

Let's eliminate property tax for schools

By Jim Nowlan

When it comes to school finance, Illinois is an embarrassment. We always rank 49th or 50th among the states on state funding for schools and in per pupil spending disparities among school districts.

I propose we totally eliminate the property tax for public schools and shift that amount of funding to state responsibility, which I believe we can do without pushing state taxes out of sight.

[Illinois local governments raised \$26 billion from the property tax in 2011; 59 percent of that amount went to public schools, or \$15.4 billion. Our property taxes rank 10th in the nation in burden at \$1,824 per capita in 2010.]

In a typical state, about 45 percent of public school funding comes from each the state and local governments, with 10 percent from the federal government. In Illinois, less than 30 percent comes from state sources, with about 60 percent from local property taxes, which stay with each local school district.

As a result, much more money is spent on kids from wealthy districts than for those in less well-off districts. I looked up spending for my rural school district of Stark County in central Illinois. The 2012 tax rate for the school district was \$5.63 per \$100 in equalized assessed valuation and the Stark school district spent \$9,300 per pupil.

Then I went to wealthy Winnetka on Chicago's North Shore, where New Trier High School combined with an underlying grade school district had a total tax rate of \$3.23 and spent almost \$20,000 per pupil across both districts.

Something is wrong with that picture. My local school children should not get by with less than half that spent in Winnetka. And this disparity is not unusual in Illinois. [That is why a recent analysis by Rutgers University gave Illinois one of only three F grades for school funding equity.]

It doesn't have to be.

Hawaii has just one school district for the state. All school funding comes from the state general fund and there is no property tax for schools, although the tax supports cities and counties.

[Iowa uses both state funds and the local property tax, but total per pupil funding across districts varies by only 3 percent.]

If we eliminated the property tax for schools, we would have to come up with \$15.4 billion in state resources, which I propose be distributed somewhat equally on a per pupil basis.

At present, the Illinois income and sales taxes have been narrowed by exemptions and never-taxed services to the tune of almost \$12 billion. To raise the \$12 billion, we would have to tax food for home consumption, retirement income (I would not tax Social Security income) and many services, as Iowa does (I would exclude taxation of business-to-business transactions).

In addition, we would have to increase the individual income tax a rate of 1 percent, which would generate more than \$3.4 billion.

Offsetting these taxes would be the elimination of three-fifths of your property tax bill, which for many would be several thousand dollars. Property taxes would drop from \$1,824 per person statewide to \$748, and Illinois would then rank 43rd from the top.

[I am not proposing to increase the total state and local tax burden, simply to shift much of it to state sources and off the property tax.]

[I would keep the property tax caps in place for the 5,000 local governments other than schools, so the remaining property tax could not grow rapidly, other than by taxpayer-approved referenda.]

As with any shift, there would be winners and losers.

Business would be a winner in most cases, especially in Cook County where business property is taxed much more heavily than elsewhere in the state. This would be good, as the business climate in Illinois is abysmal, and the corporate income tax rate is fourth highest in the nation.

Individuals with moderate incomes who live in pricey suburbs where home values are high would be winners on balance, based on my back of the envelope figuring, although there would be a significant drop in local district education funding per pupil.

There would also be a windfall for property owners, whose properties would increase in value because of the lower cost of owning their homes.

Downstaters, who often pay less property tax as a percent of their income than do suburbanites, might end up paying more in overall taxes, but school spending for their students would go up substantially (if per pupil spending were equalized as in Hawaii and Iowa).

And there would still be some funding inequity, as parents in wealthy districts would create foundations and do other fund-raising to ensure that their children have the best.

For decades, blue ribbon commissions in Illinois have struggled unsuccessfully with how to make school funding fairer. Given the difficulty of achieving change in Illinois, I am not innocent about the chances for my proposal, yet this offers a template for the direction in which to move.