



## ALLIANCE LEGISLATIVE REPORT (94-80)

### STATE DEBT BEING DISCUSSED

The Chicago Commercial Club Civic Committee has issued a 53-page report, "Facing Facts: A Report of The Civic Committee's Task Force on Illinois State Finance" which concludes "Illinois is headed toward financial implosion" (p.5). To access the report, go to the internet at: [www.civiccommittee.org/initiatives/StateFinance/FacingFacts.pdf](http://www.civiccommittee.org/initiatives/StateFinance/FacingFacts.pdf)

The report looks at four major areas creating stress on the State budget including: the pension system; state employee/retiree health care; Medicaid; and K-12 education – concluding that despite the constitutional obligation to adhere to a balanced budget, the State is spending more than its annual revenues. According to the report, reforms in these four areas would enable the State to reduce the gap between revenues and expenditures. It concludes with an overview of recent proposals for tax increases, evaluates the "weakness" of the proposals (p.45), and makes recommendations for change (p.49).

Pension recommendations include: making the State provide plans "less generous" (p.24), increasing the retirement age and vesting schedule, converting the plans from defined benefit to defined contribution plans, increasing the employee contributions (p.27); and improving management of the State's pension funds. Suggested reforms of the employee/retiree health care system include: forcing retirees to shift to managed care (p.28); requiring longer service and increasing the age at which one could qualify for retiree health insurance; requiring retirees to assume more of the annual premium costs; and instituting "cost sharing".

While the suggested educational reforms are discussed within the context of the Chicago system, the report opens by saying "the opportunities to reform and improve public education in Illinois are incalculable" (p.29). The report emphasizes choice as a "competitive incentive" by highlighting advantages available through the Charter School System and by calling for removing the cap on the number of charter schools that can operate in Chicago (p.30). Increased funding for public schools should be "conditioned on greater accountability and transparency" including schools' reporting of teacher academic qualifications and reporting of academic success of the teacher's students (p. 30).

The Commercial Club of Chicago is a membership organization of senior business, professional, educational and cultural leaders who seek to address social and economic issues of importance to the Chicago Region, according to the group's website. The Civic Committee was formed in 1983 and has been active on the State level in educational reforms including teacher certificate renewal and the Education Funding Advisory Board recommendations.

**In another report**, the State Commission on Government Forecasting and Accountability (formerly the Economic and Fiscal Commission) published the "Bonded Indebtedness Report of the State of Illinois". This report lays out where the State debt is, how much it is, and how it will grow. Go to the web at: [www.ilga.gov/commission/cgfa2006/Upload/2006\\_Bonded\\_IndebtednessRpt.pdf](http://www.ilga.gov/commission/cgfa2006/Upload/2006_Bonded_IndebtednessRpt.pdf)

### ELECTRIC RATES FOR SCHOOLS

As reported in the last Alliance Legislative Report, the General Assembly could not agree on a solution to the question of extending the utility rate freeze. The House of Representatives considered a bill that would have extended the electric rate freeze for three more years; the Senate approved a bill that would

have required utility companies to phase in their new rates over a three year period. No bill was approved by both chambers of the legislature so no statutory change will occur.

However, Ameren has filed with the Illinois Commerce Commission (ICC) a plan to phase in electric rates. Similar to the legislation approved by the Senate, the plan would phase in rate increases for residential customers. The plan goes further, and also allows a phase in of rate increases for school districts, local governments, and small commercial customers.

According to the proposal, “to be eligible, the customer must be a public or private institution providing K-12 education and are expected to receive a 15% or greater rate increase for 2007”. There would be an “opt in” provision to allow rates to cap at 14% for the next two years with a 3.25% carrying cost/interest rate (this rate would be applied when the true rate increase was greater than 14%). The first credit would be reflected on bills issued in the May 2007 billing month – the repayment period covers 2010-2012. Customers that enroll before April 10, 2007 will receive a credit retroactive to January 2, 2007.

The plan is pending before the ICC.

### **SEARCH FOR NEW STATE SUPERINTENDENT**

The search for a new State Superintendent of Schools in Illinois is continuing. Dr. Randy Dunn, who was originally appointed by the Illinois State Board of Education (ISBE) to be an interim superintendent in September of 2004, stepped down at the beginning of the month to move back into higher education. Dr. Christopher Koch, the former Director of Special Education at ISBE, is now serving as Interim State Superintendent. The board has hired a search firm to help the board find a permanent superintendent.

Last week, the Chicago Tribune reported that **State Senator Kimberly Lightford** (D-Maywood) was applying for the state superintendent job at the request of **Governor Rod Blagojevich**. Senator Lightford currently serves as Chairman of the Senate Education Committee. With the recent legislation that turned more control of the ISBE over to the Governor’s office, many believe that Senator Lightford will have the inside track for the position if she is indeed the Governor’s choice.

### **“EDUCATION CAUCUS” TO HOLD RETREAT**

The newly create “Education Caucus”, a bi-partisan group of State legislators who would like to address comprehensive school funding reform in the legislature, has announced its plan for a retreat later in the month. The announcement came in a memo from Senators **Dan Cronin** (R-Elmhurst), **Deanna Demuzio** (D-Carlinville), **Kimberly Lightford**, and Representatives **Bob Pritchard** (R-Sycamore) and **Mike Smith** (D-Canton). The meeting, to start “developing our action plan”, is set for December 20-21 at the University of Illinois at Springfield.

### **GRANTS AVAILABLE FOR LIGHTING UPGRADES**

The Illinois Clean Energy Community Foundation has announced the availability of grants to school districts for improved lighting, reduced operating and maintenance expenses, and energy savings. To apply for funding for new energy efficient lights, go to the website at:

[www.illinoiscleanenergy.org/lighting\\_body.asp](http://www.illinoiscleanenergy.org/lighting_body.asp)

### **SCHOOL FUNDING DATA**

In the September 2006 issue of “Fiscal Focus”, a publication of the office of State Comptroller Dan Hynes, a comprehensive overview of school funding is included. Below are some useful facts about

recent public school funding in Illinois.

➤ In the 2004-05 school year (the last year for which complete data are available), \$20.6 billion in revenues from state, local, and federal resources were directed to elementary and secondary education in Illinois.

➤ Local sources provided \$11.5 billion (55.5%), State sources provided \$7 billion (33.8%), federal sources provided \$2.2 billion (10.7%).

➤ The majority of state spending comes from the state's General Funds which include the General Revenue Fund (the state's main operating fund), and three funds specifically earmarked for education: the Education Assistance Fund, the Common School Fund and the General Revenue-Common School Special Account Fund.

➤ The largest source of revenue for education remains the sales tax (33.5%), followed by gaming sources (26.1%), General Revenue Fund transfers (21.3%), income tax (14.1%), and "taxes and other sources" (5%).

### THE COMMON SCHOOL FUND

➤ The Common School Fund (CSF) receives money from a variety of sources, though transfers from the State Lottery Fund are probably the most well known of these sources (\$670.5 million in Fiscal Year 2006, accounting for 17.7% of total CSF revenues).

➤ The major source of CSF funds, however, comes from the sales tax. \$1.7 billion (46% of revenues in the CSF) was transferred into the CSF from the General Revenue – Common School Special Account Fund (this fund receives 25% of the State's share of sales tax collections and can only transfer monies to the Common School Fund).

➤ Transfers from the General Revenue Fund are the second largest source of revenue in the CSF with \$1.1 billion (29.3% of revenues in the CSF) transferred in FY '06.

➤ 7% of revenues in the CSF come from dedicated receipts which are directly deposited into the fund. These sources include public utility taxes, cigarette taxes, bingo taxes, licenses and taxes from pull tabs and jar games, investment income, and other miscellaneous sources.

### EDUCATION ASSISTANCE FUND

➤ The Education Assistance Fund (EAF) provided \$1.4 billion to elementary and secondary education in FY '06.

➤ The EAF was created in 1990 and receives 7.3% of the state's individual and corporate income tax receipts. \$734.6 million in income tax receipts were deposited into the EAF in FY '06 (51.7% of total revenues in EAF).

➤ \$685 million in riverboat gaming receipts were transferred into the EAF in FY '06 (48.2% of revenues in EAF).

### OTHER FACTS

➤ The foundation level: \$5,334 per pupil (2006-07)

➤ Statewide enrollment: 2.1 million students for 2005-06 school year

➤ Special Education spending: grant payments in FY '2006 were \$792 million – 74% higher than in FY '97.

➤ Disparity: spending per pupil in elementary school districts ranged from \$4,281 to \$22,508 (\*this high is an anomaly as the next highest per pupil expenditure was \$16,004). Spending per pupil in high school districts ranged from \$6,766 to \$18,001. Spending per pupil in unit school districts ranged from \$5,060 to \$28,285 (\*this high is an anomaly as the next highest per pupil expenditure was \$13,413).

➤ In Fiscal Year 2005, 697 school districts (79.4%) received State funding through the foundation formula (those districts had local resources that are less than 93% of the foundation level); 138 school districts (15.7%) received State funding through the alternative grant formula (those districts had local resources that are between 93% and 175% of the foundation level); and 43 school districts (4.9%) received State funding under the flat grant formula (those districts had local resources that are 175% of the foundation level or greater. These districts receive a flat \$218 per pupil.

## PENSIONS

➤ At the conclusion of FY '05, the Teachers' Retirement System (TRS) had \$56.1 billion in accumulated liabilities and \$34.1 billion in assets, leaving a \$22 billion unfunded liability (60.8% funded ratio).

➤ Under current law, required state contributions to TRS were \$532 million in FY '06 and \$736 million in FY '07 (these are reduced contributions from the original payment plan because of the enactment of Public Act 94-0004 that “deferred” pension payments).

➤ Returning to the original pension payment schedule, state funding to TRS in FY '08 is expected to reach \$1 billion and \$1.8 billion in FY '10.

➤ Chicago teachers' pensions are largely funded by the Chicago Board of Education. At the end of FY '05, the Chicago Teachers' Pension Fund (CTPF) had \$13.3 billion in liabilities and \$10.5 billion in assets leaving \$2.8 billion unfunded liability (79% funding ratio). The state contribution to the Chicago teachers' system will be between \$10-11 million between fiscal years 2007 and 2010. The state provides \$65 million annually to the health insurance program administered by the Chicago Teachers' Pension Fund.

The full report can be found on the website of the Comptroller: [www.ioc.state.il.us](http://www.ioc.state.il.us)

**Alliance Legislative Reports:**  
**Bill Text/Status: Illinois General Assembly**

[www.iasb.com](http://www.iasb.com)  
[www.ilga.gov](http://www.ilga.gov)