Alternative State and Local Options to Fund Public K-12 Education in Illinois

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Executive Summary

Illinois needs to revamp its system of funding public education. Currently, school districts receive the bulk of their revenue from property taxes. With relatively high property tax rates and funding inequities across the state, raising property taxes in Illinois is often not an option for school districts. There are alternative policies that can be enacted at both the state- and local-level to enhance revenue for public education in Illinois.

This report identifies six potential ways to increase revenue for public school districts:

1. **Raise the Individual Income Tax:** Raising the individual income tax rate to 5 or 6 percent would generate between $4 billion and $7 billion in additional revenue. If Illinois were to dedicate 0.5 percentage point of the new revenue to education, the state would receive $1.6 billion in additional revenue to support public schools and universities every year.

2. **Introduce a Progressive Income Tax:** Amending the Illinois Constitution to allow a graduated income tax and dedicating a portion to education would generate billions in additional school funding. The “Millionaire’s Tax” would increase education funding by about $1 billion per year.

3. **Expand the Sales Tax Base:** Expanding Illinois’ sales tax base to include services – like neighboring states – and dedicating the increase to K-12 education needs would generate billions of dollars for education funding. Adopting Indiana’s sales tax rate and expanded base, for example, would increase revenue by $4.0 billion in Illinois.

4. **Eliminate or Lower the Retailer’s Discount Rate:** Illinois could reduce corporate welfare by lowering the allowance provided to retailers for collecting sales taxes, from 1.75 percent to the 0.50 percent rate used in Wisconsin, Michigan, and Texas. If the revenue was rededicated to education, school funding would be augmented by over $100 million a year.

5. **Recoup Surplus Funds from TIF Districts:** Surplus revenue from tax increment financing (TIF) districts could be re-allocated to support school districts, given the mixed track record of TIF districts. In 2015, Chicago had $1.4 billion in surplus TIF funds that could have been retrieved and used to support Chicago Public Schools.

6. **Implement a Financial Transaction Tax:** Over 30 countries have a financial transaction tax (FTT) in place. Senator Bernie Sanders and Congressman Keith Ellison have proposed an FTT for the United States. If Illinois were to implement a 0.1 percent FTT and dedicate revenue to education, the state could generate about $1 billion in new funding for schools. High-end estimates from an actual Illinois proposed “LaSalle Street Tax” bill were that the fee would raise between $10 and $12 billion a year.

Though not a comprehensive list of all alternatives, these six potential revenue sources could help diversify education funding, allocate resources more equitably, and improve student outcomes in Illinois.

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Introduction

Illinois needs more revenue for elementary and secondary education. In 2014, school districts, the state, and the federal government spent a combined $30.2 billion on K-12 schools (U.S. Census Bureau, 2014; U.S. Department of Commerce, 2016). The Illinois State Board of Education requested an additional $730 million to meet funding requirements for K-12 public schools. House Bill 3763 passed by the Illinois Legislature and signed by Governor Rauner increased K-12 spending by $244 million in Fiscal Year 2016, which was only about one-third of the level deemed necessary by the Illinois State Board of Education (Hoffman, 2015).

Education spending is important for students' success. A 2015 report by professors at Northwestern University and University of California, Berkeley studies the long-term impacts of increased public investment on elementary and secondary education. The research finds that a 10 percent increase in spending, on average, leads children to complete 0.3 more years of school, improves their future wages in the labor market by 7.3 percent, and reduces their chances of living in poverty once they hit adulthood by 3.7 percent. Increasing funding to Illinois' public school districts would likely make a significant difference in the future success of Illinois students. The researchers also find that children who are from low-income families are more positively affected by increases in school funding (Jackson et al., 2015).

Better school districts attract businesses and families to a community. When a school district has quality teachers, smaller class sizes, newer equipment, and more activities, families move to the area and enroll their children in the district. When more people move to and work in communities with better schools, property tax revenue grows, increasing the amount of revenue received by good school districts. This additional funding helps to pay for new supplies, better-educated and better-skilled teachers, additional support staff, and after-school programs. Meanwhile, poorer districts remain underfunded, negatively impacting students of color and students from low-income communities.

Elementary and secondary education in Illinois should receive more funding from all levels of government. More investment in education increases student outcomes and future success. The state should find alternative ways to raise revenue for school districts. Though property taxes are a substantial source of revenue for education, there are alternative ways to raise revenue so that all districts receive the necessary funding to support Illinois students from all backgrounds.

This Policy Brief, authored jointly by researchers at the Illinois Economic Policy Institute (ILEPI) and the Project for Middle Class Renewal at the University of Illinois, introduces six possible alternative revenue sources for elementary and secondary education funding in Illinois. Instead of relying so heavily on property taxes, Illinois could implement new policies to diversify funding and allocate resources more equitably across the state.

The revenue sources recommended for consideration generally share the following elements: (1) a degree of progressivity, (2) the incidence of the revenue source is regular, (3) each alternative source can be accessed through legislative action with the exception of a graduated income tax, which requires amending the Illinois Constitution, and (4) they are all sustainable. A full economic impact analysis of each revenue option was not conducted for this report. Countervailing or extraneous effects of adopting each approach are not considered, though no alternative plan would be without indirect costs and benefits. The report also does not offer any assessment of the political viability or ease of implementing each option. In addition, this Policy Brief does not review or critique formulas for distributing revenue. While a more equitable process for determining how much school districts would receive from the state would improve Illinois' worst-in-the-nation inequities, it would not increase overall funding for K-12 schools. The intention of this study is to simply raise legitimate alternatives to a school funding system that is badly underserving the state's children, educators, community members, and employers.

State Elementary and Secondary Public Education Finance Systems in the United States

Before discussing revenue sources for school financing in Illinois, it is helpful to briefly review the country's major funding systems. A total of 46 states use a variation of a "foundation program" as their major funding system. Foundation programs utilize a formula to fund a basic education program designed to support the concept of student equity through a state guarantee of funding per pupil. Illinois has a hybrid foundation system based on a minimum guaranteed amount of funding per student ("level") available to all schools. The state then derives a formula ("General State Aid") to determine how much of the "level" will be covered by the state, leaving the remainder to be covered by local property tax resources. Since Fiscal Year 2010, the "foundation" level in Illinois has been $6,119.[1]

In addition to the "foundation" level most states – including Illinois – disburse grant funding for special education, low-income and at-risk students, and English language learners. Illinois is among only 28 states that also provides financial support for vocational, career, and technical education. States further provide funding to transport students typically through a dollar or percentage amount of "allowable reimbursements." Finally, since 1997, Illinois has been one of 37 states to provide a funding mechanism for school infrastructure, defined as school district expenditures for capital outlay and associated debt (Verstegen, 2016).

The Primary Method of Raising Revenue for Education: Higher Property Taxes

In 1973, the Supreme Court of the United States ruled in *San Antonio Independent School District v. Rodriguez* that there is no fundamental right to education in the Constitution of the United States (Oyez, 1973). The ruling placed the burden for providing a system and method of financing public education on the states. Illinois' constitutional education provision language requires that the state provide for "[a]n efficient system of high-quality public educational institutions and services." Moreover, it establishes that "[t]he State has the primary responsibility for financing the system of public education."[2] The devolution of educational responsibility to the states further shifted the obligation of paying for public schools to local communities.

Local taxes, particularly property taxes, are now the main source of revenue for public education programs throughout the United States. Local governments impose taxes on the assessed value of property to help pay for community facilities, such as parks, fire service, roads and bridges, safe water and sewage systems, and quality public schools.

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[1] Setting a "foundation" level, however, does not mean that students are receiving the requisite aide. According to the Illinois State Board of Education, "meeting the foundation level is based on the General Assembly and the Governor appropriating the necessary funding. For the past several years, that has not been the case. When appropriations fall short of the amount necessary to fully fund the GSA claim, which consists of both the equalization formula grant and the supplemental low-income grant, payments to districts are prorated and paid at the maximum percentage possible, given appropriation amounts." In Fiscal Year 2017, the prorated amount was 92.1 percent, but the General State Aid foundation level was funded at 100 percent for the first time in seven years. The state also expects that the local school district will contribute a portion of the revenue needed to reach the level. If the district fails to levy enough, its students will not get the minimal level of financial support (ISBE, 2016).

[2] Constitution of the State of Illinois is available at http://www.ilga.gov/commission/lrb/con10.htm.

Property taxes are high in Illinois compared to the rest of the nation. According to the conservative-leaning Tax Foundation, Illinois has the 10th-highest relative property tax burden in the nation. The average property tax as a percentage of annual personal income is 4.3 percent in Illinois, lower than only Connecticut, Maine, New Hampshire, New Jersey, New York, Rhode Island, Vermont, Wisconsin, and the District of Columbia (Walczak et al., 2016). Additionally, other reports find that the median household in Illinois has a property tax rate that is 1.36 percentage points higher than the median property tax rate in the United States (Lalisse, 2016). This finding, however, does not adjust for home values or incomes, which are generally higher in Illinois than the rest of the nation.

Schools in Illinois are highly dependent on the collection of property taxes for revenue generation. In 2014, local taxes and school fees – which are mostly property taxes – comprised 64.7 percent of all elementary and secondary education revenue. Another 24.9 percent came from the state and the federal government invested 7.7 percent (Rado, 2016). The local proportion has risen substantially from the 46 percent national average during the 1980s (Reitz, 1993). In total, Illinois' public K-12 school districts received $15.7 billion from property taxes in 2014 (U.S. Department of Commerce, 2016).

The state's reliance on property tax revenue to fund school districts means that Illinois has one of the most regressive education funding systems in the country. When a county or district is poorer, less revenue is collected from property taxes. Students in wealthier districts are more likely to have more experienced teachers, well-resourced and comprehensive after-school programs, and cutting-edge learning technologies that improve student outcomes. In fact, data on school districts reveal a stark difference in funding for wealthy school districts compared to poorer school districts in Illinois. According to *Funding Gaps 2015* by The Education Trust, only 81 cents are spent on schools and students in poorer districts for every one dollar spent on schools and students in wealthier districts. The districts with the highest poverty rates in Illinois collect nearly 20 percent less state and local revenue than the richest districts (Ushomirsky & Williams, 2015). Property tax revenue disparities in Illinois are responsible for about 92 percent of local revenue disparities. During the 2010-11 school year, more than a quarter of Illinois' students attended fiscally disadvantaged districts (Baker, 2014).

The result is also a disparate racial impact. In Illinois, for example, 55 percent of the state's African-American children live in only 5 percent of the school districts. These school districts have the greatest poverty and lowest property value in Illinois. In addition, more than half of state education dollars go to districts regardless of their wealth; thus, rich districts receive the same amount of funding as poor districts even though poor districts tend to have greater needs (Funding IL's Future, 2016). Illinois has the largest funding gap between wealthy and poor school districts of all 50 states (Ushomirsky & Williams, 2015).

Local government funds largely determine the financial outcomes and spending capabilities of school districts in Illinois. Increasing state financing of public schools would not necessitate a reduction of local support. More Americans support (53 percent) than oppose (45 percent) raising property taxes to improve their schools (PDK Poll, 2016). Communities could choose to supplement state dollars with a levy amount that provides the kind and quality of school they find optimal or use the enhanced state aid as a trade-off for local property taxes (Steinberg et al, 2016).

For the 15th consecutive year, Americans say lack of funding is the number one problem confronting local schools. Historically, the collection of property tax revenue has been an effective and straightforward way to fund school districts across Illinois. However, with relatively high property tax rates and funding inequities across the state, raising property taxes in Illinois is not a feasible approach for all districts to meet revenue needs. Illinois has the 5th-largest population and the 5th-largest economy in the nation, but ranks only 15th in the country in "average public school spending per pupil" (Illinois School Funding Reform Commission, 2017). There are alternative policies that can be enacted at the state and local-level to enhance revenue for public education in Illinois.

Six Possible Alternative Revenue Sources for K-12 Education in Illinois

1. **Raise the Individual Income Tax:** Raise the individual income tax and dedicate a portion of the new revenue to help fund education.

The personal income tax is a primary source of state revenue, accounting for roughly 41 percent of all General Fund revenue. Illinois currently has a flat income tax of 3.75 percent. From January 2011 to January 2015, the individual income tax was 5.0 percent. This temporary hike, called the Taxpayer Accountability and Budget Stabilization Act, was intended to pay Illinois' backlog of bills and extend funding for needed government programs. The income tax increase raised about $4 billion in additional annual revenue (Associated Press, 2015). As a result, the General Fund had a $996 million surplus in 2013 and a $98 million surplus in 2014. In January 2015, the individual tax rate was rolled back when the governor and lawmakers decided not to continue the higher rates to maintain budget surpluses. Accordingly, after both the individual income tax and the corporate income tax rate fell, General Fund revenues have declined (OMB, 2016).

The decrease in General Fund revenues has worsened the state's budget crisis. Illinois has been operating without an annual budget since the close of the legislative session in May 2015. The Illinois General Assembly and governor passed a six-month temporary budget in June 2016. Though the "stopgap" budget has helped keep school districts, an actual yearlong state budget is necessary to pay for education funding needs.

Illinois could permanently raise the individual income tax to 5 or 6 percent to help pay down the backlog of bills from the budget impasse. A portion of the increase could then be dedicated for use by public K-12 school districts. Without support from the state, many districts across Illinois will be at risk of closing schools and cutting essential programs for students. These school districts are located in the state's lowest-income communities. For instance, Chicago Public Schools have announced the potential of over 300 teacher and staff layoffs due to budget cuts and enrollment drops (Tanveer & Cherone, 2016).

A 5 or 6 percent individual income tax in Illinois would generate between $4 billion and $7 billion in additional revenue each year, on average. According to the Illinois School Funding Reform Commission a new per pupil expenditure "adequacy target" would require an additional $6 billion over 10 years. Note that the income tax boost estimate assumes that the corporate income tax rate does not increase as well. If Illinois were to raise the individual income tax and dedicate a 0.5 percentage point of the new revenue to education, the state would have an estimated $1.6 billion in additional revenue to support public school systems and public universities every year. This additional financing would substantially help the most-vulnerable school districts.

2. **Introduce a Progressive Income Tax:** Amend the Illinois Constitution to allow a graduated income tax and introduce a progressive income tax, dedicating a percentage of new revenue raised for education funding.

Illinois currently has the 5th-most unfair tax system in the country (ITEP, 2015). Among the regressive characteristics are a flat personal income tax and a lack of refundable child tax credits. As a result of the current flat-tax system, the bottom 20 percent of non-elderly taxpayers pay 13.2 percent of their income in state and local taxes while the top 1 percent of non-elderly taxpayers in Illinois pay just 4.6 percent of their incomes to state and local governments (ITEP, 2015). A gradual – or progressive – income tax is fairer, based on the ability-to-pay principle. In total, 34 states and the District of Columbia have progressive income tax systems. These states tend to have the fairest tax systems because they rely less on other taxes that disproportionately hurt low-income families, such as sales and excise taxes (ITEP, 2015).

Moreover, a progressive income tax system that generates the same revenue as a flat income tax actually boosts economic growth. This is because poorer households spend a larger share of their incomes back into the economy at stores, restaurants, and community services. Thus, by saving low-income and middle-class families more money, a progressive income tax can make the tax code fairer, fund essential public services, and improve consumer demand in an economy.

Income taxes could be raised on rich households and lowered for poor and middle-class families to fix the budget and raise additional revenue for K-12 school districts. This measure would require an amendment to the Illinois Constitution. In 2016, State Representative Lou Lang proposed a graduated income tax for Illinois in House Bill 689. The constitutional amendment was introduced to provide a tax cut to low-income and middle-class families while raising taxes on the richest 2 Percent in Illinois. The proposed amendment would have raised between $1.4 billion and $1.9 billion per year (Manzo, 2016a; Miller, 2016). The proposal could have generated $475 million in additional school funding per year if 25 percent of all new income tax revenue would have been dedicated to public education, based on a $1.9 billion estimate by the Fiscal Policy Center at Voices for Illinois Children.

The Illinois Economic Policy Institute has also proposed a graduated income tax that cuts taxes for 75 percent of Illinois workers and raises taxes on the top 25 percent. The proposal calls for four tiers of 0 percent, 3 percent, 5 percent, and 7 percent and would raise an estimated $3.6 billion in new net state tax revenue. If one-quarter of this new revenue were dedicated to public education, this graduated income tax would generate approximately $907 million in additional funding annually (Manzo, 2016a).

Finally, in 2014, Illinois voters approved an advisory question to implement a 3 percent surtax on income over $1 million for the purpose of providing revenue to school districts based on their number of students. Fully 2.2 million Illinois residents voted "Yes" on the question (60.0 percent) compared to 1.3 million who voted "No" (34.2 percent) (Ballotpedia, 2016a). The "Millionaire's Tax" would only add one marginal rate to Illinois' income tax, but would increase education funding by as much as $1 billion per year. The surtax would also require an amendment to the Illinois Constitution to allow a progressive income tax. Minnesota previously passed a similar law raising taxes on the wealthiest 2 percent. The tax generated $1.1 billion in new revenue and increased state funding to education by $485 million (Baiman, 2016).

3. **Expand the Sales Tax Base:** Expand Illinois' sales tax base to include services – like neighboring states – and dedicate the increase to K-12 education needs.

Illinois collects a 6.25 percent sales tax, which is divided between the state (5.0 percent) and local governments (1.25 percent). Illinois' sales tax brought in almost $11 billion in revenue to the state in 2015 (CAFR, 2015). Currently, however, sales taxes are imposed on the purchase of goods and on only 17 specific services in Illinois.

But services are the fastest-growing share of consumption across the United States. In 2013, services accounted for 66 percent of total consumer spending, compared to just 43 percent in 1929 (Nicely & Malm, 2013). Accordingly, goods consumption has decreased as a share of total spending over time. One possible way to raise revenue to meet Illinois' education needs is to expand the sales tax base to cover more services.

Neighboring states generate more revenue from their sales taxes than Illinois due to the taxation of services. Indiana taxes both goods and 29 services (Civic Federation, 2015). Among the many services taxed by Indiana but not Illinois are landscaping, renting and lodging, leasing of personal property, aircraft leasing, flight instruction, and certain digital projects. Wisconsin taxes both goods and 76 services, including admission to athletic or entertainment events, boat docking and storage, and laundry and dry cleaning services.

Illinois would generate anywhere between $769 million and $4.0 billion in additional revenue if the state were to adopt the sales tax rates and bases of neighboring states. If Illinois were to adopt Wisconsin's 5.0 percent rate and expanded base, Illinois would increase state revenues by $796 million. If Illinois were to adopt Iowa's 6.0 percent rate and expanded base, Illinois would increase state revenues by $1.3 billion. If Illinois were to adopt Indiana's 7.0 percent rate and expanded base, Illinois would increase state revenues by $4.0 billion (Manzo, 2016b).

Illinois could benefit from expanding the sales tax base to include taxation on services, while continuing to tax goods at 6.25 percent. All of the new tax revenue from an expanded sales tax base could be dedicated for use in school districts across the state, potentially raising billions of dollars in additional funds for public education.

4. **Eliminate or Lower the Retailer's Discount Rate:** Change the allowance provided to retailers for collecting sales taxes, giving all new revenue to schools.

The retailer's discount allows retailers to keep a portion of the sales tax they collect on behalf of the state and local governments as compensation for collecting the taxes and transferring them to the government. Retailers' discounts exist in 28 states. This allowance may have made sense decades ago when businesses maintained handwritten records. Today, however, the process of tax collection and transferal is automatic, imposing minimal costs on retailers. In addition, the biggest beneficiary of the program is Walmart, which receives nearly $10 million every year from the state to perform an automated process at its stores. Consequently, the retailer's discount has become a corporate welfare program that Illinois can no longer afford (Manzo & Manzo, 2016).

Illinois' retailer's discount rate is 1.75 percent. This means that retailers keep 1.75 percent of all sales tax revenue they collect from taxpayers as profit. Illinois' allowance is higher than neighboring states. Indiana (0.73 percent), Kentucky (1.50-1.75 percent), Wisconsin (0.50 percent), and Michigan (0.50 percent) all have lower rates than Illinois. Iowa and Minnesota do not have a retailer's tax discount (Federation of Tax Administrators, 2016).

Illinois currently dishes out $142 million per year in subsidies to retailers through its 1.75 percent retailer's discount rate. If the discount was lowered to the 0.50 percent rate used in Wisconsin, Michigan, and Texas, the state would save an estimated $102 million in General Fund revenue (Manzo & Manzo, 2016). Illinois could lower or eliminate the retailer's discount and re-dedicate the revenue to school districts, augmenting school funding by over $100 million per year.

5. **Recoup Surplus Funds from TIF Districts:** Surplus revenue from tax increment financing could be used to support school districts.

Tax increment financing, or TIF, has been used as a primary public financing tool to spur local development in the City of Chicago and other communities for the past three decades. TIF is an economic development tool used by cities to economically revitalize areas by attracting new investment that will increase property values (Jacob & Klein, Ltd., 2015). TIF funds can only be used in specified areas called TIF districts.

A TIF district is a geographic area that is targeted for redevelopment. In Illinois, TIF funds are restricted to three purposes: "to remediate blight, to prevent an area from deteriorating into a blight situation, or to foster industrial development." The amount of property taxes paid to local governments is frozen for a specified period of time up to 23 years. Any additional property tax revenue is diverted into the TIF district's fund and used to support private development projects in the area (Bruno & Dickson Quesada, 2011).

The important feature of a TIF is the "but for" test. Tax increment financing is intended to spur development that would not have occurred "but for," or in the absence of, the public intervention. Recent research by Professor T. William Lester, however, finds that Chicago's TIF program has failed the "but for" test. With few exceptions, TIF districts have not produced new jobs, business development, or real estate activity beyond what would have occurred without them. Lester concludes that "the fiscal strain placed on the City of Chicago's general fund and on the public schools is exacerbated by the sequestration of revenue in TIF accounts" (Lester, 2013).

Local government could address shortfalls in education funding by recouping a portion of surplus TIF funds. For instance, in 2015, Chicago had $1.4 billion in surplus TIF funds that could have been retrieved and used to support Chicago Public Schools, although about $1.3 billion of that surplus was already committed to development projects (Fortino, 2015). The findings by Lester (2013), however, suggest that most of these development projects would occur without the surplus and that the TIF funds merely "crowd out" other private investment. Thus, local governments across Illinois may be able to increase revenue for schools by recouping millions of TIF dollars and re-dedicating them to public education.

6. **Implement a Financial Transaction Tax:** Revenue from a new financial transaction tax could be earmarked for school districts across Illinois.

A financial transaction tax on stocks, bonds, mutual funds, exchange-traded funds (ETFs), and other securities could be collected to raise revenue. A financial transaction tax (FTT) was used in the United States from 1914 to 1966 on stock issuances and transfers. The tax more than doubled during the Great Depression to generate new revenue in order to stimulate and stabilize the economy. Today, a very small FTT finances the U.S. Securities and Exchange Commission (CEPR, 2013).

There is growing support nationwide for a financial transaction tax. Market failures and stagnant economic growth from the Great Recession have provoked advocates to call for enacting a strong FTT. Many politicians, economists, and business leaders have advocated for a FTT on the purchase and selling of stocks and bonds. A January 2013 poll conducted by Hart Research for Americans for Tax Fairness found that 62 percent of Americans approved of a financial transaction tax, including 34 percent who strongly approved of the tax. Another December 2012 poll also found that two-thirds of respondents favored the FTT (CEPR, 2013).

Over 30 countries across the world have a type of FTT in place. The tax helps these countries pay for essential government programs, vital education funding, and even financial bailouts if necessary. In 2013, the European Union voted to implement a coordinated FTT in 10 nations starting in January 2017. Many other developed countries tax financial transactions at a rate between 0.1 percent and 0.5 percent (Burman et al., 2016). In 2003, Peru also introduced a 0.1 percent general financial transaction tax on all foreign currency, with the purpose of raising revenue for education (Spratt, 2006).

In the United States, a FTT introduced by Senator Bernie Sanders and Congressman Keith Ellison would impose a 0.50 percent tax on stock sales, a 0.10 percent tax on bond sales, and a 0.005 percent tax on payments with respect to derivatives. This proposal is projected to raise approximately $300 billion in revenue each year (Burman et al., 2016). Senator Sanders has said that the tax would be earmarked to finance free college tuition for students.

Estimates by the Tax Policy Center at the Urban Institute and the Brookings Institution are more conservative, but are substantial nonetheless. The Tax Policy Center finds that a small tax of 0.34 percent on the purchase and sale of stocks, bonds, and other investments could raise approximately $75 billion in the United States in 2017 (Burman et al., 2016). In 2014, the securities, commodities contracts, investments, funds, trusts, and other financial vehicles sectors accounted for $15.8 billion of Illinois' gross domestic product (GDP). Nationally, these sectors produced $298.0 billion in economic value to U.S. GDP and Illinois' share of these financial markets is approximately 5.3 percent (BEA, 2016). Multiplying estimates from the Tax Policy Center by a 5.3 percent share for Illinois indicates that a 0.34 percent tax on trading stocks, bonds, and other securities could generate $3.8 billion in additional revenue for Illinois. Similarly, a 0.1 percent FTT dedicated to school funding could produce approximately $1 billion in new revenue.

In the 2015 Illinois legislative session, hearings were held on a FTT ("The LaSalle Street Tax"). HR 106 called for a small tax on the trading of futures and option contracts. Illinois operates two of the largest financial markets in the world, the Chicago Mercantile Exchange (the CME also owns the Chicago Board of Trade) and the Chicago Board Options Exchange. Each year, the trading of futures, options, and other derivatives on these exchanges exceeds $900 trillion in value. The average size of these contracts was more than $225,000 and the "tax" would have amounted to $1 in fees for all agricultural contracts and a $2 fee on all non-agricultural contracts. The total assessment was less than 1/10th of the state sales tax rate. While the tax was low, the level of daily trading exceeded 125 million contracts. Estimates were that the fee would have raised between $10 and $12 billion a year (Fair Economy Illinois, 2015).

It is worth noting that part of the reason Illinois and Chicago Public Schools are in debt to Wall Street is because of interest rate swaps. Banks sold risky financial instruments to the state and Chicago Public Schools "by convincing them it would save money on borrowing costs." Instead, these swaps have put taxpayers on the hook for billions of dollars. Together, the City of Chicago and Chicago Public Schools owed $1.2 billion in payments and term fees on the interest rate swaps (Roosevelt Institute, 2015). Taxing credit default swaps, options, and futures contracts is a way to help recoup money from banks and other financial industry players that were bailed out after the Great Recession.

A financial transaction tax is attractive because the tax rate is minimal, it is progressive in generally taxing the very wealthy, and it has the potential to raise substantial revenue. Illinois could implement a financial transaction tax – a "LaSalle Street Tax" – and earmark the proceeds to fund public elementary and secondary education. The state could then disperse funds to school districts based on financial need.

Conclusion

Illinois needs to revamp its system of funding public education. Currently, school districts receive the bulk of their revenue from property taxes. The state's reliance on property tax revenue to fund school districts means that Illinois has one of the most regressive education funding systems in the country. With relatively high property tax rates and funding inequities across the state, raising property taxes in Illinois is often not an option for school districts. There are alternative policies that can be enacted at both the state- and local-level to enhance revenue for public education in Illinois.

This report has identified six potential ways to increase revenue for public school districts:

1. **Raise the Individual Income Tax:** Raising the individual income tax rate to 5 or 6 percent would generate between $4 billion and $7 billion in additional revenue. If Illinois were to dedicate 0.5 percentage point of the new revenue to education, the state would receive $1.6 billion in additional revenue to support public schools and universities every year.

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Though not a comprehensive list of all alternatives, these six potential revenue sources could help diversify education funding, allocate resources more equitably, and improve student outcomes across Illinois.

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