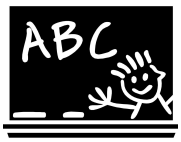
League of Women Voters
of Illinois

Center for Tax and Budget Accountability



Better Funding for
Better Schools Coalition

Senate Bill 2288

"We must bring about real change to the terrible, terrible, outrageous funding formula that funds the systems of our public schools."

…… ***Illinois Senate President, Emil Jones, Jr.,***
January 12, 2005

"Education needs funding reform and this debate always includes tax policy reform."

……former Illinois Comptroller, Dawn Clark Netsch
Center for Tax and Budget Accountability, Fiscal Symposium
Federal Reserve Bank of Chicago, January 19, 2005

"Both sides can be the winner if we come together and fix this long standing school funding problem." Let's work together to do the right thing – let's have that courage!"

…….Senator James Meeks
CTBA Fiscal Symposium, Federal Reserve Bank of Chicago
January 19, 2005

Senate Bill 2288 - Tax Reform

Senate Bill 2288 raises new revenues by increasing the personal income tax from 3% to 5% and the corporate income tax from 4.8% to 8%. This will create a new, permanent revenue source for schools, deliver almost $3 billion in property tax relief to homeowners and businesses, and also provide funding for a $25 billion state capital program. It will truly reform the way education is funded in Illinois by making the state the primary funder of K-12 education. The bill is expected to be considered during the November, 2008 Veto Session. Several amendments have been added to the bill and will be up for approval in Veto Session.

We are debunking the following, commonly repeated misconceptions about SB2288 to help you understand what the bill does ***NOT*** do so you can have an informed discussion with your friends, neighbors, legislators and others about this sound piece of legislation.

Common Misconceptions on SB 2288

Concern: Shouldn't we cut the fat in state government instead of raising taxes?

- Illinois ranks 45th in the nation for total state and local tax burden as a percentage of personal income, despite having both the fifth biggest population and economy.

- Not surprisingly, Illinois is also a low spending state, ranking 42nd in the nation for state spending.
- The current state income tax rate in Illinois is the lowest of the 41 states imposing a state tax.
- As things stand now, Illinois does not raise enough revenue to pay Medicaid on time and can't meet other obligations to seniors, the disabled and abused and neglected kids. There is simply no fat left to cut.
- Even after SB2288 becomes law—Illinois will retain its status as a low tax state—ranking just 42nd in the nation.

Concern: Didn't the Illinois General Assembly just provide more money to schools?

- The last budget did include more funding for schools but did not:
  - Come close to funding the minimum adequacy standard established by the nonpartisan Education Funding Advisory Board
  - Address the core problem of over-reliance on property taxes to fund schools
  - Or do anything to eliminate the growing achievement gap between students in wealthy and poor districts.
- Education may have been lucky to receive increased funding when other programs are being cut, but the increases have not been anywhere near what is needed by any objective standard.
- SB 2288 provides a continuing appropriation so schools don't have to compete with other essential services for funding.

Concern: Aren't property taxes a more stable way to fund education during hard economic times?

- Property taxes are stable—but in property poor and middle income areas they cannot generate enough revenue to fund education.
- Moreover, the state's over-reliance on property taxes is what causes great inequities in school funding, while hurting business growth and driving employers out of low and middle income areas.
- Property taxes are also regressive and do not adjust their burden based on a homeowner's ability to pay, where an income tax does.
- Skyrocketing property taxes or loss of income can push families out of their homes.
- Better fiscal policy would involve balancing the burden between state and local sources.
- Currently the state provides just 32% of school funding—while the national average is for states to cover 50% of education costs.
- Sure, some federal funding is also available, but local property taxpayers have to shoulder way too much of the obligation to fund schools.
- Increasing the state's portion of school funding to 50% would reduce disparities between poor and wealthy areas and bring the school funding formula closer to the national average.
- Because of Illinois' dramatic over-reliance on property taxes to fund schools, a child's educational opportunities in our state are determined by the wealth of the community where he or she lives.

Concern: Achievement is not determined by how much money is spent. Private schools generally spend less per student and have better test scores.

- A 2006 University of Illinois study found that public schools perform remarkably well, often outscoring private and charter schools, when populations served is taken into account. (Drs. Christopher and Sarah Lubienski, January 2006).
- Better Funded districts attract higher quality teachers, more commonly have smaller class sizes, and have quality, current educational materials.
- Meeting this criteria is out of reach of many of our school districts.
- School districts in Illinois capable of paying for the three criteria above have proven that funding does matter.

Concern: The governor has promised to veto any new taxes, citing the hit on lower income families. Why would legislators support such a plan?

- SB2288 doesn't just increase taxes—it makes the Illinois tax system much fairer than it currently is. It accomplishes this by providing tax relief to middle and low income families.
- For instance, SB 2288 includes a refundable "Family Tax Credit" for households with income under $55,000.
- It also contains about $3 billion in property tax relief that will help low income homeowners and those on fixed incomes.
- SB2288 can receive enough votes to override a veto by the governor.
- The proposed family tax credit is great, bipartisan policy. It is similar to the based on a Federal EITC program, which was a Republican initiative strongly supported by President Reagan and has been credited for lifting children out of poverty.

Concern: Won't middle income families be hardest hit by this bill?

- Skyrocketing property tax bills are squeezing low and middle income families far worse and much more inequitably than an income tax could.
- The family tax credit will help those earning under $55,000 and in fact, as a class, the bottom 60% of income earners in Illinois won't pay more in taxes under SB2288 than today.

Concern: Low income earners don't pay taxes. Giving them a family tax credit would be like giving away money.

- Low income folks not only pay taxes, they actually have a much greater tax burden as a percentage of income than wealthier families.
- The taxes that hit low and middle income folks hardest are the sales, property and excise taxes.
- The proposed Family Tax Credit effectively goes beyond the income tax, and actually accounts for the real tax burden of low and middle income families.
- Better yet, the Family Tax Credit is good, bipartisan policy, since it is similar to the Federal Earned Income Tax Credit, which was introduced by Pres. Nixon and greatly expanded under Pres. Reagan, who called it the single best pro-family and anti-poverty legislation Congress ever passed.

Concern: The wealthy will move their money to lower tax states if the income tax is increased.

- Illinois is already one of the lowest tax states in the nation, ranking 45th in tax burden, despite having the fifth largest economy and population. After SB2288 passes, Illinois stays in the bottom 10, ranking just 42nd. There's nowhere else to go.

- Wealthy individuals choose their residences based primarily on where they want to live, not on tax rates.

Concern: Won't this bill just pull money away from other needed areas?

- No money will be taken from other services to fund schools, in fact, new revenues produced by SB2288 would relieve pressure on other state programs, which are often cut to maintain spending on education.

Concern: Won't this just be another shell game? Look at the Lottery!

- SB2288 ends the "lottery shell game" by funding education through a "continuing appropriation".
- It guarantees that new funds from SB2288 will enhance, not replace, existing state support for education, by mandating that new revenue be <u>in addition</u> to that which the schools received the year prior to the bill's passing.

Concern: The unions will control any new monies and make sure it goes into the teacher's pockets, rather than benefiting the classroom.

- Research tells us one of the most important factors for student achievement is a high quality teacher.
- SB2288 brings accountability along with enhanced education funding, and focuses on proven strategies for improving academic achievement like smaller class sizes, literacy coaching, longer school days, teacher mentoring and other quality issues. The unions do not control these strategies.

Concern: If legislators vote to support a tax increase in an election year, they say they won't get reelected.

- Facts prove otherwise. A University of Illinois review found that lawmakers supporting tax increases over past 35 years got re-elected at about same rate or higher rate than colleagues voting no.
- Studies, including a poll by the Associated Press, have shown that 61% of Illinois voters will support a tax increase if it went to improve education.
- Legislators have been campaigning on the promise to increase school funding for decades and have failed to deliver.

Concern: How can we afford this tax increase with such a bad economy?

- Despite having a bigger economy than all our Midwest neighbors—and despite the fact Illinois already has one of the lowest tax burdens in the nation, Illinois lags both the Midwest and nation in economic growth.
- Meanwhile, to be competitive in a global economy, investing in education and infrastructure is critical.
- The state cannot make these investments with its current tax system.
- SB2288 will allow Illinois to invest in education and a capital program, thereby creating new jobs in Illinois.
- All while keeping Illinois one of the 10 lowest taxing states in the nation.

Concern: Will businesses flee the state if their corporate income taxes are raised?

- Even with the proposed increase, Illinois will remain one of the lowest taxed states in the nation
- Businesses will pay less in taxes overall under SB 2288.

- With this proposal, business will pay $1billion in increased income taxes but will gain $1.4 billion in property tax relief.
- Employers tend to locate in communities with quality schools, a skilled workforce and transportation networks.
- Quality public schools are one of the most important factors for locating new facilities.
- 81% of manufacturing employers say they are facing a shortage of qualified workers, compromising their ability to compete globally.

Concern: Small business will be hurt under SB 2288.

- Most small businesses will not be affected by SB2288 because of how they are formed.
- SB2288 increases the corporate income tax, which is only paid by 'C' Corporations.
- Most small businesses are limited liability companies (LLC) or 'S' Corporations, not 'C' Corporations. That means most small businesses do not even pay the corporate income tax.
- Building renters will even eventually realize savings in reduced long-term rent as the property tax relief landlords receives is passes through the economy.

Concern: Will the property tax relief promised in this bill really happen?

- Local taxing bodies are required to show the property tax relief on every property tax bill—you'll know your tax relief to the penny.
- At a minimum, the state will now pay 20% of the operational education-related property taxes for all property taxpayers, homeowners and businesses alike.
- Additional property tax relief will be targeted to the poorest school districts with the highest property tax rates.
- This property tax relief will be increased annually for inflation.

Concern: Chicago will get all the money.

- Chicago will receive only its fair share, getting slightly less than 25% of the total GSA increase, which is commensurate with the percentage of Illinois' public school students served by the Chicago Public Schools.
- Chicago would receive the smallest amount of property tax relief.
- The collar counties receive almost the exact same amount of new money for their schools as Chicago.
- Downstate gets the most.

Concern: Property tax rates are higher in Downstate than in Cook and the Collar Counties.

- All property tax rates are inflated due to the over-reliance on property taxes to fund schools.
- Property wealthy districts get less General State Aid than property poor districts.
- Distressed communities will be targeted to receive a higher level of relief.

Concern: Will this give the Governor a blank check to spend our tax dollars?

- All revenues raised by SB2288 are allocated to either paying existing bills, funding schools or investing in infrastructure.
- There is no extra revenue for the governor.

Concern: Will this plan take money from my school district to give it to poorer schools?

- No school district can possibly lose one penny of funding under SB2288.
- The bill "brings the bottom and middle up, without tearing the top down." This ensures struggling schools will have the resources they need while preserving high-quality education in wealthier districts.

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