or, if not very similar, can be explained by factors outside the control of school systems that impact the cost of serving students (such as the proportion of students in each district with special, high cost needs or school system characteristics, such as size or location);

2. Taxpayer equity means either that the tax rates used to support education are similar across school systems or that differences in tax rates can be explained by the desire of taxpayers to spend more on education, within reasonable limits (this standard is difficult to apply in Illinois for districts subject to PTELL where their tax rates are largely dictated by their EAV and CPI-growth in tax extensions); and
3. Fiscal neutrality means that there is little or no relationship between the wealth of school systems and their per student spending levels. While almost no one expects a school finance system to produce perfect equity, it is important that the vast majority of differences in spending and taxing across school districts can be explained by acceptable factors.

School finance adequacy is more difficult to define precisely because states have not been concerned about it until the last decade or so, in most cases leaving spending decisions up to school districts or assuring a minimal level of revenue to school systems. Likewise, while there has been nearly 50 years of school finance litigation focused on equity, it is only in the last few years that litigation in a few states has used the level of funding as the basis of a legal complaint. For us, adequacy is directly related to education accountability and the education standards that states have adopted since the passage of the federal No Child Left Behind (NCLB) legislation. While many states set student academic performance expectations, have created assessment procedures to measure student progress, enacted other standards related to teacher quality and other aspects of service delivery, and created consequences for districts and schools that do not meet such expectations, few states have determined how much it might cost systems to meet such requirements and ensured that districts had sufficient revenue. Adequacy means that enough revenue is available in all school systems to give them a reasonable chance to meet all state education standards. In the absence of more specific information about Illinois education standards and the costs associated with meeting them (while it might be possible to use the work we did for the Education Finance Advisory Board [EFAB] as the basis of examining the adequacy of resources, that work is so old that it would be inappropriate to use it), adequacy for this report means two things: (1) the allocation of state aid is sensitive to the needs of school districts and (2) the change in spending over time keeps up with inflation.

Measuring the Needs of School Districts

Previously we have discussed student needs and the use of student weights to estimate the relative needs of school districts. In Table 3, we compared the relative cost implications of student needs in Illinois to those of selected other states by defining need as the ratio of weighted to unweighted students, where the count of weighted students reflects the cost of serving students to what the costs would have been if no student had any need. For example, if a school district had 2,000

students and 300 students were in special education programs, 800 students were at-risk of failing in school, and 60 of them were limited-English proficient (LEP) and if we assigned student weights of 1.10 to special education, .40 to at-risk students, and .75 to LEP students (based on the excess cost of serving such students in ways that would improve their chances of meeting state academic requirements), then there would be 2,695 weighted students (assuming groups with special needs were mutually exclusive) and the ratio of weighted to unweighted students would be about 1.35. That figure means that in that district, costs are 35 percent higher than they would have been if no student had any special, high cost need. If a second district had a need ratio of 1.25, it would have less need than the first district, which means it could spend less in total than the first district, while if a third district had a need ratio of 1.45 it would have more need than the first district (and the second district), which means it would need to spend more than the first (and second) district to serve its students appropriately.

Because Illinois school districts are organized into three categories based on the grade spans they serve, which might have cost implications and which do have implications for local support based on the structure of the GSA Formula grants, we decided to examine all districts but also to disaggregate them into Elementary, High School, and Unit groups – within the Unit group we separated Chicago Public Schools since the district enrolls almost a third of all students in Unit districts. Therefore, as shown in Tables 4 through 9, we show information for all districts, for Elementary districts, for High School districts, for Unit districts excluding Chicago, and for Chicago.

As shown in Table 4, in 2012 there were 859 school districts in Illinois (excluding university-based laboratory schools and alternative/safe schools) for which we obtained useable information; of those districts, 375 were elementary districts, 98 were high school districts, and 386 were unit districts (385 unit districts excluding Chicago). Of the more than two million students in all districts, 62 percent were in unit districts (including Chicago – Chicago itself enrolled almost 20 percent of all students in the state), nearly 26 percent were in elementary districts, and 12 percent of students were in high school districts. There was a wide range in the size of school districts, ranging from less than 100 students to more than 40,000 students (excluding Chicago, which had more than 400,000 students) although the average size of districts was 2,400 students or so, with the average size of elementary districts being about 40 percent lower than high school or unit districts.

One way to analyze the needs of school districts is to examine the proportions of students with special, high cost needs. The figures in Table 4 show that, on average, 15.9 percent of students in Illinois participate in special education programs, 3.8 percent of students have limited-English proficiency (LEP), and 39.8 percent of all students are eligible for free or reduced-price lunch (an indicator of the socio-

economic status of families and a proxy for being at-risk of failing in school). Elementary districts have a higher proportion of LEP students while high school districts have a lower proportion of at-risk students (which may reflect student interest in participating in the free and reduced-price lunch program – although unit districts and elementary districts have similar proportions of such students). Chicago stands out in having very high proportions of LEP students and at-risk students although the district has a lower than average proportion of students in special education programs.

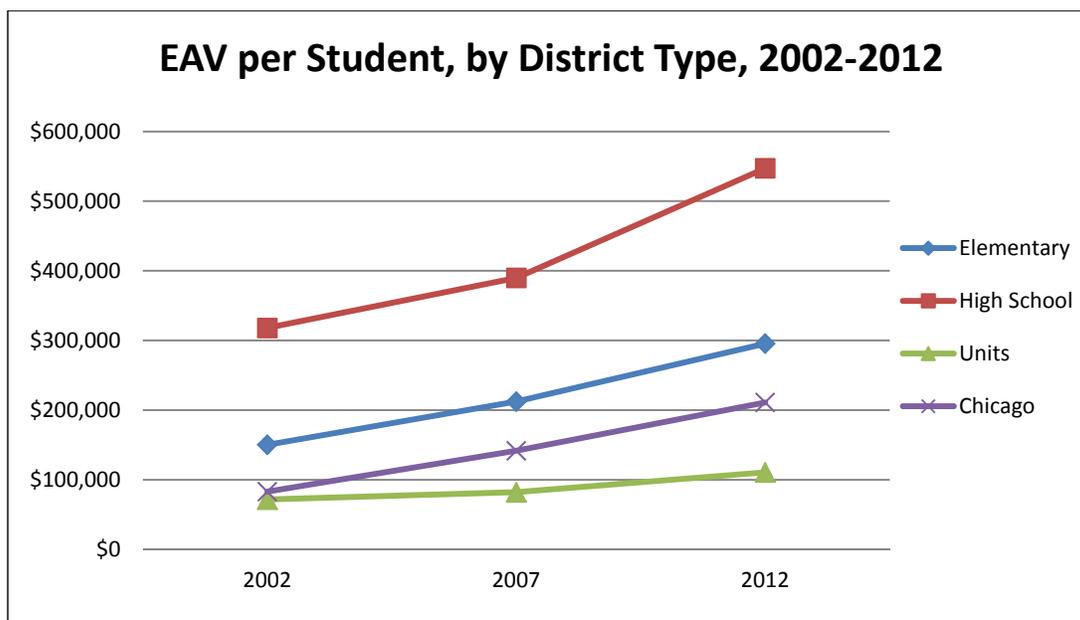
If students with these three needs are weighted and the need ratio is calculated (using an add-on weight of 1.1 for special education, .75 for LEP students, and .40 for students eligible for free and reduced-price lunch), the statewide average ratio was 1.36 in 2012. These weights reflect the averages of weights APA has calculated in studies it has undertaken in other states, such as Pennsylvania and Maryland, to determine weight levels. The weights represent the full added costs of providing services to students with special needs and do not consider the availability of revenue from the federal government that would offset the support that would otherwise be needed from the state and local school districts. In the case of the special education weight, the figure (1.1) reflects national analyses of the supplemental cost of special education programs. It should be noted that the statewide average ratio of weighted to unweighted students in Illinois (1.36) is different from the one we found when we compared the ratio of weighted to unweighted students in Illinois to the needs of the eight states we identified as being similar to Illinois and showed in Table 3. This is a result of using a different definition of students with limited-English proficiency in order to gather data from all states; the different definition produces a much higher rate of LEP students, which when multiplied by the .75 student weight, produces the 13 point difference in the ratio.

While the average need ratio is similar across the three types of districts, as shown in Table 4, Chicago's need ratio, at 1.60, is dramatically higher than the average ratios for elementary, high school, or unit districts (excluding Chicago). It is worth noting that the statewide average need ratio has grown over time, rising from 1.30 in 2002 to 1.33 in 2007 and then to 1.36 in 2012 (that is, a 4.6 percent increase over the course of a decade – which means that costs have been rising without taking annual cost-of-living increases into consideration).

School District Wealth

The figures in Table 5 show the wealth of school districts, the variation in wealth, and how wealth has changed over time, where wealth is defined as assessed value per student. While the average wealth of all districts in 2012 was just over \$240,000 per student, high school districts had much

higher wealth on average (more than 2.25 times the statewide average) while unit districts had lower wealth on average (less than half of the statewide average), as seen in the chart below.



While it would be possible to examine the highest and lowest wealth figures to get a sense of the variation in wealth across school districts, that can be a misleading approach because such figures could be outliers – unusual and possibly reflecting the influence of some unknown factor at either end of the distribution. Given that concern, academics have developed a variety of other statistics that are better indicators of the disparity across a set of cases. We believe that one such figure, the coefficient of variation, is the most useful one among possible choices (such as the restricted range, the restricted range ratio, the relative mean deviance, the variance, or the Gini coefficient) because it is easy to calculate, is relatively easy to understand, uses all figures in the distribution (not just a few), is not sensitive to constant change over time (which may be caused by inflation), and does not weight one figure more than another (unless all figures are adjusted in some purposeful way, such as by weighting by enrollment). The coefficient of variation is the standard deviation divided by the average for a set of figures. The coefficient of variation has a minimum value of .000, which indicates that every value in the set of figures is the same, but no maximum value; in general, it is expected that two thirds of all cases would be within one standard deviation of the average, where one standard deviation is the coefficient of variation times the average.

For example, the coefficient of variation for wealth in 2012 for all districts in Illinois was 1.094, indicating a large amount of variation and, given an average of \$241,226, suggesting that two thirds of the 859 districts would have wealth between \$0 and \$505,127. As shown in Table 5, the variation in the

wealth of elementary districts was higher in 2012 than the variation in wealth of high school or unit districts excluding Chicago. Clearly, wealth varied tremendously across the state's school districts, a variation that has grown somewhat between 2002 and 2012 as the average wealth rose over the decade. While statewide average wealth rose by 80 percent between 2002 and 2012 (the ratio of average wealth in 2012 to average wealth in 2002 was 1.80), wealth rose more in elementary districts than it did in unit districts (excluding Chicago); wealth in Chicago grew much more than the statewide average, rising by 154 percent during that ten year period. Obviously, if the variation in wealth is high and growing, the school finance system has to work even harder to "equalize" the impact of wealth on school district spending and local tax effort.

Current Operating Spending

The figures in table 6 show basic statistics about per student spending, where spending is for current operations (not including spending for capital outlay and debt service), excluding transportation, food services, and community services; spending does include instruction, administration, and plant maintenance and operation, which are the primary functions needed to operate schools and provide academic services for all non-adult students, including those with special needs. In 2012, districts spent \$8,529 per student, on average (this is the simple average across all school districts where each district is weighted the same in calculating the average regardless of size – this figure is not the accounting average that is calculated by dividing the sum of all spending by the sum of all students). While elementary districts had spending at about the statewide average, high school districts spent about 30 percent more than the statewide average and unit districts excluding Chicago spent about 12 percent less than the statewide average (Chicago spent about 22 percent above the statewide average)³.

The coefficient of variation for spending for all districts in 2012 was .300, suggesting that two thirds of all districts spent between \$6,270 and \$10,788. The variation in spending among elementary districts (.307) and high school districts (.298) was near the statewide average while the variation in spending among unit districts was somewhat lower (.183). Based on our experience, academic research, and school finance litigation, the variation in spending among school districts in Illinois (even among unit districts alone) is relatively high (coefficients of variation over .150 are considered to be high). It should be noted that the variation in spending has grown over time (the coefficient of variation rose from .266 in 2002, to .273 in 2007, to .300 in 2012 for all districts and from .152 to .171 to .183 for unit districts). If one purpose of state aid is to alleviate spending differences among school districts – which in the

³ Effective Fiscal Year 2010, legislative changes required by P.A. 96-0889 resulted in Chicago Public Schools making pension contributions to the Chicago Teachers' Pension Fund. School Districts other than Chicago Public Schools do not make such payments.

absence of state aid might be as varied as the wealth of school districts – certainly it has had the desired effect (the variation in spending is far less than the variation in wealth); however, over time, as the wealth variation has grown, so has the spending variation.

As we discussed above, in addition to being concerned about a large variation in spending among school districts, school finance analysts are concerned about a strong relationship between spending and the wealth of school districts, particularly if there is not an appropriate rationale for the spending variation. As shown in the bolded rows in Table 6, there is a moderate to strong correlation between the wealth of school districts and their spending: in 2012 the correlation between the two variables was .78 (the same, or slightly higher than it had been in earlier years). A correlation coefficient ranges between zero and one and can be positive or negative – a correlation of zero indicates that there is no relationship between the two variables being correlated while a correlation of one indicates a perfect relationship (a positive number indicates that as one variable increases, so does the other one while a negative number indicates that as one variable increases, the other one decreases). Correlation coefficients less than .30 are considered to be weak, while correlation coefficients between .30 and .70 are considered to be moderate and correlation coefficients above .70 are considered to be strong. Even when the correlation between wealth and spending is examined for different types of districts, the correlation is either strong (for elementary districts and for high school districts) or moderate (and growing for unit districts).

A rational explanation for district spending to vary is that it is related to the needs of districts – it would be considered to be reasonable that districts with higher needs also have higher spending in order to meet those needs. But the correlation between spending and need, as shown in the italicized rows of Table 6, is weak and negative (that is, as need goes up, spending goes down, although weakly). While the correlation between need and spending had been weak but positive for unit districts in 2002 (.19) and 2007 (.11), it remained weak but turned negative in 2012 (-.13).

Another possible explanation for the variation in district spending is that districts generated more local revenue by making higher tax effort. For our purposes, tax effort is local revenue (for current operations) divided by local wealth (that is, how much actual effort it would take to generate a given level of revenue at a particular level of wealth). For all districts, the correlation between tax effort and spending is weak and negative – so districts making lower tax effort tend to spend more, which is not a rational explanation for the spending variation. Among unit districts, there is a positive relationship between spending and tax effort, which, while weak in 2012, grew between 2002 and 2012.

There is one other thing we can learn from the per student spending figures displayed in Table 6, which speaks to one aspect of the adequacy issue that has been discussed earlier. Between 2002 and 2012, per student spending increased: for all districts by 34 percent (see the row of bolded and italicized figures), for elementary districts by 39 percent, for high school districts by 32 percent, for unit districts excluding Chicago by 31 percent, and for Chicago by 47 percent. Since the consumer price index rose by 27.6 percent (from 179.9 to 229.6) during this period of time, it appears that, on average, school district spending rose at least enough to keep up with inflation (in excess of inflation in Chicago). While this does not suggest that spending in 2002 was at an appropriate level, it does indicate that spending has increased reasonably since then.

Spending per Weighted Student

Another way to analyze spending relative to the needs of students is to examine spending per weighted student, using the definitions of spending and student weights that have been described above. In effect, if the variation in spending was primarily related to student needs, and the costs associated with meeting those needs, then spending per weighted student should not vary much and there should be no relationship, as shown by correlation, between spending and need. The figures in Table 7 show average spending per weighted student for different types of districts in 2012, 2007, and 2002 – organized in the same way as the spending per student figures displayed in Table 6.

Unfortunately, with a couple of exceptions, the conclusions that were drawn based on the figures in table 6 hold true for the figures in Table 7; that is: (1) there is almost the same level of variation across districts in spending per weighted student as there was in spending per student; (2) there is a stronger relationship between spending per weighted student and wealth than there was between spending per student and wealth; (3) there is a stronger negative relationship between spending per weighted student and need than there was between spending per student and need; and (4) there is a weak relationship between spending per weighted student and local tax effort, which is negative for elementary and high school districts and positive for unit districts.

The exceptions are: (1) Chicago's spending per weighted student is only slightly higher than the average for all districts, (2) spending per weighted student increased at about the rate of inflation between 2002 and 2012 (and slightly less in high school and unit districts excluding Chicago) rather than rising faster than inflation, which was true for spending per student.

State Aid per Student

The figures in table 8 display information about state aid to school districts, how varied it is across districts, how it is correlated with need and wealth, and how it has changed over time. The table examines all non-capital aid per student, GSA Formula aid per student, and GSA Poverty aid per student. Looking at the sum of all non-capital state aid, the average level of support was \$2,882 per student in 2012, an amount that had not changed since 2012 and had risen by 20.3 percent since 2002 (below the rate of inflation for that ten year period). It should be noted that these figures are the simple averages of district figures; they are not the accounting average for that group of districts. Elementary and high school districts received less than the statewide average while unit districts, and particularly Chicago, received more than the statewide average. While the average aid to elementary, high school, and unit districts (excluding Chicago) did not increase more rapidly than inflation between 2002 and 2012, state support to Chicago did rise at a rate well above inflation (46.1 percent versus 27.6 percent). There is a lot of variation across districts in state aid, as would be expected if aid is sensitive to the needs and wealth of school districts (which it should be based on the description of the way state support is distributed, as discussed earlier). In fact, there is a moderate, positive correlation between state aid and need (.51) and a moderate, negative correlation between state aid and wealth (-.57), as shown by figures in Table 10.

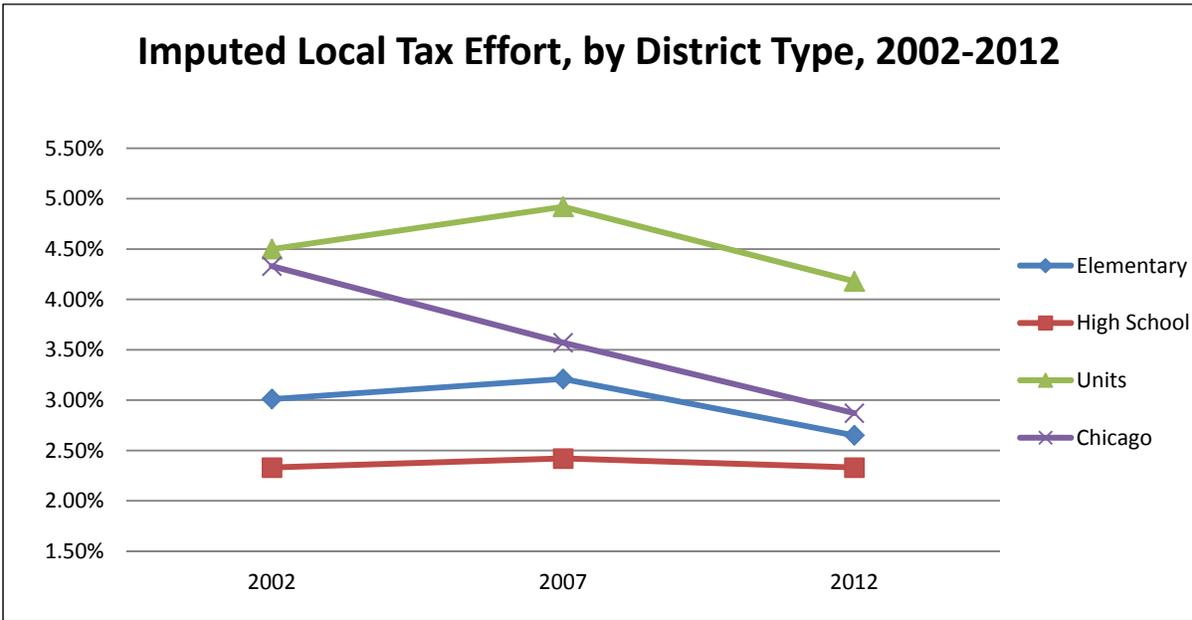
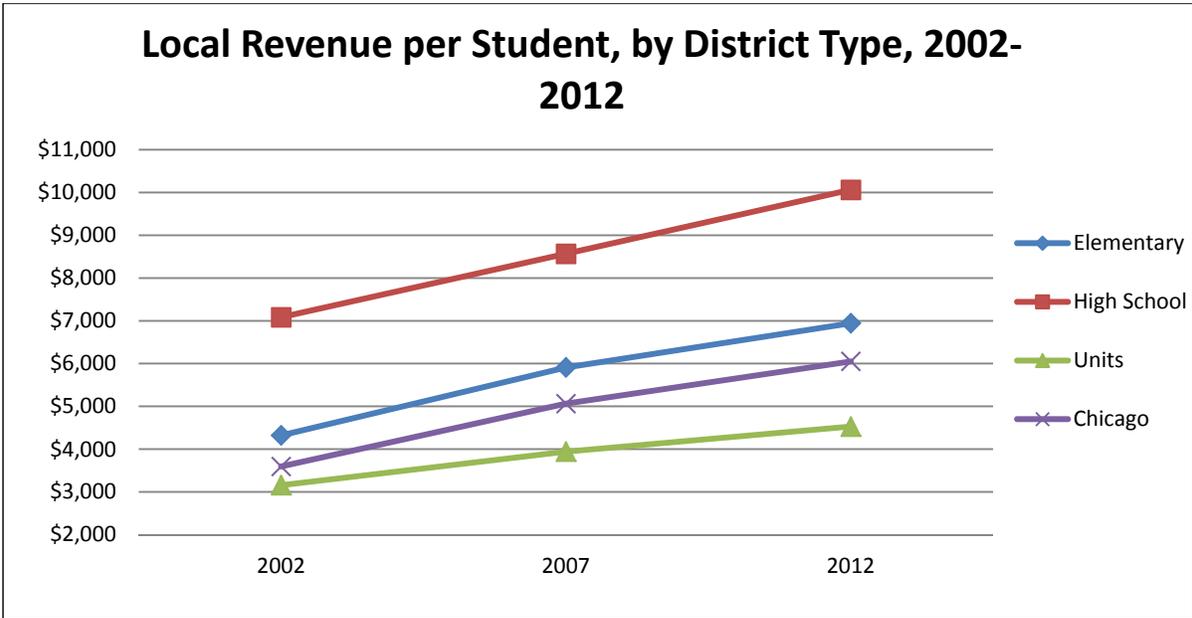
While GSA Formula and GSA Poverty Aid are important aspects of state aid, they do not account for all state support that is allocated to school districts. For the average district, GSA Formula aid per student is about 4.5 times as large as GSA Poverty aid per student. For all districts, on average, the sum of GSA Formula and GSA Poverty aid accounted for 83.2 percent of all state aid; GSA Formula and GSA Poverty aid accounted for about 81 percent of all state aid in elementary and high school districts while accounting for about 86 percent of all state aid in unit districts – although in Chicago, such aid only accounted for 68 percent of all state aid.

GSA Formula aid per student varies dramatically across school districts (more so in elementary and high school districts than in unit districts) and is somewhat related to the needs of school districts while being strongly, and negatively, related to the wealth of districts – as it is designed to be. Between 2002 and 2012, GSA Formula aid per student rose at a rate well below inflation (13.6 percent versus 27.6 percent); in fact, GSA Formula aid per student rose between 2002 and 2007 and then fell slightly between 2007 and 2012 (such aid fell dramatically in Chicago, to \$1,092 per student, after rising between 2002 and 2007 from \$1,339 to \$1,715 per student). GSA Formula aid is moderately, but positively, related to student need (the correlation was .30 for all districts in 2012) while it is fairly strongly, and negatively, related to district wealth (the correlation was -.61 for all districts, -.79 for unit districts, in 2012).

GSA Poverty aid per student rose dramatically between 2002 and 2012 and varied significantly across school districts (on average, such aid rose from \$124 per student in 2002 to \$430 per student in 2012 while having a coefficient of variation of 1.247 in 2012, which was somewhat lower than it had been in 2002). While patterns are similar for elementary, high school and unit (excluding Chicago) districts, the rise in GSA Poverty aid was dramatic in Chicago – per student state aid rose from \$509 in 2002 to \$909 in 2007 to \$1,848 in 2012. The figure for Chicago is a result of both the way the formula for such aid works – which assumes that as the concentration of poverty increases, state aid per student should increase at a much higher rate (that is, a doubling in the rate of poverty results in much more than a doubling in the amount of aid per student) – and the way poverty is measured, which uses a different proxy measure for need than the number of students eligible for free and reduced-price lunch.

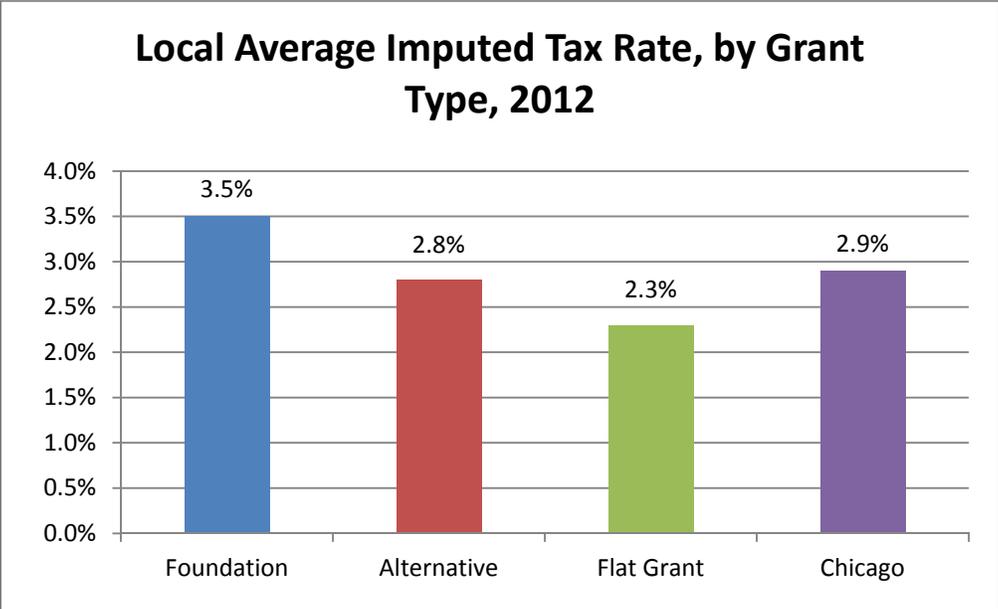
Local Revenue and Tax Rates

The figures in table 9 show average levels of local support for current purposes (excluding capital outlay and debt service) and tax effort, which is the imputed tax rate expressed as a percentage of assessed valuation (calculated by dividing local revenue by assessed valuation). In 2012, on average, districts generated \$6,216 per student in local non-capital revenue, an amount that was \$3,334 per student more than state support per student (or about 2.2 times state aid per student). While elementary and high school districts generated higher than average amounts of local support, unit districts excluding Chicago generated less than average local support (Chicago produced slightly less than statewide average local support). Local support grew dramatically between 2002 and 2012 (at a rate of 51 percent, far above the rate of inflation [27.6 percent]); the rate of growth was higher than average in elementary districts (61 percent) and in Chicago (68 percent). There was significant variation across school districts in the amount of local revenue they generated, as shown in table 9; local revenue was negatively related to the needs of districts (the correlation was -.30, as shown in table 10) and strongly related to the wealth of districts (the correlation was .87, as shown in table 10). As a result of these relationships, there was a strong, positive correlation between local revenue per student and spending per student (.83, as shown in table 10). The reliance on local revenue, and its strong association with district wealth, undermines fiscal equity across school districts in Illinois and state aid is insufficient to alleviate the impact of local revenue on spending.



On average, the imputed local tax rate for all school districts in 2012 was 3.27 percent (of assessed valuation), a level 16 percent lower than it had been in 2007 (and nine percent lower than it had been in 2002). Imputed tax effort was lower than average in elementary and high school districts and higher than average in unit districts (as would be expected given the expectation that unit districts make a higher tax effort than elementary or high school districts under GSA Formula aid); Chicago’s tax effort was lower than the average for unit districts. While there was variation in tax effort across districts, it was less than the variation in the wealth of districts and in the local revenue per student generated by districts. Tax effort was moderately, and negatively, correlated with district wealth (-.52,

as shown in table 10) and weakly, but negatively, correlated with per student expenditures (-.22, as shown in table 10). That is, wealthier districts tend to have lower tax effort and lower tax effort is associated with higher spending, which together, creates an inequitable school finance situation.



SUMMARY AND CONCLUSIONS

The purpose of this report was to provide an overview of school finance in Illinois, including a description of the Illinois school finance system – at least the components that use formulas to allocate aid – comparisons of Illinois to eight states identified as being similar to Illinois in important ways, and an analysis of three years of data for all school districts. The report was prepared so that policy makers and people interested in school finance would gain enough background information to discuss the topic using common language and common principals.

About two-thirds of all state funding for public schools in Illinois is allocated to school districts through two formulas, the Formula Grant and the Poverty Grant, each of which uses a mathematical procedure that considers school district characteristics such as size (enrollment), the presence of students from low income families, and/or the wealth of school districts to determine how much aid each district will receive.

The Formula Grant is based on the foundation program concept, under which a target level of revenue is established for each district based on a per student amount (the foundation level) and state aid is the difference between that amount and the amount of local revenue generated at a uniform property tax rate (rates differ for elementary, high school, and unit districts); this approach is referred to as “wealth equalization” because wealthier districts receive less funding than property poor districts receive (where wealth is equalized assessed value of property per student). As part of this grant, the state provides support in recognition of the impact of the Property Tax Extension Limitation Law. The Poverty Grant provides state aid per student to school districts in direct proportion to each district’s proportion of students from low income families using a count of students provided by the Department of Human Services; this grant is not wealth equalized.

We identified eight states as being similar to Illinois in terms of school finance-related characteristics, including California, Florida, Michigan, New Jersey, New York, Ohio, Pennsylvania, and Virginia. In terms of structure, Illinois is comparable to many of the other states in the way it counts students and in using property as the measure of determining local wealth. Like most of the comparison states, Illinois offers additional funding for at-risk, special education and limited-English proficiency students. Unlike most of the comparison group, Illinois offers funding for additional programs for large districts, defined as those with a population over 500,000.

In terms of per student spending, Illinois is comparable to the average of the eight states, particularly after taking regional cost differences into consideration. While the variation in spending

across school districts is slightly higher than the average of the eight states the relationship between spending and wealth is much higher. Illinois employs an average number of teachers per 1,000 students but has far fewer other staff, including administrators, than the comparison states. Teacher salaries are higher in Illinois while the benefit rate appears to be comparable. The needs of school districts in Illinois, as measured by the ratio of weighted to unweighted students, are slightly higher than the average of the eight similar states.

In 2012 there were 859 school districts in Illinois (excluding university-based laboratory schools and alternative/safe schools) for which we obtained useable information; of those districts, 375 were elementary districts, 98 were high school districts, and 386 were unit districts (385 unit districts excluding Chicago). Of the more than two million students in all districts, 62 percent were in unit districts (including Chicago – Chicago itself enrolled almost 20 percent of all students in the state), nearly 26 percent were in elementary districts, and 12 percent of students were in high school districts.

On average, 15.9 percent of students in Illinois participate in special education programs, 3.8 percent of students have limited-English proficiency (LEP), and 39.8 percent of all students are eligible for free or reduced-price lunch. If students with these three needs were weighted to reflect the expected cost of serving them appropriately (using add-on weights of 1.10 for special education, .75 for LEP students, and .40 for students eligible for free and reduced-price lunch) and need ratios were calculated for all school districts, the statewide average ratio would have been 1.36 in 2012. While the average need ratio is similar across the three types of districts, Chicago's need ratio, at 1.60, is dramatically higher than the average ratios for elementary, high school, or unit districts. The statewide average need ratio has grown over time, rising from 1.30 in 2002 to 1.36 in 2012, which is indicative of growing cost pressures that are beyond the control of districts.

On average, the wealth of school districts was about \$240,000 per student in 2012. Elementary districts had average wealth of about \$295,000 in 2012, while high school districts had \$547,000 in average wealth and unit districts had \$111,000 in average wealth in 2012 (Chicago had \$211,000 in property value per student). The variation in wealth across districts was very high in 2012 and was a bit higher than it had been in 2002, which indicates that the Formula Grant had to work hard to overcome the uncontrollable wealth disparity across school districts.

The Formula Grant provided about \$1,969 per student in 2012, which, while greater than it had been in 2002, was below its level in 2007; While elementary and high school districts received considerably less than the average amount as a Formula Grant, unit districts received almost 25 percent more than the average (although Chicago received about 45 percent less than the statewide average).

While there was a moderate to high negative relationship between the Formula Grant and district wealth, indicating that the grant was equalized relative to district wealth, there was a moderate relationship between the grant and district need.

The Poverty Grant provided about \$430 per student in 2012, an amount nearly 3.5 times what it had been in 2002. While average Poverty Grant levels for elementary, high school, and unit districts were within \$115 per student of the statewide average, Chicago's Poverty Grant was almost \$1,420 above the statewide average (an amount that was 3.6 times what it had been in 2002). The Poverty grant was strongly related to student need and only had a mild wealth equalizing effect.

Local school districts provide a significant amount of revenue, about \$6,216 per student on average in 2012, an amount that was more than twice as much as all state revenue (including the Formula Grant, the Poverty Grant, and all other state support). Elementary districts generate almost 12 percent more than the statewide average in local revenue while high school districts raise almost 62 percent more than average, and unit districts produce 27 percent less than average (Chicago raised three percent less than average local revenue). Local revenue was negatively related to the needs of school districts and strongly related to the wealth of school districts.

On average, the tax effort that was made to generate local revenue was 3.27 percent of local wealth; while the tax effort in elementary and unit districts was lower than average (at 2.65 percent and 2.04 percent of wealth, respectively), the average tax effort of unit districts was 28 percent above the statewide average, at 4.18 percent of wealth (Chicago's tax effort was 2.87 percent, about 12 percent less than the statewide average). Tax effort had almost no relationship to the needs of school districts and was moderately, negatively related to the wealth of school districts.

The combination of state and local revenue leads to district expenditures, which were \$8,529 per student, on average, in 2012. Elementary districts spent about four percent more than average, high school districts spent about 30 percent more than average, and unit districts spent about 11 percent less than average (Chicago's spending was 22 percent above average). After taking the needs of districts into consideration, elementary districts spent about three percent more than the statewide average spent per weighted student (\$6,320), high school districts spent about 36 percent more than average, and unit districts spent about 12 percent less than average (Chicago spent three percent more than average). Between 2002 and 2012, spending per weighted student rose by 28 percent, which was about the rate of inflation for that decade). The variation in spending across school districts was relatively high in 2012 and the variation in spending grew between 2002 and 2012. There was almost no

relationship between spending and district need and there was a strong relationship between spending and district wealth.

Based on the information presented above, we conclude that the Illinois school finance system is inequitable for both students and taxpayers. Despite the existence of state aid programs that are either wealth equalized (Formula Grant) or sensitive to some student needs (Poverty Grant), the amount of revenue distributed by them is not sufficient to overcome the impact of local revenue, which is more than twice as large, strongly associated with district wealth, and inversely related to student need. Due to the impact of district wealth, districts that make lower tax effort tend to raise higher amounts of local revenue.

In addition, while spending has kept pace with inflation over the last decade. It is unclear whether spending is sufficient to meet student needs and to promote the fulfillment of state student performance expectations.

Our concern is that the parameters that drive the allocation of state formula support – including the foundation level and the amounts of funding driven by the Poverty Grant formula – have little meaning beyond assuring that total state aid does not exceed the revenue that the state is willing to provide for school districts. We suggest that the state undertake an analysis of district needs using several of the methodologies other states have used to estimate district revenue needs, which have been used in some states to build new school finance systems. Years ago, the state used the successful school district approach to develop a base cost (a foundation level for students with no special needs); that approach should be updated in light of recent changes in state education standards and student performance expectations. In addition, the state should use the professional judgment approach, in combination with the evidence-based approach, to develop a comparative base cost and a set of student weights designed to reflect the added cost of serving students with special needs (by category of need to the extent that there is a variation in specific types of need across school districts). With such information the state should develop a school finance system that is sensitive to all the needs of school districts, promotes wealth equalization, and works in conjunction with local funds to assure adequate and equitable funding for students and equitable tax rates for taxpayers.

NOTES ON DATA SOURCES AND DEFINITIONS

Data Sources:

Expenditures: Data provided by ISBE in file titled "6-25-13 Rev_Exp_Data 2002-2012"

Property Valuations: Data provided by ISBE in multiple files title "AV(year)"

Revenues: Data provided by ISBE in file titled "6-25-13 Rev_Exp_Data 2002-2012,"

State Aids: Data provided by ISBE in files titled "GSA Claims Most Recent Ten Years_June2013," "FY02 GSA Claim By District_6-28-13," and "Disbursement Files FY12 FY07 FY02"

Student Counts and Demographics: Data provided by ISBE in file titled "Demographic data without CTE"

Definitions:

Average

In this report we use the simple average, which is the sum of a set of figures divided by the number of items in the set. The simple average is not an accounting average (that is, as used in school finance analysis, the simple average could not be multiplied by the number of students to get the correct statewide total spending). The simple average is useful when districts, not students, are the unit of analysis.

Coefficient of Variation

The coefficient of variation (c.v.) for a set of figures is the simple standard deviation divided by the simple average. The c.v. has a low of .000, which indicates that there is no variation among the figures in the set. As used in school finance analysis, a c.v. of .800 or higher would not be unusual for wealth per student although a c.v. over .150 would be considered high for expenditure per student.

District Need

District need is the ratio of weighted students (see below) to unweighted students. If a districts had 4,200 weighted students and 3,000 unweighted students, its need would be 1.40, which indicates the cost of serving students is 40 percent above what the cost would have been if no students had any special, high cost needs.

Expenditures

In this report, expenditures, or spending, refers to current operating spending excluding spending for transportation, food services, and community services. Transportation is excluded because it varies among school districts for reasons that we could not control. Food services are excluded because they are generally considered to be of little or no net cost. Community services are excluded because they do not directly affect academic services for students.

School District Tax Effort

School district tax effort is imputed by dividing per student local school district revenues for current operations by districts wealth (equalized assessed property valuation per student); the figure is expressed as a percentage of property wealth, usually in the range of one to five percent.

Weighted Students

Weighted students reflect applying a set of weights to students with special, high cost needs, where the weights are indicative of the cost of serving such students relative to a base cost (the cost of serving students with no special needs). In this report, the following supplemental (above the base) weights were used: for students in special education programs, 1.10; for students eligible for free or reduced-price lunch, .40; and for limited-English proficient (LEP) students, .75. If a district had 2,000 students and 300 students were in special education programs, 800 students were at-risk of failing in school, and 60 of them were limited-English proficient (LEP) and if we assigned student weights of 1.10 to special education, .40 to at-risk students, and .75 to LEP students (based on the excess cost of serving such students in ways that would improve their chances of meeting state academic requirements), then there would be 2,695 weighted students (assuming groups with special needs were mutually exclusive) and the ratio of weighted to unweighted students would be about 1.35. That figure means that in that district, costs are 35 percent higher than they would have been if no student had any special, high cost need.

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TABLE 1

STRUCTURAL CHARACTERISTICS OF STATE AID DISTRIBUTION SYSTEMS FOR PUBLIC K-12 EDUCATION IN ILLINOIS AND EIGHT OTHER COMPARABLE STATES

State	Number of School Districts	Basic Structural Type	Basis of Setting a Base Amount	Student Count	Local Deduction	Direct/Implied Measure of Local Wealth	Special Needs Student Factors				System Cost Factors		Equalized Incentive Funds	Transportation	Capital Outlay and Debt Service
							At-Risk	Special Education	ELL/LEP	Gifted/Talented	System Size	Other			
Illinois	865	Foundation	\$6,119 (FY 2013); Set through SSD approach.	ADA. Multiple count periods.	Varying levels, based on districts available local resources as % of foundation level.	Property wealth. Adjustments made for PTELL districts.	GSA Poverty Grant - based on number of students receiving DHS services	Block grant for prior year actual exp. - based on ADA & poverty level. Also funds for SPED personnel	Bilingual education grant program - reimburses current year costs, subject to availability of appropriated funds.	-	Large district (over 500,000) size adjustment for various additional programs	-	Max local levy of 9.2 mills for K-8 & 9-12 districts; 18.4 mills for K-12. With referendum, can increase to 35 mills for K-8, 9-12 or 40 mills for K-12.	State pays minimum of \$16 per pupil or actual eligible costs less a qualifying amount.	Additional tax levies available for building ops and maintenance, capital improvements, transportation and summer school
California*	1043	Foundation	Revenue limit per pupil, based on historical spending in each district	ADA	1% of countywide property tax	Property	Economic Impact Aid (EIA); based on count of Title 1 eligible students and weighted concentration factor	Categorical funding - based on ADA.	Economic Impact Aid (EIA); based on prior year EL count. Also, additional \$50 million categorical aid	Categorical funding, distributed based on share of G&T programs funding in 2008-09	Alternate funding entitlement for necessary small schools	-	Partial reimbursement - based on prior year actual expenditures and historical participation rates	Optional statewide bond measures for school building.	
Florida	67	Foundation	Weighted FTE. Base student allocation = \$3,582.98	ADA (4 surveys per year)	Mill ranges from 4.827 to 5.719 due to assessment ratios	Property per student	-	Weights differentiated by service category	Weighted at 1.167	Included in Special Ed.	Sparsity index; 20,000 students or less	Isolated school supplement	Operating mill of 0.748;	Formula - based on district pro rata share	Capital Outlay and Maintenance mill of 1.5. Proceeds from motor vehicle license available for capital outlay. Allocated according to instructional units.
Michigan	549	Foundation	Per pupil grant based on combined state and local revenue. 2011 base = \$7,316.	ADM (twice per year)	18 mills. State aid is foundation grant per pupil, minus local school operating tax per pupil.	Property	11.5% of district per pupil foundation allowance. Formula based on FRL	State reimburses SPED instructional costs at 28.61%, transportation at 70.42%.	State appropriation of \$2.8 billion	-	Small districts declining enrollment - use 3 year avg student count	Categorical funding for isolated districts	-	-	-
New Jersey	590	Foundation	Weighted FTE. Base in 2012 = \$10,256.	Single day count	Based on per pupil equalized property value and per pupil income. District general fund tax levy limited to 2% increase each year.	Property, at 100% of value.	Equalization aid - weights range from 0.47 to 0.57. Also, additional security aid if concentration over 40%	Funding based on 14.96% of student population. Funding is 2/3 equalization aid, 1/3 through categorical aid.	Equalization aid - 0.5 weight (addition to base cost and grade weight)	Included in district adequacy budget calculations, but no separate funding.	-	Declining enrollment adjustment	Districts that cannot fund adequacy budget on their own receive equalization aid in proportion to ability to pay	Based on distance. Greater for special ed. Fixed amount per transported pupil, plus per mile amount.	Debt service for school construction or renovation projects. State share % is ratio of Equalization Aid to Adequacy Budget.
New York	697	Foundation	Cost of education based on SSD, multiplied by pupil need index and regional cost index.	ADA	State sharing ratio or an adjusted standard tax rate per \$1,000 of full property value.	Property, at 100% of value.	Part of pupil need index - element of foundation program	Additional weights, based on level of service required.	Part of pupil need index - element of foundation program	-	Sparsity factor - included in pupil need index.	Declining enrollment adjustment	-	Wealth equalized. Maximum reimbursement is 90% of expenses (may be as low as 6.5%)	State building aid - based on Assumed Amortization Schedule. Limits for bonded indebtedness based on relationship of debt to full value of district property.
Ohio	611	Foundation	Basic aid = \$5,789. Set by evidence-based model (EBM). Differentiation by grade level	ADM. Multiple count periods.	22 mills	Property	Index applied to components to make adjustments for demographic characteristics	Weighted resource-based approach. Different weights based on level of disability.	Funding in EBM, based on a 100:1 student-teacher ratio, adjusted for wealth of district	Funding in EBM for coordinators, intervention specialists, identification and PD	Small school district adjustments	-	Greater of cost per mile or cost per rider; subsequent adjustments for efficiency and level of service	Permissible local bonded indebtedness = 9% of assessed property valuation. State funding for facilities inversely proportional to relative wealth of district (based on property value)	
Pennsylvania	501	Foundation	Per pupil base. \$8,003 in 2008-9	ADM	Not to exceed 11.75 mills. State contribution is approx. 36%.	Property	Formula includes 0.43 weighted poverty supplement, based on FRL	Weighted formula based on ADM. Also, SPED contingency fund equal to 1% of SPED appropriation.	ELL supplement: weight of 1.48-2.43	-	District size factor	0.93-1.13 weighting for geographic price difference adjustment	-	-	-
Virginia	134	Foundation	Per pupil composite-average \$5,552	ADM	local = 45% share of index (50% property value, 40% adjusted gross income, 10% taxable retail)	Property	FRL	Differentiated by disability, shared based on composite	17 teacher positions per 1000 ELL and composite share	1 teacher unit per 1000 students and composite share	Minimum 51 staff positions	-	Per pupil reimbursement based on density and division	Public loans at reduced interest rate	

FRL=Free and Reduced Lunch. ELL = English Language Learner; LEP = Limited English Proficiency

ADM = Average Daily Membership; ADA = Average Daily Attendance; WADA = Weighted Averaged Daily Attendance; WADM = Weighted Average Daily Membership

* California data is based on the school funding system in place for the 2012-13 school year; this data does not reflect changes made to the funding formula, which were signed into law in June 2013.

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**TABLE 2
COMPARISON OF PER STUDENT SPENDING FOR PUBLIC K-12 EDUCATION, VARIATION IN PER STUDENT SPENDING, NUMBERS OF STAFF, AND TEACHER CHARACTERISTICS
FOR THE UNITED STATES, ILLINOIS, AND EIGHT STATES COMPARABLE TO ILLINOIS**

	Per Student Spending					Personnel Numbers (2008-09)			Teacher Characteristics				
	Per Student Spending (2008-09)	Per Student Spending Adjusted by Inter-State Cost of Living	Variation in Spending Across Districts* (Higher Value is Worse)	Wealth Neutrality** (Higher Positive Score is Worse)	Spending Index*** (Higher Number is Better)	Total Staff per 1,000 Students	Teachers per 1,000 Students	Admin. Staff (Cert. and Non-Cert.) per 1,000 Students	Average Salary (2010-11)	Average Salary Adjusted by Inter-State Cost of Living	Average Years of Experience (2007-08)	Percentage of Teachers with More Than a B.A. Degree (2007-08)	Benefit Rate (for All Staff in 2008-09)
	1	2	3	4	5	6	7	8	9	10	11	12	13
<i>United States</i>	\$10,591	\$10,591	0.153	0.099	90.0	130.5	65.0	10.2	\$56,069	\$56,069	12.6	52.6%	N/A
ILLINOIS	\$11,592	\$11,592	0.153	0.224	96.0	113.5	65.8	6.7	\$63,005	\$63,005	12.1	54.5%	37.1%
<u>Comparable States</u>													
California	\$9,503	\$8,336	0.163	0.054	87.2	97.5	50.1	8.5	\$69,434	\$60,907	12.0	47.3%	32.5%
Florida	\$8,867	\$9,141	0.084	0.151	83.2	127.3	69.8	9.7	\$46,702	\$48,146	12.1	39.1%	31.4%
Michigan	\$10,373	\$10,919	0.137	0.162	91.0	126.5	56.2	7.9	\$58,595	\$61,679	13.0	62.8%	47.0%
New Jersey	\$17,076	\$15,669	0.188	0.036	100.0	156.0	82.6	11.6	\$66,985	\$59,279	12.1	44.2%	36.3%
New York	\$17,746	\$14,546	0.148	0.070	100.0	152.5	77.7	13.6	\$72,708	\$59,597	11.9	88.2%	41.6%
Ohio	\$10,902	\$11,850	0.173	0.081	94.0	138.6	63.1	12.7	\$57,291	\$62,273	13.3	68.1%	35.5%
Pennsylvania	\$12,299	\$12,550	0.148	0.172	98.5	146.1	73.3	10.1	\$60,536	\$61,771	13.0	54.7%	34.9%
Virginia	\$10,928	\$10,820	0.128	0.203	97.3	166.3	56.9	19.8	\$51,559	\$51,049	12.8	42.6%	34.9%
Simple Average of Comparable States→	\$12,212	\$11,729	0.146	0.116	93.9	138.9	66.2	11.7	\$60,476	\$58,088	12.5	55.9%	36.8%

* The figure shown is the coefficient of variation (the standard deviation divided by the mean for all school districts in a state), where .000 indicates no variation.

** The figure shown is the correlation coefficient between per student spending and property wealth for all school districts in a state, where .000 indicates no relationship.

*** The figure shown is the degree to which districts approach national spending levels when spending figures are adjusted by cost-of-living and differences in student needs, where the national average is 90.0.

Note: Figures that are bolded and in slightly larger font for comparable states are higher than Illinois figures except for columns 3, 4, and 8 in which bolded, larger figures are lower than Illinois figures.

Sources: Figures come from several sources, including the [Digest of Education Statistics: 2011](#) (U.S. Department of Education, National Center for Education Statistics, Tables 72 and 84), [Quality Counts](#) (*Education Week*, Vol 32, Number 16, January 10, 2013, School Finance table), and the "Build a Table" function of the National Center for Education Statistics.

TABLE 3
STUDENTS WITH SPECIAL, HIGH COST NEEDS IN ILLINOIS, EIGHT OTHER COMPARABLE STATES,
AND THE UNITED STATES IN 2010-11

Students with Special, High Cost Needs					
Number of Students	Percentage of Students in Special Education	Percentage of Students Eligible for Free or Reduced Price Lunch	Percentage of Children Whose Parents are Not Fluent in English	Ratio of Weighted Students to Unweighted Students*	
1	2	3	4	5	
<i>United States</i>	48,168,458	13.1%	47.5%	16.8%	1.46
ILLINOIS	1,953,713	14.9%	46.2%	19.3%	1.49
<u>Comparable States</u>					
California	6,100,133	10.8%	55.6%	36.8%	1.62
Florida	2,634,522	14.3%	53.5%	19.4%	1.52
Michigan	1,617,262	13.8%	45.9%	6.6%	1.38
New Jersey	1,370,083	16.4%	32.5%	20.5%	1.46
New York	2,766,052	16.7%	45.1%	21.2%	1.52
Ohio	1,762,315	14.9%	40.3%	4.1%	1.36
Pennsylvania	1,737,649	16.5%	38.2%	7.5%	1.39
Virginia	1,219,806	13.2%	36.5%	11.3%	1.38
Simple Average of Comparable States→		14.6%	43.5%	15.9%	1.45

* Students are weighted as follows: for special education, 1.10; for free and reduced-price lunch, .40; and for lack of fluency in English, .75 (where weights reflect the excess cost of serving students relative to a base cost).

Note: Figures for the other states that are bolded and in a slightly larger font are higher than figures for Illinois.

Sources: Digest of Education Statistics: 2011 (U.S. Department of Education, National Center for Education Statistics, Tables 45 and 48) and Quality Counts (Education Week, Vol. 32, Number 16, January 10, 2013, p. 46)

TABLE 4
STUDENT CHARACTERISTICS AND NEEDS OF SCHOOL DISTRICTS IN ILLINOIS BY DISTRICT TYPE

<i>School Districts by Type*</i>					
	All Districts	Elementary	High School	Unit (Excluding Chicago)	Chicago
2012 Districts and Students					
Districts	859	375	98	385	1
Students	2,050,829	528,177	253,695	868,026	400,931
Size of Districts in 2012					
Min.	38	40	38	92	--
Max.	400,931	14,083	12,593	40,687	--
Average	2,387	1,408	2,589	2,255	400,931
Needs of School Districts in 2012					
Special Education Percentage	15.9%	15.9%	14.5%	16.3%	11.3%
Limited-English Proficient Pctg.	3.8%	6.5%	1.8%	1.8%	16.6%
Free/Reduced Price Lunch Pctg.	39.8%	40.2%	31.9%	41.3%	86.6%
Ratio of Weighted to Unweighted Students**					
2012	1.36	1.36	1.34	1.37	1.60
2007	1.33	1.35	1.27	1.33	1.60
2002	1.30	1.31	1.23	1.30	1.59

* Excludes university-based laboratory and alternative/safe schools.

** Students are weighted as follows: 1.10 for special education; .40 for free/reduced-price lunch, and .75 for limited-English proficient.

Source: APA made calculations using data provided by the Illinois State Board of Education.

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TABLE 5
STATISTICS IN REGARD TO WEALTH (ASSESSED VALUE OF PROPERTY) PER STUDENT OF ILLINOIS SCHOOL
DISTRICTS, BY TYPE, IN 2012, 2007, AND 2002

School Districts by Type					
	All Districts	Elementary	High School	Unit (Excluding Chicago)	Chicago
Per Student Wealth					
<u>2012</u>					
Average	\$241,226	\$295,491	\$547,153	\$110,578	\$210,990
Coeff. of Var.	1.094	0.937	0.656	0.612	--
Avg. - 1 SD	\$0	\$18,616	\$188,221	\$42,904	--
Avg. + 1 SD	\$505,127	\$572,366	\$906,085	\$178,252	--
<i>Ratio of 2012 to 2002</i>	<i>1.80</i>	<i>1.97</i>	<i>1.72</i>	<i>1.55</i>	<i>2.54</i>
<u>2007</u>					
Average	\$173,891	\$212,219	\$389,777	\$82,000	\$141,665
Coeff. of Var.	1.082	0.940	0.655	0.553	--
Avg. - 1 SD	\$0	\$12,733	\$134,473	\$36,654	--
Avg. + 1 SD	\$362,041	\$411,705	\$645,081	\$127,346	--
<u>2002</u>					
Average	\$134,204	\$150,236	\$317,976	\$71,497	\$82,956
Coeff. of Var.	1.001	0.882	0.575	0.566	--
Avg. - 1 SD	\$0	\$17,728	\$135,140	\$31,030	--
Avg. + 1 SD	\$268,542	\$282,744	\$500,812	\$111,964	--

Note: The average plus or minus one standard deviation (SD) gives the range of values in which it is likely that two-thirds of all districts in each group of districts would be.

Source: APA made calculations using data provided by the Illinois State Board of Education.

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TABLE 6
STATISTICS IN REGARD TO CURRENT OPERATING SPENDING* PER STUDENT OF ILLINOIS SCHOOL DISTRICTS, BY TYPE, IN
2012, 2007, AND 2002

	School Districts by Type				
	All Districts	Elementary	High School	Unit (Excluding Chicago)	Chicago****
Current Operating Spending per Student Statistics					
<u>2012</u>					
Average	\$8,529	\$8,869	\$11,086	\$7,541	\$10,410
Coeff. of Var.	0.300	0.307	0.298	0.183	--
Ratio of 2012 to 2002	1.34	1.39	1.32	1.31	1.47
<u>Correlation with:</u>					
District Wealth	0.78	0.73	0.79	0.58	--
Local Tax Rate**	-0.22	-0.01	-0.01	0.30	--
<i>District Need***</i>	<i>-0.06</i>	<i>-0.07</i>	<i>-0.12</i>	<i>-0.13</i>	--
<u>2007</u>					
Average	\$7,403	\$7,588	\$9,470	\$6,692	\$9,135
Coeff. of Var.	0.273	0.280	0.279	0.171	--
<u>Correlation with:</u>					
District Wealth	0.78	0.75	0.80	0.51	--
Local Tax Rate**	-0.27	-0.12	-0.06	0.24	--
<i>District Need***</i>	<i>-0.06</i>	<i>-0.01</i>	<i>-0.15</i>	<i>0.11</i>	--
<u>2002</u>					
Average	\$6,338	\$6,366	\$8,413	\$5,768	\$7,058
Coeff. of Var.	0.266	0.263	0.277	0.152	--
<u>Correlation with:</u>					
District Wealth	0.75	0.66	0.78	0.47	--
Local Tax Rate**	-0.23	-0.03	0.11	0.19	--
<i>District Need***</i>	<i>-0.09</i>	<i>-0.05</i>	<i>-0.05</i>	<i>0.19</i>	--

* Current operating spending excludes capital, transportation, food services, and community services.

** Local tax rate is the imputed rate based on revenue for local current operating divided by wealth.

*** District need is the ratio of weighted to unweighted students.

**** Effective Fiscal Year 2010, legislative changes required by P.A. 96-0889 resulted in Chicago Public Schools making pension contributions to the Chicago Teachers' Pension Fund. School Districts other than Chicago Public Schools do not make such payments.

Source: APA made calculations using data provided by the Illinois State Board of Education.

TABLE 7
STATISTICS IN REGARD TO CURRENT OPERATING SPENDING* PER WEIGHTED STUDENT OF ILLINOIS SCHOOL**
DISTRICTS, BY TYPE, IN 2012, 2007, AND 2002

		School Districts by Type				
		All Districts	Elementary	High School	Unit (Excluding Chicago)	Chicago
Per Student Current Operating Spending*						
2012						
	Average	\$6,320	\$6,490	\$8,596	\$5,574	\$6,526
	Coeff. of Var.	0.331	0.343	0.323	0.189	--
	Ratio of 2012 to 2002	1.28	1.32	1.25	1.25	1.47
	<u>Correlation with:</u>					
	District Wealth	0.83	0.80	0.85	0.71	--
	Local Tax Rate***	-0.25	-0.08	-0.10	0.24	--
	<i>District Need****</i>	-0.34	-0.36	-0.35	-0.27	--
2007						
	Average	\$5,607	\$5,690	\$7,535	\$5,035	\$5,693
	Coeff. of Var.	0.302	0.307	0.301	0.180	--
	<u>Correlation with:</u>					
	District Wealth	0.83	0.80	0.85	0.66	--
	Local Tax Rate***	-0.32	-0.20	-0.14	0.18	--
	<i>District Need****</i>	-0.35	-0.32	-0.38	-0.31	--
2002						
	Average	\$4,933	\$4,905	\$6,901	\$4,449	\$4,434
	Coeff. of Var.	0.293	0.287	0.286	0.156	--
	<u>Correlation with:</u>					
	District Wealth	0.81	0.74	0.82	0.64	--
	Local Tax Rate***	-0.27	-0.08	0.07	0.12	--
	<i>District Need****</i>	-0.36	-0.34	-0.26	-0.28	--

* Current operating spending excludes capital, transportation, food services, and community services.

** Weighted students are based on supplemental weights of 1.10 for special education, .75 for limited English-proficient students, and .40 for students eligible for free and reduced-price lunch.

*** Local tax rate is the imputed rate based on revenue for local current operating divided by wealth.

**** District need is the ratio of weighted to unweighted students.

Source: APA made calculations using data provided by the Illinois State Board of Education.

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TABLE 8
STATISTICS IN REGARD TO CURRENT OPERATING STATE AID PER STUDENT OF ILLINOIS SCHOOL DISTRICTS, BY TYPE, IN 2012, 2007, AND 2002

	School Districts by Type				
	All Districts	Elementary	High School	Unit (Excluding Chicago)	Chicago
Total Non-Capital State Aid per Student					
<u>2012</u>					
Average	\$2,882	\$2,604	\$2,215	\$3,319	\$4,357
Coeff. of Var.	0.586	0.719	0.605	0.439	--
<u>2007</u>					
Average	\$2,882	\$2,600	\$2,164	\$3,333	\$3,778
Coeff. of Var.	0.537	0.525	0.633	0.375	--
<u>2002</u>					
Average	\$2,395	\$2,189	\$1,765	\$2,760	\$2,983
Coeff. of Var.	0.565	0.710	0.640	0.386	--
GSA Formula Claim per Student					
<u>2012</u>					
Average	\$1,969	\$1,602	\$1,473	\$2,454	\$1,092
Coeff. of Var.	0.702	0.888	0.827	0.498	--
<u>Correlation with:</u>					
Need*	0.30	0.32	0.34	0.36	--
Wealth**	-0.61	-0.61	-0.70	-0.79	--
<u>2007</u>					
Average	\$2,052	\$1,713	\$1,560	\$2,513	\$1,715
Coeff. of Var.	0.623	0.797	0.737	0.420	--
<u>Correlation with:</u>					
Need*	0.40	0.42	0.39	0.43	--
Wealth**	-0.65	-0.65	-0.79	-0.82	--
<u>2002</u>					
Average	\$1,734	\$1,492	\$1,215	\$2,107	\$1,339
Coeff. of Var.	0.629	0.784	0.805	0.428	--
<u>Correlation with:</u>					
Need*	0.42	0.42	0.22	0.47	--
Wealth**	-0.65	-0.78	-0.76	-0.75	--
GSA Poverty Claim per Student					
<u>2012</u>					
Average	\$430	\$495	\$315	\$391	\$1,848
Coeff. of Var.	1.247	1.272	1.342	1.130	--
<u>2007</u>					
Average	\$212	\$228	\$119	\$217	\$909
Coeff. of Var.	1.637	1.750	2.109	1.410	--
<u>2002</u>					
Average	\$124	\$114	\$56	\$150	\$509
Coeff. of Var.	1.798	2.000	3.964	1.420	--

* Need is the ratio of weighted to unweighted students.

** Wealth is assessed property value per student.

Source: APA made calculations using data provided by the Illinois State Board of Education.

TABLE 9
STATISTICS IN REGARD TO LOCAL REVENUE PER STUDENT AND IMPUTED PROPERTY TAX RATES* TO SUPPORT
K-12 EDUCATION SPENDING IN ILLINOIS SCHOOL DISTRICTS, BY TYPE, IN 2012, 2007, AND 2002

School Districts by Type					
	All Districts	Elementary	High School	Unit (Excluding Chicago)	Chicago
Local Current Revenue per Student					
<u>2012</u>					
Average	\$6,216	\$6,944	\$10,062	\$4,528	\$6,051
Coeff. of Var.	0.684	0.665	0.488	0.559	--
Ratio of 2012 to 2002	1.51	1.61	1.42	1.43	1.68
<u>2007</u>					
Average	\$5,328	\$5,909	\$8,566	\$3,943	\$5,063
Coeff. of Var.	0.646	0.625	0.489	0.496	--
<u>2002</u>					
Average	\$4,123	\$4,321	\$7,083	\$3,157	\$3,595
Coeff. of Var.	0.634	0.598	0.478	0.506	--
Imputed Local Tax Effort*					
<u>2012</u>					
Average	3.27%	2.65%	2.04%	4.18%	2.87%
Coeff. of Var.	0.372	0.296	0.315	0.239	--
Ratio of 2012 to 2002	0.91	0.88	0.88	0.93	0.66
<u>2007</u>					
Average	3.89%	3.21%	2.42%	4.92%	3.57%
Coeff. of Var.	0.340	0.282	0.288	0.196	--
<u>2002</u>					
Average	3.61%	3.01%	2.33%	4.50%	4.33%
Coeff. of Var.	0.325	0.252	0.213	0.206	--

* Local tax effort is imputed based on dividing local revenue by local assessed property value.

Source: APA made calculations using data provided by the Illinois State Board of Education.

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TABLE 10
CORRELATION COEFFICIENTS BETWEEN SCHOOL FINANCE VARIABLES OF INTEREST FOR ALL ILLINOIS SCHOOL DISTRICTS IN 2012

<i>School Finance Variable of interest</i>	School Finance Variables of Interest								
	Enroll.	Need*	Exp. Per Student**	Wealth***	Tax Effort****	Revenue per Student		GSA Aid per Student	
						Local	State	Formula	Poverty
Enrollment		0.08	0.05	0.02	-0.01	0.03	0.00	-0.06	0.10
<i>Ratio of Weighted to Unweighted Students (Need*)</i>			-0.06	-0.34	0.10	-0.30	0.51	0.30	0.70
Expenditure per Student**				0.78	-0.22	0.83	-0.32	-0.48	0.05
<i>Assessed Property Value per Student***</i>					-0.52	0.87	-0.57	-0.61	-0.24
Local Imputed Tax Rate for Current Oper. Expend. (Tax Effort****)						-0.26	0.24	0.23	0.12
Revenue per Student <i>Local</i>							-0.70	-0.77	-0.27
<i>State</i>								0.88	0.59
GSA State Aid per Student <i>GSA Formula</i>									0.32
<i>GSA Poverty</i>									

* Need is the ratio of weighted to unweighted students.

** Expenditure per student is for current operations and excludes transportation, food services, and community services.

*** Wealth is equalized assessed property value per student.

**** Tax effort is local revenue for current operations divided by equalized assessed property value.

Source: APA made calculations using data provided by the Illinois State Board of Education.