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Corporate Personal Property Replacement Tax Revenue and K-12 Education Funding in Illinois: The Intersection of Taxes and Education Policy: Volume II

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CORPORATE PERSONAL PROPERTY REPLACEMENT TAX REVENUE AND K-12 EDUCATION FUNDING IN ILLINOIS: THE INTERSECTION OF TAXES AND EDUCATION POLICY: VOLUME II

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1. Introduction

To create any public sector budget—whether it be for a school district, city or township, or state—the starting point is the amount of revenue available. Typically, most state and local revenue comes from taxes with which people are familiar, like individual income taxes, corporate income taxes, sales taxes, excise taxes, and property taxes.[1] In addition to those more familiar revenue sources, Illinois assesses a somewhat unique tax: the **Corporate Personal Property Replacement Tax,** or "**CPPRT**."

The CPPRT was established in 1979 by Public Act (P.A.) 81-1255 during a special session of the 81st Illinois General Assembly.[2] As the name implies, it was implemented to replace a Tangible Personal Property Tax which local governments were permitted to levy on businesses prior to 1979.[3] The former personal property tax generated revenue solely for local governments, rather than the state, and was based on the value of items utilized in the production of a business's products or services. Today forty-three states and the District of Columbia still permit local governments to assess a personal property tax against business.[4]

The CPPRT generates revenue for local governments through a levy made against the net, taxable income of all Illinois businesses, irrespective of whether they are formed as a partnership, limited liability company ("**LLC**"), or S-Corporation, all of which are exempt from paying the Illinois state corporate income tax, irrespective of profitability.[5] This is because the Tangible Personal Property Tax which the CPPRT replaced was similarly levied against the assets of all businesses sited in Illinois, irrespective of their corporate form.[6]

The levy assessed under the CPPRT varies by business type. Under the CPPRT, a tax rate of 2.5 percent is levied against the taxable income of traditional C-Corporations, which are the only businesses subject to the state's corporate income tax.[7] Meanwhile a lesser tax rate of 1.5 percent is levied against the net taxable incomes of partnerships, trusts, most LLC's, and S-Corporations, which collectively constitute the vast majority of businesses organized in Illinois.[8] Finally, a tax rate of 0.8 percent is levied against the net taxable income of utility companies.[9] The CPPRT is collected by the state, and then disbursed in full to local governments and other taxing districts across Illinois.[10] Like the Tangible Personal Property Tax it replaced, the CPPRT is not a state-level revenue source.

In recent years the revenue generated by the CPPRT has spiked significantly. Between fiscal year 2019 and fiscal year 2023, the total amount of CPPRT revenue generated across Illinois more than tripled, jumping from $1.33 billion to $4.54 billion.[11]

This is due to a number of relatively unique economic circumstances that transpired during this revenue spike, including: the release of pent-up consumer spending that occurred after pandemic restrictions were eased, [12] higher than normal rates of inflation, [13] and many corporations taking advantage of inflationary trends generally and supply chain issues specifically to price gouge and thereby generate record profits. [14]

In fact, corporate profits in the United States increased by a whopping 54 percent between April of 2020 and December of 2021.[15] That was almost five times greater than the 11.4 percent growth in corporate profits over the 1979 – 2019 sequence, as shown in **Figure 1**.[16]

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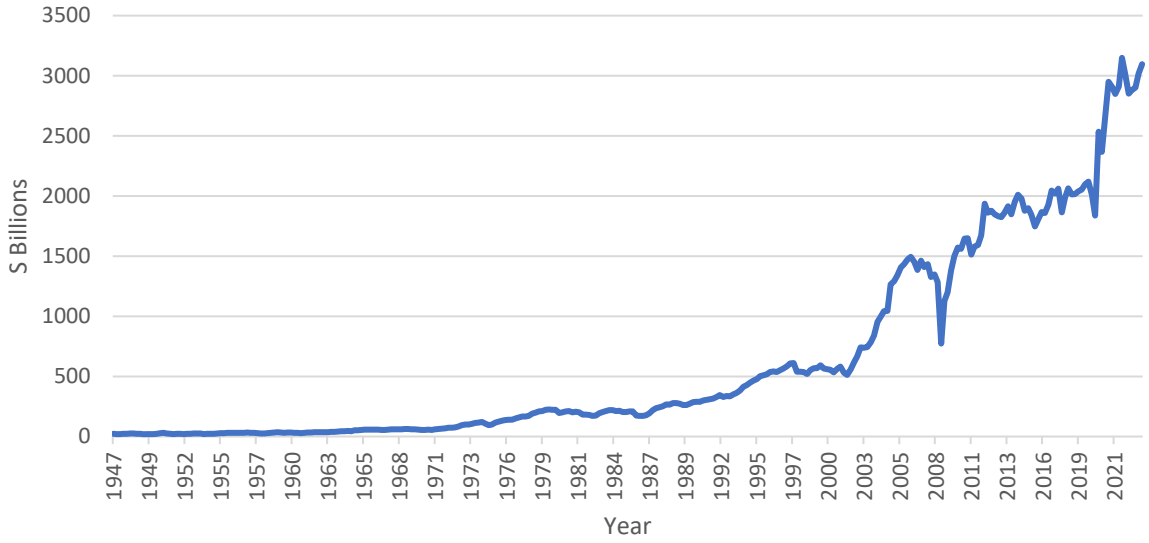
Figure 1
US Corporate Profits 1947-2023



Source: U.S. Bureau of Economic Analysis, Corporate Profits After Tax (without IVA and CCAdj) [CP], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CP

Part of the reason for the recent jump in corporate profitability can be explained by businesses engaging in widespread price gouging during a period of high inflation. Paul Donovan, chief economist of global wealth management for UBS Bank, noted that this price gouging occurred because "resilience in demand has given companies the confidence to raise prices faster than costs."[17]

In addition to those national economic factors, Illinois policy makers recently eliminated certain state-level corporate tax expenditures, which in turn made a greater amount of corporate profits subject to taxation, and concomitantly increased CPPRT revenue.[18]

While the record spike in CPPRT revenue caused by the aforesaid factors has greatly benefited local governments across the state—including school districts—the full impact on school districts of this revenue bump is somewhat more nuanced, given how the state's school funding formula—the Evidence Based Formula for Student Success Act or "**EBF**," adjusts for local revenue realized by school districts, including revenue from the CPPRT.

For instance, inflation hit a 40-year high in FY 2023,[19] and needless to say, 40-year highs are rare. Most projections show that inflation will decline over the next few years and return to the Federal Reserve's target rate of two percent.[20] Whenever key economic data—like corporate profitability and inflation—are hitting record highs, it is very unlikely those highs will be sustainable. That is certainly the case now, with many economists projecting a recession in the next 12 to 24 months.[21] All of which means it is not likely that the recent surge in CPPRT revenue will continue.

In fact, current projections for CPPRT revenue to school districts in the FY 2025 EBF are already some $400 million less than they were in FY 2024. [22] As CPPRT revenue begins to decline in the coming years, the educational services previously funded by some of the unexpected growth in CPPRT revenue will have to be funded with other revenue sources or be cut.

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2. Tangible Personal Property Taxes

Local governments in Illinois levied the Tangible Personal Property Tax until the state's 1970 Constitution phased it out over a period of nine years, beginning in 1971 and continuing through 1979, inclusive.[23] The design of Illinois' former personal property tax was similar to taxes still being imposed on tangible personal property in states like Indiana, Florida, Kansas, Kentucky, Louisiana, Colorado, and Maryland.[24] Rather than being assessed against the appraised value of real estate and the buildings erected thereon like property taxes are, tangible personal property taxes are levied against the value of items inside those structures that can be physically touched or consumed, such as business equipment, work vehicles, forklifts, machinery, inventory, furniture, and other business equipment.[25]

Each state that implements a tangible personal property tax has its own "base" and compliance requirements. The "base" of a tax is whatever the tax is assessed against. For instance, Texas includes business inventory in its tangible personal property tax, while New Mexico does not. All states with a tangible personal property tax include business machinery and equipment, except for Wisconsin and Connecticut (North Dakota, South Dakota, and Minnesota levy against the value of all business machinery and equipment other than agricultural machinery and equipment).[26] States usually exclude personal use items from the base of a tangible personal property tax, and instead assess the tax on property utilized primarily in the conduct of business activities. Some states, however, do tax large, "durable assets," like boats, motor vehicles, and aircraft, that may be owned for individual, rather than business use.[27]

In general, a tax on tangible personal property raises revenue by multiplying a rate determined by either the state or local government, times the assessed value of the personal property in question. These taxes can be quite complicated, as the rates imposed may vary from community to community, and frequently involve utilizing different tax rates for different classes of property.[28] All that complexity and variation—even within a single state—typically creates issues with compliance and transparency.

3. The Illinois Corporate Personal Property Replacement Tax

Since 1979, Illinois local governments have not had the authority to tax tangible personal property.[29] To replace revenue lost from the repeal of that tax, the state created the CPPRT.

Figure 2
CPPRT Historical Timeline

Year	Events
Prior to 1970	Illinois local governments imposed a Tangible Personal Property Tax on business
1970	Illinois adopted a new state constitution which effectively repealed the Tangible Personal Property Tax, by phasing it out over nine years
July 1, 1979	Illinois enacted the Corporate Personal Property Replacement Tax to help local governments replace revenue lost due to the repeal of the Tangible Personal Property Tax[30]

Source: COGFA "Property Taxes in Illinois" 2005

Instead of placing a tax on the value of a business's equipment, the CPPRT imposes a levy against its profits, also known as its "taxable income."[31] Unlike the Illinois state corporate income tax, which only applies to traditional C-

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Corporations and hence exempts most businesses from taxation irrespective of profitability, under the CPPRT all businesses are subject to taxation whether formed as a partnership, trust, LLC, S-Corporation, or C-Corporation.[32] The broader applicability of the CPPRT makes sense, because the Tangible Personal Property Tax which the CPPRT replaced was similarly levied against the assets of all businesses sited in Illinois, irrespective of their corporate form.

Under the CPPRT, a tax rate of 2.5 percent is levied against the taxable income of traditional C-Corporations, which are the only businesses subject to the state's corporate income tax. Meanwhile a lesser tax rate of 1.5 percent is levied against the net taxable incomes of partnerships, trusts, most LLC's, and S-Corporations, which collectively constitute the vast majority of businesses organized in Illinois. [33] Finally, a tax rate of 0.8 percent is levied against the invested capital of utility companies. [34]

4. CPPRT Revenue Distribution

One unique characteristic of the CPPRT is how the aggregate revenue it generates is distributed to local governments. Currently, a local government will receive that percentage of the aggregate CPPRT revenue generated in a fiscal year in either Cook County, or, what is equivalent to its percentage share of the total revenue generated under the state's former Tangible Personal Property Tax, as that percentage share existed back in 1976 for eligible units of local government sited in Cook County, or in 1977 for all eligible units of local government sited elsewhere.[35] The local taxing districts that receive CPPRT funds include municipalities, libraries, school districts, and special road and bridge infrastructure entities.[36]

The Illinois Department of Revenue ("**IDOR**") collects all revenue generated by the CPPRT.[37] IDOR then deposits all such revenue into the Personal Property Tax Replacement Fund, for distribution to the aforesaid eligible local taxing districts. To make such distributions, IDOR first divides the aggregate CPPRT revenue generated in a fiscal year into two tranches.

The first tranche–which totals just over 51 percent of all CPPRT revenue generated in a given fiscal year–is set aside for distribution to the treasurer or other designated fiscal officer of local taxing districts sited solely in Cook County (the "**Cook County Share**"). The second tranche–which totals just under 49 percent of all CPPRT revenue generated in a given fiscal year–is set aside for distribution to the treasurer or other designated fiscal officer sited in the remaining 101 counties in Illinois (the "**Remaining State Share**").

After proportioning the total available revenue into the aforesaid two tranches, IDOR then distributes the Cook County Share directly to local taxing districts within Cook County, on the basis of each district's share of aggregate Personal Property Tax collections as they were realized in Cook County during the 1976 tax year. For example, if the total revenue collected from the Tangible Personal Property Tax in Cook County for the 1976 tax year was $1 million, and Local Taxing District A generated $10,000 of that total, Local Taxing District A would thereafter receive 1 percent of the Cook County Share of CPPRT revenue distributed in any year. A local taxing district's proportional share of CPPRT revenue is called its "**allocation factor**."[38]

IDOR then distributes the Remaining State Share to local taxing authorities located in the state's other 101 counties, using 1977 tax year allocations instead of 1976. IDOR makes eight distributions of CPPRT revenue each fiscal year ("**FY**")– in July, August, October, December, January, March, April, and May.[39]

Due to the economic factors and tax policy changes referenced in Section 1 of this Report, CPPRT revenue has increased substantially over the last three years, as shown in **Figure 3**.

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Figure 3
Historical Total Illinois State CPPRT
Revenue for all Taxing Districts (Nominal Dollars)

Fiscal Year	Amount ($ Millions)
FY 2013	$1,308.2
FY 2014	$1,371.0
FY 2015	$1,434.5
FY 2016	$1,320.5
FY 2017	$1,466.8
FY 2018	$1,227.4
FY 2019	$1,327.8
FY 2020	$1,453.4
FY 2021	$1,843.5
FY 2022	$4,018.4
FY 2023	$4,541.8
FY 2024 (estimated)	$3,235.4

Source: IDOR PPRT FY 2013-FY 2024 estimated comparison

Between FY 2020 and FY 2023 (the "**Surge Years**"), total revenue from the CPPRT more than doubled, increasing by 212.5 percent or $3.088 billion. True, that portion of this spike in CPPRT revenue that was generated by the previously referenced changes in state law that made more business profits subject to taxation can be expected to continue going forward. However, much of this revenue spike is not sustainable because the unique economic circumstances delineated in Section 1 of this Report have run their course.[40] For instance, inflation is already trending down from the record levels reached in 2023, and that in turn will mitigate the opportunity for price gouging by corporations going forward.[41] In fact current estimates from IDOR are already projecting that CPPRT revenue for FY 2024 will be some $1.306 billion, or 28.8 percent less, than in FY 2023.

The anticipated downward trend in revenue from the CPPRT will of course impact all local governments that rely on it, but will have a particularly meaningful impact on the finances of local school districts due to the design of the EBF, and how it accounts for CPPRT revenue.

5. How CPPRT is Used in K-12 Funding under the EBF

The revenue which school districts collect from the CPPRT have a direct impact on two elements of the EBF:

(i) first, from an individual school district's perspective, the CPPRT revenue it collects in a given year in part determines how much of any new, year-to-year state funding that school district will receive under the EBF; and

(ii) second, from an overall formula standpoint, the aggregate amount of all CPPRT revenue that goes to funding all school districts in a given year reduces the aggregate amount of state-level resources required to fund the EBF fully.

During the Surge Years, the spike in CPPRT revenue reduced the gap the state needs to cover to fund the EBF fully by $1.9 billion, which is a positive. However that reduction is also somewhat ephemeral, because as CPPRT

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revenue declines from current levels in coming years, the funding gap Illinois needs to cover from state-based taxes will increase.

To understand how CPPRT revenue impacts the state funding a school district receives in a given fiscal year, a quick review of formula funding under the EBF is required. The EBF first determines how much funding a school district needs to educate the students it serves by calculating that district's "**Adequacy Target**," and then based on the portion of that Adequacy Target which is already covered by state and local funding, slots each school district into one of four funding Tiers, to ensure most new year-to-year state-level formula funding is distributed to those districts which have the greatest funding gaps.[42]

A district's Adequacy Target is the dollar amount needed to implement research and evidence-based educational practices that have been shown to improve student achievement, as well as to cover standard overhead costs such as building maintenance and back-office operations.[43] This calculation is based on a rolling three-year average of student enrollment ("**Average Student Enrollment**" or "**ASE**") for the district in question, and is adjusted to account for the unique demographics of the students who attend such school district, including whether or not a particular student is low-income, an English learner, or has special needs.[44]

After a district's Adequacy Target for a given fiscal year is determined, the EBF identifies how much of said Adequacy Target is currently being covered by the sum of: (i) local resources, plus (ii) state level tax revenue. Federal funding is not considered under the EBF. The total amount of revenue a district has from state and local sources in a given year is defined under the EBF as its "**Final Resources**."[45]

To determine the amount of Final Resources that should be covered by local district resources, the EBF starts by identifying a district's "**Local Target Capacity**" or "**LTC**," which is the amount of property taxes the district in question should be collecting for the applicable fiscal year, and then adds thereto the actual CRPPT revenue the district in question is credited with actually collecting in such fiscal year.[46] A district's LTC is predominantly based on the "**Equalized Assessed Value**" or "**EAV**" of the real taxable property within the school district in question.

The calculation of LTC under the EBF is not based on the actual property tax revenue collected by the district in question, but rather how much property tax the district ideally would be collecting, given its EAV relative to the EAV of all other districts.[47] This calculation is designed so that those districts with lower EAVs—which typically have relatively high property tax rates—are expected to assume less responsibility to cover the cost of their respective Adequacy Targets than they traditionally did under the state's prior, inequitable school funding formula. This is done because one of the goals of the LTC calculation is to shift more responsibility for funding K-12 public education to the state, and away from local property tax revenue, especially in communities with lesser EAVs.

Next, the EBF includes in the calculation of Final Resources attributable to local sources, the actual CPPRT revenue a district collected in that calendar year which occurred two years prior to the fiscal year in question. [48] For example, the amount of CPPRT revenue a district collected in calendar year 2022 is included in the calculation of its Final Resources for FY 2024.

Finally, the EBF identifies the portion of Final Resources made up of state revenue by adding the dollar value of a district's "**Base Funding Minimum**" or "**BFM**" into the Final Resources total.[49] The BFM of a school district in a given fiscal year is the total dollar amount of EBF formula funding that school district received in the immediately preceding fiscal year.[50] For example, in FY 2024, a district's BFM would be the total amount of EBF formula funding it received from the state in FY 2023. A district's BFM increases annually by any year-to-year increase in state EBF formula funding it receives in a fiscal year.[51]

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Once a district's Adequacy Target and Final Resources for a fiscal year are determined, the EBF uses these factors to slot school districts into one of four funding Tiers, to ensure most new year-to-year formula funding from the state is distributed to those districts that have the largest percentage funding gaps. The EBF identifies those funding gaps by dividing each district's Final Resources by its Adequacy Target, to determine its "**Percentage of Adequacy**."[52]

All school districts in the state are then assigned into one of four Tiers, based on their respective Percentages of Adequacy. Tier 1 districts have the greatest funding gaps between their existing Final Resources and their Adequacy Targets, Tier 2 districts have the second greatest gaps, Tier 3 districts are considered to be adequately funded, while Tier 4 districts have Final Resources that actually exceed their respective Adequacy Targets.[53]

Tier 1 districts receive the greatest share of any new, year-to-year state funding under the EBF, with Tier 2 districts receiving the second greatest share, down to Tier 4 districts which receive the smallest share.[54] From the initial implementation of the EBF in FY 2018 through FY 2023, Tier 1 districts have collectively received 87 percent of all new year-to-year state Tier funding, Tier 2 districts received 11.2 percent, while Tiers 3 and 4 received 0.9 percent and 0.1 percent respectively.[55]

A district's CPPRT revenue is one of the resources utilized in determining its Percentage of Adequacy, and hence its funding Tier. That in turn determines how much of any new state formula funding the district in question will receive in a particular fiscal year. So when a district's CPPRT revenue spikes, its Final Resources are inflated, which leads to a greater Percent of Adequacy for the district, and a corresponding reduction in the amount of new state funding it will receive in a given fiscal year.

Significant fluctuations in CPPRT revenue are particularly likely to create fiscal and budgeting concerns for school districts for a number of reasons—especially because a district's CPPRT revenue is not based on the current fiscal year, but rather on revenue realized two calendar years prior to the current fiscal year.[56]

6. The Recent Increase in CPPRT Revenue Realized by School Districts

Figure 4 shows how the spike in CPPRT revenue that occurred during the Surge Years impacted school districts across Illinois. In FY 2023, the aggregate amount of CPPRT revenue included in the Final Resources calculation for all school districts was $545.7 million, or 76 percent, greater than in fiscal year 2022, and in fiscal year 2024, the aggregate amount of CPPRT revenue included in the Final Resources calculation for all school districts was almost $1.3 billion, or 102 percent greater than it was in FY 2023.[57]

Figure 4
CPPRT Revenue Change for all 851 School Districts

CPPRT Revenue for all 851 School Districts	Calendar Year 2021 (EBF FY 2023) Amount	2021 Calendar Year (EBF FY 2023) Change from CY 2020 (EBF FY 2022)	Calendar Year 2022 (EBF FY 2024) Amount	2022 Calendar Year (EBF FY 2024) Change from CY 2021 (EBF FY 2023)	Total Change Calendar Years 2020-2022
CPPRT $	$1,268,038,087	$545,720,839	$2,565,663,203	$1,297,625,116	$1,843,345,955
Percent CPPRT	-	76%	-	102%	255%

Source: CTBA analysis of IDOR FY PPRT/ISBE calendar year PPRT data

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To illustrate how materially this surge in CPPRT revenue could impact a school district's funding under the EBF, consider the following two case studies involving Effingham CUSD 40 ("**CUSD 40**"), and School District 299, also known as "**Chicago Public Schools**" or "**CPS**."

As shown in **Figure 5**, CUSD 40 received meaningful year-to-year bumps in CPPRT revenue from FY 2022 to FY 2023, as well as from FY 2023 to FY 2024. Over this two-year sequence, the importance of the CPPRT as a revenue source for the district more than tripled, jumping from 2.57 percent of total district resources to almost 8 percent in FY 2024. That two-year increase in CPPRT was so significant that it ultimately bumped CUSD 40 out of Tier 2 and into Tier 3, as CUSD 40's overall Percent of Adequacy rose from 83 percent all the way up to 95 percent.[58] This significantly reduced the amount of new, year-to-year state funding that CUSD was eligible to share in, from $71,118.94 (the Tier 2 allocation for FY 2024), to $36,252.31 (the Tier 3 allocation for FY 2024).[59]

Figure 5
CPPRT Revenue for Effingham CUSD 40

	FY 2022 EBF	FY 2023 EBF	FY 2024 EBF	Change (FY 2022-FY 2024)
Total CPPRT Revenue	$677,234	$1,188,894	$2,405,551	$1,728,317 (255%)
CPPRT Revenue as a Percent of Total Resources	2.57%	4.27%	7.97%	5.4 Percentage points
Tier Allocation Based on the Total Percent of Final Resources Compared to Adequacy	Tier 2 – 83%	Tier 2 – 87%	Tier 3 – 95%	12 Percentage points

Source: ISBE EBF FY 2022 – FY 2024 Comparison

In addition to the surge in CPPRT revenue, other factors played a role in moving CUSD 40 closer to its Adequacy Target, and hence out of Tier 2 and into Tier 3. For instance, ASE in CUSD 40 decreased by 3.13 percent between FY 2023 and FY 2024, while the district's low-income student count decreased by 10.79 percent.[60] The loss of student population generally and low-income student population specifically, reduce the overall Adequacy Target of resources a district needs under the EBF. The bottom line, however, is that moving into Tier 3 meant that Total new tier funding from the state for CUSD 40 decreased by $34,867 or 49.03 percent in FY 2024 from FY 2023 levels.[61]

Then there is the case of CPS. In FY 2022, CPS had $193 million of CPPRT revenue, accounting for 5.16 percent of all of CPS's Final Resources that fiscal year.[62] As shown in **Figure 6**, in FY 2023, CPPRT revenue for CPS jumped by over $146 million, or a little more than 75 percent, followed by another jump in FY 2024 of $347 million.[63] By FY 2024, CPPRT revenue constituted just over 15 percent of CPS's aggregate Final Resources.[64]

Figure 6
CPPRT Revenue for CPS District 299

	FY 2022 EBF	FY 2023 EBF	FY 2024 EBF	Change (FY 2022-FY 2024)
Total CPPRT Revenue	$193,437,215	339,581,758	$687,079,376	493,642,161 (255%)
CPPRT Revenue as a Percent of Total Resources	5.16%	8.16%	15.13%	9.97 Percentage points
Tier Allocation Based on the Total Percent of Adequacy	Tier 1 - 68%	Tier 2 - 75%	Tier 2 - 81%	13 Percentage points

Source: ISBE EBF FY 2022 – FY 2024 Comparison

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As with CUSD 40, historic highs in CPPRT revenue help explain why CPS moved into the next higher funding Tier under the EBF over the last two fiscal years. Also, like CUSD 40, other factors—including a reduction in total ASE as well as a reduction in low-income student count, played a role in bumping CPS from Tier 1 into Tier 2.[65] This change in Tiers for CPS was consequential. When CPS moved from a Tier 1 district to a Tier 2 district in FY 2023, the district lost just over half—52 percent—of its anticipated share in new, year-to-year state Tier funding.[66]

For CPS these trends—a reduction in total ASE, coupled with a reduction in low-income students, as well as a sharp increase in CPPRT revenue, continued into FY 2024. As shown in **Figure 6**, CPPRT revenue constituted 15.13 percent of CPS's Final Resources in FY 2024, up from 8.16 percent in FY 2023.[67] Meanwhile between FY 2023 and FY 2024, total ASE in CPS decreased by 3.13 percent, while the district's low-income student count decreased by 4.68 percent, both of which reduced the district's Adequacy Target.[68] Those reductions in Adequacy Target, when combined with CPS's 102 percent increase in CPPRT revenue, and hence greater Percentage of Adequacy, meant that the amount of new Tier funding from the state CPS received in FY 2024 was 13.53 percent less than it was the prior fiscal year.[69] Figure 7 shows the change between the ASE, Low-Income Student count, and the subsequent percent change in New Tier Funding from FY 2023 to FY 2024.

Figure 7
Effingham CUSD 40 and CPS District 299 Change in EBF Metrics
FY 2023 to FY 2024

Change Between FY 2023 and FY 2024	Effingham	CPS
Average Student Enrollment (ASE)	-3.13%	-3.13%
Low Income Student Count	-10.79%	-4.68%
New Tier Funding (Percent Change)	-49.03%	-13.53%

Source: ISBE EBF FY 2022 – FY 2024 Comparison

A major fiscal complication that arises from using CPPRT as a part of local resources is that it allocates revenue to school districts in accordance with their respective collections of Tangible Personal Property Tax revenue in either 1976 or 1977, depending on whether or not the district is in Cook County. Much has changed in the Illinois landscape over the last half-century, demographically, industry-wise, and economically.

Which means the allocation formula used in the CPPRT is outdated and no longer representative of where businesses exist geographically in Illinois. For example, in FY 2024, CPPRT revenue made up nearly 65 percent of the total Final Resources for Monticello CUSD 25 ("**CUSD 25**").[70] Part of the reason CPPRT revenue comprises such a significant portion of CUSD 25's revenue is that, in 1977 large businesses like Illinois Power and General Cable were sited in CUSD 25's community—allowing it to collect significant revenue from its assessment of the Tangible Personal Property Tax. Those industries have gone, yet the district's CPPRT revenue share is determined as if they still exist.

Other districts that did not have as strong of a business or industrial presence in 1976 or 1977 are likely receiving significantly lesser shares of CPPRT revenue, even if they are now home to bigger business entities. This effectively means that CPPRT taxes paid by a business sited in one community are being transferred to the benefit of a school district sited in a different community, based on antiquated allocation design.[71] Fixing these distortions will not be easy—as certain districts would stand to lose significant funding for their schools through any modernization of

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the CPPRT allocation formula, and should be held harmless by the state to ensure their financial condition is not impaired.[72]

7. How CPPRT has Impacted Adequacy Gaps

The case studies of CUSD 40 and CPS highlight some of the more dramatic impacts the surge in CPPRT revenue has had on K-12 education funding at the district level. But how did that surge impact Adequacy Percentages of districts across the state?

This question is best answered by determining what the CPPRT revenue increase over the last two fiscal years would have been, if it had grown at historical rates over the Surge Years, rather than spiking as it did. From calendar year ("**CY**") 2012, up until CY 2019 (the last "normal-growth" year), the average year-over-year increase in statewide CPPRT revenue was a meager 0.02 percent.[73] **Figure 8** shows the actual CPPRT revenue realized by school districts statewide for each of FY 2022, FY 2023, and FY 2024, (which are based on CY 2020, CY 2021, and CY 2022, respectively) versus what that revenue would have been if it had grown at its historical average of 0.02 percent annually (the "**Historic Modeled Revenue Amount**") instead of spiking as it did.

Figure 8
Actual CPPRT Amount vs. Modeled Revenue Amount
FY 2022 – FY 2024 (CY 2020-2022)

	Actual	Modeled	Difference
FY 2022 (CY 2020)	$722,317,248	$613,635,599	$108,681,649
FY 2023 (CY 2021)	$1,268,038,087	$613,758,326	$654,279,761
FY 2024 (CY 2022)	$2,565,663,203	$613,881,077	$1,951,782,126

Source: ISBE EBF FY 2024 and CTBA analysis using IDOR PPRT Monthly Disbursements and ISBE EBF Calculation FY 2024

As **Figure 8** highlights, the aggregate Historic Modeled Revenue Amount for FY 2024 was $613,881,077, or fully $1.95 billion less than the actual CPPRT revenue for that fiscal year. The next step is to determine how the Historic Modeled Revenue Amount would have been distributed among the state's 851 school districts, and thereby change the calculation of each district's Final Resources and Percent of Adequacy from what actually occurred during the Surge Years to what would likely have occurred if CPPRT revenue had grown at historical rates. That calculation in turn will show which funding Tier under the EBF each district would have been slotted into if the surge in CPPRT revenue did not occur. This will indicate how many districts changed funding Tiers due, at least in part, to the surge in CPPRT revenue that occurred from FY 2022-FY 2024.

After allocating the Historic Modeled Revenue Amount across every school district in Illinois, all but one of the state's 851 school districts realized a decrease in its respective modeled Percentage of Adequacy from its actual Percentages of Adequacy. The single district that did not realize a decrease is a district that is not eligible to receive any CPPRT revenue in the first place.[74]

That outcome really is no surprise: the unprecedented increase in CPPRT revenue that occurred over the Surge Years has been so out of line with historical year-over-year increases that practically every district experienced an unanticipated increase in its Final Resources and hence Percentage of Adequacy.[75]

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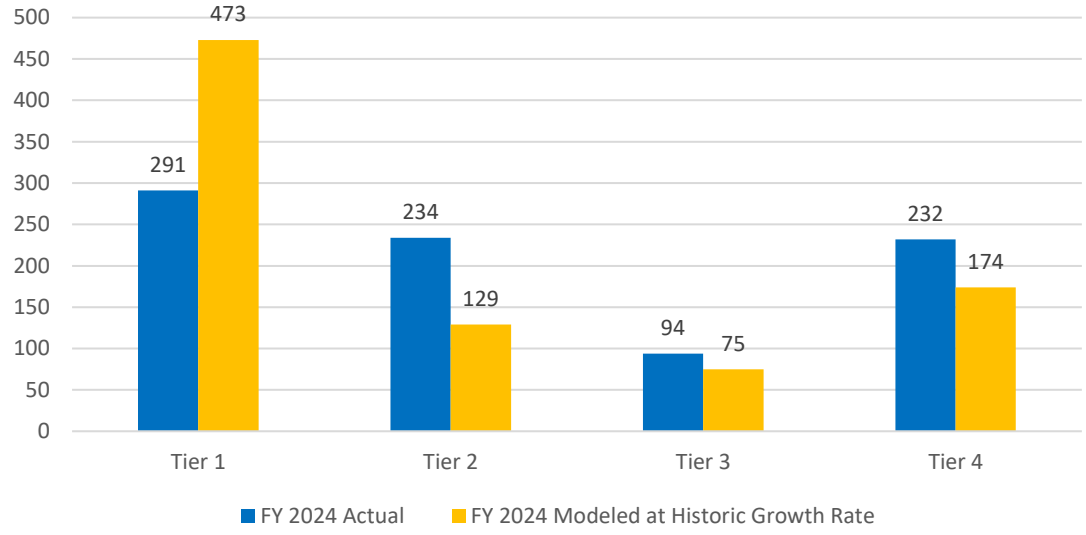
As shown in **Figure 9**, one clear statewide consequence of the recent surge in CPPRT revenue has been more districts being pushed into higher funding Tiers, and hence eligible to share in less of the new state Tier funding than they would have if CPPRT revenue growth over this sequence had comported with historical experience. This is especially the case when it comes to Tier 1, which would have included 473 districts in FY 2024 if CPPRT revenue had grown at historical rates, rather than the 291 districts actually slotted into Tier 1 in FY 2024 after the CPPRT revenue surge.[76]

Figure 9
EBF Tier Distribution Differentials Between Historical CPPRT Revenue Growth Rates and FY 2024 Actuals



Source: ISBE EBF FY 2024; CTBA analysis using ISBE EBF FY 2024 and IDOR CPPRT Revenue CY 2012-2019

The second clear consequence of the recent surge in CPPRT revenue has been a significant reduction in the statewide Adequacy Gap. **Figure 10** shows the difference in statewide Adequacy Gap between the actual FY 2024 CPPRT revenue used in the EBF, and the modeled calculation thereof using the Historic Modeled Revenue Amount for FY 2024 instead. If CPPRT revenue had grown at its historical rate rather than surging as it did, the statewide Adequacy Gap in FY 2024 would be almost $4.2 billion, which is $1.6 billion or 61.5 percent greater than the actual $2.6 billion Adequacy Gap in FY 2024.[77]

Figure 10
Aggregate EBF Statewide Adequacy Gap Differential Between Historical CPPRT Revenue Growth Rates and FY 2024 Actuals

FY 2024 Actual Statewide 90% Adequacy Gap	FY 2024 Model Statewide 90% Adequacy Gap	Difference ($)	Difference (%)
($2,589,124,914)	($4,189,531,094)	$1,600,406,180	61.8%

Source: ISBE EBF FY 2024; CTBA analysis using ISBE EBF FY 2024 and IDOR CPPRT Revenue CY 2012-2019

Figure 11 shows the differential in the aggregate dollar amount of the Adequacy Gap by region between actual CPPRT revenue in FY 2024, and the Historic Modeled Revenue Amount for FY 2024. While the surge in CPPRT revenue reduced Adequacy Gaps across Illinois, **Figure 11** shows the greatest aggregate dollar reductions were

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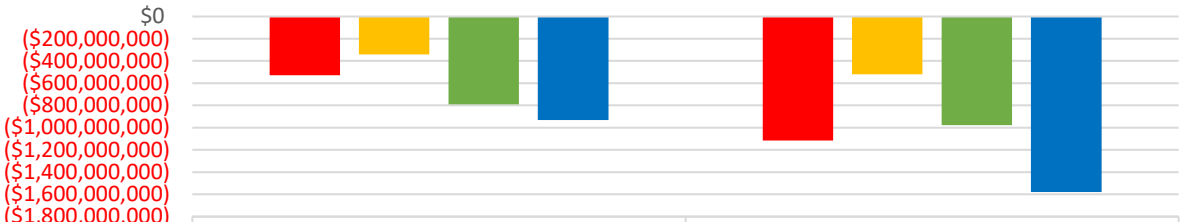
realized in CPS and Downstate. Again, that is not surprising given CPS is the largest school district in the state with an ASE in FY 2024 of 321,896, while more students attend public school in Downstate districts than in any other region of the state.[78]

Figure 11
Aggregate EBF Adequacy Gap Differentials by Region Between Historical CPPRT Revenue Growth Rates and FY 2024 Actuals



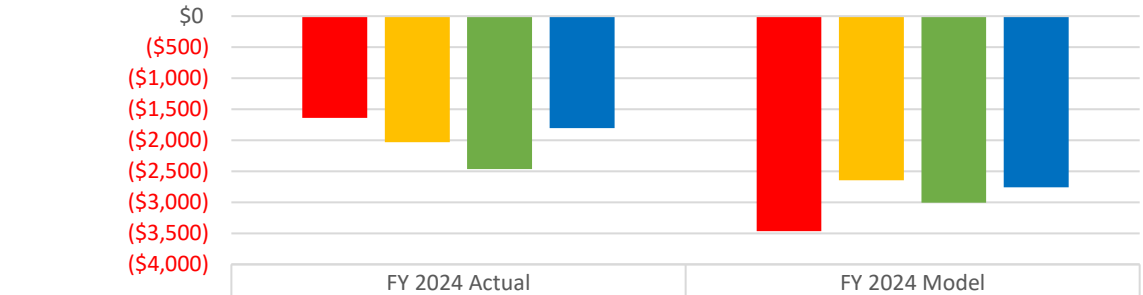
	FY 2024 Actual	2024 Model
CPS	($526,919,184)	($1,114,993,131)
Cook County	($341,527,487)	($519,259,676)
Collar Counties	($790,875,367)	($977,876,776)
Downstate Districts	($929,802,876)	($1,577,401,512)

CPS Cook County Collar Counties Downstate Districts

Source: ISBE EBF FY 2024; CTBA analysis using ISBE EBF FY 2024 and IDOR CPPRT Revenue CY 2012-2019

Another, and more informative way to illustrate how the surge in CPPRT revenue impacted school districts across Illinois is shown in **Figure 12**, which delineates the differential in Adequacy Gap per pupil by region in FY 2024, when using actual EBF Final Resource amounts versus the Historic Modeled Revenue Amount. The differential in Adequacy Gap per pupil provides a more meaningful way to illustrate how the unprecedented jump in CPPRT revenue has likely impacted finances at the district level.

Figure 12
EBF Per Pupil Adequacy Gap Differentials by Region Between Historical CPPRT Revenue Growth Rates and FY 2024 Actuals



	FY 2024 Actual	FY 2024 Model
CPS	($1,637)	($3,464)
Cook County	($2,032)	($2,646)
Collar Counties	($2,462)	($3,006)
Downstate Districts	($1,806)	($2,759)

CPS Cook County Collar Counties Downstate Districts

Source: ISBE EBF FY 2024; CTBA analysis using ISBE EBF FY 2024 and IDOR CPPRT Revenue CY 2012-2019

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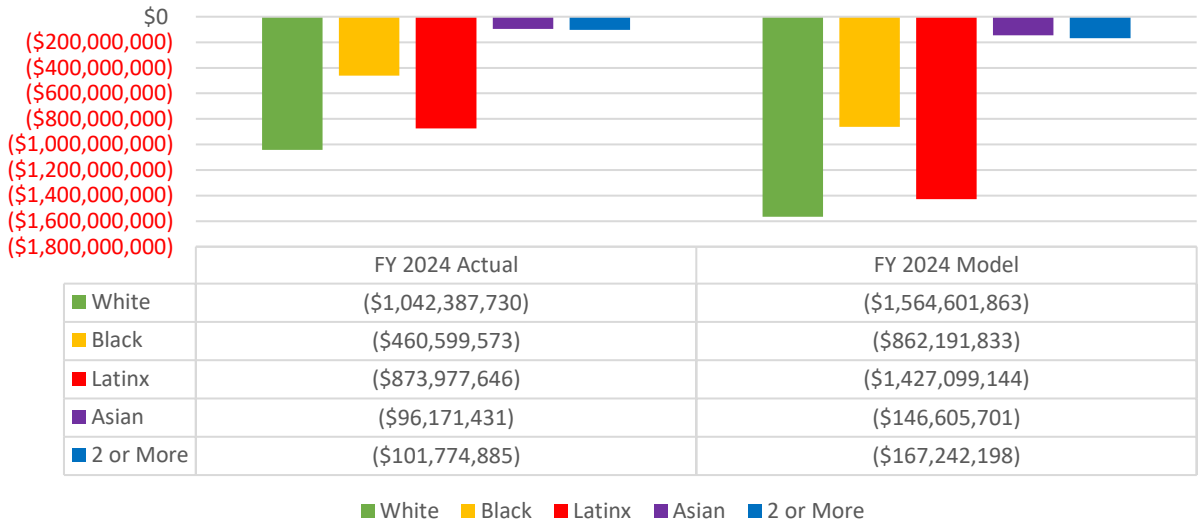
By far and away, CPS realized the greatest reduction in Adequacy Gap per pupil due to the recent escalation of CPPRT revenue. Based on historical CPPRT revenue growth, the per pupil Adequacy Gap for CPS in FY 2024 would have been $3,464—which is fully $1,827 or 112 percent *more* than the actual per pupil Adequacy Gap of $1,637 CPS realized in FY 2024. No other region in the state realized a differential of even $1,000 in the per pupil Adequacy Gap between its actual funding level in FY 2024 and what that funding level would have been using the Historic Modeled Revenue Amount.

The actual decline in the per pupil Adequacy Gap CPS realized during the Surge Years was truly meaningful. Consider that as recently as FY 2022, the per pupil Adequacy Gap was $3,438 for CPS, which was the greatest such gap in any region of Illinois.[79] Then as the Surge Years progressed, that per pupil Adequacy Gap dropped to $2,589 in FY 2023, and then dropped again down to $1,637 in FY 2024.[80] This was such a significant decline that CPS went from having the highest Adequacy Gap of any region in the state to having the lowest.[81]

Figure 13 shows the differential in aggregate dollar Adequacy Gap faced by each of the main racial and ethnic groups in Illinois between the actual amount determined under the EBF for FY 2024, versus what that gap would have been if, instead of spiking during the Surge Years, CPPRT revenue grew at historical rates.

Figure 13
Aggregate EBF Adequacy Gap Differentials by Race/Ethnicity Between Historical CPPRT Revenue Growth Rates and FY 2024 Actuals



	FY 2024 Actual	FY 2024 Model
White	($1,042,387,730)	($1,564,601,863)
Black	($460,599,573)	($862,191,833)
Latinx	($873,977,646)	($1,427,099,144)
Asian	($96,171,431)	($146,605,701)
2 or More	($101,774,885)	($167,242,198)

Source: ISBE EBF FY 2024; CTBA analysis using ISBE EBF FY 2024 and IDOR CPPRT Revenue CY 2012-2019

Note that while all racial groups faced lower Adequacy Gaps in FY 2024 than they would have if CPPRT had grown at historical rates, the actual Adequacy Gap for Black students in FY 2024 was almost half of what it would have been using the Historic Modeled Revenue Amount. This means that as CPPRT revenue growth begins to revert back to historical levels, the growth in the Adequacy Gap faced by Black students can be expected to increase at a greater rate than it will for other racial and ethnic groups in the state.

Figure 14 shows the differential in per pupil Adequacy Gap by race/ethnicity between the actual amount determined under the EBF for FY 2024, versus what that gap would have been if, instead of spiking during the Surge Years, CPPRT revenue grew at historical rates.

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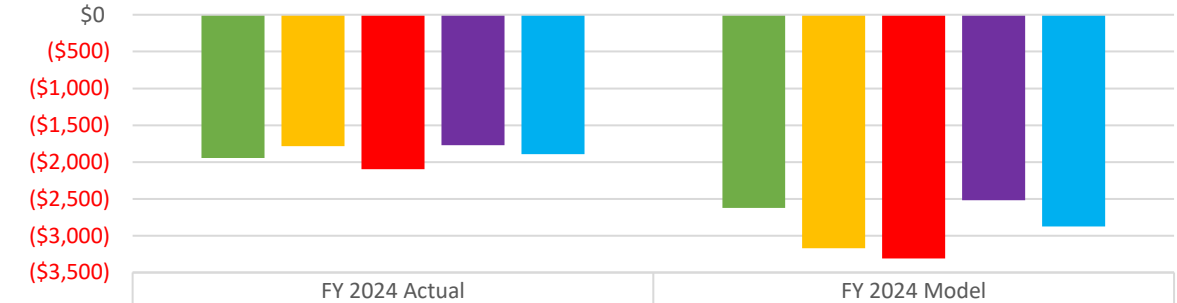
Figure 14
EBF Per Pupil Adequacy Gap by Race/Ethnicity Differential Between Historical CPPRT Revenue Growth Rates and FY 2024 Actuals



	FY 2024 Actual	FY 2024 Model
White	($1,945)	($2,625)
Black	($1,784)	($3,169)
Latinx	($2,096)	($3,311)
Asian	($1,770)	($2,517)
2 or More	($1,895)	($2,876)

Source: ISBE EBF FY 2024; CTBA analysis using ISBE EBF FY 2024 and IDOR CPPRT Revenue CY 2012-2019

Due in large part to the spike in CPPRT revenue that occurred during the Surge Years, FY 2024 was the first year in which the per pupil Adequacy Gap for Black students was actually lower than the per pupil Adequacy Gap for white students.[82]

However, that meaningful reduction in the per pupil Adequacy Gap faced by Black students is in all likelihood not sustainable. Note that, as shown in **Figure 14**, if instead of spiking during the Surge Years CPPRT revenue had grown at historical rates, the per pupil FY 2024 Adequacy Gap faced by Black students would have been $3,169—rather than the $1,784 it actually was in FY 2024, or $544 more than the per pupil Adequacy Gap faced by white students.[83] Once again, as CPPRT revenue growth reverts back to historical rates, the per pupil Adequacy Gap faced by Black students will in all likelihood grow at a faster rate than it will for white students.

8. Looking Ahead

The spike in CPPRT revenue that occurred during the Surge Year was a mixed blessing. On the one hand, it did help close the statewide Adequacy Gap at a faster rate than anticipated—which is good. On the other hand, the CPPRT is a local revenue source, so the spike that occurred during the Surge Years effectively shifted more K-12 funding to local rather than state level resources, which is not ideal in Illinois, which already relies more on local revenue to fund K-12 education than any other state in the nation.[84]

Indeed, in addition to creating an adequate and equitable way to fund K-12 education, the EBF was also intended to shift a portion of the responsibility to fund public education away from local resources and onto state-based resources—an intention that was in part frustrated by the recent spike in CPPRT revenue.

Moreover, the record gains realized in CPPRT revenue during the Surge Years cannot be expected to continue. While the tax expenditures for businesses eliminated by the state in FY 2022 increase the amount of business profits subject to the CPPRT levy, elimination of those tax expenditures was neither the only, nor primary reason CPPRT revenue spiked during the Surge Years.[85] Inflation hit a 40-year high in FY 2023,[86] and needless to say,

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40-year highs are rare. Most projections show that inflation will decline over the next few years and return to the Federal Reserve's target rate of two percent.[87]

In fact, IDOR projects that for FY 2025, the aggregate amount of CPPRT revenue available to school districts statewide will be $2.1 billion, a decrease of roughly $400 million from FY 2024. [88] Given that the FY 2025 General Fund appropriation of new year-to-year Tier funding for the EBF is set at $300 million, it is also clear that enhanced funding from the state will fall some $100 million short of replacing the anticipated decline in CPPRT revenue for the fiscal year.[89] This in turn means the aggregate Adequacy Gap is likely to be worse at the end of FY 2025 than it was at the end of FY 2024.

Over time, CPPRT revenue growth will in all probability revert back to its historical average annual rate of 0.02 percent (which is shown in **Figure 3** above). As CPPRT revenue growth reverts back to historical levels, the statewide Adequacy Gap will begin to worsen annually if the state maintains its current approach of increasing its year-to-year Tier funding by $300 million. Hence the amount of time it takes to fund the EBF fully will lengthen past current projections—which is an undesirable outcome to say the least.

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