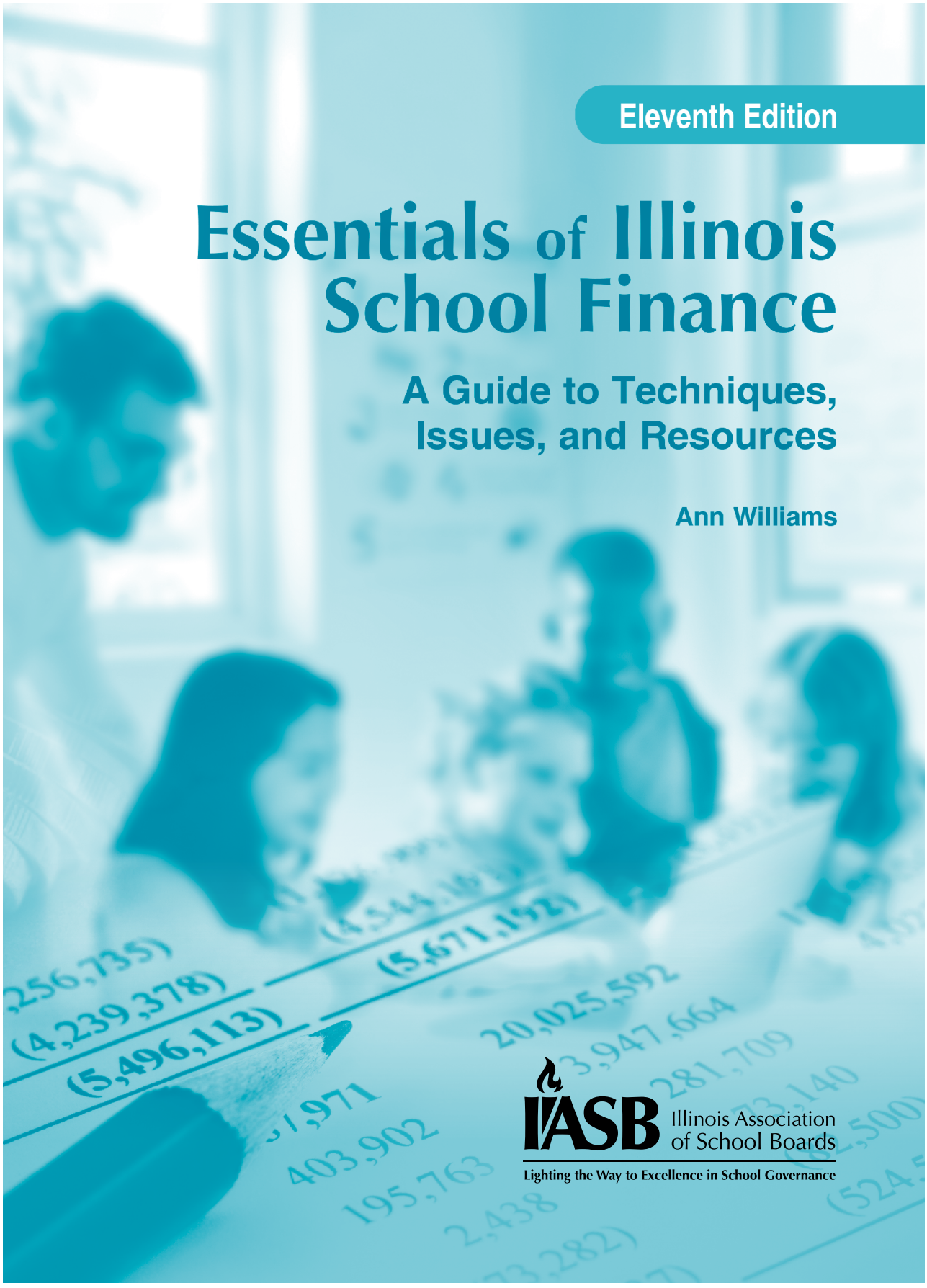

Eleventh Edition
Essentials of Illinois School Finance
A Guide to Techniques, Issues, and Resources
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Illinois Association of School Boards
Lighting the Way to Excellence in School Governance

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PREVIEW

1 / The Illinois System of Public School Funding

Stewardship, Context, and Change

For more than two decades, *Essentials of Illinois School Finance* has served as the foundational reference for understanding how public schools in Illinois are funded. Through its first 10 editions, the book was authored and stewarded by James Fritts, whose work established a statewide standard for technical accuracy, policy depth, and professional rigor. Generations of school business officials, superintendents, and board members have relied on *Essentials* to navigate one of the most complex public education finance systems in the nation.

This Eleventh Edition honors that legacy. It preserves the technical precision that has long defined *Essentials* while responding to a changing governance environment, one in which school boards are increasingly expected to oversee large, complex budgets, long-term capital obligations, and evolving funding structures without formal training in finance. Today's governance reality requires not only accuracy, but clarity.

This edition carries that practical tradition forward by pairing technical accuracy with clearer governance framing. The goal is not to simplify Illinois school finance beyond recognition. The goal is to make complex financial structures understandable enough for board members and administrators to govern them responsibly.

Why School Finance Matters for Governance

School finance is not merely an accounting function. It is the mechanism through which a district's priorities, values, and commitments are translated into action. Decisions about staffing, class size, student supports, facilities, and instructional programs are ultimately financial decisions.

For school boards, the responsibility is not to manage the district's finances day to day, but to govern them wisely. Effective governance requires an understanding of where district revenue comes from, how those revenues are restricted or flexible, how financial decisions affect long-term sustainability, and what tradeoffs accompany major budget choices.

This first chapter provides a high-level orientation to Illinois' school funding system so board members can interpret the more detailed discussions that follow in later chapters.

An Overview of How Illinois Funds Its Schools

Illinois funds public education through a system shaped by history, policy reform, and persistent tension between state responsibility and local capacity. At a high level, the system rests on three primary revenue sources: Local property wealth, state aid, and federal funding. (See *Figure 1*.)

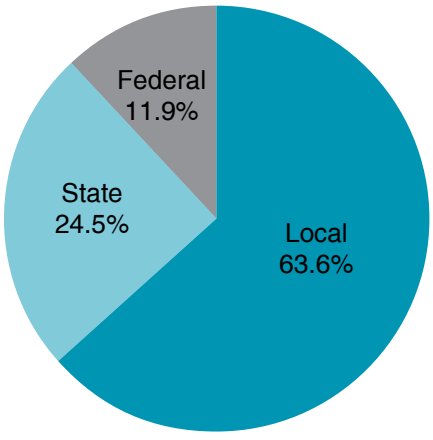
Local Property Wealth as the Foundation

Illinois relies more heavily than most states on local property to fund public schools. A district's ability to generate revenue is therefore closely tied to the equalized assessed value (EAV) of property within its boundaries. Communities with strong commercial and residential tax bases are able to raise substantially

Figure 1

Sources of School Revenues

FY2024 Illinois District Averages



Source: Illinois Report Card, District Finances: Revenue Percentages, based on audited Annual Financial Reports.

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more revenue at lower tax rates than districts with limited property wealth.

However, access to this local wealth is not automatic. For the majority of Illinois districts — including those in Cook County, the collar counties, and many downstate — revenue growth is legally restricted by the Property Tax Extension Limitation Law (PTELL), commonly referred to as tax caps. PTELL generally limits the annual increase in a district's property tax extension to the rate of inflation (CPI) or 5%, whichever is less. This creates a governance paradox: Even in communities with rapidly rising property values, school boards often cannot access that new wealth to cover rising costs without voter approval through a referendum.

Reform Efforts and the Push for Equity

For decades, policymakers, advocates, and practitioners debated how to reduce inequities created by uneven property wealth. These efforts culminated in the adoption of the Evidence-Based Funding (EBF) model in 2017.

EBF did not replace local revenue. Instead, it established an Adequacy Target for each district. That target represents the estimated cost of providing a baseline level of educational services based on student need, and new state dollars are directed to districts furthest from that level.

Critically, EBF was designed to level up, not level down. The law includes a hold harmless provision known as the Base Funding Minimum. At the start of EBF, the Base Funding Minimum incorporated certain state grant amounts districts received before the formula was adopted. In later years, the Base Funding Minimum generally reflects the prior year's state contribution, with prior-year tier funding becoming part of the protected base for future calculations. This structure was designed to prevent districts from losing existing state support while directing new dollars through the adequacy-based formula.

Adequacy as a Benchmark, Not a Check

Under EBF, adequacy is a goal, not a payment. Districts do not receive a check labeled adequacy funding. An Adequacy Target is a customized calculation driven by student demographics. Because the cost of education varies by student need, districts serving higher percentages of low-income students, English Learners, and diverse learners will have higher Adequacy Targets and require greater resources to achieve comparable outcomes.

The Role of Federal Funding

Federal funding typically represents less than 10% of a district's overall budget but plays a significant role in supporting specific student populations. Federal dollars are primarily restricted to mandates such as IDEA and Title I, making them critical but inflexible revenue streams.

Revenue Quality and Fiscal Sustainability

Not all revenue has the same value. Some revenue is recurring and flexible. Some is restricted, reimbursement-based, delayed, prorated, conditional, or one-time. A district may receive funding and still face local cost pressure if the dollars are limited to a specific purpose or do not cover the full cost of the service.

This distinction appears throughout this edition. Property taxes, Evidence-Based Funding, state categorical funding, federal grants, local fees, investment income, facility revenue, and donations all operate under different rules. Boards do not need to memorize every funding formula, but they do need to understand whether revenue is dependable, legally available, and appropriate for the expenditure being discussed.

Fiscal Equity, Academic ROI, and Public Trust

This edition also emphasizes fiscal equity and Academic Return on Investment (ROI). Fiscal equity asks whether resources are aligned with student need. Academic ROI asks whether major investments are producing the intended academic or operational value. These concepts do not replace legal compliance, mandated services, or professional judgment. They help boards ask stronger questions about whether spending decisions are strategic, sustainable, and defensible.

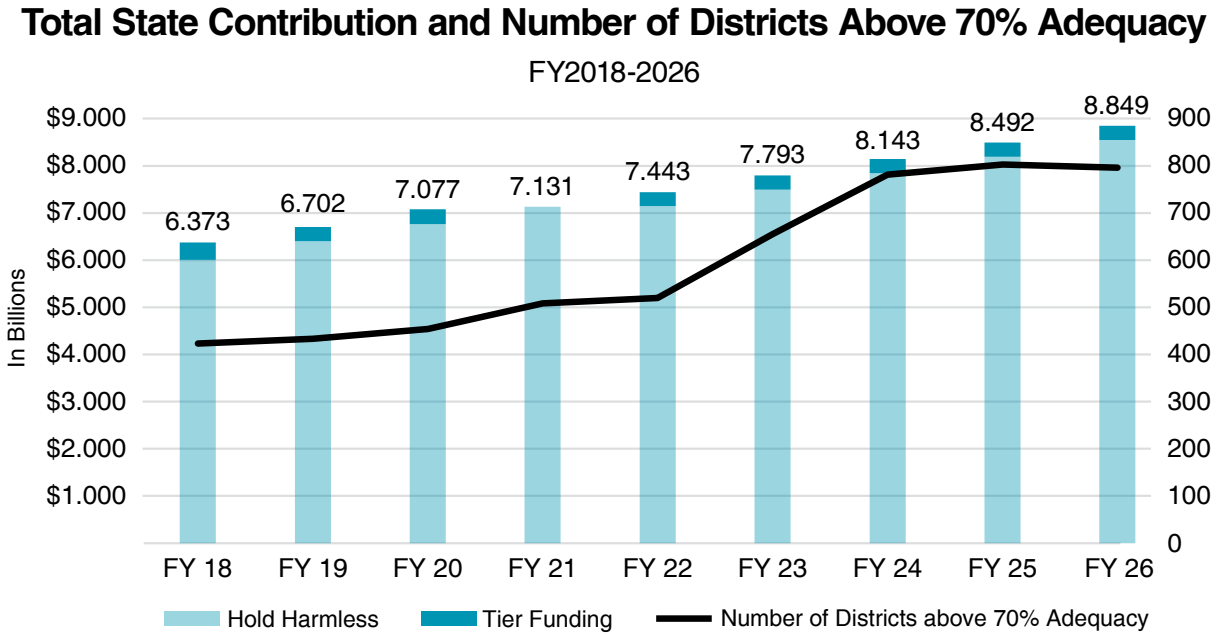
Public trust depends on that clarity. A board does not build trust by avoiding difficult financial conversations. It builds trust by explaining what is known, what is uncertain, what tradeoffs exist, and how financial choices connect to students.

From Design to Maturity: Evidence-Based Funding in Practice

Since its adoption, Evidence-Based Funding (EBF) has matured. Many districts have moved closer to adequacy, and the distribution of districts across EBF tiers has shifted significantly. (See *Figure 2*.) As districts approach adequacy thresholds, the pattern of annual state aid increases changes. Boards must recognize that future state funding growth may slow even as costs continue to rise.

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Figure 2



Source: Illinois State Board of Education, *FY26 Evidence-Based Funding at a Glance and Understanding Evidence-Based Funding Distribution Calculation: A Technical Guide.*

State Budget Context: Stability with Clear Constraints

Recent state budgets reflect a different fiscal posture for Illinois than the period of chronic budget instability many school districts experienced in prior decades. Stronger reserves and tools for managing cash-flow volatility can improve payment predictability, but they do not eliminate local fiscal pressure.

For school boards, the governance lesson is practical: State fiscal stability can improve planning conditions, but it does not eliminate the need for conservative assumptions, local planning, and multi-year forecasting. The FY2026 state budget provides a useful example. Evidence-Based Funding increased by approximately $307 million, below the statutory $350 million target. For boards, the lesson is not limited to one fiscal year: Statutory targets should not be treated as guaranteed local revenue. State funding growth remains subject to annual appropriation, fiscal conditions, and competing state priorities.

State aid increases should not be assumed to resolve structural financial challenges. The expiration of federal ESSER funding intensified pressure for districts that relied on one-time revenues for ongoing costs. In this environment, local property tax decisions, staffing commitments, facility needs, and long-range forecasting remain central to district financial capacity.

Did You Know? State Budget Signals Boards Should Watch

- Annual EBF increases depend on state appropriation and may not reach the statutory target.
- Personal Property Replacement Tax (PPRT) and other state-linked revenues can fluctuate and may offset gains elsewhere.
- As more districts move closer to adequacy, annual tier distributions may change.
- Early childhood funding and program administration continue to evolve.
- State fiscal stability may improve payment predictability, but it does not eliminate local planning risk.

Looking Ahead

Understanding how Illinois funds its schools is the starting point for effective financial governance. The chapters that follow examine property taxes, Evidence-Based Funding, categorical funding, federal grants, local revenue, budgeting, expenditures, debt, capital planning, audit, internal controls, and long-range fiscal sustainability in greater detail.

The goal is informed governance, not technical mastery. Board members do not need to become CSBOs.

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They do need to understand the assumptions behind the numbers, the restrictions attached to revenue, the long-term cost of decisions, and the questions that protect students, taxpayers, and public trust.

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20 / Expenditure Management and Control

Expenditure management is how a board turns priorities into practice. The budget authorizes spending, but expenditure control is the year-round discipline of making sure the district's limited resources are actually being directed toward its highest priorities. In a period of persistent labor pressure, uneven revenue growth, and rising student need, boards cannot afford to treat this work as a once-a-year budget exercise.

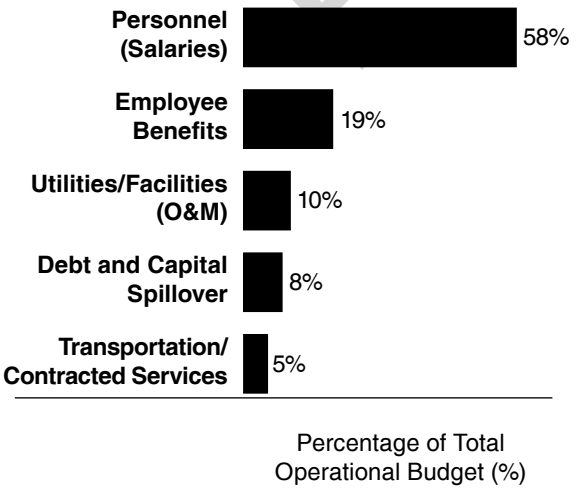
Strong expenditure management is not simply about reducing costs. It is about directing resources toward the students, services, and strategies that matter most while testing whether those investments are actually producing the results the district expects. It is also about protecting structural balance, aligning resources to strategy, and avoiding spending patterns that look manageable in one year but become unsustainable over time. That requires a board, superintendent, and CSBO to work from the same playbook: Clear priorities, honest assumptions, multi-year thinking, and a willingness to distinguish between investments that move student outcomes and spending that continues mainly by habit.

For most boards, this is the starting point for understanding expenditure management. The largest pressures are usually recurring, not optional. In most Illinois districts, the biggest expenditure drivers are personnel, benefits, facilities, and other ongoing operating obligations. That is why expenditure management is fundamentally a staffing and service-model discussion, not simply a purchasing discussion.

Figure 26

Typical Expenditure Pressure Points in Illinois Districts

(Estimated Budget Share)



Source: Illinois State Board of Education Statewide Financial Data Summaries

Governance, Process, and Communication

The most difficult expenditure decisions can fail not because the numbers are wrong, but because the process is unclear or the communication is weak. Boards should expect expenditure management to be transparent, year-round, and tied to the district's strategic plan.

The board's role is to establish priorities, approve the budget, monitor financial condition, and ask whether spending continues to reflect district goals. The superintendent's role is to recommend how resources should be deployed. The CSBO's role is to quantify options, identify structural impact, test affordability, and explain tradeoffs clearly enough for the board and community to understand them. That oversight is not limited to budget adoption; it continues through the year as conditions change, expenditures drift, vacancies persist, or revenues fall short of plan.

Communication matters most when the district is under fiscal pressure. A district that explains only the cuts, but not the rationale, will lose trust quickly. A district that makes its assumptions visible, distinguishes one-time fixes from structural changes, and shows how recommendations connect to student priorities is more likely to maintain credibility, even when decisions are difficult. In that sense, expenditure communication is not just an administrative task; it is also part of the district's trust strategy.

From Budget Adoption to Budget Control

A board does not govern expenditures simply by passing a budget in June or September. It governs

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expenditures by expecting disciplined monitoring after adoption. That includes timely variance reporting, clear explanations of budget-to-actual differences, and early warning when staffing, benefits, transportation, special education, contracted services, or other major cost drivers begin to move off plan.

Boards should also understand the control systems that keep a budget from drifting. Position control, purchasing approval processes, contract oversight, account-level budget monitoring, and budget transfer procedures are administrative details that are part of how the district protects fiscal discipline, legal compliance, and public trust. When those controls are weak, expenditure problems rarely stay small for long.

Strategic Resource Allocation

Every expenditure review should begin with a simple question: if we were not already doing this, would we start it today? That question does not solve every budget problem, but it helps boards avoid carrying programs, subscriptions, staffing patterns, or service models forward simply because they are familiar.

Boards should distinguish among four broad categories of spending: Mandated and essential services, strategic high-impact investments, enhancement spending, and legacy or low-value spending that persists without clear evidence of impact. This is where Academic ROI should inform board judgment. The question is not whether a program is popular or long-standing. The question is whether it advances district goals enough to justify its ongoing cost.

This is also where fiscal equity and Academic ROI intersect. Fiscal equity asks whether resources are reaching students with the greatest barriers and greatest need. Academic ROI asks whether those resources are being used in ways that produce meaningful educational value. A district should be able to show both that it is directing dollars intentionally and that it is testing whether those dollars are making a difference.

Expenditure control also requires discipline about recurring commitments. A one-time grant, temporary carryover, or unusually favorable revenue year should not be used to quietly create future obligations unless the district has a credible sustainability plan. One-time money can support transition, innovation, or limited-duration needs, not be treated as a permanent operating base.

Boards should also insist on clear language about the type of savings being proposed. A one-time measure may provide temporary relief without changing the district's long-term cost structure. A structural improvement changes the ongoing relationship between recurring revenues and recurring expenditures. Reallocation moves dollars from one priority to another. Cost avoidance prevents future spending from being added in the first place. Deferral delays a cost, but it does not eliminate it. Those distinctions matter because they determine whether today's decision actually improves sustainability or simply postpones pressure.

Strategic Program Audit

Major programs should not continue indefinitely without formal review. A strategic program audit helps the board determine whether a program still aligns with district goals, produces results worth its cost, and can be sustained at a high level of quality. Boards should expect major programs to be reviewed against four questions:

- Does this align with the strategic plan?
- What evidence shows it is producing results?
- What is the cost per student or cost relative to impact?
- Does the district have the staffing and operational capacity to sustain it well?

Educational Program Expenditures

Educational spending decisions require more than across-the-board reduction targets. Boards should ask where expenditures are producing real value, where programs overlap, and where preventive investment may reduce more expensive interventions later. Multi-Tiered Systems of Support is one example. When implemented well, it can improve instructional responsiveness and may reduce later demand for more intensive and expensive interventions.

Class size, staffing ratios, schedule efficiency, special education placement, and building utilization all belong in this discussion. These operational choices are major cost drivers. Boards should expect to see the educational rationale for these decisions, their cost implications, and their projected effect over multiple years. Boards should also ask what these decisions will require the district to keep funding after the first year.

When a district faces a fiscal gap, the instinct is often to look first for immediate savings. But successful expenditure management requires the board to distinguish between temporary relief and structural improvement. One-time measures can provide breathing room. They do not solve a recurring imbalance between ongoing costs and ongoing revenues.

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Figure 27

Understanding Fiscal Relief for School Districts: One-Time vs. Structural Solutions

Board members must distinguish between short-term financial relief and permanent structural change to ensure long-term stability.



ONE-TIME RELIEF
(Temporary Measures)

Provide immediate, short-term financial breathing room but do not fix underlying structural deficits.

Fund Balance Use
Grant Carryover
Delayed Purchases
Debt Restructuring

Relying on one-time funds leads to repeated fiscal stress when relief is exhausted.



STRUCTURAL RELIEF
(Permanent Changes)

Fundamentally redesign how the district operates to align recurring expenses with recurring revenues.

Recurring Staffing Redesign
Benefit Restructuring
Program Sunset
Schedule/Service Consolidation

Fundamentally redesign how the district operates to align recurring expenses with recurring revenues. Strategic structural change builds a solid financial foundation for future academic investment.

That distinction matters most in program review. Boards ask not only what a program costs, but also ask whom it serves, whether it advances the district's priorities, and whether the results justify continued or expanded investment. A district that relies too heavily on one-time funds to preserve recurring operations may postpone difficult decisions for a year or two, but it also increases the risk of a sharper correction later.

Program review should also include a willingness to examine redundancy. Districts often layer interventions, enrichment programs, and supplemental services over time without stepping back to ask whether the combined design still makes sense. A district does not necessarily need fewer goals. It needs a clearer understanding of which expenditures are most directly advancing them.

Personnel as the Core Expenditure Portfolio

In most Illinois districts, personnel costs remain the largest part of the budget. Any discussion of expenditure discipline that avoids staffing models, compensation structures, and service delivery assumptions is likely to remain superficial. That means expenditure management is inseparable from staffing strategy. Even modest changes in salary schedules, benefit design, overtime, leave usage, or staffing patterns can have major structural effects over time.

The current environment requires boards to watch several pressures at once. The $15 minimum wage is now fully in place, and many districts continue to feel its ripple effects through wage compression in support staff schedules. The $40,000 teacher minimum has also reset the lower end of salary structures and, in many districts, created pressure to revisit the full schedule rather than only the entry point. These changes should no longer be described as temporary adjustments. They are now part of the long-term compensation baseline.

Because compensation decisions are often embedded in collective bargaining agreements, boards should understand that many expenditure choices also carry labor-relations implications. Boards should expect multi-year costing of negotiated terms, regular payroll audits, clear vacancy controls, and honest discussion of whether staffing additions are sustainable. Districts should also distinguish carefully

Questions Boards Should Ask Before Approving a New Program

New programs often enter the budget more easily than they leave it. Before approving a new initiative, boards should expect clear answers to the following questions:

- What problem is this intended to solve?
- How does it align with the district's strategic plan?
- Is this a one-time cost, a recurring cost, or both?
- What will it cost over the next three-to-five years?
- What staffing, training, facilities, or technology support will be required?
- What existing program, if any, will be reduced, replaced, or eliminated to make room for it?
- How will success be measured?
- When will the board receive a report on whether the investment is working?

A new program is not just a new idea. It is a new claim on limited resources. The board should approve it only when the purpose, cost, and expected value are clear.

between positions that are directly tied to student outcomes, positions that are required for compliance or safety, and positions that may have expanded without a clear long-term rationale.

Purchasing, Operations, and Support Services

Expenditure control is also shaped by how well the district buys, contracts, and manages support services. Cooperative purchasing, restricted purchasing cards, shared services, and life-cycle cost analysis can all improve efficiency, but only if internal controls remain strong. Convenience is not a substitute for oversight.

Boards should understand that the lowest price is not always the lowest long-term cost. Equipment, technology, and facilities investments should be reviewed in total cost terms, including maintenance, training, replacement cycles, and vendor dependency. The same is true of outsourced services. Contracting can reduce cost or add specialized capacity, but it also shifts risk into contract oversight, billing validation, and performance monitoring.

Expenditure management should also respond to audit findings. If overtime, leave usage, purchasing approvals, inventory controls, or contract administration have surfaced in past audits or internal reviews, boards should expect to see corrective action reflected in the expenditure plan.

What Research Suggests About High-Value Spending

Research does not eliminate local judgment, but it does suggest that some expenditures are more likely than others to produce long-term educational value. Research can help boards challenge spending that survives mainly by habit, visibility, or anecdote. It points to several areas where districts often see stronger value when implementation is strong, including early literacy, high-quality tutoring, early intervention systems, and targeted support in the early grades. Research can serve as a useful counterweight to spending that survives mainly by tradition or visibility.

This does not mean every district should spend the same way. It does mean that expenditure discussions should move beyond "what does this cost?" and include "what is this expected to produce?" Districts that ask both questions are more likely to sustain spending that is educationally sound and fiscally responsible.

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Equity and ROI Are Not Competing Ideas

Boards do not have to choose between equity and effectiveness. Sound expenditure decisions require attention to both.

- Are we directing resources where student need is greatest?
- Are we using those resources in ways that produce meaningful results?

A district that cannot answer the first question risks inequity. A district that cannot answer the second risks inefficiency.

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☑ Checklist: Expenditure Oversight

Before approving major expenditure changes, boards should ask:

- ✓ Is this expenditure aligned with the district's strategic plan?
- ✓ Is it recurring or one-time?
- ✓ What is the projected cost over three-to-five years?
- ✓ What problem is this intended to solve, and how will success be measured?
- ✓ Has the administration identified the Academic ROI or operational value?
- ✓ Are there lower-cost or shared-service alternatives?
- ✓ Does this recommendation create structural savings or only temporary relief?
- ✓ Are there legal, staffing, audit, or implementation risks that should be understood in advance?
- ✓ What ongoing obligation, if any, will this create after the initial year?
- ✓ What monitoring report should the board expect, and when?

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