Resolving the School Funding Debate:

Metropolitan Planning Council Recommendations for Education and Tax Reform in 2007

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METROPOLITAN PLANNING COUNCIL

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Founded in 1934, the Metropolitan Planning Council (MPC) is a nonprofit, nonpartisan group of business and civic leaders committed to serving the public interest through the promotion and implementation of sensible planning and development policies necessary for an economically competitive Chicago region. MPC researches and develops policy recommendations and conducts outreach and advocacy in partnership with public officials and community leaders to enhance equity of opportunity and quality of life throughout metropolitan Chicago.

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EXECUTIVE SUMMARY

For over 30 years, Illinois leaders have debated how to properly fund education to ensure a quality education for all children no matter where they live. Through economic boom and bust, school districts with inadequate resources have been unable to provide the level of education that more prosperous districts provide. Areas with high property tax rates have struggled to attract investment from businesses and homeowners. During this time, some schools have fallen chronically short of state learning standards, often the very same ones without local tax base to support their schools. The state's fiscal position also has deteriorated, especially in regards to its unfunded pension liability.

Two detailed pieces of legislation have been proposed to address these challenges: Senate Bill 1 (SB 1), embodying Gov. Rod Blagojevich's FY 2008 Budget Proposal, and House Bill 750 (HB 750). While there are significant differences between the two packages, there are common aspects that meet several principles MPC and A+ Illinois have long supported. Both packages aim to:

- provide adequate support for quality education in all areas of the state;
- secure a sound, stable source of revenues; and
- address weaknesses in the state's unfair property tax system.

MPC recommends the following principles be used for developing a hybrid plan that will enhance accountability, raise sufficient revenues fairly across taxpayers, improve the system to address fundamental weaknesses, and provide long-term changes to assure lasting reforms (see table on page 6):

1. Invest in education and targeted property tax relief.

- Fully fund General State Aid (GSA) to meet the Education Funding Advisory Board's recommendations for a minimum foundation level of $6,405 per student. The $828 million as proposed by SB 1 is a good start for FY 2008, to be phased up to $2.2 billion by FY 2011 to meet the target, adjusted for inflation.
- Raise state support for special education, targeted intervention strategies, early childhood education, and teacher mentoring and induction programs to implement proven strategies on a scale that will improve the level of education for all children.
- Invest in capital needs of schools – by building new schools and updating older schools.
- Provide $1.2 billion in targeted property tax relief through a flat grant to the top third of wealthiest areas, and a much greater reduction (up to 50 percent of education related property taxes) for distressed areas of the state.

2. Base the funding reform on the state income tax. It is the broadest tax available, is transparent, and closely matches ability to pay. There are also mechanisms to protect working families from increases in the income tax:

- Raise the personal exemption to $4,000 (double the current $2,000 level; $1.2billion credit).

- Expand the Earned Income Tax Credit to 30 percent of the federal level ($424 million credit).
- Consider a child tax credit of 20 percent of the federal credit ($318 million credit).

With a 5 percent income tax rate and the above credits to prevent increased taxes on working families, the net change would be $2.66 billion in the first year and $5.64 billion once fully phased-in.

In order to cover education reform and property tax relief, the total increase of the corporate income tax would be $475 million in the first year, and $1 billion when fully phased-in.

3. Share tax burdens across all classes of taxpayers. Businesses need to be part of the solution, but relying on one single group of taxpayers to shoulder the entire burden (as proposed by SB 1) would harm Illinois' ability to retain jobs.

- Because the Governor's Office has not released data necessary to determine how to it calculated the expected GRT revenues, MPC has not been able to recommend a modified formula. However, a combination of deducting input expenses (essentially by implementing a value added tax rather than gross receipts) and utilizing a rate far lower than has been proposed by the governor and SB 1, could yield the $800 million goal. Such a proposal would need to allow a deduction of the corporate income tax on the value added tax, or vice versa, to be constitutional in Illinois.
- MPC has serious concerns regarding the cost of projected growth of proposed health crae benefits over the next four years. Natural growth of new revenues will not be sufficient to cover the Governor's projected $3.7 billion in new costs by FY 2011.

4. Adopt reform measures to ensure new revenues are well spent.

- Improve the quality and dissemination of student achievement data to make informed decisions on support systems and interventions that are needed in the state.
- Improve systems, invest in, and regularly evaluate teacher and administrator supports, including mentoring and induction support systems programs.
- Improve school spending financial systems and transparency as recommended in "Strengthening the Financial Accountability of Illinois School Districts" by the Metropolitan Mayors Caucus.
- Reduce pension debt by both implementing reforms as recommended by the 2005 Governor's Pension Reform Commission and other fiscally sound reforms, and by determining ways to pay down the debt, including considering the benefits versus costs of leasing the lottery and a pension obligation bond.

Addressing the state's education funding, property tax and pension liability crises are extremely important for Illinois' students, families and communities. The reforms proposed by the Metropolitan Planning Council will put the state on more solid fiscal footing and reduce the need to find cuts each year to pay for existing obligations. There are other issues that will also need to be addressed in the near future, including a long-term state capital plan that puts a strong emphasis on transit, housing investments, and infrastructure needs tied to smart planning decisions.

Yet another critical element to address in this year's State budget is the dire need of transit operating revenues, particularly for the Regional Transportation Authority. The RTA needs state authorization of $280 million from the northeastern Illinois region and a continuation of $70 million of state funding to address critical operating needs for CTA, Metra and Pace. Several additional sources of funding are being debated for this purpose and MPC is strongly supportive of the General Assembly reaching consensus on this budget to address transit operating needs. These options include increasing the sales tax rate in the RTA service area, including consumer services in the sales tax; and fees on parking facilities and congestion pricing on toll roads to encourage transit.

The reforms summarized in this report are not the only solutions. However, they do illustrate the state has workable solutions that meet revenue needs, are responsive to taxpayer fairness, and will result in tangible outcomes in Illinois for years to come.

Summary of MPC Recommendations

Core Expenditures (in millions)	*FY 2008*	*Full Phase In - FY 2011*	*Core Revenues* (in millions)	*FY 2008*	*Full Phase In - FY 2011*
Education	1,413	3,626	Income Tax (5% rate less exemptions)	2,659	5,641
Property tax relief	500	1,200	Corporate Income Tax (8% rate)	475	1,008
School construction & maintenance	650	1,000			
Subtotal	*$2,563*	*$5,826*	*Subtotal*	*$3,134*	*$6,649*
Pension			*Pension Revenue Sources*		
Reduction of pension liability	26,500	0	Pension reforms, leasing of lottery, and/or	26,000	0
Pension payment		284	pension obligation bond		0
	$26,500	$284		$26,000	$0
Total with Pension Changes	*$29,063*	*$6,110*		*$29,134*	*$6,649*
Health Care			*Revenues*		
Illinois Covered Programs	464	3,678	Value Added Tax (gross receipts less inputs and sales tax goods and with Corporate Income Tax Credit)	800	874
			Illinois Covered Assessment		1,160
			Federal Revenue from Illinois Covered		236
Subtotal		*$3,678*			*$2,270*
Total	*$29,527*	*$9,788*		*$29,934*	*$8,919*

Note: See Table 4 on page 13 for more details and sources of information.

Resolving the School Funding Debate:

Metropolitan Planning Council Recommendations for Education and Tax Reform in 2007

FULL REPORT

For over 30 years there has been a debate in Illinois on how to properly fund education to ensure a quality education for all children no matter where they live. Through economic boom and bust, school districts with inadequate resources have been unable to provide the level of education that other more prosperous districts provide. Areas with high property tax rates have struggled to support investment from businesses and homeseekers. And the state's fiscal position has deteriorated, especially in regards to the unfunded pension liability.

For the past three years, the A+ Illinois campaign, of which the Metropolitan Planning Council is a founding member, has focused on building consensus for a solution. Tens of thousands of people have responded, telling their legislators it is time to finally take action. The principles for reform that have galvanized A+ Illinois are:

1. *Ensure all children receive a quality education by establishing adequate, reliable, sustainable funding for Illinois schools.*

2. *Develop state-based tax revenues based on a fair, efficient, stable, responsive, and transparent system that is not regressive, that encourages responsible and accountable use of public funds, helps create responsible economic development, job creation and sound regional planning, and helps close the state's structural deficit.*

3. *Support proven strategies that build capacity to improve student learning and close the student achievement gap.*

4. *Put our state on more sound fiscal footing to protect education, human services, and community programs that are vital to the well-being of Illinois children and families, particularly those most in need.*

5. *Break the strong correlation between address and school quality and the health of the local community and economy.*

Two detailed pieces of legislation have been proposed to meet these principles: Senate Bill 1 (SB 1), embodying Gov. Rod Blagojevich's FY 2008 Budget Proposal, and House Bill 750 (HB 750).

The Governor has proposed a $10 billion increase in education funding over the next four years, with $1.5 billion in FY 2008. Of this amount, $828 million would be for General State Aid (GSA) to "bring the bottom up" to a foundation level of $6,020 in FY 2008. In addition, there would be an increase of $209 million for special education, $70 million for early childhood education, and $100 million for targeted education strategies.

Table 1: Select Program Increases for FY 2008

	Governor's Proposal / SB 1 (million)	HB 750 (million)
General State Aid	$828	$258
Foundation level	$6,020	$5,669
Poverty Grant	$0	$40
Special Education	$209	$103
Early Childhood Block Grant	$69	$45
Full-day Kindergarten	$10	$0
Transportation	$58	$30 (pre K)
Targeted Education Strategies	$100	$75
Teacher Quality, Mentoring & Induction	$87	$0
School Construction	$500	$50
School Maintenance	$150	$0
Property Tax Relief	$1,000	$2,700
Health Care	$2025	$0

The debate in Illinois has moved from *whether* to reform the state education funding and tax systems to *how* to fund changes. Organizations as diverse as the Civic Committee of the Commercial Club of Chicago, Civic Federation, Illinois Education Association, and *Chicago Tribune* are all recommending various specific changes that should be part of an overall package. While some have based revenues primarily on the income tax and others on a new gross receipts tax, state leaders should consider all options that will not only fund needed objectives, but raise revenues in a fair, transparent and predictable manner.

MPC recommends the following elements be used for developing a plan that will enhance accountability, raise sufficient revenues fairly across taxpayers, reform the systems to address fundamental weaknesses, and provide long-term changes to assure lasting reforms:

1. Invest in and reform, education funding, pension, and targeted property tax relief systems.

2. Base the revenue plan on the state income tax. It is the broadest tax available, is transparent, and closely matches to ability to pay. There are also ways to protect working families from increases in the income tax:

- Raise the personal exemption to $4,000 (double the current $2,000 level; $1.15 billion credit).
- Expand the Earned Income Tax Credit to 30 percent of the federal level ($424 million credit).
- Consider a child tax credit of 20 percent of the federal credit ($318 million credit).

3. Share tax burdens across all classes of taxpayers. Businesses need to be part of the solution, but relying on one single group of taxpayers to shoulder the entire burden (as proposed by SB 1) would harm the attraction and retention of jobs in Illinois.

4. Adopt reform measures to ensure new revenues are well spent.

Expenditures

The cornerstone of education and tax reform must be to fully fund a quality, adequate education for all children, no matter where they live. The Education Funding Advisory Board (EFAB) has recommended a foundation level of $6,405, which needs to be corrected for inflation up to $6,977 since it was last calculated in 2005. MPC recommends fully funding *General State Aid (GSA)* to meet the Education Funding Advisory Board's recommendations over a three to four-year phase-in period. The $828 million proposed by SB 1 is a good start for FY 2008, to be phased up to approximately $2.2 billion by FY 2011.

Similarly, state support for *special education* has been underfunded for years. Since special education is mandated by the federal government, local resources must be spent to provide these services and can result in funds being diverted from the general classroom, creating a "local structural deficit." MPC calculates the current cost to fully fund one-third of personnel expenses (the commitment the state made in 1985) to be $498 million. The governor's proposal calls for $209 million in the first year, which should be phased in to $545 million by FY 2011.

Funds should be set aside for proven education strategies, discussed below, including *early childhood education* ($70 million), *mentoring, induction and accountability* programs ($106 million), and *targeted intervention* strategies ($100 million).

School *capital needs* are severe in Illinois. MPC recommends a $500 million annual program, plus $150 million per year for life safety and maintenance, increasing to $1 billion by FY 2011. The state should give greater priority to rehabilitation of existing neighborhood schools, in addition to funding new classroom space. MPC also calls on the state to review its guidelines to support smaller schools, existing schools, and smaller sites that fit into neighborhoods, from current standards that can result in large, greenfield sites disconnected from where people live and long bus rides for children sometimes as young as kindergarten or even pre-K.

Targeted Property Tax Relief

Illinois is one of the most reliant states on property taxes to fund education in the nation. With only 36 percent of education expenses supported by state resources, and property tax caps that have been in place for 15 years in many districts, public schools have been squeezed. The property tax is a stable and predictable tax in the aggregate, but individual taxpayers can see skyrocketing increases as areas experience rejuvenation. Businesses in Cook County face extremely high property taxes – the second highest in the nation per square foot in downtown Chicago. And because the tax is based on assets rather than income, individuals may be forced to sell or take a loan on their property in order to pay their taxes. The bottom line is that while the property tax should continue to be an important source to support schools, reform is necessary and long overdue.

Effective property taxes in Illinois range from just under the national average of 1 percent to over 4 percent, four times the national rate. Operating tax rates on business in some areas can reach much higher, to 8 or 9 percent – making it virtually impossible to attract economic development and jobs to many areas, such as the inner suburbs of Chicago and many downstate communities. The result is that extremely high property taxes force people and businesses to flee older areas to move where tax rates are lower and schools are better funded. This "race to the bottom" hurts children and families who are left to support their schools with ever-lessening resources.

In the past, there have been calls for "tax swaps" that would increase general state revenue while reducing property taxes by the same percentage for all property taxpayers. The problem with that approach is that it is very expensive (25 percent of education-related property taxes is $2.75 billion) and does not reform the system. Most of the relief goes to a few taxpayers, while those with the highest effective property taxes would see very little change; they would still have some of the highest rates in the nation.

MPC supports the approach of SB 1, which offers a much more targeted alternative to across-the-board relief. It would direct the relief to school districts that are experiencing the most stress – those with high operating tax rates and low property wealth. By capping the relief to $250 per homeowner in the wealthiest one-third of districts, the proposal would save approximately $1 billion, while still providing substantially more relief to the poorest districts. All other districts (two-thirds of all districts in the state) would receive graduated relief up to 50 percent of education-related property taxes. As can be seen below, all regions of the state would receive substantial relief, at a reduced cost to the state. As a result, effective property tax rates would come down to competitive levels in all areas of the state, helping to level the playing field to attract economic development and jobs in the areas that have been hard hit and are in great need for investment.

Table 2: SB 1 Targeted Tax Relief Plan

REGION	**Estimated Relief**
Cook	$426,159,856
- *Chicago*	*$200,000,000*
- *Outside Chicago*	*$226,159,856*
Collar Counties	$220,038,651
Downstate	$352,977,554
Total	*$999,176,061*

The Metropolitan Planning Council has developed a similar tax relief plan that would cost $1.2 billion. The MPC targeted property tax relief plan would provide a flat grant to taxpayers in the top one-third of wealthiest property tax school districts, similar to SB 1. It would then provide graduated property tax relief to those areas with the highest effective education tax rates and the lowest property tax wealth per student, with the range from 20 percent to 50 percent of total education property taxes, on a sliding scale based on property tax wealth per student. Those with the lowest wealth would receive higher percentages of relief.) Businesses in these areas would receive the same percent of relief as homeowners, to reduce tax burden in areas in need of economic development and jobs. Provide relief on the property tax bill as recommended by the Education Funding Advisory Board to guarantee relief.

Table 3: Examples of MPC Targeted Property Tax Relief

School District	County	Percent Relief	Total Property Tax Relief	Homeowner Relief (on $200,000 house)	Relief on ($1 million) business
Chicago	Cook	20%	$350 million	$362	$2,503
Beach Park CCSD 3	Lake	30%	$3.3 million	$630	$3,516
Oak Grove SD 68	Peoria	40%	$0.5 million	$696	$3,893
Harvey SD 152	Cook	48%	$2.1 million	$914	$6,309
Akin CCSD 91	Franklin	50%	$0.1 million	$990	$5,536

Revenues

The income tax is the fairest and broadest tax available and would make the fewest distortions on the state's economy. *It is possible to design an income tax that would prevent increased taxes among the poor and working-class families that are struggling to make ends meet.* While Illinois has one of the strictest state constitutions, which explicitly prohibits a graduated income tax rate, there are a number of measures that can be taken to design an income tax that would be fair for all. For example, the state can:

- Raise the personal exemption to $4,000 (double the current $2,000 level; $1.2 billion credit).
- Expand earned income tax credit to 30 percent of the federal level ($424 million credit).
- Consider a child tax credit of 20 percent of the federal credit ($318 million credit as proposed by Voices for Illinois Children).

With a 5 percent income tax rate and the above credits to prevent increased taxes on working families, the net change would be $2.63 billion in the first year and $5.64 billion once fully phased-in.

Illinois would still have one of the lowest income tax rates in the nation. Currently, of the 42 states that have an income tax, Illinois has the lowest income tax rate among high earners in the nation. *Even with a 2 percent increase in the income tax, only five states in the nation would have a top income tax rate lower than Illinois.*

In order to cover education reform and property tax relief, the total increase of the corporate income tax would be $475 million in the first year, and $1 billion when fully phased-in.

If the state decided to expand health care coverage to the level Gov. Blagojevich has proposed (an issue that raises serious concerns for MPC), at least another $800 million in business-related taxes would be needed. There are various option to generate it, including a modified and much lower gross receipts tax, value added tax, and/or closing corporate income and sales tax loopholes. A portion of the income tax increase would be paid by businesses that file as partnerships and S corporations. Many states require that partners who have an out-of-state residence, still pay in-state income tax on income earned by their business.

The Center for Budget and Policy Priorities report "Illinois' Proposed Gross Receipts Tax: A Modified GRT Could Be Paired with Other Tax Changes," (May 3, 2007), makes excellent recommendations for how to change a gross receipts tax into a tax that would not penalize businesses. The key difference would be to deduct input expenses, thus making GRT function as a value added tax. According to the study:

> *One potential problem with a GRT is its impact on high-volume, low-profit margin businesses, for which the tax can represent a high percentage of potential profits. Another potential problem is that a GRT favors businesses that conduct most operations in-house over businesses that purchase intermediate goods and services from other firms, since the tax is imposed each time a business purchases inputs from an outside firm. (This latter problem is called "pyramiding.")*
>
> *Illinois can address both of these problems, however, by allowing businesses to subtract the cost of goods purchased from other companies from the gross receipts subject to the tax. (Center for Budget and Policy Priorities, 2007)*

Because the Governor's Office has not released data necessary to determine how it calculated expected GRT revenues, MPC has not been able to recommend a modified formula. However, a combination of deducting input expenses and utilizing a lower rate could yield $800 million, far lower than has been proposed by the governor and SB 1, and sufficient to fund additional health care coverage.

MPC has serious concerns regarding the cost of projected growth of benefits over the next four years. While new revenues would be sustainable to cover education and property tax relief, the cost of "Illinois Covered" is expected to grow exponentially, according to the Governor's Office's own projections. MPC questions whether natural growth of new revenues will be sufficient to cover the projected $3.7 billion in new costs by FY 2011.

MPC urges the State to release to the public the details of the governor's proposed gross receipts tax, including the current and projected value of the commercial base that would be taxed, and the cost of each proposed exemption, in order for an informed debate to take place, and so that citizens and legislators can propose modifications that would better meet tax policy principles. There has been no justification that the proposed increase in business taxes is in any way directly attributable to costs incurred by businesses. And while all taxes on businesses are passed on through higher prices to consumers or lower returns to owners (either private owners or stockholders), there has been no attempt to address the regressivity of the tax other than to propose an exemption for food and drugs.

Table 4: MPC Plan Recommendations

Core Expenditures (in millions)	**FY 2008**	**FY 2009**	**FY 2010**	**FY 2011** (1)	**Core Revenues** (in millions)	**FY 2008**	**FY 2009**	**FY 2010**	**FY 2011** (1)
General State Aid (2)	828	2,060	2,060	2,185	Income Tax (5% rate) (12)	3,582	7,164	7,379	7,600
Targeted intervention strategies (3)	100	103	106	109	Corporate Income Tax (8% rate) (13)	475	950	979	1,008
Special Education (4)	209	512	527	545	Personal exemption($4,000)	-573.5	-1,147	-1,181	-1,217
Higher Education (3)	100	150	225	300	EITC (to 30% of federal)	-200	-400	-412	-424
Early Childhood Education (5)	70	140	210	370	Child tax credit (20% of federal) (14)	-150	-300	-309	-318
Mentoring, induction, prof. dev. (6)	106	109	112	116					
Property tax relief (7)	500	1,000	1,100	1,200					
School construction (7)	500	666	833	1,000					
School maintenance	150	155	159	164					
Subtotal	**$2,563**	**$4,895**	**$5,333**	**$5,990**		**$3,134**	**$6,267**	**$6,455**	**$6,649**
Pension					**Possible Pension Revenue Sources**				
Reduction of pension liability	26,500			0	Pension reforms, leasing of lottery, and/or	26,000	N/A	N/A	N/A
Pension payment (11)		284	284	284	pension obligation bond (8)				
Subtotal	$26,500	$284	$284	$284		$26,000			
Total with Pension Changes	**$29,063**	**$5,463**	**$5,617**	**$6,274**		**$29,134**	**$6,267**	**$6,455**	**$6,649**
Health Care Expenditures					**Revenues**				
Illinois Covered (10)	374			3,200	Value Added Tax (gross receipts less inputs and sales tax goods and with Corporate Income Tax Credit) (9)	800	824	849	874
Increased medical provider rates	90			478					
					Illinois Covered Assessment (10)	0			1,160
					Federal Revenue from Illinois Covered (10)	63			236
	464			**$3,678**		**$863**			**$2,270**
Total	**$29,527**			**$9,952**		**$29,997**			**$8,919**

(1) Annual cost once fully phased in FY 2011
(2) FY 2008: SB1/Governor's Office; Full, $6020 foundation level Phase-In: MPC estimate of EFAB recommendation
(3) Dialogue group and MPC recommendations
(4) FY 2008: SB1/Governor's Office; Full Phase-in: MPC estimates of raising state share to 1985 formula of covering 1/3 of district personnel expenses ($498 million in current dollars plus inflation)
(5) FY 2008: SB1/Governor's Office: Phase in: A+ Illinois recommendation
(6) Dialogue group recommendation plus inflation; includes accountability reforms and best practices clearinghouse
(7) FY 2008: SB1/Governor's Office; Full Phase - In: MPC recommendation
(8) A variety of strategies can be used, including recommendations of the 2005 Pension Reform Commission and consideration of leasing the lottery and pension obligation bond
(9) Estimate: Data is not available from Ill. Dept. of Revenue in order to calculate how much revenue would be raised from various proposals
(10) Governor's Office
(11) Governor's Office: Incremental cost of pension increase by 2011
(12) FY 2011 estimate of CFOA by Budget and Tax Policy Initiative, Voices for Illinois Children (FY 2008 assumes phase in over two years)
(13) Center for Tax and Budget Accountability
(14)Budget and Tax Policy Initiative, Voices for Illinois Children

Education and Financial Reform Measures

MPC has consistently called for school funding reform to be paired with quality and accountability measures. While school districts need the flexibility to meet state standards, there is also a great deal of knowledge available to help school districts that are currently struggling meet the demands of preparing an educated, informed, globally competitive workforce. MPC has been a part of a very productive "dialogue" group of very diverse, committed, individuals that who have come together on many of the reforms listed below.

Accountability Reforms

Quality information is needed to move beyond test scores to provide meaningful data to measure student, teacher and school performance. Growth model assessments, improved information systems and evaluation systems, and improving communication among P-20 (Preschool through higher education) are all important steps to improve the quality of data so that teachers, parents, students, administrators and taxpayers all have better information to continuously improve the level of education in Illinois.

Targeted Educational Programs

There is a wealth of information on proven strategies to improve public education. MPC supports additional investments in early childhood education, which would cost $70 million in the first year and rise to $370 million, to provide preschool education for all children, starting with low-income children and expanding over time.

MPC supports the creation of a targeted intervention program that could include a number of proven programs, including on-site coaching and training for staff of struggling schools; training, expertise and coaching to improve reading skills; extended learning time through after school and summer school programs; and initiatives to engage parents in the education of their children. MPC recommends a pool of $300 million to invest in these proven strategies.

Investing in teachers and administrators through professional development, mentoring and induction has proven not only to improve education, but have long-term cost savings to school districts. The total cost is $87 million annually.

MPC also supports improved school choice opportunities, including expanding charter schools in Chicago and providing a best practices clearinghouse.

Financial Accountability and Pension Reforms

Improving the financial accountability of schools to improve planning (financial policies, long-term financial planning, capital improvement planning, and strategic planning), budgeting , and financial management, should be supported, as recommended by the Metropolitan Mayors Caucus in its report "Strengthening the Financial Accountability of Illinois School Districts" (April 2007).

MPC also supports reforms to the pension system to bring down long-term liability. The 2005 Governor's Commission on Pension Reform and the Civic Federation have recommended a variety of options that should be considered. MPC also supports the consideration of proposals to buy-down the state's pension debt by looking at the benefits and costs of leasing the lottery and issuance of a pension obligation bond. More detail is needed on the terms and whether the upfront money is a good trade-off for the state. (For example, by leasing the lottery, the state would forgo a $650 million annual payment to education.) Pension payments should only be made in concert with reforms to bring the overall debt to a manageable level, so that the state is not back in a similar situation in five to 10 years.

Addressing the state's education funding, property tax and pension liability crises is extremely important for Illinois' students, families and communities. The reforms proposed by the Metropolitan Planning Council will put the state on more solid fiscal footing and reduce the need to find cuts each year to pay for existing obligations. There are other issues that will also need to be addressed in the near future, including a long-term state capital plan that puts a strong emphasis on transit, housing investments, and infrastructure needs tied to smart planning decisions.

Yet another critical element to address in this year's State budget is the dire need of transit operating revenues, particularly for the Regional Transportation Authority. The RTA needs state authorization of $280 million from the northeastern Illinois region and a continuation of $70 million of state funding to address critical operating needs for CTA, Metra and Pace. Several additional sources of funding are being debated for this purpose and MPC is strongly supportive of the General Assembly reaching consensus on this budget to address transit operating needs. These options include increasing the sales tax rate in the RTA service area, including consumer services in the sales tax; and fees on parking facilities and congestion pricing on toll roads to encourage transit.

The reforms summarized in this report are not the only solutions. However, they do illustrate the state has workable solutions that meet revenue needs, are responsive to taxpayer fairness, and will result in tangible outcomes in Illinois for years to come.

Appendix 1: Comparisons of Governor's Plan/ SB 1 and HB 750

New Revenue		
	SB1	**HB750**
Total Revenue Generated by New Taxes	**$8.6 billion Gross Receipts Tax**	**$9.050 billion through a variety of tax changes**
Net Increase in Taxes	**$7.6 billion**	**$5.45 billion**. • Overall, the top 40% of income earners would see their total tax burden increase by a low percent. The bottom 60% of tax payers would not see an increase in their tax burden.
Revenue Sources	**Gross Receipts Tax** • The top 15% of corporate income earners (businesses that do over $2 million in Illinois transactions per year) would be subject to a tax on their gross receipts for the year, instead of paying the corporate income tax. Goods-based companies (manufacturers, wholesalers and retailers) would be taxed 0.85% while service-based companies would be taxed at 1.95%. All businesses that do $2 million or less in Illinois transactions will continue paying the corporate income tax and will be exempt from the Gross Receipts Tax.	• **State Income Tax Increase** The state income tax would be raised from the current rate of 3% to 5% • **Sales Tax Expansion** A sales tax would be levied on consumer services that are currently untaxed (excluding business, professional, housing, and health care services). • **Corporate Income Tax Increase** The corporate income tax rate would be raised from 4.8% to 8%.
What are the revenues used for?		
Increase the Per-Pupil Foundation Level Funding **(EFAB Recommendation: $6,405 Current Level: $5,334)**	Year 1: **$6,058** per student Increase General State Aid by **$808 million** in the first year.	**Year 1: $5,669** **Year 2: $6,242** **Year 3: $6,839** **Year 4: $7,461** Increase the General State Aid **$258 million** in the first year and continue to increase it to raise the foundation level according to above schedule.

Property Tax Relief	**$1 billion in targeted property tax relief** • Districts that qualify for the Alternate Method shall receive a flat grant of $250 multiplied by ADA. All other districts shall receive up to 50% of their education operating levy based on property wealth per student.	**$2.7 in property tax relief** • Every homeowner and employer receives a 20% - 25% rebate on their property tax levy for local schools.
Family Tax Credit	N/A	**$900 million** • Refundable Family Tax Credit would provide targeted tax relief to middle and low-income families, to ensure that the bottom 60% of income earners will not pay more in taxes.
Special Education Personnel Reimbursement	Provides **$209 million** to increase special education personal reimbursement to mandated level.	Provides **$103 million** in year 1 to increase special education personal reimbursement to mandated level by Year 3.
Special Education Certified Staff Reimbursement	Raises the certified staff reimbursement from $8,000 to the mandated **$13,170.**	Raises special education personal reimbursement from $8,000 per teacher to $19,000 per teacher over four years, on the following schedule: **Year 1:$10,750** **Year 2: $11,666** **Year 3: $13,500** **Year 4: $19,000**
Special Education Non-Certified Staff Reimbursement	Raises the non-certified staff reimbursement (teachers' aides) from $2,800 to the mandate of **$4,610.**	$110 million to raise non-certified staff reimbursement from $2,800 to **$6,650** when phased-in.
Early Childhood	Includes **$69 million** for Preschool for All. (In FY 08 recommended budget, not SB 1.)	**Year 1: $45 million** **Year 2: $90 million** **Year 3: $135 million** **Year 4: $180 million**
	Includes **$10 million** for Full Day Kindergarten. (In FY 08 recommended budget, not SB 1.)	N/A.
	Provides **$30 million** to fund a new early childhood capital program	**$30 million** for Pre-K transportation.
Targeted Funds	Includes **$100 million** to provide targeted support for school improvement.	**$300 million** to fund educational programs for schools in communities of concentrated poverty.
School Construction	Establishes **$1.5 billion** in bonds for the state's school construction program over three years, funding an estimated $500 million in capital improvements in Year 1	**$50 million** for capital funding.
School Maintenance	Provides **$150 million** for school maintenance program grants.	N/A

Teacher Quality	Includes **$40 million in** incentives to promote teacher quality.	N/A
Mentoring for teachers and administrators	Includes **$40 million** to expand mentoring programs for teachers, principals and superintendents.	N/A
Bilingual Education	Increases bilingual education by **$8.4 million.**	N/A
Higher Education	**$50 million** for higher education.	**$300 million** for higher education.
Roads	Funding to support **$3 billion bonded road program**.	N/A
Health Care	Illinois Covered: $225 million Illinois Covered Rebate: $850 million Illinois Covered Assist and Family Care: $950 million	N/A
Other Mandated Categoricals	Fully funds, at **$150 million,** for "other mandated categorical grants." (In FY 08 recommended budget, not SB 1.)	N/A
Pensions	**$16 billion in pension obligation bonds** plus an estimated **$10 billion** from the sale of the Illinois Lottery would allow for the appropriation of ~$280 million per year. (This would fund the state's five retirement systems to 90% by 2045.)	**$3.4 billion per year over 40 years.** (This would fund and estimated 100% of pension debt currently owed on all five systems by 2047.)
Companion Bills		*Companion Bill: Cost of Doing Business bill calls for **$175 million** to help human services providers offset annual increases to the cost of doing business.*

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