

Understanding School Finance

12 Questions and Answers



The laws governing school finance in Illinois affect different school districts in different ways. The 12 questions and answers that follow are stated broadly and apply to most districts. They will provide a general picture of school finance for anyone who has not previously studied the topic. For more specific information about a particular school district, consult a member of the school board or administration.

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1) What is a school district budget?

Illinois law requires every board of education to budget its income and expenses each year and to make the budget available for public inspection before final adoption. The annual budget serves three major purposes:

1. The budget represents a plan for receiving and expending money. It tells the school board, its employees, and the public how much the school district can spend during the year and for what purposes.
2. The budget provides information necessary to determine the amount of school taxes that must be levied on real property, and how much the district expects to receive from state and federal governments.
3. The budget also satisfies a minimum level of financial and program information for local, state, and federal governments, meets requirements imposed by Illinois law, and provides both spending and taxing authority.

A school district budget is actually many budgets rolled into one. The budget consists of nine major funds or accounts specifically defined by how the money is collected, held, and spent. These are

- Education
- Operations and Maintenance
- Debt Service
- Transportation
- Municipal Retirement/Social Security
- Capital Projects
- Working Cash
- Tort Immunity
- Fire Prevention, Safety, Environmental, and Energy

The single largest is the Education Fund. In addition to the direct costs of instruction (teacher salaries, etc.), this fund includes any expenditure not specifically covered in another fund.



While the board of education may, from time to time, make transfers between various items in any one fund, there are limitations to these transactions. Changes may also be made, again with board approval, to transfer money between certain operating funds. Neither of these actions will necessarily improve the financial health of the district. However, they can be used to maintain and manage cash flow, to meet timely payments, and to avert or defer costlier options.

2) Who decides what goes into the budget?

Some of what goes into the school district budget is determined by the board of education, based on the advice of its professional staff and local citizens. More and more budget decisions, however, are forced on the board by factors beyond its control.

Each year the administrative staff gathers information from a variety of sources and presents the school board with a proposed budget. After carefully reviewing the budget, the board gives tentative approval and puts it on file for public inspection. The board gives final approval of the budget only after a public hearing.

The timeline for developing a tentative budget to its adoption varies from district to district. The budget

must be adopted by September 30, after which it must be filed with the county clerk within 30 days.

Numerous factors are at work throughout this seemingly simple process. Some of these factors affect school income; some affect expenses. Taken together, these factors represent the financial cards dealt to each Illinois school board, as explained in the following sections.

The budget must be adopted by September 30, after which it must be filed with the county clerk within 30 days.

3) How is school income determined?

Four major factors determine the amount of money available for the school budget. They are as follows:

State appropriations and federal aid — The State of Illinois adopted a new funding formula for schools in 2017. The funding mechanism sets state aid through an Evidence-Based Funding formula (EBF). EBF annually sets an Adequacy Target and a Local Capacity Target for each school district based upon the fiscal capacity of the district and the needs of its students. The Adequacy Target is determined by the cost of educating all district students, based on over 20 cost factors, adjusted to meet the needs of the student population, with a regional cost factor. The EBF formula is designed to adjust the local funding capacity by aligning it with the Adequacy Target. The formula also contains a hold-harmless provision that guarantees every district receives no less state funding than the previous year, and it distributes “new money,” known as “Tier Funding,” to help districts reach their Adequacy Targets. Thus districts with the greatest gaps between resources and Adequacy Targets are assigned the greater benefit of additional funding. Districts that have resources above their Adequacy Target receive the smallest share of Tier Funding.

Combined with state “categorical” grants and other funds, state payments represent about one-fourth of the typical school budget. Federal aid contributes another 8% to Illinois schools. This money comes in the form of competitive “block grants,” subsidies for school lunches and breakfasts, and special education programs.

Property values — The total property value in a school district determines how much revenue the district is capable of raising from property taxes. Some school

districts have very high property values, sometimes including utilities or industries. Others have low property values. Property values are set by the marketplace and the assessor.

The Illinois Evidence-Based Funding (EBF) formula is designed to close the gap between a district’s funding capacity and the cost of offering an adequate education to all of its students. However, the formula was new in 2017-2018 and it is currently funded far below the adequacy targets. In the meantime, a school board’s ability to raise additional income beyond the state’s guaranteed level depends heavily on the district’s total property wealth.

Tax rates — Like property values, tax rates play a key role in determining the amount of a school board’s local revenue. The school district’s tax rate determines whether the school board can spend at, above, or below the state’s guaranteed amount, which is always less than the actual average cost of running schools. Like property values, tax rates are usually beyond the school board’s control. Maximum tax rates are established by the State of Illinois and can be raised above the maximum only with the approval of voters at a referendum.

Pupil enrollment — State aid is based in part on the number of students served. Per-pupil revenue established each year by the state serves as the foundation level of funding for the district. This amount will increase or decrease based on changes in student enrollment.

Combined, these four factors determine how much money a school board is capable of generating for the schools. Local property values and tax rates determine how much money the board can raise from property taxes. State aid makes up the difference between a district’s available local resources and the sum of all education cost factors (its Adequacy Target). Federal dollars don’t factor into this formula but they complement and sometimes confuse the process when boards and administrators attempt to make or explain critical decisions on what the district can afford to offer.

If approved by voters, a County School Facility Occupation Tax is another source of revenue for school districts, limited to school facilities expenditures. See *Question 6*.



4) How is state and federal aid to schools determined?

Appropriations for federal and state aid to public schools are determined by the United States Congress and the Illinois General Assembly, respectively. In both cases, the process is much the same.

Appropriations bills are developed in committee, based upon the recommendations of the president or the governor and their advisors, and upon testimony from interested parties.

The bills that emerge from committee may be further modified through amendments before they are voted upon. In both the federal and state processes, the Senate and House of Representatives must pass the bill. It is common for the two houses to pass different bills and for a compromise to be worked out by a committee formed of members from both houses. Finally, the president or governor must sign the appropriation bill for it to become law. At both federal and state levels, the process is complicated by the various political factors that accompany consideration of any important piece of legislation. In the case of education appropriation bills, federal and state lawmakers alike are bombarded with information and opinion from dozens of interest groups, and also must consider the opinions of their constituents.

In addition, these decisions are influenced by the amount of money available in any given fiscal year. Lean times or economic recessions can alter state or federal appropriations, regardless of actual need.

Most federal funds are distributed to each of the 50 states in the form of “block grants.” The amount each state receives is based on student population and need. Block grants in Illinois are re-distributed to school districts in accordance with criteria that school districts must apply and qualify for.

Other federal funds are distributed to the states to help them provide education for handicapped children, economically disadvantaged children, and other special purposes. Most of these funds are re-distributed to school districts that have special need or otherwise qualify.

It should be noted that federal aid covers only a small fraction of the cost of special programs for the handicapped or disadvantaged. Some of these costs are financed by special state grants, but most of the cost must be paid from general funds in the school district budget.



5) How is state aid allocated to schools?

State funding to schools comes in different forms. The most substantial form of aid is through the State Aid program, which helps to underwrite the cost of educating all pupils.

State Aid is distributed to the schools by the State Board of Education. The distribution of State Aid is determined by a statutorily defined mechanism called the Evidence-Based Funding formula (EBF).

School districts are scheduled to receive their State Aid in equal installments distributed on the 10th and 20th of each month from September through June.

Special Categorical Aid — The Illinois General Assembly allocates a portion of state aid through grants for mandated special purposes. Such grants are called categorical grants. For some state-required programs, a school district merely submits a claim to the State Board of Education. Categorical grants are earmarked for a particular purpose and must be used only for that purpose.

Most school districts, for example, are entitled to transportation assistance if they submit the necessary claim. School districts must compete, however, for the limited funds available for gifted or adult education grants.

Categorical grants are subject to the amount of money allocated and the preferences for these programs by the state legislature and governor. The number of categories is also subject to change. In FY 2021, the mandated categorical grants included:

- Free lunch/breakfast
- Orphanage tuition (regular ed and special ed)

- Special education, including extraordinary services, personnel, tuition, summer school, and transportation.
- Transportation (vocational and regular ed)

Other categorical grants in previous years included programs for gifted, bilingual, reading, early childhood, career/tech, truant alternative, ADA block, and summer bridge programs.

6) Where does local revenue for schools come from?

A school district budget includes revenue from many sources. Most of those sources are relatively small in amount and serve special purposes — school meals money, rentals, income from school activities, insurance proceeds, and interest are some examples.

The major source of local revenue for public schools is the property tax. The property tax consists of:

- Real estate tax, which is a tax on the real property of homeowners and businesses. This tax represents the largest single source of revenue for Illinois public schools. It is collected by the county and distributed to taxing bodies.
- Corporate Personal Property Replacement Tax (CPPRT), which is the tax on businesses and utilities that takes the place of the abandoned tax on personal property. This revenue is significant for some school districts but not for others, depending upon the amount of local business and industry. It is collected by the state and distributed to school districts and other taxing bodies.

The tax on real property also funds a variety of local services, including county and municipal governments, libraries, parks, and others. On a statewide average, more than half of the typical property tax bill goes to public schools.

The amount of money a school district can realize from the tax on real property is determined by two factors:

- The total assessed value of all taxable property in the district and
- The school district's authorized tax rate.

For example, if property values total \$10 million and the authorized tax rate is 3.5%, the district can expect to receive up to \$350,000.

The amount of assessed property value is determined by the elected assessor, who acts in accordance with state law. The law requires that property in all Illinois counties except Cook be assessed at one-third of its fair market value. Cook County may establish various classes of property, each with its own assessment factor. In Cook County, residential property is assessed at 10% of market value and commercial property is assessed at 25%.

The amount of the school district's tax rate is determined by the total amount of taxes levied by the board of education. However, the tax rate cannot exceed the maximum rate established by law unless that maximum is increased by voters at a referendum.

In addition, for school districts in Cook, five collar counties and 33 other counties that have adopted the "tax cap," a state law limits property taxes extended to a maximum percentage increase over the prior year's extension — regardless of what might happen to school enrollments or school costs.



Stated briefly, the school board adopts a tax levy once each year based on its approved budget. The levy states the amount of property tax income needed to balance the budget.

The county clerk then applies the levy against the district's total assessed property value to determine whether it falls within the authorized tax rate. (For example, a tax levy of \$350,000 applied against a total property assessment of \$10 million would produce a tax rate of 3.5%.) The county clerk reduces the school board's levy if it produces a tax rate that is above the authorized rate.

The property tax bill received by the individual taxpayer typically states:

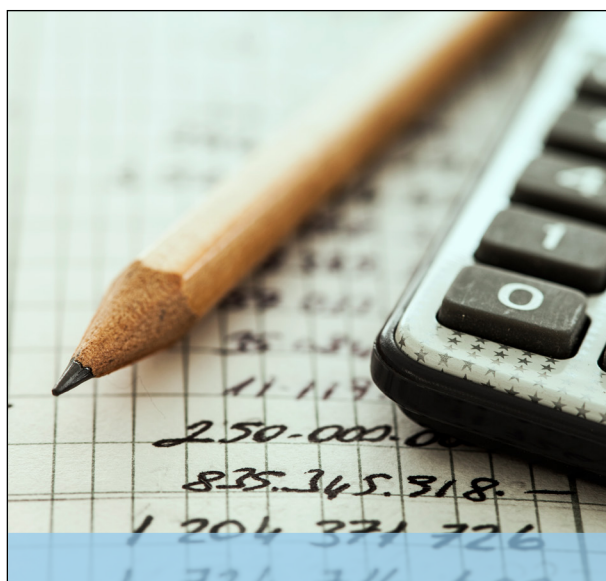
- a. the assessed value of property owned by the taxpayer, *minus*
- b. any homestead exemptions, *multiplied by*
- c. the combined tax rates of all local governments and services, *equals*
- d. the total amount of taxes due.

Your tax bill will list the amount of taxes owed to each government entity or taxing district, including any local school districts and related pension costs.

School districts in Illinois can access the revenue source provided by the County School Facility Occupation Tax. Money generated through the sales tax can only be used for school facility purposes and school security personnel. The tax, which can be levied at quarter-cent intervals up to one penny on the dollar, is collected by the State Department of Revenue and distributed to the regional superintendent, who in turn issues the money to any school district in a county that adopts the tax, based on its percentage of students in that county. This tax gives school boards an additional option to the local property tax, but it is for limited purposes — school facilities, school resource officers, and mental health professionals — and must be kept in a specific, separate account designated for that purpose. As of this writing, 58 of Illinois' 102 counties have approved the County School Facility Occupation Tax.

7) Where does school income go?

A school district consists of people, buildings, equipment, and supplies. Thus, a typical school district in a typical year will spend about two-thirds of its income to compensate employees and about one-fourth to operate and maintain its buildings. The money that remains — usually less than 10% — goes mostly for equipment and supplies.



Another way to look at the school district budget is by type of program or activity. A typical school district spends 50% of its funds on student instruction, plus another 15% on other student and community services. Insurance, utilities, maintenance, supplies, and other fixed charges usually amount to more than 20%. Capital outlay, bond retirement, interest, administration, and other costs consume the remaining five to 15%. Numerous factors affect where a school district's income goes. For example:

- Instructional costs vary with the number of teachers in relation to the number of students (class size) and the amount of compensation (salaries and benefits) paid to teachers and staff;
- Operating costs vary with the number, size, age, and relative energy-efficiency of school buildings;
- Bond retirement and interest costs, i.e., borrowing and the cost of borrowing, vary with the amount of long-term and short-term debt;
- Other costs vary with the number and kind of programs and services offered to students and the community.

8) How can schools reduce costs?

But what happens when local taxes, as well as state and federal aid, don't cover the cost of essential school services? What choices does the school board have if state or federal funding is reduced, local property wealth declines, or voters won't raise taxes?

Schools can realize small savings by cutting back on supplies, postponing improvements or maintenance, lowering utility expenses, cutting staff by attrition, combining duties, eliminating extra-curricular activities, or by reducing other services available to students or the community. However, to make significant or broad cost reductions, a school board must look to its major expenses — people and buildings. Only by eliminating jobs or closing buildings can a school board make major budget cuts.

If the board opts to eliminate teaching jobs or close buildings, curriculum and class sizes may be severely impacted. Unless enrollment is declining, these cuts will severely strain the system. Class sizes will grow; facilities will have to be shared; equipment will wear out faster; and maintenance needs/costs will increase. More importantly, individual and overall student performance could be compromised if curriculum cuts are deep or long lasting.

That's why many school administrators keep updated reports and long-term data on population projections, community development, the job market and labor costs, utility capacity and delivery, land values, and housing markets. This data can be highly use-

ful in the district's strategic planning. This may not reduce the frequency or timing of economic downturns, but it can reduce the severity or duration.

In the short term, the school board can control costs only by limiting the amount spent for each teacher, each program, each building, its equipment and supplies, and ultimately the amount spent on each student. While it may find some success in limiting expenses or negotiating wage and benefit concessions, the board is still required to meet state and federal education standards.

In addition to the needs of the regular student population, public schools have to provide services or facilities for the handicapped, English Language Learners, special education students, those that are homeless, and children with other needs. State and federal law also require food service, driver's education, pupil transportation, and other services, all with costs not entirely subsidized with outside funds.

Before making any decisions to reduce or cut any service, program, teacher, or building, school boards first listen to parents and taxpayers, teachers and administrators. The board may have a clear vision for community wants and needs, but it is the board's responsibility to find support for this vision and to deliver it. Remember, property wealth and population (and resulting enrollment) are the key factors in a school district's financial resources and its ability to raise revenue or control costs.

9) How does our school budget compare with others?

Statewide, the average operating expense per pupil in Illinois was \$16,499 in FY 2023. This average includes districts of all types, from the smallest rural districts to wealthy suburban districts. The highest per-pupil expenditures were over \$47,800 and lows were less than \$7,700 per pupil in FY 2023.

Statewide, the percentages of school expenditures (averages) devoted to various purposes in FY 2023 were:

Instruction	47.2%
Support services	30.4%

Other expenses	20.2%
General administration.....	2.3%

School district revenue (averages) for that year came from the following sources:

Local	63.4%
State.....	24.2%
Federal.....	12.3%

10) How can we evaluate the financial health of our schools?

Although there are some similarities, the financial health of a public school district should not be evaluated in the way one evaluates a private company. In the private sector, the first place to look is “the bottom line” — profits. You would also look at the balance sheet, a listing of assets and liabilities, to see whether the investors’ equity has grown through long-term profitability.

The financial health of a school district is also reflected in financial reports. A statement of current income and expenditures will show whether the district is operating within its means. A balance sheet will show assets, liabilities, and fund balances. It will also show whether the district has accumulated any debt against future income.

This essential information is contained in the school budget. It must be available in the school district office and on file with the county clerk. Comments or questions on the budget can be submitted at a public hearing before its passage (no later than September 30 of each year). Other financial information can be found in the district’s School Report Card and in its Annual Financial Report.

The primary difference between evaluating businesses and public schools, however, comes in the school district’s reasons for existence. While profitability is the chief measure of a company’s success, a school district’s aim is to break even financially while providing a quality educational program for every child who attends.

Generally speaking, a school district is considered financially healthy when three conditions are met:

- The schools are providing all of the programs and services necessary to meet the needs of students as defined by the state and the community;
- Efficient business and educational practices produce satisfactory values for each dollar spent;
- Income matches expenditures each year; or if not in every year, then income and expense should balance over a period of three or four years.

In evaluating financial health of a school district, appearances can be deceiving. For example, a school district can get high marks in terms of quality programs and

services — but can’t accomplish it without spending more than it can afford.

School boards frequently must borrow in order to pay bills on time; this is typically a cash flow problem caused by delays in receiving tax income or state aid. This form of debt is repaid from *current* income and does not represent a deficit budget.

However, debt incurred against *future* income is not consistent with financial health, especially if it is permitted to grow over a period of several years.

On the other hand, a balanced budget also can be deceiving. In order to make expenses fall within income, a school board may be compelled to reduce programs or services below what the community needs or what the state requires. Yet, by looking only at financial statements, one might conclude that the district is “financially healthy.”

Many school boards find themselves in this dilemma. They must lower the quality of their schools or operate with a budget that’s out of balance. Neither alternative is satisfactory. To get out of the dilemma, taxpayers typically urge school boards to become more efficient. Many school districts have introduced management systems for finding and eliminating unnecessary expenses. Where that is not enough to balance the budget, more radical steps must be taken. The school board has limited options:

- Adopt a deficit budget and hope a more satisfactory solution will arise in the future;
- Increase each teacher’s workload (larger class size) or eliminate courses;
- Ask voters to approve a tax increase.

While chances are good that a school district is financially healthy if it has to do none of the above, a few school boards in Illinois find themselves having to resort to all three just to survive.



11) Why do some school boards find it difficult to make income cover expenses?

There are at least four reasons why school boards have difficulty balancing their budgets. All districts are affected by these problems, but some are financially better able to deal with them than are others.

- a. **Inflation** — Inflation has about the same effect on schools as it has on personal household budgets: everything costs more each year. More than half of the typical school district budget consists of salaries, which need to be increased as inflation reduces the purchasing power of the dollar.
- b. **Tax relief** — The Illinois General Assembly has enacted a number of measures over the years to hold the line on property taxes. These measures are designed to relieve the impact of inflation on property values. For school districts that cannot raise tax rates without voter approval, freezing property values also freezes property tax income. Previously, modest annual increases in property values kept pace with modest annual increases in school costs. Today, however, school costs go up while assessed property values in many areas are kept artificially low through special exemptions and preferential assessments.
- c. Tax relief measures that have eroded school income include the following:
 - A general homestead exemption for homeowners that exempts increases in market value from property taxes;
 - A special homestead exemption for senior citizens;
 - A special exemption for disabled veterans;
 - An exemption for homestead improvements that increase market value;
 - Preferential treatment for farm land that has a high market value in relation to productivity;
 - A cap on increases in tax extensions in the counties around Chicago and many other counties that have adopted the Property Tax Extension Limitation Law.

Also, numerous municipalities have adopted enterprise zones or tax increment financing

districts (TIFs). These are economic incentive programs for businesses and employers that permit them to abate or divert some property taxes from local taxing districts (including many school districts) to use for private or community development. As of FY 2022 Illinois had 102 active community enterprise zones and in FY 2023 the state had nearly 1,500 active TIFs.

State funding — The state's share of school funding has fluctuated over the past 15 years. In 2004, state funds made up 30% of the total public school funding. In 2023, state funds made up 24.2%. There have been years with higher and lower percentages, but the result is basically the same: local taxpayers pay for local public education.

Over a 30-year period, state spending for schools has decreased as a proportion of total state spending, although it has increased in recent years. In 1989, schools received 23.5 cents of every dollar in the state's general revenue budget. Spending dropped to 18.9 cents per dollar by 2011. For FY 2020, the schools' share of state general revenue was 23 cents of every dollar.

- d. **New programs** — Public school services have been expanded and made available to many more people over the past 25 years — presumably to the benefit of the state, the nation, and the individuals served. These new services place new demands on the school budget. For example: each Illinois school district today is held legally responsible for the education of all children in the district, regardless of physical, mental, or emotional handicap. Costs associated with these students tend to be higher than the costs of regular programs. Perhaps because the nation depends upon an educated citizenry, education in America has become more a right than a privilege. Public schools are obligated to extend themselves to the fullest in educating all pupils. These measures include alternative

programs for students who just a few years ago might have been expelled for disruptive behavior. Others include special efforts to guard against all forms of discrimination — racial, sexual, religious, social, or mental ability. These responsibilities do not necessarily involve special program costs, but they do involve organizational efforts that often translate into staff salary costs. The Illinois General Assembly also has legislated innumerable rules for the operation of public schools, all of which create tasks

that must be performed to comply with state law. The result is an increase in administrative and clerical workloads — and jobs.

Such laws increase the number of unfunded mandates each year, always over the protests of Illinois school boards.

These four factors — inflation, tax relief, state funding, and new required programs — create continuing financial concerns for many Illinois school boards.

12) What do we get for the money we spend on education?

There are two ways to look at that question. One is to look at what public schools are accomplishing. The other is to consider what the nation would be like if there were no public schools.

The schools often take the blame for many of society's ailments. People expect a great deal from their schools because there is an unmistakable link between education and quality of life. Educated citizens of America provide the brain-power for advances in science, medicine, technology, art, and literature.

Traditionally, the public schools have always been available for those willing to make the effort to benefit from them. Schools today try harder to be inclusive and equitable, reaching out to more and more students for whom schooling presents a difficult challenge. The range of services has broadened dramatically, too, from basic classroom instruction to include food services, health services, counseling, remedial learning programs, and advanced programs in math and science.

What do taxpayers in your community get for the money they invest in education? Here are some places school board members can look for answers in their own schools:

- The percentage of students who graduate, who go on to college, or who take jobs.
- Improvements in student test scores. (Illinois averages are higher than national averages.)
- The number of students who make it through school without ever being in trouble with the law, caught using drugs or alcohol, or otherwise causing serious trouble.
- The number of students passing all their courses or earning honor-level grades.
- The individual success stories about graduates from a few years ago who have gone on to achieve success in college or jobs.
- School programs that show dramatic results and staff members with outstanding achievements.
- Quality public schools benefit the entire community and act as an anchor to attract new growth.



Sources and Further Reading

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Effective School Board Member, published by IASB, is an introduction to the work of boards of education in Illinois and includes a chapter covering school finance and responsibilities of the school board. It can be purchased from the IASB Bookstore, www.iasb.com.

Essentials of Illinois School Finance, published by the Illinois Association of School Boards (IASB) provides an in-depth examination of school income, expenditures, business management, and other aspects of school finance. This book is also available from IASB.

Illinois School Law Survey, especially chapters 23 through 26 on Property Tax Income, State Aid and Other School Income, Budgeting and Managing School Funds, and School Board Borrowing and Debt. This book is also available from IASB.

Mechanics of a School District Budget is available from the Illinois State Board of Education, www.isbe.net.



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