

Fiscal Focus

A Publication of the Illinois State Comptroller



• SEPTEMBER 2006 ISSUE •



Public Education in Illinois

Under guidelines set by the State Board of Education, local school boards throughout Illinois' 872 school districts administer public elementary and secondary education for 2.1 million students. The mission of the State Board of Education is to provide leadership, advocacy and support for the work of school districts, policymakers and citizens in making Illinois education second to none. Carrying out this mission of educating our children are more than 157,000 teachers, administrators and other school personnel. The Board's vision is that Illinois public schools will enable all students to succeed in postsecondary education and career opportunities, to be effective life-long learners and to participate actively in our democracy.

To carry out this mission requires enormous resources. Total funding for Illinois public education has topped the \$20 billion mark annually during the last few school years with the average annual operating expense per pupil exceeding \$9,100. In return for taxpayers' investments, public schools have produced an annual average of 120,000 high school graduates during recent years.

Elementary and Secondary Education Funding

In the 2004-05 school year (the last year for which complete data are available), more than \$20.6 billion in revenues from state, local and federal sources were directed to elementary and secondary education. The \$20.6 billion received was almost \$600 million or 2.8% higher than receipts in the 2003-04 school year and \$8.2 billion or 65.7% higher than during the 1995-96 school year.

Local revenues, which are primarily from property taxes, continue to be the largest source of funding for public elementary and secondary education. For the 2004-05 school year, local sources provided \$11.5 billion or 55.5% of total revenues. State sources provided just under \$7.0 billion or 33.8% while federal sources contributed \$2.2 billion or 10.7%.

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Dear Readers:

This issue of *Fiscal Focus* reviews elementary and secondary education in Illinois with a particular emphasis on financing. The cover story looks at changes and trends in the federal/state/local mix of funding education and related articles discuss revenue sources that support education, per pupil school district spending, state obligations to the teacher pension systems, how the state aid formula works, and how Illinois compares to other states concerning education resource equity.

Illinois' General Funds education spending increased from \$4.1 billion in fiscal year 1997 to \$6.8 billion in fiscal year 2005 (an increase of 66%), while the share of the total General Funds state budget spent on public education increased by 3.4 percentage points during the same period. However, from a local school district perspective, the state contribution towards total local district revenues only increased from 32.7% to 33.8%, and that ratio actually declined over the past three years.

The single, largest state spending program to assist local school districts is the general state aid formula which distributes grants based on data such as average daily attendance and local tax rates. Despite the state's efforts, some recent studies have given Illinois low marks because the disparity in per pupil spending between poor districts and wealthy districts is judged to be high. Illinois is not alone in this endeavor since almost all states have had to grapple with the issue of what is adequate and equitable funding. A closer look is taken at recent experiences in Michigan and Vermont.

Your comments about this or any of our other publications are welcome. Your input can be sent directly, or via the web site at www.ioc.state.il.us.

Sincerely,

Daniel W. Hynes, Comptroller

Fiscal Focus

Fiscal Focus is one of the ways the Comptroller's Office strives to assist taxpayers and the people of Illinois. This report is designed to provide fiscal information of general interest.

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No Child Left Behind's Quality Teacher Provision

The No Child Left Behind Act of 2001 (NCLB) required that by the end of the 2005-2006 school year, all teachers in core academic subjects must be "highly qualified." The term highly qualified means that the teachers have to attain a bachelor's degree or better in the subject taught; obtain full state teacher certification, as defined by the state; and demonstrate competency, as defined by the state, in each academic subject he or she teaches. Recently the U.S. Department of Education released results of reviews of state plans to meet the requirements for Highly Qualified Teachers (HQT) in every classroom.

The U.S. Department of Education has this requirement because students, parents and educators intuitively believe that a teacher's knowledge of subject matter is critical if students are going to achieve high standards. In addition, research shows that teachers who know the subject matter they teach are more effective in the classroom. According to Margaret Spellings, Secretary of the U.S. Department of Education, in many cases, the least experienced teachers are leading the classrooms of the neediest children and the achievement gaps between minority students and their non-minority peers remain unacceptably large.

No Child Left Behind continued, page 4

Illinois Scores Well On Standards and Accountability, Low On Resource Equity

In its 10th annual report entitled *Quality Counts 2006*, Education Week* graded the states based on more than 100 indicators of education policy in four major areas: standards and accountability, efforts to improve teacher quality, school climate and resource equity. Overall, Illinois received a grade of C+ and the researchers concluded that the state was about average.

Illinois scored above average in the area of standards and accountability with a B+. This area examined whether or not states adopted standards in English, math, science and social studies, provided report cards for all public schools, and

imposed sanctions on low-performing schools. The state's grade for efforts to improve teacher quality was C, and the grade for school climate was C+. However, Illinois received a grade of D+ for the area of resource equity. Based on three different indicators of the equity of state and local education revenues available to wealthy versus poor school districts, Illinois placed 41st out of 49 states (Hawaii was not included in the analysis because it is a single-district state).

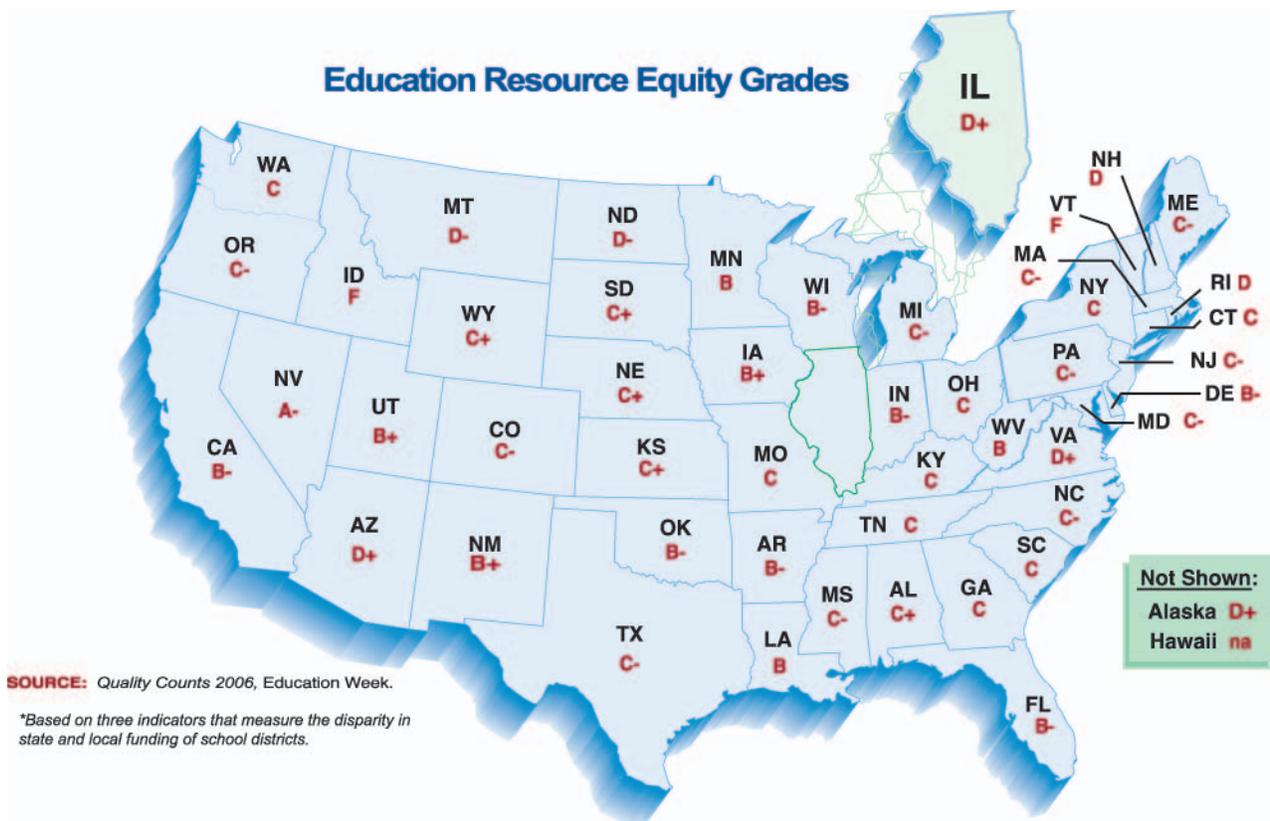
Illinois' grade is low compared to the grades of neighboring states. Iowa was the highest with a B+, followed by Minnesota (B), Wisconsin (B-), Indiana (B-),

Missouri (C), and Michigan (C). Relative to other large, industrial states, Illinois' grade was lower than California (B-), Ohio (C) and Pennsylvania (C-).

Other states in the lowest tier of equitable funding were Arizona, Alaska and Virginia with grades of D+, Rhode Island and New Hampshire with D, Montana and North Dakota with D-, while Vermont and Idaho were graded F.

In a similar study to look at funding equity, The Education Trust** compared state and local revenues of the school districts with the highest poverty in each state to the revenues of the school districts with the lowest poverty levels and found on

Resource Equity continued, page 4



No Child Left Behind concluded from page 2

Studies have shown that students from low-income families who acquire strong math skills by 8th grade are 10 times more likely to finish college than their peers. However, in high-poverty schools, about half of the grade 7-12 math teachers did not major or minor in math in college. A goal of NCLB is for more children to be taught by teachers who meet the federal guidelines as highly qualified.

State plans were measured by a team of 31 respected quality experts and administrators that used the Six-Point Protocol consisting of:

1. A thorough analysis of the data identifying teachers that do not meet HQT requirements, including trends that the state plan will address.
2. Steps the local districts will take to help teachers quickly attain HQT Status.
3. Technical assistance, programs, and resources the State Education Agency will offer to help Local Education Agencies (LEAs) implement their HQT requirements.
4. Actions states will take if LEAs do not ensure all teachers of core academic subjects are highly qualified.

5. The use of an alternative method to ensure that all teachers are highly qualified (i.e., the state's use of High Objective Uniform State Standard of Evaluation procedures).
6. Taking steps to ensure that minority students and students from low-income families are not disproportionately taught by inexperienced or unqualified teachers.

The plans showed many states could not provide data on the quality of teachers serving poor and minority kids. If states fall short on teacher quality, the U.S. Department of Education can withhold money from the states.

The results of the team's analysis were:

- Nine states- Kansas, Louisiana, Maryland, New Jersey, New Mexico, Nevada, Ohio, South Carolina and South Dakota - had plans that were accepted.
- Thirty-seven states, including Illinois, had plans that partially met the requirements and must revise their plans.
- Four states – Hawaii, Missouri, Utah, and Wisconsin - had plans that did not meet any of the requirements and will have to submit new plans.

The May 2006 review stated that Illinois had shown a good-faith effort in meeting the goal of having highly qualified teachers in every classroom. According to the reviewers, the state has made significant progress in establishing definitions that are consistent with the federal requirements, and has documented improvements in data collection and reporting procedures. The state produces annual report cards with the required information and submitted complete 2004-05 Consolidated State Performance Report data. Additionally, Illinois reported that 98 percent of classes statewide were taught by highly qualified teachers in 2004-05. While the rate was over 90 percent in all categories, the state reported gaps between high- and low-poverty schools.

Finally, the review said that while the state has many successful strategies that address teaching inequities in schools with large high-poverty and minority student populations, it lacks a cohesive written plan to ensure that all students have access to a high quality teacher. The review concluded that a revised plan was required, and one will be submitted by Illinois this fall. ■

Resource Equity concluded from page 3

average that there was a gap of \$1,436 per student. Although New York had the highest gap of \$2,930 per student, Illinois was second with a difference of \$2,545. The report, entitled *The Funding Gap 2005*, stated that Illinois has had one

of the largest funding gaps each year the analysis has been conducted (reports are available from 2002 to 2005).

* Education Week is a publication of Editorial Projects in Education, a nonprofit organization whose primary mission is to

raise awareness and understanding of educational issues from K-12.

** The Education Trust is an independent, nonprofit organization that works for higher academic achievement for all students at all levels, pre-K to postsecondary. ■

Cover Story continued from front page

Although the state's share of education funding increased from 32.1% to 33.8% compared to ten years ago, the state's share has dropped dramatically during the last few fiscal years (see graph). After reaching a high of 38.8% in school year 2001-02, the state's share decreased 5 percentage points in the next three years despite an absolute increase in state funding. The decrease in the state's percentage share of funding since the 2001-02 school year has been offset by an increase in the federal share from 8.8% to 10.7% and the local share from 52.5% to 55.5%.

Elementary and Secondary Education Spending

The majority of state spending for public elementary and secondary education comes from the state's General Funds which include the General Revenue Fund

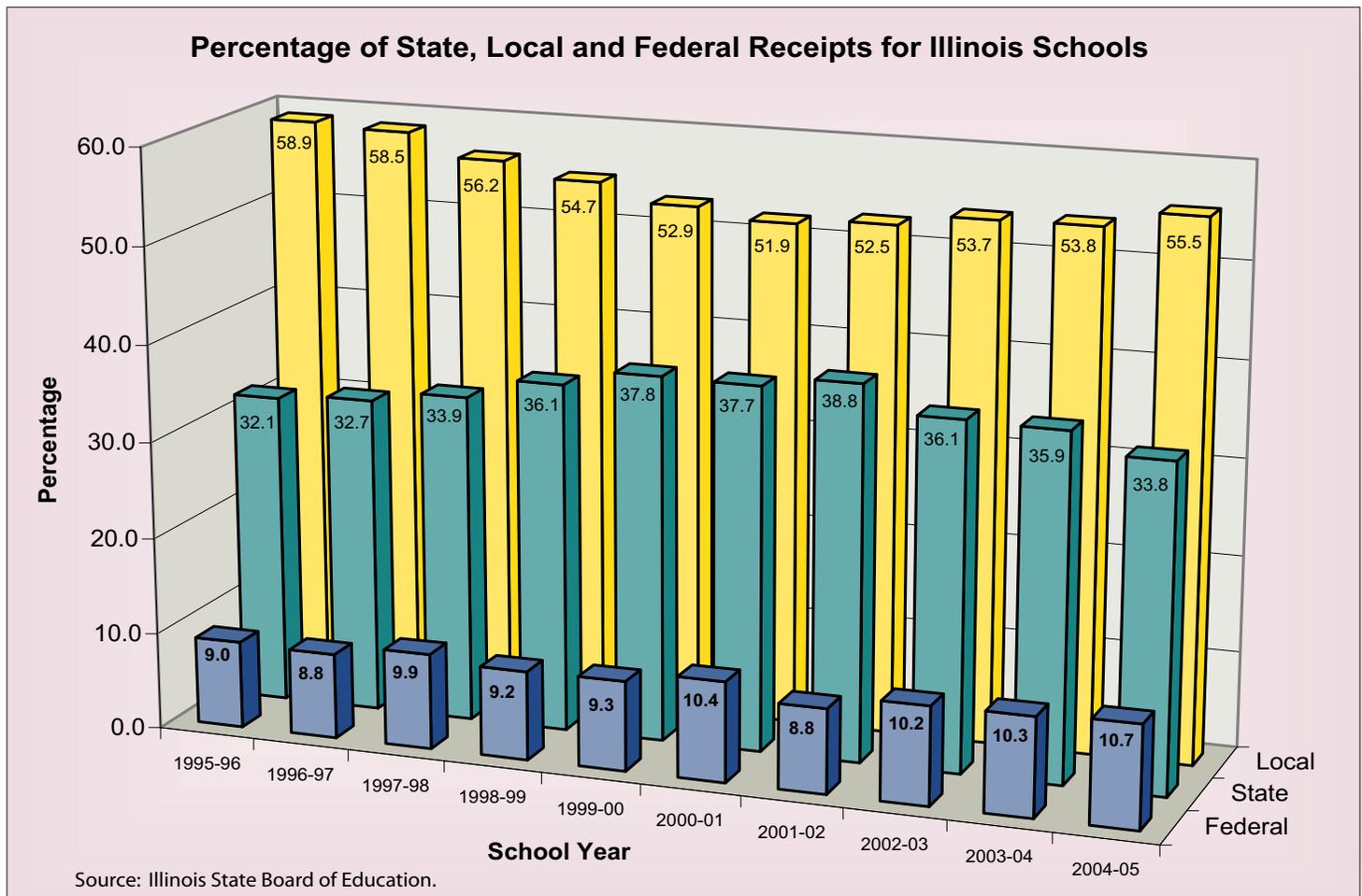
(the state's main operating fund) and three funds specifically earmarked for education (Education Assistance Fund, Common School Fund and the General Revenue-Common School Special Account Fund). Fiscal year 2006 General Funds' public elementary and secondary education spending by the State Board of Education and the Downstate and Chicago Teachers' Retirement systems totaled \$6.730 billion, \$2.588 billion or 62.5% more than fiscal year 1997 expenditures of \$4.142 billion.

The growth in elementary and secondary education spending in some measure reflects the fiscal condition of the state. From fiscal year 1997 through fiscal year 2002 the average annual growth was \$404 million or 8.3% reflecting the state's strong financial position. In fiscal year 2003, spending actually declined by

\$41 million or 0.1% as the state was in the midst of a fiscal crisis. After a small increase in spending in fiscal year 2004, General Funds spending jumped \$483 million or 7.7% in fiscal year 2005. Fiscal year 2006 spending of \$6.730 billion was actually a decrease of \$28 million or 0.4% from the previous year. This decrease was due to a decrease in funding to the Teachers' Retirement Systems. The \$1.386 billion growth in the three fiscal years 1998 through 2000 accounts for 53.6% of the total growth in General Funds elementary and secondary education spending over the last ten years.

The share of General Funds spending dedicated to elementary and secondary education has ranged from a low of 22.4% in fiscal year 1997 to a high of 25.8% in fiscal year 2005. Although there have been ups and downs, the gen-

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Revenue Sources Dedicated for Education

While much attention is paid to gaming revenues' support of education, particularly the lottery, there are numerous other sources of revenue that are also specifically dedicated to funding education. Even though gaming is an important source of revenue, it is not the largest source of revenue supporting education and has little impact in determining education funding levels. In fact, during the past ten years, even with the increased taxes on riverboat gaming, the share of education funding provided by gaming has remained fairly consistent. This was due in part to revenue growth of major tax sources and tax increases that impacted the amounts dedicated to education.

The majority of state support for elementary and secondary education comes from the Common School Fund and the Education Assistance Fund. These two funds provide for the payment of general state aid to local schools and for teachers' retirement. Revenues dedicated to education are not sufficient to support spending levels, especially in the Common School Fund. Therefore, by statute and for specific payments, the General Revenue Fund transfers monies for any funding deficiencies. It should be noted that the Education Assistance Fund also supports higher education and that over the years these two funds have also been used to fund other education grants.

Since education spending levels from these two funds have increased over the past ten years in excess of revenue increases, deficiency transfers from the General Revenue Fund account for a larger percentage of education revenues. This does not include spending directly from the General Revenue Fund for education.

Common School Fund

While the Common School Fund (CSF) receives revenues from a variety of

sources, transfers from the State Lottery Fund are probably the most well known of these sources. In fiscal year 2006, lot-

teries experienced the largest percentage growth of all revenues primarily due to tax increases. In fiscal year 1998, the

	Fiscal Year		Change	
	1997	2006	Amount	Percent
Sales Tax Transfers	\$ 1,234.1	\$ 1,749.0	\$ 514.9	41.7 %
Lottery Fund Transfers	590.1	670.5	80.4	13.6
Bingo Tax	3.4	1.7	(1.7)	(50.0)
Pull Tabs & Jar Games Tax and Licenses	4.0	3.4	(0.6)	(15.0)
Cigarette Taxes	43.1	154.4	111.3	258.2
Public Utility Tax	12.0	101.1	89.1	742.5
Other	1.4	5.2	3.8	271.4
GRF Transfers	355.8	1,112.6	756.8	212.7
TOTAL	\$ 2,243.9	\$ 3,797.9	\$ 1,554.0	69.3 %

Source: Comptroller's records.

tery transfers totaled \$670.5 million, accounting for 17.7% of total CSF revenues, and were the third largest source of revenues into the fund. By far, the major source of revenue into the CSF for the year was the sales tax transfer of \$1.749 billion or 46.0% of total revenues. The General Revenue-Common School Special Account Fund receives 25% of the state's share of sales tax collections and can only transfer monies to the CSF. Transfers from the General Revenue Fund are the second largest source of revenue, with \$1.113 billion transferred in fiscal year 2006 representing 29.3% of total revenues.

The remaining 7.0% of revenues to the CSF are dedicated receipts which are deposited directly into the fund. These sources include public utility taxes, cigarette taxes, bingo taxes, licenses and taxes from pull tabs and jar games, investment income, and other miscellaneous sources.

Over the ten-year period from fiscal year 1997 to 2006, public utility and cigarette

telecommunications tax rate was increased from 5% to 7%. The CSF receives \$12 million per year of the original 5% tax and 50% of the additional 2% tax increase. While prior to 1998 the CSF received a portion of cigarette taxes, the entire 14-cent per pack increase enacted in 1997 was allocated to the fund.

Education Assistance Fund

The Education Assistance Fund (EAF) was created in fiscal year 1990 and receives 7.3% of individual and corporate income tax receipts. In fiscal year 1992 the fund began receiving riverboat gaming tax revenues. With general state aid payments being made from the EAF, legislation provides the fund with the same deficiency transfer authority from the General Revenue Fund that the CSF has. In fiscal year 2006, income taxes deposited into the EAF totaled \$734.6 million or 51.7% of total revenues with 48.2% or \$685.0 million coming from riverboat gaming transfers.

Revenue Sources continued, page 7

**Education Assistance Fund Revenues
(Dollars in Millions)**

	Fiscal Year		Change	
	1997	2006	Amount	Percent
Income Tax	\$ 527.3	\$ 734.6	\$ 207.3	39.3 %
Gaming Fund Transfers	185.0	685.0	500.0	270.3
Other	0.2	2.1	1.9	N/A
GRF Transfers	0.0	0.0	0.0	N/A
TOTAL	\$ 712.5	\$ 1,421.7	\$ 709.2	99.5 %

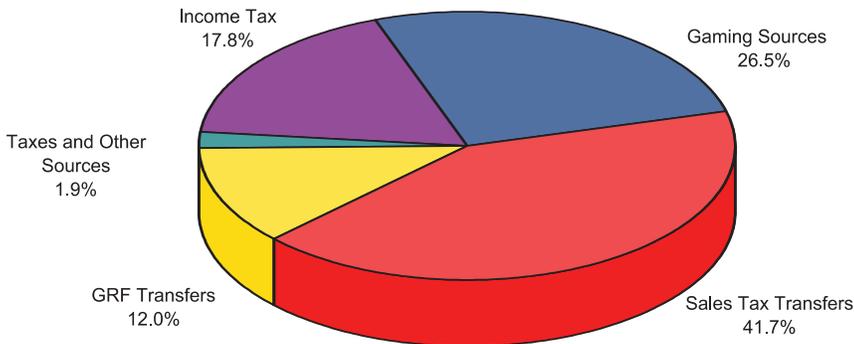
Source: Comptroller's records.

Conclusion

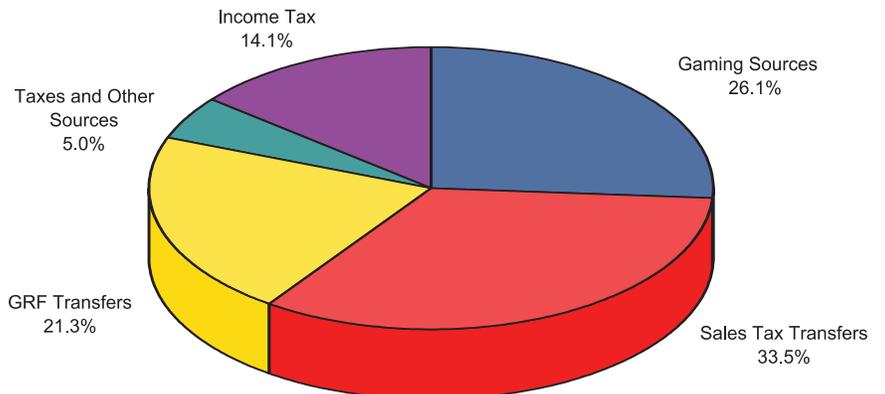
Combining the two funds and grouping similar sources reveals that during the past ten years General Revenue Fund transfers and other tax sources account for a larger percentage of education revenues. Income and sales tax percentages have declined while gaming sources have remained fairly consistent.

The largest source of revenue for education remains the sales tax accounting for 33.5% of revenues in fiscal year 2006. Gaming sources were 26.1% of total revenues while General Revenue Fund transfers represented 21.3%. Including State Board of Education expenditures of \$1.6 billion directly from the General Revenue Fund in fiscal year 2006, gaming revenues would account for less than one quarter of the amount spent for elementary and secondary education. ■

**Education Revenues
Fiscal Year 1997**



**Education Revenues
Fiscal Year 2006**



eral trend has seen elementary and secondary education garner small increases from year to year. The 24.8% of Gener-

al Funds expended in fiscal year 2006 is 2.4 percentage points higher than the 22.4% in fiscal year 1997 and 1.0 per-

centage point lower than the ten year high of 25.8% in fiscal year 2005.

The largest State Board of Education spending program is apportionment or general state aid. For fiscal year 2006, the State Board spent \$3.896 billion on apportionment grants, an increase of \$1.518 billion or 63.8% over the past ten fiscal years. Legislation which established minimum foundation levels of financial support for school districts accounted for a significant portion of the increases in apportionment.

Up until fiscal year 1998, a special equalization formula was used to determine apportionment grants to districts based on average daily attendance guaranteeing each district a minimum amount of resources per student provided the district made a sufficient tax effort. For fiscal year 1998, legislation enacted established foundation levels of financial support that were deemed appropriate for a student to receive an "adequate" education. Those levels were established as \$4,100 for fiscal year 1998, \$4,225 for 1999, \$4,325 for 2000, \$4,425 for 2001,

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**State, Local and Federal Resources
For Elementary & Secondary Education
(Dollars in Millions)**

School Year	State \$	State %	Local \$	Local %	Federal \$	Federal %	Total \$
2004-05	6,966.2	33.8	11,456.1	55.5	2,219.3	10.7	20,641.6
2003-04	7,206.1	35.9	10,805.3	53.8	2,073.8	10.3	20,085.2
2002-03	6,873.2	36.1	10,226.2	53.7	1,952.1	10.2	19,051.5
2001-02	7,181.1	38.8	9,724.0	52.5	1,623.0	8.8	18,528.0
2000-01	6,785.1	37.7	9,331.6	51.9	1,868.0	10.4	17,984.7
1999-00	6,354.0	37.8	8,907.0	52.9	1,565.8	9.3	16,826.8
1998-99	5,654.4	36.1	8,571.1	54.7	1,434.3	9.2	15,659.8
1997-98	4,849.3	33.9	8,052.0	56.2	1,417.9	9.9	14,319.2
1996-97	4,307.1	32.7	7,700.9	58.5	1,152.9	8.8	13,160.9
1995-96	3,994.8	32.1	7,339.8	58.9	1,123.7	9.0	12,458.3
1994-95	3,792.6	32.4	6,841.0	58.4	1,080.6	9.2	11,714.2
1993-94	3,611.5	32.9	6,453.4	58.9	901.0	8.2	10,965.9
1992-93	3,475.4	33.4	6,078.1	58.4	862.9	8.3	10,416.4
1991-92	3,433.9	35.2	5,555.8	57.0	762.5	7.8	9,752.2
1990-91	3,499.6	37.7	5,060.7	54.5	718.7	7.8	9,279.0
1989-90	3,487.5	39.4	4,709.5	53.1	666.8	7.5	8,863.8
1988-89	3,000.1	37.8	4,308.3	54.2	639.4	8.0	7,947.8
1987-88	2,866.4	39.0	3,910.7	53.2	579.2	7.9	7,356.3
1986-87	2,985.4	41.8	3,634.9	50.9	519.8	7.3	7,140.1
1985-86	2,767.9	41.0	3,481.3	51.6	494.8	7.3	6,744.0

1. Fiscal and school years start July 1 and end June 30. Tax years start January 1 and end December 31. The state and federal funds shown are based on fiscal years while local funds are based on tax (calendar) years.
2. Includes local real property tax revenues as estimated by the total property tax extension of districts and Corporate Personal Property Replacement Funds. Not included as local revenue are proceeds from investment income, income from school food services, and revenue generated through fees and assessments.

Source: Illinois State Board of Education

**Public Elementary and Secondary Education*
General Funds Expenditures (15 months)
(Dollars in Millions)**

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Operations	\$ 128	\$ 134	\$ 152	\$ 181	\$ 236	\$ 244	\$ 129	\$ 163	\$ 102	\$ 106
Awards and Grants:										
General State Aid	2,378	2,471	2,922	2,983	2,995	3,232	3,142	3,446	3,682	3,896
Retirement	417	494	584	649	732	821	931	739	873	609
Special Education	454	489	512	605	637	656	633	698	758	792
Transportation	258	267	297	377	421	454	438	502	562	573
Early Childhood Education	116	153	154	170	180	183	183	213	242	272
Reading Improvement	45	47	83	83	83	83	79	79	76	76
Bi-lingual Education	54	56	56	56	63	63	60	63	65	67
Vocational Education	49	53	52	47	54	52	52	38	36	36
All Other	243	432	323	377	447	374	474	334	362	303
Total Awards and Grants	4,014	4,462	4,983	5,347	5,612	5,918	5,992	6,112	6,656	6,624
Total, Public Elem. & Sec. Education General Funds Expenditures	\$ 4,142	\$ 4,596	\$ 5,135	\$ 5,528	\$ 5,848	\$ 6,162	\$ 6,121	\$ 6,275	\$ 6,758	\$ 6,730
Total, General Funds Expenditures	\$ 18,517	\$ 19,672	\$ 21,527	\$ 22,976	\$ 24,583	\$ 25,125	\$ 24,861	\$ 26,365	\$ 28,247	\$ 28,452
Public Education's Share of Total General Funds Expenditures **	22.4%	23.4%	23.9%	24.1%	23.8%	24.7%	25.6%	25.0%	25.8%	24.8%

*Includes the State Board of Education and Teachers Retirement Systems.

**Percentages exclude repayment of short-term borrowing principal in fiscal years 2002 (\$226 million), 2003 (\$926 million), 2004 (\$1.216 billion), 2005 (\$2.023 billion) and 2006 (\$1.276 billion).

State Responses concluded from page 15

assessed value. This money went to the state's Education Fund (along with a gasoline tax increase, lottery revenues and transfers from the state's General Fund) and the state provided the districts with block grants per pupil. There were tax reductions for middle and lower income households.

Under Act 60, local districts could choose to spend above the state's foundation level and assess an additional property tax on top of the state rate. But the unusual aspect of Act 60 was that all tax rate increases provided the local districts with an equalized yield across the state regardless of the wealth of that district. Act 60 required that districts that chose the same level of spending would also have the same level of taxation. Identical levels of tax rates will generate different revenues depending on the value of property in the district; however, under Act 60, the revenues are paid into a sharing pool. Wealthier districts (usually those in Vermont's ski towns) paid revenues beyond their actual costs of per pupil expenses into the state's sharing pool and poorer districts would receive more from the sharing pool than they paid in.

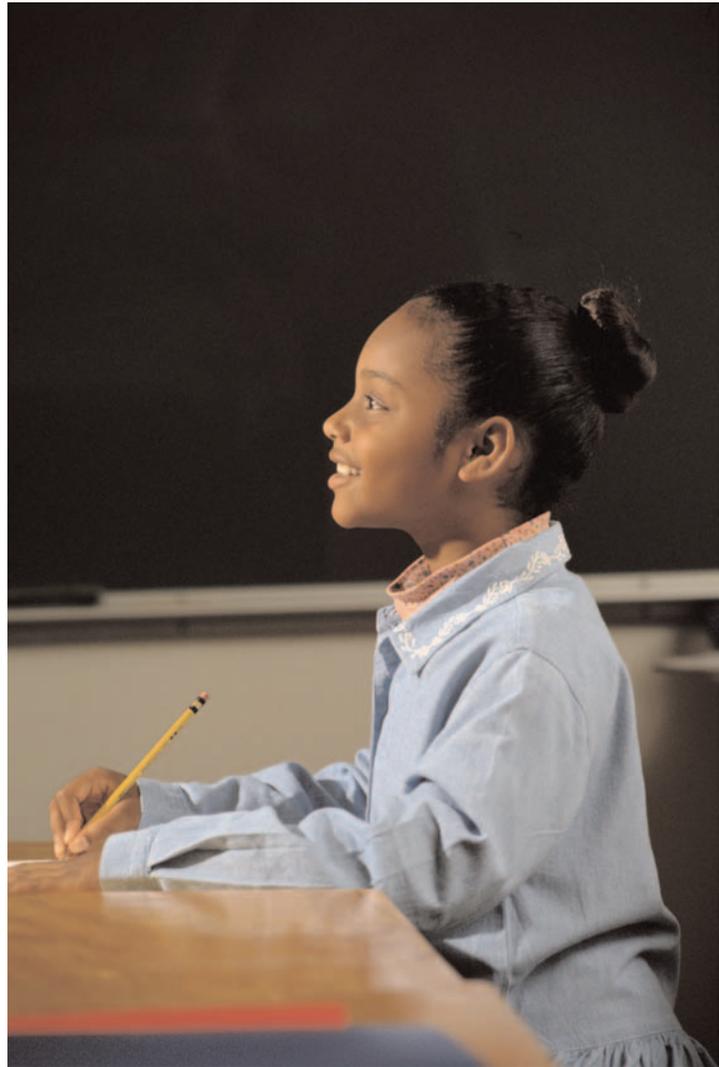
As a result of these changes, the state share of spending increased from 30% in fiscal year 1998 to 75% in fiscal year 2001. At that time, the variations in per pupil spending appeared to be narrowing across districts. For most districts, property tax rates went down while their revenues went up. However, certain aspects of Act 60 were unpopular in the wealthier districts. Some school districts, in order to bypass the state sharing pool requirements, started to take private donations for school operational spending.

In June 2003, Vermont enacted Act 68 to reform Act 60. Among other changes, the sharing pool was eliminated. The statewide property tax remained, but was

separated between homesteads (taxed at \$1.10 per \$100 of assessed value) and commercial and non-homestead properties (taxed at \$1.59 per \$100 of assessed value). The state also increased its sales tax from 5% to 6% to replace the lost sharing pool. Local districts are allowed to spend beyond the base set by the state – if they want to spend 5% more than the base, then property taxes are 5% more than the base. However, local education spending decisions only affect the homestead property taxes, not the non-residential taxes. Lawmakers also included an additional tax for districts that greatly

exceed the statewide average in an attempt to control spending by the wealthier districts.

However, even with all of Vermont's changes in the last 10 years, it does not appear that it has been successful in minimizing differences across the districts. According to the *Quality Counts 2006* report (discussed on page 3), Vermont scored the second lowest score in the nation when it received an "F" for Resource Equity. The report states that their analysis points to "wide disparities in per-pupil funding across school districts in the state." ■



\$4,560 for 2002 and 2003, \$4,810 for 2004, \$4,964 for 2005, \$5,164 for 2006, and \$5,334 for 2007. In subsequent years, the General Assembly will determine the appropriate foundation level with advice from the Education Funding Advisory Board consisting of five members appointed by the Governor.

Up until fiscal year 2003, the fastest growing segment of public education spending was retirement grants. State grant payments to the retirement systems supplement employee contributions and investment income in funding the teachers' retirement systems. Fiscal year 2003 spending for retirement totaled \$931 million, \$630 million or more than triple fiscal year 1994 contributions from ten years earlier of \$301 million. This significant increase in retirement grants was due to pension funding legislation that took effect in fiscal year 1996. This legislation provides for a 50-year phase-in period with the ultimate goal of increasing the actuarial funded ratio to 90.0%. The act also provides the Comptroller with continuing appropriation authority for the required employer contributions.

Since fiscal year 2003, retirement contributions have declined significantly from the General Funds. A decrease of \$192 million in fiscal year 2004 from \$931 million to \$739 million was due to the sale of pension funding bonds. Some of the proceeds from this sale were deposited directly with the Teachers' Retirement System helping to offset the actuarially required contribution from the General Funds. In fiscal year 2005, contributions increased \$234 million to \$873 million. However, in fiscal year 2006, contributions declined by \$264 million due to statutory measures which lowered required contribution levels for fiscal years 2006 and 2007. (See article on Teachers' Pension Systems on page 13).

The remainder of grant spending for elementary and secondary education consists primarily of categorical grants.

Categorical grants are payments earmarked to school districts for specific purposes such as special education, transportation, early childhood education and reading improvement.

The largest categorical grant program is for special education for the handicapped which includes reimbursements to school districts for approved personnel who perform services in special education programs. Special education grant payments of \$792 million in fiscal year 2006 were \$338 million or 74.4% higher than fiscal year 1997 payments of \$454 million.

The second largest categorical program is transportation, which provides grants to reimburse allowable costs of school districts above a required local contribution to provide transportation for regular, vocational, and special education students. Fiscal year 2006 transportation grant spending of \$573 million was \$315 million or 122.1% higher than fiscal year 1997 spending of \$258 million.

Grants for early childhood education have grown substantially over the past ten years. Spending of \$272 million in fiscal year 2006 was more than double the \$116 million expended in fiscal year 1997. These grants provide funds for early childhood programs and services that will help young children enter school ready to learn. Programs funded include the Pre-kindergarten Program for children at risk

of academic failure and the Early Childhood Parental Training Program.

School Year	Enrollment			Pupils per Teacher	
	Elementary	Secondary	Total	Elementary	Secondary
1996-97	1,358,721	551,786	1,910,507	20.0	18.5
1997-98	1,376,466	549,936	1,926,402	20.0	18.5
1998-99	1,389,319	546,200	1,935,519	19.6	18.1
1999-00	1,400,806	552,571	1,953,377	19.3	18.1
2000-01	1,410,133	562,723	1,972,856	19.1	18.0
2001-02	1,423,239	575,245	1,998,484	19.0	18.1
2002-03	1,485,807	595,349	2,081,156	18.4	18.2
2003-04	1,423,183	609,669	2,032,852	19.4	18.8
2004-05	1,483,369	613,676	2,097,045	18.9	18.4
2005-06	1,480,508	631,198	2,111,706		
	Projections				
2006-07	1,408,278	623,322	2,031,600		
2007-08	1,403,528	625,687	2,029,215		
2008-09	1,400,955	627,440	2,028,395		
2009-10	1,399,758	624,199	2,023,957		
2010-11	1,378,458	637,458	2,015,916		
2011-12	1,378,120	630,061	2,008,181		
2012-13	1,381,623	624,701	2,006,324		
2013-14	1,383,198	619,275	2,002,473		
2014-15	1,381,943	619,831	2,001,774		

Source: Illinois State Board of Education.

To improve reading achievement and study skills of students from kindergarten through sixth grade, grant dollars are dedicated for the Reading Improvement Program. Fiscal year 2006 spending of \$76 million was \$31 million or 68.9% more than fiscal year 1997 spending of \$45 million and \$4 million less than the \$83 million expended in fiscal years 1999 through 2002.

The smallest category of General Funds spending for public education is operations with spending of \$106 million in fiscal year 2006. While the bulk of operations spending at most agencies is typically for employee salaries and benefits, some programs at the State Board are coded as lump sum operations and include both grant and operations type spending. This accounts for the variances from year to year.

Enrollment

After increasing for thirteen consecutive years through the 2002-03 school year, public school enrollment decreased slightly in the 2003-04 school year. Enrollment figures again increased in the 2004-05 and 2005-06 school years. However, according to projections, Illinois public school enrollment is expected to decline over each of the following nine school years. Kindergarten through twelfth grade enrollment of 2,111,706 for the 2005-06 school year was 201,199 or 10.5% higher than school year 1996-97 enrollment of 1,910,507.

Despite the fact that more than 200,000 additional students are enrolled in the state's public schools, pupil/teacher ratios have remained fairly steady for secondary schools and declined slightly for elementary schools over the past decade due to the hiring of new teachers. For the 1996-97 school year, the pupil/teacher ratio in elementary schools was 20.0 compared to 18.5 in secondary classrooms. By the 2004-05 school year the elementary ratio had declined to 18.9 while the secondary ratio declined to 18.4.

Student Performance

Changes in statewide achievement tests were undertaken and instituted in fiscal year 1999. The switch from IGAP (Illinois Goals Assessment Program) to ISAT (Illinois Standards Achievement Test) testing was instituted in fiscal year 1999. The ISAT tests all eligible public school students in grades 3, 5, and 8 in reading, mathematics and writing. All eligible public school students in grades 4 and 7 are tested in science and social science.

Secondary students are given the PSAE (Prairie State Achievement Test) in grade 11 with the tests covering reading, mathematics, writing, science and social science. PSAE tests scores become part of a student's permanent record whereas ISAT scores become a part of their temporary record.

In third grade, for the most recent year (2004-05) in which test results are available, 34% of students are below state standards in reading compared to 38% in the 1999-00 school year and 20% are below in mathematics compared to 31% in the 1999-00 school year. For fourth graders, 29% are below in science com-

pared to 36% in the 1999-00 school year. In fifth grade, 40% are below in reading compared to 41% in the 1999-00 school year and 27% are below in math compared to 43%. For seventh graders 25% are below in science compared to 28% in the 1999-00 school year. In eighth grade, 28% are below in reading equaling the 1999-00 school year results while 46% are below in math compared to 54% in the 1999-00 school year.

Fiscal Year 2007

Despite the state's challenging fiscal situation, fiscal year 2007 General Funds' appropriations of \$7.420 billion for elementary and secondary education are \$625 million or 9.2% higher than fiscal year 2006 appropriations of \$6.795 billion. Most of the increase is in general state aid and retirement grants. Fiscal year 2007 general state aid appropriations are \$4.146 billion, \$242 million or 6.2% above fiscal year 2006 appropriations of \$3.904 billion. Retirement grant appropriations are \$813 million for fiscal year 2007, \$204 million or 33.5% above 2006 spending authority of \$609 million. ■

Student Performance Illinois Standards Achievement Test (ISAT)									
Reading									
	Grade 3			Grade 5			Grade 8		
	1999-00	2003-04	2004-05	1999-00	2003-04	2004-05	1999-00	2003-04	2004-05
Level 1 Academic Warning	6	7	7	0	2	2	0	2	1
Level 2 Below Standards	32	28	27	41	37	38	28	31	27
Level 3 Meets Standards	41	42	45	39	36	40	56	57	61
Level 4 Exceeds Standards	21	23	21	20	25	19	16	10	11
Mathematics									
	Grade 3			Grade 5			Grade 8		
	1999-00	2003-04	2004-05	1999-00	2003-04	2004-05	1999-00	2003-04	2004-05
Level 1 Academic Warning	10	7	5	6	3	3	8	6	6
Level 2 Below Standards	21	14	15	37	25	24	46	40	40
Level 3 Meets Standards	46	46	45	52	60	61	35	38	37
Level 4 Exceeds Standards	23	33	34	5	12	12	12	17	17
Science									
	Grade 4			Grade 7					
	1999-00	2003-04	2004-05	1999-00	2003-04	2004-05			
Level 1 Academic Warning	1	6	5	12	10	10			
Level 2 Below Standards	35	26	24	16	15	15			
Level 3 Meets Standards	51	55	55	54	58	54			
Level 4 Exceeds Standards	13	13	16	18	17	20			

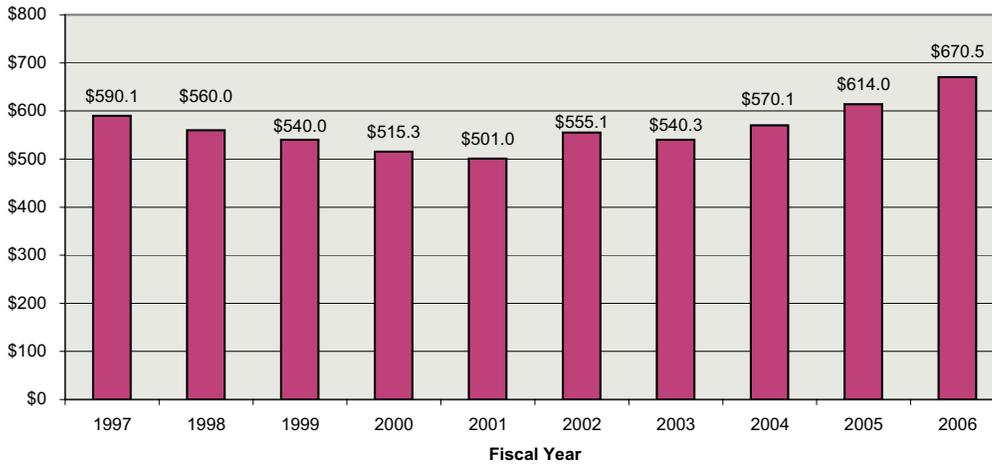
Source: Illinois State Board of Education

Illinois Graduation and Dropout Rates

	1997	1998	1999	2000	2001	2002	2003	2004	2005
Graduation Rate	81.6%	81.8%	81.9%	82.6%	83.2%	85.2%	86.0%	86.6%	87.4%
Dropout Rate	6.4%	6.2%	5.9%	5.8%	5.7%	5.1%	4.9%	4.6%	4.0%

Source: Illinois State Board of Education.

Lottery Support for Education By Fiscal Year



Source: Comptroller's records.

Selected Public School Full-Time Personnel 2004-05

Type	Male	Female	Total
Regional Superintendents	31	10	41
District Superintendents	643	181	824
Other Administrative Staff *	330	341	671
Principals	1,737	1,943	3,680
Assistant Principals	<u>967</u>	<u>1,219</u>	<u>2,186</u>
Total	3,708	3,694	7,402

* Includes assistant superintendents, business managers, and administrative assistants.

Source: Illinois State Board of Education.

Websites of Interest to Illinois Educators

Website Address	Organization
http://www.isbe.state.il.us/	Illinois State Board of Education
http://trs.illinois.gov/	Illinois Teachers' Retirement System
http://www.ctpf.org/	Public School Teachers' Pension and Retirement Fund of Chicago
http://www.isbe.net/savings/Default.htm	Illinois School Purchasing Network
http://www.iasb.com/	Illinois Association of School Boards
http://www.ilprincipals.org/	Illinois Principals Association
http://www.ieanea.org/	Illinois Education Association
http://www.ift-aft.org/	Illinois Federation of Teachers
http://www.illinoispta.org/	Illinois PTA
http://www.ed.gov/	U.S. Department of Education
http://www.ed.gov/free/index.html	Federal Resources for Educational Excellence (FREE)
http://nces.ed.gov/	National Center for Education Statistics
http://ecs.org/	Education Commission of the States
http://seriweb.com/	Special Education Resources on the Internet
http://www.nea.org/index.html	National Education Association
http://aft.org/	American Federation of Teachers
http://nsba.org/	National School Boards Association

Illinois' School Districts Spending Per Pupil

Spending for each student in Illinois varied greatly in fiscal year 2005. Of the 876 operating school districts that reported for that year, operating expenditures per pupil ranged from a low of \$4,281 to a high of \$28,285, with a state average of \$9,099. Operating expenditures per pupil excludes summer school, adult education, bond principal retired, and capital expenditures.

There are three types of school districts – elementary (grades K-8), high school (grades 9-12), and unit (grades K-12). The largest disparity in the range of expenditures per pupil occurred in unit districts. Operating expenditures per pupil for unit districts ranged from \$5,060 to the high of \$28,285. This high for spending per pupil for unit districts is an anomaly as the next highest unit district had per pupil spending of \$13,413. High school districts' spending ranged from \$6,766 to \$18,001 per pupil. Elementary school districts' spending ranged from \$4,281 to \$22,508. The high per pupil spending for elementary districts is also an anomaly as the next highest per pupil expenditure was \$16,004.

The high and low figures represent the extremes. Eliminating the extremes and picking points more towards the median will give a better representation of the deviations in operating expenditures per pupil. For unit districts, the spending per pupil at the 95th percent point was 1.65 times the spending of the district at the 5th percent point. Therefore, the 95th percent unit district spent over \$4,000 more per student than the 5th percent district. This is far less than the \$23,000 disparity in the extreme points. The 95th percent high school district per

pupil spending was 2.13 times the 5th percent district, \$16,026 compared to \$7,515. Spending by the 95th percent elementary district (\$12,760) was 2.13 times the 5th percent district spending per pupil (\$5,990).

For each type of district, the top 5 districts with the highest operating expenditures per pupil were located primarily in Cook, Lake and DuPage Counties. The 5 districts with the lowest spending per pupil for the most part were in central and southern Illinois. ■

**Operating Expense per Pupil
Fiscal Year 2005
By Type of District**

	Elementary	High School	Unit
Maximum	\$ 22,508	\$ 18,001	\$ 28,285
95th%	12,760	16,026	10,314
75th%	9,510	12,569	8,371
Median	7,981	10,747	7,579
25th %	6,986	8,853	7,007
5th%	5,990	7,515	6,235
Minimum	4,281	6,766	5,060

Source: Illinois State Board of Education.

www.ioc.state.il.us

State Obligations to Teacher Pension Systems

Two public pension systems serve Illinois public school teachers: teachers in the Chicago public schools are members of the Public School Teachers' Pension and Retirement Fund of Chicago (CTPF); public school teachers in the remainder of the state are members of the Teachers' Retirement System (TRS). The pension systems receive income from member and employer contributions, state assistance and income from existing fund balances. Current fund balances along with actuarial projections point to higher payments from employers in coming years.

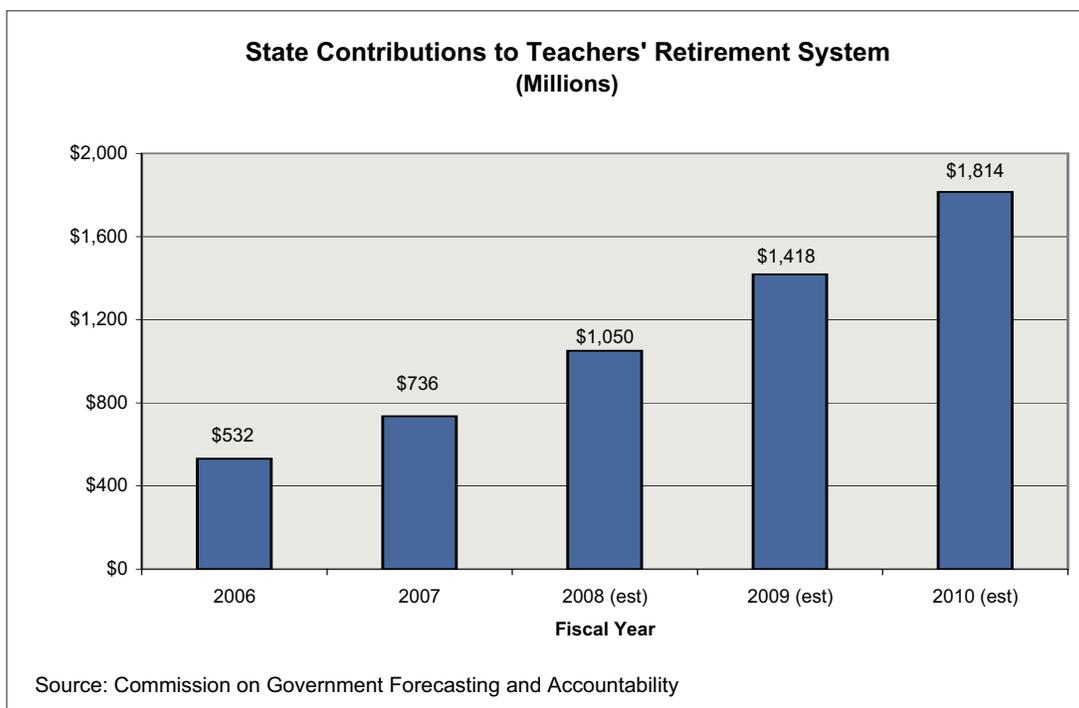
TRS is one of the five state supported pension systems where the state provides the bulk of the employers' contribution. At the conclusion of fiscal year 2005, TRS had \$56.1 billion in accumulated liabilities and \$34.1 billion in assets leaving a \$22.0 billion unfunded liability and a 60.8% funded ratio. In 1994, a fifty-year funding plan was enacted for state supported systems. The plan required

state contributions to be increased between fiscal years 1996 and 2011 to a level where payments over the following 35 years would raise the funded ratio to 90% in fiscal year 2045. This funding plan was amended to set reduced contribution levels for state systems for fiscal years 2006 and 2007.

Under current law, required state contributions to TRS were \$532 million in fiscal year 2006 and are \$736 million in fiscal year 2007. Returning to the 1994 funding plan is expected to increase state funding to \$1.0 billion in fiscal year 2008 and to \$1.8 billion in fiscal year 2010. For fiscal year 2010, state contributions would be \$1.079 billion greater than their fiscal year 2007 level.

The Chicago Board of Education will be largely responsible for reducing CTPF's unfunded pension liability. At the conclusion of fiscal year 2005, CTPF had \$13.3 billion in accrued liabilities and \$10.5 billion in net assets leaving a \$2.8

billion unfunded liability. CTPF, which had been fully funded (100%) at the conclusion of fiscal year 2001, ended fiscal year 2005 with a 79.0% funded ratio. CTPF operates under a funding plan similar to the state pension system plan. The Chicago Board of Education is required to make minimum contributions when the funded ratio drops below 90% that would increase the CTPF funded ratio to 90% by the end of fiscal year 2045. The state is required to contribute 0.544% of the fund's total teacher payroll when the funded ratio drops below 90%. This state contribution will be between \$10 and \$11 million between fiscal years 2007 and 2010 and is in addition to a \$65 million annual state contribution to the health insurance program administered by CTPF. According to this funding plan, the Chicago Board of Education pension contribution is forecast to increase from \$26 million for fiscal year 2006 to \$239 million for fiscal year 2010. ■



The General State Aid Formula

Each year the state determines a foundation level for each student based on the total amount of funds appropriated. The foundation level represents a minimum level of financial support available to provide a basic education per pupil. For fiscal year 2005 the foundation level was \$4,964 and for fiscal year 2006 the amount was \$5,164. Recognizing the fact that local wealth and resources vary from one community to the next, the general state aid formula attempts to distribute state dollars to assure that, at a minimum, all districts can support their students at the foundation level. The formula is designed to distribute more aid to poorer districts and a minimum amount to wealthier districts.

General state aid to Illinois school districts is distributed using one of three calculations depending on the available local revenue or property wealth of the districts. The foundation formula, which is the primary formula for distributing state dollars, is used for districts whose local resources are less than 93% of the foundation level. The amount of state aid these districts receive is basically the difference between the foundation level and the available local resources multiplied by the number of students (average daily attendance). In fiscal year 2005, 697

school districts (79.4%) received funds under the foundation formula.

The alternative formula is used to distribute state aid to school districts whose available local resources range from 93% up to 175% of the foundation level. The amount of state aid these districts receive varies linearly with those near the 93% level receiving relatively more than those near the 175% level. In fiscal year 2005, 138 school districts (15.7%) received funds under the alternative formula.

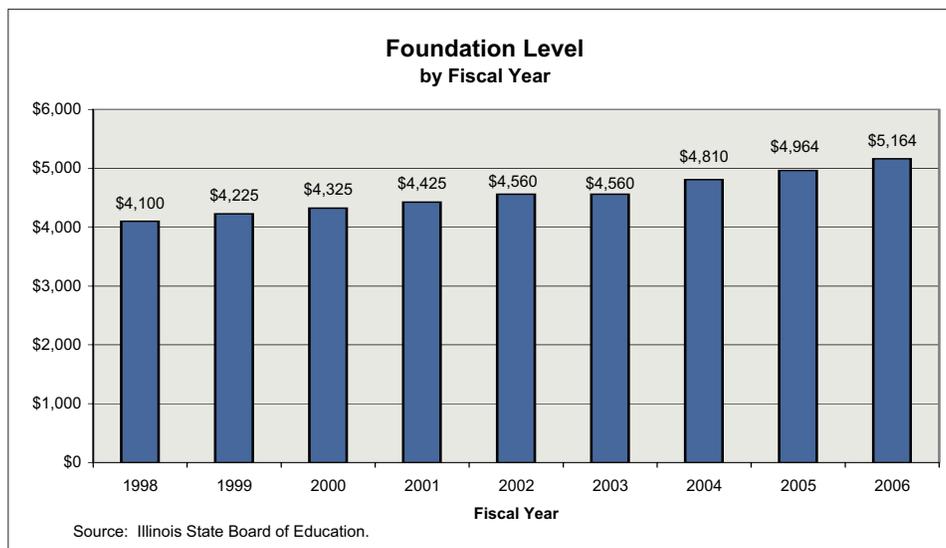
The flat grant formula is used to distribute state aid to school districts whose local resources are 175% of the foundation level or greater. As the name flat grant implies, these wealthier districts get a set amount per student, which in fiscal year 2005 was \$218. In fiscal year 2005, 43 school districts (4.9%) received funds under the flat grant formula.

Is the general state aid formula successful in distributing more money to poorer districts than to wealthy districts? Let's take a look at a hypothetical example. Assume that two districts have the same enrollment (average daily attendance = 2,000), that only state and local revenues are considered (no federal aid), and that one district's available local resources are \$2,500 per student while the other dis-

trict's available local resources are \$9,500. The first or poorer district would qualify for assistance under the foundation formula since its local resources (\$2,500) are less than 93% of the foundation level ($.93 \times \$5,164 = \$4,803$). This district would receive \$2,664 ($\$5,164 - \$2,500$) per student for a total of \$5.3 million ($\$2,664 \times 2,000$) in state aid.

The second or wealthier district would qualify under the flat grant formula since its local resources (\$9,500) are greater than 175% of the foundation level ($1.75 \times \$5,164 = \$9,037$). This district would receive a flat grant of \$218 per student for a total of \$436,000 ($\$218 \times 2,000$) in state aid.

On the surface it appears that the state aid formula works as intended. It redistributes state aid to a poorer school district and provides much less to a wealthier district. Data for 2005 show that state aid as a percentage of total district revenues ranged from 80% for one of the poorer school districts to 3% for one of the wealthiest. But in this example how much did it assist the poorer district? After the distribution of state aid, the poorer district has \$5,164 per student to spend, while the wealthier district has \$9,718 per student to spend. ■



State Responses to Education Funding Issues

Across the United States, the mechanism for funding local schools varies. In some states, such as Hawaii, New Mexico and Minnesota, the funding of school districts is largely a responsibility of the state. In other states, such as Nevada, New Jersey and Illinois, the responsibility largely falls to the local school districts. In states where the local government provides funding support, the most common sources of revenue are property taxes; such real estate based taxes are a relatively stable funding source because of the historically minor fluctuations in property values.

However, strong dependence on local property taxes can create disparities in funding for schools across districts. Some state governments try to use their state money to level out the funding among the districts with varying success. Sometimes when efforts to “level the playing field” are deemed insufficient, citizens will turn to the courts to force the state to revamp its funding schemes. In other states, the legislature forces the change. Several states underwent legal challenges and school finance reforms in the last 20 years – this review looks at the experience in two states.

Michigan

In the early 1990s, Michigan faced an unusual challenge. After years of reform discussions, the legislature in the summer of 1993 passed a law eliminating the local property tax as a source of school operating funds. Faced with no provision to replace the lost revenues, lawmakers worked to craft an alternative school funding system. The aim of the lawmakers was primarily to increase the state’s share of school finance (prior to then, over 60% of school funding came from local sources), reduce the funding disparities between school districts, and

reduce the tax burden for Michigan residents.

In March 1994, Michigan voters approved Proposal A that made changes to the state’s constitution and revamped the state’s system to fund schools. The changes increased the sales and use tax from 4.0% to 6.0% (with the full increase dedicated to schools), imposed a statewide state education property tax of 6 mills, increased the cigarette tax, and imposed a tobacco products tax and a real estate transfer tax. In exchange, the state’s income tax was reduced from 4.6% to 4.4%, property tax assessments on homesteads for school operating expenses were eliminated in most cases (and reduced for nonhomestead property) and a cap on the growth in the taxable amount of property value was imposed at the lesser of 5% or inflation. Immediate impacts were felt with the state now paying for 80% of school operating costs and significant reductions in property tax bills.

Several groups have monitored the impact of Proposal A on Michigan’s system of finance in the last 10 years. Several of the goals of Proposal A – less of a gap between the school districts in per pupil funding and reduction in tax bills for most citizens – appear to have been met. Previously, the ratio of revenues between the highest revenue generating districts and lowest generating districts had exceeded 3:1, but as of the early 2000s, this ratio had fallen to below 2:1. Most school districts appear to be in a stronger fiscal position with increasing fund balances. Several analyses support the contention that overall tax bills have been lower than they would have been under the system prior to Proposal A.

However, the dependence on the sales tax and other “volatile” state taxes has

limited the state’s ability to increase the funding of the state’s foundation level grants during the recent tough budget years. In fact, the foundation level was essentially frozen for several years. Additionally, the imposition of property tax caps has limited the growth in both the statewide property tax collections and the remaining local collections while the Michigan real estate market has seen strong growth. Concerns remain that the level of funding in Michigan, while more equitable, is not necessarily adequate. Furthermore, limits reducing the ability of local districts to impose additional property taxes have frustrated some groups who would like to increase funding within their own districts.

According to the *Quality Counts 2006* report (discussed on page 3), Michigan still remains below the national average for Resource Equity with its grade of a C-. The report states that their analysis indicates that “wealthier districts in the state tend to have higher per-pupil funding levels than do poorer districts.”

Vermont

The Vermont Supreme Court decided in the early 1997 case *Brigham vs. State of Vermont* that the state was required to provide “substantially equal access” to education for all Vermont students. The legislature’s response to this decision was the passage of Act 60, also known as the Equal Education Opportunity Act, in June 1997. Vermont’s funding reform focus was on property tax rate inequities as education tax rates ranged from \$0.12 to \$2.28 per \$100 of assessed value (assessed at 100% rate).

The largest change under Act 60 was the creation of a statewide property tax for education totaling \$1.10 per \$100 of

State Responses continued, page 16

GENERAL FUNDS REVENUES, EXPENDITURES AND BALANCES (Dollars in Millions)

	Twelve Months			
	June 2006	FY 2006	Change From Prior Year	
			\$	%
Total General Funds				
Available Balance	\$ 385	\$ 497	\$ 315	173.1 %
Revenues	2,625	28,635	452	1.6
Expenditures	2,420	28,542	674	2.4
Ending Balance	\$ 590	\$ 590	\$ 93	18.7 %
General Revenue Fund				
Available Balance	\$ 19	\$ 198	\$ 174	N/A %
Revenues	2,163	24,503	262	1.1
Expenditures	2,116	24,635	568	2.4
Ending Balance	\$ 66	\$ 66	\$ (132)	(66.7) %
Common School Special Account Fund				
Available Balance	\$ 82	\$ 16	\$ 4	33.3 %
Revenues	158	1,774	125	7.6
Expenditures	199	1,749	104	6.3
Ending Balance	\$ 41	\$ 41	\$ 25	156.3 %
Education Assistance Fund				
Available Balance	\$ 260	\$ 255	\$ 131	105.6 %
Revenues	225	1,422	212	17.5
Expenditures	22	1,214	135	12.5
Ending Balance	\$ 463	\$ 463	\$ 208	81.6 %
Common School Fund				
Available Balance	\$ 25	\$ 28	\$ 6	27.3 %
Revenues	685	3,798	412	12.2
Expenditures	690	3,806	426	12.6
Ending Balance	\$ 20	\$ 20	\$ (8)	(28.6) %

Note: Total General Funds excludes interfund transfers while the individual funds include such transfers. Numbers may not add due to rounding.

GENERAL FUNDS REVENUES (Dollars in Millions)

	Twelve Months			
	June 2006	FY 2006	Change From Prior Year	
			\$	%
Revenues:				
State Sources:				
Cash Receipts:				
Income Taxes:				
Individual	\$ 757	\$ 8,635	\$ 656	8.2 %
Corporate	204	1,428	256	21.8
Total, Income Taxes	\$ 961	\$ 10,063	\$ 912	10.0 %
Sales Taxes	637	7,092	497	7.5
Other Sources:				
Public Utility Taxes	97	1,074	18	1.7
Cigarette Taxes	33	400	(50)	(11.1)
Inheritance Tax (gross)	20	272	(38)	(12.3)
Liquor Gallonage Taxes	16	152	5	3.4
Insurance Taxes and Fees	61	317	(25)	(7.3)
Corporation Franchise Tax and Fees	15	181	0	0.0
Investment Income	17	153	80	109.6
Cook County IGT	0	350	(83)	(19.2)
Riverboat Gambling Taxes	0	4	(148)	(97.4)
Other	84	475	(25)	(5.0)
Total, Other Sources	\$ 343	\$ 3,378	\$ (266)	(7.3) %
Total, Cash Receipts	\$ 1,941	\$ 20,533	\$ 1,143	5.9 %
Transfers In:				
Lottery Fund	\$ 51	\$ 670	\$ 56	9.1 %
State Gaming Fund	155	685	138	25.2
Other Funds	191	746	(606)	(44.8)
Total, Transfers In	\$ 397	\$ 2,101	\$ (412)	(16.4) %
Total, State Sources	\$ 2,338	\$ 22,634	\$ 731	3.3 %
Federal Sources	\$ 287	\$ 4,725	\$ 468	11.0 %
Total, Base Revenues	\$ 2,625	\$ 27,359	\$ 1,199	4.6 %
Short-Term Borrowing	0	1,000	235	30.7
Transfer from Budget Stabilization Fund	0	276	0	0.0
Cash Flow Transfer - Hospital Provider Fund	0	0	(982)	(100.0)
Total, Revenues	\$ 2,625	\$ 28,635	\$ 452	1.6 %

GENERAL FUNDS ANALYSIS OF EXPENDITURES (Dollars in Millions)

	Twelve Months			
	June 2006	FY 2006	Change From Prior Year	
			\$	%
Expenditures:				
Awards and Grants:				
Healthcare & Family Services	\$ 267	\$ 6,149	\$ 1,290	26.5 %
Elem. & Sec. Education:				
State Board of Education	950	6,010	297	5.2
Teachers Retirement	51	608	(325)	(34.8)
Total, Elem. & Sec. Education	\$ 1,001	\$ 6,618	\$ (28)	(0.4) %
Human Services	142	2,865	91	3.3
Higher Education	7	795	30	3.9
All Other Grants	92	1,189	49	4.3
Total, Awards and Grants	\$ 1,509	\$ 17,616	\$ 1,432	8.8 %
Operations:				
Other Agencies	\$ 416	\$ 4,986	\$ 70	1.4 %
Higher Education	16	1,404	(27)	(1.9)
Total, Operations	\$ 432	\$ 6,390	\$ 43	0.7 %
Regular Transfers Out	\$ 181	\$ 3,059	\$ (599)	(16.4) %
All Other	\$ 2	\$ 17	\$ (40)	(70.2) %
Vouchers Payable Adjustment	\$ (32)	\$ 170	\$ 571	N/A
Total, Base Expenditures	\$ 2,092	\$ 27,252	\$ 1,407	5.4 %
Transfers to Repay GRF Short- Term Borrowing	328	1,290	246	23.6
Cash Flow Transfer - Hospital Provider Fund	0	0	(979)	(100.0)
Total, Expenditures	\$ 2,420	\$ 28,542	\$ 674	2.4 %

COMPARISON OF SPENDING FOR OPERATIONS BY OBJECT (Dollars in Millions)

	Twelve Months			
	June 2006	FY 2006	Change From Prior Year	
			\$	%
Personal Services:				
Regular Positions	\$ 204	\$ 3,310	\$ (21)	(0.6) %
Other Personal Services	14	195	17	9.6
Total, Personal Services	\$ 218	\$ 3,505	\$ (4)	(0.1) %
Contribution Retirement	18	294	(170)	(36.6)
Contribution Social Security	13	170	3	1.8
Contribution Group Insurance	83	1,081	59	5.8
Contractual Services	42	614	136	28.5
Travel	2	19	1	5.6
Commodities	7	112	(3)	(2.6)
Printing	1	7	0	0.0
Equipment	2	25	(3)	(10.7)
Electronic Data Processing	3	33	(3)	(8.3)
Telecommunications	2	53	(1)	(1.9)
Automotive Equipment	2	24	5	26.3
Other Operations	39	453	23	5.3
Total, Operations	\$ 432	\$ 6,390	\$ 43	0.7 %

COMPARISON OF SPENDING FOR AWARDS AND GRANTS (Dollars in Millions)

	Twelve Months			
	June 2006	FY 2006	Change From Prior Year	
			\$	%
State Board of Education:				
General State Aid	\$ 645	\$ 3,896	\$ 214	5.8 %
All Other	305	2,114	83	4.1
Healthcare & Family Services	267	6,149	1,290	26.5
Human Services	142	2,865	91	3.3
Higher Education:				
Student Assistance Commission	1	387	9	2.4
Community College Board	0	349	11	3.3
Other	6	59	10	20.4
Teacher's Retirement	51	608	(325)	(34.8)
Children and Family Services	34	533	27	5.3
Aging	26	297	30	11.2
Revenue	2	17	1	6.3
All Other	30	342	(9)	(2.6)
Total, Awards and Grants	\$ 1,509	\$ 17,616	\$ 1,432	8.8 %

GENERAL FUNDS REVENUES, EXPENDITURES AND BALANCES
(Dollars in Millions)

	July		Change From	
	2005	2006	Prior Year	
	\$	\$	\$	%
Total General Funds				
Available Balance	\$ 497	\$ 590	\$ 93	18.7 %
Revenues	1,876	1,954	78	4.2
Expenditures	1,646	1,832	186	11.3
Ending Balance	\$ 727	\$ 712	\$ (15)	(2.1) %
General Revenue Fund				
Available Balance	\$ 198	\$ 66	\$ (132)	(66.7) %
Revenues	1,560	1,669	109	7.0
Expenditures	1,553	1,734	181	11.7
Ending Balance	\$ 205	\$ 1	\$ (204)	(99.5) %
Common School Special Account Fund				
Available Balance	\$ 16	\$ 41	\$ 25	156.3 %
Revenues	156	149	(7)	(4.5)
Expenditures	0	5	5	N/A
Ending Balance	\$ 172	\$ 185	\$ 13	7.6 %
Education Assistance Fund				
Available Balance	\$ 255	\$ 463	\$ 208	81.6 %
Revenues	86	79	(7)	(8.1)
Expenditures	46	36	(10)	(21.7)
Ending Balance	\$ 295	\$ 506	\$ 211	71.5 %
Common School Fund				
Available Balance	\$ 28	\$ 20	\$ (8)	(28.6) %
Revenues	74	63	(11)	(14.9)
Expenditures	47	63	16	34.0
Ending Balance	\$ 55	\$ 20	\$ (35)	(63.6) %

Note: Total General Funds excludes interfund transfers while the individual funds include such transfers. Numbers may not add due to rounding.

GENERAL FUNDS REVENUES
(Dollars in Millions)

	July		Change From	
	2005	2006	Prior Year	
	\$	\$	\$	%
Revenues:				
State Sources:				
Cash Receipts:				
Income Taxes:				
Individual	\$ 524	\$ 558	\$ 34	6.5 %
Corporate	33	39	6	18.2
Total, Income Taxes	\$ 557	\$ 597	\$ 40	7.2 %
Sales Taxes	622	592	(30)	(4.8)
Other Sources:				
Public Utility Taxes	77	70	(7)	(9.1)
Cigarette Taxes	34	29	(5)	(14.7)
Inheritance Tax (gross)	19	26	7	36.8
Liquor Gallonage Taxes	15	12	(3)	(20.0)
Insurance Taxes and Fees	4	6	2	50.0
Corporation Franchise				
Tax and Fees	10	14	4	40.0
Investment Income	10	16	6	60.0
Cook County IGT	40	6	(34)	(85.0)
Riverboat Gambling Taxes	4	0	(4)	(100.0)
Other	49	40	(9)	(18.4)
Total, Other Sources	\$ 262	\$ 219	\$ (43)	(16.4) %
Total, Cash Receipts	\$ 1,441	\$ 1,408	\$ (33)	(2.3) %
Transfers In:				
Lottery Fund	\$ 50	\$ 35	\$ (15)	(30.0) %
State Gaming Fund	45	35	(10)	(22.2)
Other Funds	62	175	113	182.3
Total, Transfers In	\$ 157	\$ 245	\$ 88	56.1 %
Total, State Sources	\$ 1,598	\$ 1,653	\$ 55	3.4 %
Federal Sources	\$ 278	\$ 301	\$ 23	8.3 %
Total, Base Revenues	\$ 1,876	\$ 1,954	\$ 78	4.2 %
Short-Term Borrowing	0	0	0	0.0
Transfer from Budget				
Stabilization Fund	0	0	0	0.0
Total, Revenues	\$ 1,876	\$ 1,954	\$ 78	4.2 %

GENERAL FUNDS ANALYSIS OF EXPENDITURES
(Dollars in Millions)

	July		Change From	
	2005	2006	Prior Year	
	\$	\$	\$	%
Expenditures:				
Awards and Grants:				
Public Aid	\$ 629	\$ 582	\$ (47)	(7.5) %
Elem. & Sec. Education:				
State Board of Education	106	94	(12)	(11.3)
Teachers Retirement	50	68	18	36.0
Total, Elem. & Sec. Education	\$ 156	\$ 162	\$ 6	3.8 %
Human Services	271	318	47	17.3
Higher Education	13	5	(8)	(61.5)
All Other Grants	84	103	19	22.6
Total, Awards and Grants	\$ 1,153	\$ 1,170	\$ 17	1.5 %
Operations:				
Other Agencies	\$ 388	\$ 386	\$ (2)	(0.5) %
Higher Education	98	97	(1)	(1.0)
Total, Operations	\$ 486	\$ 483	\$ (3)	(0.6) %
Transfers Out	\$ 222	\$ 411	\$ 189	85.1 %
All Other	1	2	1	100.0 %
Vouchers Payable Adjustment	\$ (216)	\$ (234)	\$ (18)	N/A
Total, Base Expenditures	\$ 1,646	\$ 1,832	\$ 186	11.3 %
Transfers to Repay Short-Term Borrowing	0	0	0	0.0
Total, Expenditures	\$ 1,646	\$ 1,832	\$ 186	11.3 %

COMPARISON OF SPENDING FOR OPERATIONS BY OBJECT
(Dollars in Millions)

	July		Change From	
	2005	2006	Prior Year	
	\$	\$	\$	%
Personal Services:				
Regular Positions	\$ 260	\$ 273	\$ 13	5.0 %
Other Personal Services	17	15	(2)	(11.8)
Total, Personal Services	\$ 277	\$ 288	\$ 11	4.0 %
Contribution Retirement	37	22	(15)	(40.5)
Contribution Social Security	14	15	1	7.1
Contribution Group Insurance	23	46	23	100.0
Contractual Services	68	56	(12)	(17.6)
Travel	1	2	1	100.0
Commodities	9	5	(4)	(44.4)
Printing	1	0	(1)	(100.0)
Equipment	3	2	(1)	(33.3)
Electronic Data Processing	3	3	0	0.0
Telecommunications	4	2	(2)	(50.0)
Automotive Equipment	1	2	1	100.0
Other Operations	45	40	(5)	(11.1)
Total, Operations	\$ 486	\$ 483	\$ (3)	(0.6) %

COMPARISON OF SPENDING FOR AWARDS AND GRANTS
(Dollars in Millions)

	July		Change From	
	2005	2006	Prior Year	
	\$	\$	\$	%
State Board of Education:				
General State Aid	\$ 0	\$ 0	\$ 0	0.0 %
All Other	106	94	(12)	(11.3)
Public Aid	629	582	(47)	(7.5)
Human Services	271	318	47	17.3
Higher Education:				
Student Assistance Commission	3	4	1	33.3
Community College Board	5	0	(5)	N/A
Other	5	1	(4)	(80.0)
Teacher's Retirement	50	68	18	36.0
Children and Family Services	35	39	4	11.4
Aging	24	29	5	20.8
Revenue	1	1	0	N/A
All Other	24	34	10	41.7
Total, Awards and Grants	\$ 1,153	\$ 1,170	\$ 17	1.5 %

GENERAL FUNDS REVENUES, EXPENDITURES AND BALANCES (Dollars in Millions)

	Two Months			
	August 2006	FY 2007	Change From Prior Year	
			\$	%
Total General Funds				
Available Balance	\$ 712	\$ 590	\$ 93	18.7 %
Revenues	2,483	4,436	204	4.8
Expenditures	2,572	4,403	382	9.5
Ending Balance	\$ 623	\$ 623	\$ (85)	(12.0) %
General Revenue Fund				
Available Balance	\$ 1	\$ 66	\$ (132)	(66.7) %
Revenues	2,130	3,799	220	6.1
Expenditures	2,112	3,846	312	8.8
Ending Balance	\$ 19	\$ 19	\$ (224)	(92.2) %
Common School Special Account Fund				
Available Balance	\$ 185	\$ 41	\$ 25	156.3 %
Revenues	163	312	9	3.0
Expenditures	251	256	78	43.8
Ending Balance	\$ 97	\$ 97	\$ (44)	(31.2) %
Education Assistance Fund				
Available Balance	\$ 506	\$ 463	\$ 208	81.6 %
Revenues	117	195	6	3.2
Expenditures	138	173	21	13.8
Ending Balance	\$ 485	\$ 485	\$ 193	66.1 %
Common School Fund				
Available Balance	\$ 20	\$ 20	\$ (8)	(28.6) %
Revenues	324	387	49	14.5
Expenditures	322	385	50	14.9
Ending Balance	\$ 22	\$ 22	\$ (9)	(29.0) %

Note: Total General Funds excludes interfund transfers while the individual funds include such transfers. Numbers may not add due to rounding.

GENERAL FUNDS REVENUES (Dollars in Millions)

	Two Months			
	August 2006	FY 2007	Change From Prior Year	
			\$	%
Revenues:				
State Sources:				
Cash Receipts:				
Income Taxes:				
Individual	\$ 611	\$ 1,169	\$ 69	6.3 %
Corporate	19	58	13	28.9
Total, Income Taxes	\$ 630	\$ 1,227	\$ 82	7.2 %
Sales Taxes	653	1,244	34	2.8
Other Sources:				
Public Utility Taxes	106	175	(3)	(1.7)
Cigarette Taxes	29	58	(10)	(14.7)
Inheritance Tax (gross)	21	47	10	27.0
Liquor Gallonage Taxes	15	27	0	0.0
Insurance Taxes and Fees	13	20	0	0.0
Corporation Franchise				
Tax and Fees	14	28	1	3.7
Investment Income	19	35	14	66.7
Cook County IGT	0	6	(34)	(85.0)
Riverboat Gambling Taxes	0	0	(4)	(100.0)
Other	41	81	(14)	(14.7)
Total, Other Sources	\$ 258	\$ 477	\$ (40)	(7.7) %
Total, Cash Receipts	\$ 1,541	\$ 2,948	\$ 76	2.6 %
Transfers In:				
Lottery Fund	\$ 47	\$ 82	\$ (32)	(28.1) %
State Gaming Fund	70	105	0	0.0
Other Funds	25	200	118	143.9
Total, Transfers In	\$ 142	\$ 387	\$ 86	28.6 %
Total, State Sources	\$ 1,683	\$ 3,335	\$ 162	5.1 %
Federal Sources	\$ 524	\$ 825	\$ 42	5.4 %
Total, Base Revenues	\$ 2,207	\$ 4,160	\$ 204	5.2 %
Short-Term Borrowing	0	0	0	0.0
Transfer from				
Budget Stabilization Fund	276	276	0	0.0
Total, Revenues	\$ 2,483	\$ 4,436	\$ 204	4.8 %

GENERAL FUNDS ANALYSIS OF EXPENDITURES (Dollars in Millions)

	Two Months			
	August 2006	FY 2007	Change From Prior Year	
			\$	%
Expenditures:				
Awards and Grants:				
Public Aid	\$ 781	\$ 1,363	\$ (206)	(13.1) %
Elem. & Sec. Education:				
State Board of Education	480	574	23	4.2
Teachers Retirement	68	136	36	36.0
Total, Elem. & Sec. Education	\$ 548	\$ 710	\$ 59	9.1 %
Human Services	273	591	24	4.2
Higher Education	86	91	(7)	(7.1)
All Other Grants	106	208	14	7.2
Total, Awards and Grants	\$ 1,794	\$ 2,963	\$ (116)	(3.8) %
Operations:				
Other Agencies	\$ 517	\$ 902	\$ 48	5.6 %
Higher Education	130	228	0	0.0
Total, Operations	\$ 647	\$ 1,130	\$ 48	4.4 %
Regular Transfers Out	\$ 121	\$ 532	\$ 49	10.1 %
All Other	\$ 3	\$ 5	\$ 1	25.0 %
Vouchers Payable Adjustment	\$ 7	\$ (227)	\$ 400	N/A
Total, Base Expenditures	\$ 2,572	\$ 4,403	\$ 382	9.5 %
Transfers to Repay GRF Short-Term Borrowing	0	0	0	0.0
Total, Expenditures	\$ 2,572	\$ 4,403	\$ 382	9.5 %

COMPARISON OF SPENDING FOR OPERATIONS BY OBJECT (Dollars in Millions)

	Two Months			
	August 2006	FY 2007	Change From Prior Year	
			\$	%
Personal Services:				
Regular Positions	\$ 307	\$ 581	\$ 13	2.3 %
Other Personal Services	15	30	(4)	(11.8)
Total, Personal Services	\$ 322	\$ 611	\$ 9	1.5 %
Contribution Retirement	25	46	(9)	(16.4)
Contribution Social Security	15	30	1	3.4
Contribution Group Insurance	104	151	27	21.8
Contractual Services	90	146	24	19.7
Travel	2	3	0	0.0
Commodities	12	17	(5)	(22.7)
Printing	1	1	(1)	(50.0)
Equipment	3	6	(3)	(33.3)
Electronic Data Processing	9	12	1	9.1
Telecommunications	7	8	(2)	(20.0)
Automotive Equipment	2	4	0	0.0
Other Operations	55	95	6	6.7
Total, Operations	\$ 647	\$ 1,130	\$ 48	4.4 %

COMPARISON OF SPENDING FOR AWARDS AND GRANTS (Dollars in Millions)

	Two Months			
	August 2006	FY 2007	Change From Prior Year	
			\$	%
State Board of Education:				
General State Aid	\$ 342	\$ 342	\$ 19	5.9 %
All Other	138	232	4	1.8
Public Aid	781	1,363	(206)	(13.1)
Human Services	273	591	24	4.2
Higher Education:				
Student Assistance Commission	10	15	6	66.7
Community College Board	74	74	(9)	(10.8)
Other	2	2	(4)	(66.7)
Teacher's Retirement	68	136	36	36.0
Children and Family Services	53	93	3	3.3
Aging	27	56	6	12.0
Revenue	1	3	2	200.0
All Other	25	56	3	5.7
Total, Awards and Grants	\$ 1,794	\$ 2,963	\$ (116)	(3.8) %

Did You Know...

- ★ Total enrollment in elementary and secondary schools in Illinois reached 2.1 million students in the 2005-06 school year.
- ★ On average, 120,000 high school students graduate per year, and the graduation rate reached 87.4% for the 2004-05 school year.
- ★ State General Funds expenditures for elementary and secondary education totaled \$6.7 billion in fiscal year 2006.
- ★ State funds accounted for 33.8% of the funding for elementary and secondary education in the 2004-05 school year. Federal funds accounted for 10.7% and local funds contributed 55.5% of the funding.
- ★ Gaming sources such as the lottery and riverboats accounted for 26.1% of the revenues in the Common School Fund and the Education Assistance Fund in fiscal year 2006.
- ★ In fiscal year 2005, the median operating expense per pupil for high school districts was \$10,747 while the median for elementary school districts was \$7,981 and the median for unit districts was \$7,579.
- ★ In a report entitled *Quality Counts 2006*, Education Week gave Illinois an overall grade of C+, with a B+ for standards and accountability, a C for efforts to improve teacher quality, and a C+ for school climate. In the area of resource equity the state received a grade of D+.

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