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# Educational Fiscal Policy and Its Effects on How our Children Learn: Comparing Minnesota and Illinois

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# Educational Fiscal Policy and Its Effects on How Our Children Learn: Comparing Minnesota and Illinois

by Sally Anne Stenzel

**Abstract:** The study compares Illinois' and Minnesota's education fiscal policies. Illinois funds it's education system mainly from the local level, whereas Minnesota funds it's mainly from the state level. Thus, in Illinois, if there are discrepancies between household incomes in wealthier and poorer areas, the schools in wealthier areas would receive more money than those in poorer areas. Test scores are then compared. Illinois typically has lower scores than Minnesota. The conclusion is that Illinois' policies are hindering their students' learning, compared to Minnesota students, with some mixed results.

Minnesota State University, Mankato  
Undergraduate Research Conference  
April 27<sup>th</sup> & 28<sup>th</sup>, 2009



## **Introduction**

Minnesota and Illinois are both American states located in the Midwestern region. They both joined the union in the 19<sup>th</sup> century. While the state of Minnesota possesses a greater land area, Illinois has a greater population. These states have marked metropolitan areas that contain the majority of the states' populations – around 60 percent for both – surrounded by rural areas. Obvious similarities exist between these states. Illinois' median gross state product is \$54,141, while Minnesota's is \$55,664, which is comparable. (quickfacts.census.gov) As for differences, Illinois' gross state product is \$589,598 million, while Minnesota's is \$244,546 million. (Bureau of Economic Analysis) Therefore, it would be easy to imagine that Illinois would have a better funded education system if they have greater revenue, but that assumption is inaccurate.

## **Research Question and Hypothesis**

This paper will compare and contrast Illinois and Minnesota's educational fiscal policies to find if and how that affects the quality of public school students' educations. The hypothesis is that Minnesota students are learning better than Illinois students, because their state government is ensuring that there are fewer disparities between counties by providing the most of the education revenue, or in other words, providing equalization. This is unlike Illinois, where education is funded at the local level, so disparities may exist between wealthier and poorer school districts. This paper will look at laws detailing education budgets in both states, how districts are funded in both places, and finally, just how these policies affect how Minnesotan and Illinois children learn. A comparison of test scores demonstrates which laws are more effective. Other variable factors that may account for Illinois students performing poorer than Minnesota students are also examined. Finally, two other states – one that practices equalization, Michigan, and one that does not practice equalization, Ohio – are compared to see if the findings found with Minnesota and Illinois hold true.

Studying educational fiscal policy analysis is important. Until legislators find which education funding policies are the most effective, our school districts cannot be their most effective.

## Methods

The independent variable in this research is the funding systems of both Minnesota and Illinois. The two most important dependent variables are the performance of both states' students, measured by test scores, and the differences in funding between poorer and wealthier districts.

After the history of the two state's education fiscal policy reviewed, Figure 1 shows where their revenue comes from. I next examined the funding mechanisms of a sample of districts in both states that could represent rich or poor districts. Eight school districts from Minnesota are sampled in Figure 2. All of their median household incomes are shown; showing differences between rich and poor districts and how this may affect funding had Minnesota not chosen to use equalization. However, Figure 3 demonstrates how the majority of revenue comes through the state level. Eleven Illinois school districts are examined. The median household incomes of Illinois are shown in Figure 4. However, with Illinois, these numbers have more of an effect on school funding, because the state doesn't use equalization. The Figure 5 diagram shows how the majority of revenue comes through the local level in all but two school districts.

After that, I examined if and how the independent variable, the funding mechanisms, affected my dependent variable, the standardized test scores. So I examined four different statistics: 4<sup>th</sup>-grade Mathematics, 4<sup>th</sup>-grade Reading, 8<sup>th</sup>-grade Mathematics, and 8<sup>th</sup>-grade Reading. Figure 6 shows how Minnesota students scored higher in all tests. However, I expected to find a correlation between different foundation levels of districts, not just between states. So four different locales – city, suburb, town, and rural – were examined per state. Figure 7 demonstrates that every type locale in Minnesota outscored every type in Illinois.

Next, I examined other educational outcomes created by the funding mechanisms. These are demonstrated in Figures 8 and 9.

Finally, I examined two other states to see if the findings for Minnesota and Illinois had just applied to those states. First, the overall revenue was looked at in Figure 10. Next, the revenue of just a wealthy suburban district and a poor inner-city district are compared for both states in Figures 11 and 12. Then test scores were examined in Figures 13 and 14.

## **Minnesota Educational Fiscal Policy Overview**

In Minnesota, most of public schools' funding comes through state aid. The Minnesota House Research Department's "Minnesota School Finance: A Guide for Legislators" details where education funding comes from today. "The bulk of state support for elementary and secondary education is distributed to school districts through the general education revenue program, which provides money for the current operating expenditures of the districts." (para. 1) The rest of the state's appropriation to local districts comes through special purpose or categorical aids, such as special education aid and local property tax relief aids.

## **Illinois Educational Fiscal Policy Overview**

In contrast to Minnesota, Illinois mostly funds their school districts through local property taxes. An Illinois State University professor in the Department of Educational Administration and Foundations, Lucille Eckrich's paper, "Public School Funding in Illinois", writes that the majority of funding comes from the local level. (1)

In fact, the Center for Tax and Budget Accountability finds that "the current Illinois school funding program is a national disgrace" and that "inadequate, inequitable school funding system has had a severe, negative impact on student academic performance". (ctbaonline.org, para. 1, 2) Figure 1 is a comparison of Minnesota and Illinois' revenues. It shows the funds that come from the federal, state, and local governments.

([http://nces.ed.gov/programs/digest/d07/tables/dt07\\_163.asp](http://nces.ed.gov/programs/digest/d07/tables/dt07_163.asp)) Note that Illinois receives the majority of their funds from the local level, while Minnesota receives the majority of their funds from the state level. For this reason, Minnesota can better achieve equalization between wealthy and poor school districts.

## **Minnesota Educational Fiscal History**

Throughout the 20<sup>th</sup> century, Minnesota has tried to make their education funding more effective. After 1900, the state began appropriating some funding for schools. By the 1970-1972 House sessions, the legislature created the Minnesota state foundation aid program. This gave all districts a flat grant (or per pupil) unit. A pupil unit is a weighted enrollment measure to find how many students attend per district. They also gave some districts an extra "equalized" amount, which varied quite a bit depending on a district's property values. This ensured that all

lower-income districts could have funding more equitable with higher income areas. Under this system, state aid counted for around 43 percent of the running cost of schools, but expenditures varied widely, and unfairly, across districts. Between 1973 and 1983, the legislature adjusted the foundation aid formula by making it more in tune with districts without changing the formula's basic structure.

The 1983 legislative session put into place a new aid program that replaced many components of the previous foundation aid formula with five tiers of optional aid and levies. This new tiered system centered on equal access to revenues for all school districts and recognition of specific cost differences between lower- and higher-earning districts.

The new 1987 foundation aid program enacted, the general education revenue program, is the one currently used today. While it is now around twenty-years-old, it has remained relatively stable. It reflects that each school district has different funding needs and is, therefore, based on pupil counts and the extent of need for each school district. (House Research Department, para. 3, 4, 5, 6)

### **Illinois Educational Fiscal Policy History**

Illinois has had a tumultuous history involving its educational funding. State support started for schools in 1825 with the "Act providing for the Establishment of Free Schools". This law mandated rules for districts, such as how many schools should be in each district, and allowed the state to charge tuition, up to 50 percent of the cost per pupil, to families. However, it also gave state aid, 2 percent of the funds collected by the state treasurer, which was given out as flat grants, or equal dollars per pupil.

In 1855, a local property tax was instituted. This began a focus on local, not state, funding, that is still in place today. This system created for inequalities. Districts predominately made up of lower-income households had less funding for their schools than a wealthier district. In 1929, the "Equalization" formula was mandated. This gave more state aid to poorer districts and less aid to wealthier ones.

In 1933, the Great Depression caused the first state sales tax to be introduced solely to save schools from collapsing under financial strain. Unfortunately, school districts in Illinois

were still unequal. Thus, in 1938, high schools were included in the “Equalization” formula, which they had not been before. Also categorical grants, or aid from states that may only be spent for narrowly-defined purposes, such as bussing and special education, started to be given to school districts in that year.

In 1973, the “Resource Equalizer” formula provided large increases to state aid in a by-income basis. Therefore, areas with lower-income citizens would receive more funding. This system produced two results. The first being “Wealthy Neutrality”, which is a system in which personal resource levels, especially property valuation levels, and not tax rates, should determine expenditure levels. In other words, this means that how much income the citizens in a district make determines how much money they receive from the state for their schools. The previous status quo detailed that property values were the deciding factor for funds. Since housing in the inner city is so expensive, an urban dweller could not have a high income, but pay higher property taxes than someone who is wealthier than them. The second result is titled “Poverty Impaction Weighting”. While tax rates were high, the need for non-educational spending had kept education tax rates depressed. Therefore, poorer areas, such as the inner city, would not benefit from the “Reward for Effort” system. Often urban districts were spending their money keeping their city in order and would allocate funds to maintaining their streets, collecting garbage, etc and not on schools. Since they had allotted these funds elsewhere, the district would not get additional money from the state.

After 1973, a dual grant-in-aid system allowed districts to choose whether they wanted to use two different systems: one took into account lower-income districts, the other did not. The leaders of the Illinois Board of Education were nervous that districts would choose the one not appropriate for them due to the complicated “Reward for Effort” system.

Illinois ended the “Reward for Effort” program in 1980, because legislators did not want districts to keep raising taxes to receive more money. Also it was far easier for wealthier districts to pass referendums. Wealthy districts have more democratically-active citizens as they have more political knowledge and resources.



In 1982, the funding formula became a foundation approach with instituted, yet not mandated, tax rates. In other words, a district could still technically use the “Reward for Effort” system, but a district wouldn’t be penalized if they did not.

The “Resource Cast Model” (or RCM) was instituted in 1984. It stated that each district had its own foundation level. It involves categorical funding. RCM is based on a complicated system of calculation to determine each district’s foundation level. This has been the most direct attack on adequacy yet. (Karnes-Wallis, Hubbard, Elder, pgs. 3-13)

Figure 1 compares where Minnesota and Illinois districts receive their revenue. As per the hypothesis, Minnesota receives the bulk of their revenue from the state level, while Illinois receive the bulk of their revenue from the local level.

([http://nces.ed.gov/programs/digest/d07/tables/dt07\\_163.asp](http://nces.ed.gov/programs/digest/d07/tables/dt07_163.asp))

### **Minnesota Educational Fiscal Statistics**

The US Department of Education’s Institute for Education Sciences’ National Center for Education Statistics details funding source examples from seven Minnesotan public school districts, including Anoka-Hennepin, Minneapolis, Osseo, Rochester, Rosemount-Apple Valley-Eagan, South Washington County, and Saint Paul. These districts were chosen, because they all had more than 15,000 students. The St. Paul and Minneapolis districts make up the state’s metropolitan area. St. Paul’s median household income is \$38,774, whereas Minneapolis’ is \$37,974. Anoka-Hennepin, Osseo, Rosemount-Apple Valley-Eagan, and South Washington County are districts within the metropolitan suburb that generally can generate more money through income taxes. They are all middle- to upper-class areas. Anoka-Hennepin residents have a \$54,680 median income. The Osseo school district has a \$58,456 median. The Rosemount-Apple Valley-Eagan school district has a \$64,352 median income. The residents of South Washington County have a median household income of \$60,278. Rochester is a medium-sized city with median household income of \$49,090. The Minnesota average for a household income is \$47,111. (<http://censtats.census.gov>) All of these numbers are shown in a bar graph format as well in Figure 2. By showing the median income of various areas around the state, we may show disparities in wealthy and poor school districts. Luckily, for Minnesota’s less wealthy districts, the state’s funding mechanism equalizes them with districts that have more money.

In each of these districts, the most money comes from the state government, which accounts for 70% of the total revenue in 2007, followed by the local level, at 21%, and then followed by the federal level, at 7%. Note that these numbers do not account for private revenue. For example, in the Anoka-Hennepin school district, the state funds are \$288,128,000 per fiscal year, local are \$90,781,000, and federal are \$15,979,000. Since much of this paper focuses on disparities between inner-city districts and suburban or rural districts, it will examine that now by looking at the current expenditure per pupil of Minneapolis, the district with the lowest median income, and Rosemount-Apple Valley-Eagan, the district with the highest. The Minneapolis school district spends \$11,825 per student, while Rosemount-Apple Valley-Eagan spends only \$8,198. ([http://nces.ed.gov/programs/digest/d06/tables/dt06\\_088.asp](http://nces.ed.gov/programs/digest/d06/tables/dt06_088.asp)) This is unusual that an inner-city district spends more per pupil than a wealthy suburb. However, since Minneapolis is an urban area, they are just able to receive more funds, because there are more citizens to tax. For example, Rosemount, Apple Valley, and Eagan have a population of just 123,703 altogether, while Minneapolis has a population of 382,618, tripling the above number. ([quickfacts.census.gov](http://quickfacts.census.gov)) Also, many are now leaving urban areas for the suburbs, so more money can be allocated per student when they are less of them. Unfortunately, while those statistics did not work out in the way this paper predicted in the hypothesis, maybe the Illinois stats will. Nonetheless, the Figure 3 graph shows us that all districts in the state make the majority of their money from the state level.

### **Illinois Educational Fiscal Policy Statistics**

The National Center for Education Statistics (NCES) also details multiple Illinois counties. Ten school districts were included – the City of Chicago, Community Unit 300, Naperville, Peoria, Plainfield, Rockford, Springfield, U-46, Valley View, and Waukegan. The City of Chicago is Illinois' main metropolis with low foundation levels. City of Chicago residents have median household incomes of \$38,625. Naperville, Plainfield, Valley View, and Waukegan are generally wealthy suburban areas. Naperville's median income is \$88,771. Plainfield has a median income of \$69,772. \$64,295 is the median income of Valley View. Waukegan is at \$42,335. Community Unit 300, Peoria, Rockford, Springfield, U-46 are rural areas with median foundation levels. Community Unit 300 can claim a median residential household income of \$27,180. Peoria's median income is \$36,397. The median household

income is \$37,667 in Rockford, \$39,388 in Springfield, and a high \$66,612 in Elgin U-46. Illinois' median household income overall is \$46,590. (<http://censtats.census.gov>)

Illinois' state districts receive the most of their revenue from the local level, which accounts for 58% of the total, followed by the state level, at 32%, and followed by the federal level, at 9%. Illinois also brings in private revenue. Now we will look at funds on an expenditure per pupil basis to see if there are great disparities between districts. The City of Chicago spends \$8,695 per pupil, while a suburban area like Plainfield spends \$9,546, while a rural area like Elgin U-46 spends \$8,266. ([http://nces.ed.gov/programs/digest/d06/tables/dt06\\_088.asp](http://nces.ed.gov/programs/digest/d06/tables/dt06_088.asp)) The rural area is slightly less than the suburban area, as expected. However, the suburban district outshined both other districts. This shows that wealthy districts are funded better than poor districts.

While the most noticeable statistic of Figure 5 is the sheer volume of Chicago's revenue, the point is to note that the majority of Illinois' school districts are funded from the local level, except for Peoria and Waukegan.

In comparing Minnesota and Illinois educational funding side by side, the most noticeable difference is where the money comes from. In Minnesota, the bulk comes from the state; in Illinois, the local region. However, this paper has yet find that receiving the bulk of funding from the local level hinders students, so I will now look at the dependent variable, the test scores.

### **Educational Fiscal Policy Effects on Learning**

Now I will compare data on quality of education to find if different funding styles affects how children learn. The NCES has extensive data on public school standardized test scores. Minnesota's fourth-grade mathematics average scale score is 247, while in Illinois, it is 239. Minnesota fourth-grade students received a 225-average scale score in reading, while Illinois students' was 220. For the Minnesota eighth-grade students, their mathematics score was 291. Illinois students of the same grade scored 281. Finally, Minnesota eighth-graders scored 268 in reading, while Illinois eighth-graders scored 263. Minnesota students scored an average of 258 on their standardized tests, compared to Illinois students scoring an average of 251. (<http://nces.ed.gov/nationsreportcard/>) While the test score differences were not always drastic,

they were always evident. To the extent that a student's education is measured by test scores, Minnesota children are receiving a better education than children in Illinois. Figure 6 displays that. The reader may note that the vertical axis begins at 200. This was done, because it's easier to see detail. It should not make the data look more drastic, but the difference between scoring 225 and 275 is significant.

Test scores were also examined by "locale". Locale is the Department of Education's designation between four different types of areas: city, suburb, town, and rural. Almost all of these locales are represented by the example districts listed in the "Educational Fiscal Policy Statistics" sections, except for a Minnesota rural district. These local test scores are instrumental to deciding whether a wealthier district or a poorer district can have higher achievement levels. Minnesota's cities scored 254, while Illinois' scored 239. Minnesota's suburbs scored 261, and Illinois' scored 255. Minnesota's towns had an average test score of 258, and Illinois' towns scored 252. Minnesota's rural areas tested at 259 with Illinois' rural areas right behind at 257. (<http://nces.ed.gov/nationsreportcard/>) You will note that Minnesota's locales scored higher in all. More significantly though, the disparities between the states' locales, specifically the cities and suburbs, were vast. There was a 7-point difference between Minnesota's cities and suburbs, versus a 16-point difference between Illinois' cities and suburbs.

### **Variable Factors of Policy Effects on Learning**

The argument may be made that it may not be the funding policies that create the inequalities in learning between districts. It could be some other factor. Here are some that were accounted for. First, it is typically common knowledge that students with access to computers perform better in school.. There are on average 4.6 students to a computer in Minnesota, while there are an average 7.2 students to a computer in Illinois. No matter whether this is a valid variable factor or not, Minnesota is still outperforming Illinois, most likely because of equalization. Another example of a variable factor that could be accounted for is the percentage of students below the poverty line, because typically impoverished students have lower academic achievement than students from more economically-stable homes. In Minnesota, 10% of students are below the poverty line, compared to 13% in Illinois. Again, if equalization was used in Illinois, the poverty levels would not have as much of an effect on their school districts.

## Educational Fiscal Policy Effects on Other States

This entire comparison study has just been between two states. So it could be argued that worse funding and lower test scores for districts in states without equalization only happens when comparing Illinois to Minnesota. Two other states are going to be examined – Michigan and Ohio. These states were chosen, because they are also both Midwestern states with significant urban areas surrounded by rural areas. The same methods used earlier for measuring the merits of equalization will be used here.

First, I will look at the funding mechanisms of both states. Michigan, like Minnesota, is funded mainly through state aid. In 1993, it completely eliminated the local property tax as a source of operating revenue for public schools. Instead, a state sales tax was instituted to cover the costs previously covered by property taxes. (<http://nces.ed.gov/EDFIN/state.asp>) Ohio, like Illinois, is funded mainly through local aid. Their funding policy is based on a foundation system that requires a specified amount of local revenue, usually acquired through local property taxes. A comparison, Figure 10, between Michigan and Illinois' funding by source follows, in which the fact that Michigan funds with state grants and Ohio funds with local grants is clear. The only regret is that the difference between Ohio's state revenue and local revenue is small. ([http://nces.ed.gov/programs/digest/d07/tables/dt07\\_163.asp](http://nces.ed.gov/programs/digest/d07/tables/dt07_163.asp))

Next, I will look at the funding differences between examples of Michigan and Ohio's richest and poorest districts. An example of one of Michigan's wealthiest district is Livonia with a median household income of \$70,844. A poor Michigan district is Flint City with a median household income of \$28,105. (<http://censtats.census.gov>) In examining their expenditure per student, Livonia spends \$9,532, while Flint spends \$10,742. Nonetheless though, the theory of equalization holds true in this example. Livonia receives only \$1,961 from the federal government, \$114,529 from the state, and \$72,669 from the local government. At the same time, Flint receives \$40,929 from the federal government, \$142,425 from the state, and only \$43,830 from the local. ([http://nces.ed.gov/programs/digest/d06/tables/dt06\\_088.asp](http://nces.ed.gov/programs/digest/d06/tables/dt06_088.asp)) Most likely, Flint is receiving more support from the federal and state governments, because it is a notoriously poor area. Here is a side-by-side comparison of the funding numbers for Livonia and Flint. One of Ohio's wealthiest districts is Lakota Local with a median household income of \$47,885. One of Ohio's poorest districts is Cleveland Municipal City, which has a median household income of

\$25,928. (<http://censtats.census.gov>) Again, the expenditure per student data doesn't prove the hypothesis of this study correctly unfortunately. Lakota Local's expenditure per student is \$7,609, while Cleveland's is \$10,115.

([http://nces.ed.gov/programs/digest/d06/tables/dt06\\_088.asp](http://nces.ed.gov/programs/digest/d06/tables/dt06_088.asp) ) However, by comparing the federal, state, and local revenues of these two Ohio districts, the hypothesis is proven correct. Lakota's local funding is more than their state funding, while Cleveland was not able to come up with as much local revenue as state revenue.

Standardized test scores will now be examined by state. The results are not what were expected. Ohio overall has lower test scores. Michigan's 4<sup>th</sup>-grade mathematics score is 238 with Ohio's at 243. Michigan's 4<sup>th</sup>-grade reading score is 220, compared to Ohio's 224. Michigan's 8<sup>th</sup>-grade mathematics score is 227 and Ohio's is 283. The 8<sup>th</sup>-grade reading score for Michigan is 260, while Ohio's is 267. On average, Michigan's students score 249 on their standardized tests, while Ohio scores 254. (<http://nces.ed.gov/nationsreportcard/>) Since Ohio doesn't practice funding equalization, the state may have had lower test scores than Michigan. However, Michigan overall is a poorer state than Ohio. Since the recession, Michigan's automobile industry has especially been hit, as displayed by General Motors Corporation filing for bankruptcy on June 1<sup>st</sup>, 2009. If the state of Michigan is poorer than the state of Ohio, Michigan cannot make up the difference, even with equalization. The "Test Scores by State" graph details the results. Test scores are also going to be examined by locale, or more specifically, between the city locale and the suburb locale, which are typically the poorest and richest districts. Michigan's cities scored 234, while the state's suburbs scored 254. Meanwhile, Ohio's cities scored 239 on average, while their suburbs scored 259. (<http://nces.ed.gov/nationsreportcard/>) These numbers are in the "Differences in Test Scores by Locale" graph. You will note that in both states there is a 20-point difference between both the cities and the suburbs. Therefore, my hypothesis was not proven. This may be because of Michigan's economic situation that was referred earlier. This subject may require more research.

## **Conclusion**

In conclusion, there is some evidence that Minnesota and Illinois' educational fiscal policies affect the quality of their public school students' educations. The state of Minnesota receives the bulk of its revenue from the state government; the state of Illinois receives the bulk

of its revenue from the local government. These funding mechanisms caused Minnesota to have smaller differences between wealthy and poor districts than Illinois. Oddly enough though, it doesn't have an effect on funding per pupil. In other words, this research paper's first hypothesis that urban Illinois students would receive less funding at the local level was refuted. These students are receiving more money, because there are just more people in an urban area, compared to a suburban or rural area. Nonetheless, this paper's second hypothesis was proved. Minnesota's students outperformed Illinois in standardized tests. To conclude, Minnesota students perform better on standardized tests than Illinois students, because there are fewer revenue disparities between wealthy and poor districts, since Minnesota, unlike Illinois, provides equalization by funding through the state government.

However, in recent events, Illinois' governor and State Board of Education have mandated a \$5.8 billion increase in school funding. (Illinois State Board of Education, para. 1) They must have heard this research paper was being written.

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Figure 1: Revenue by State

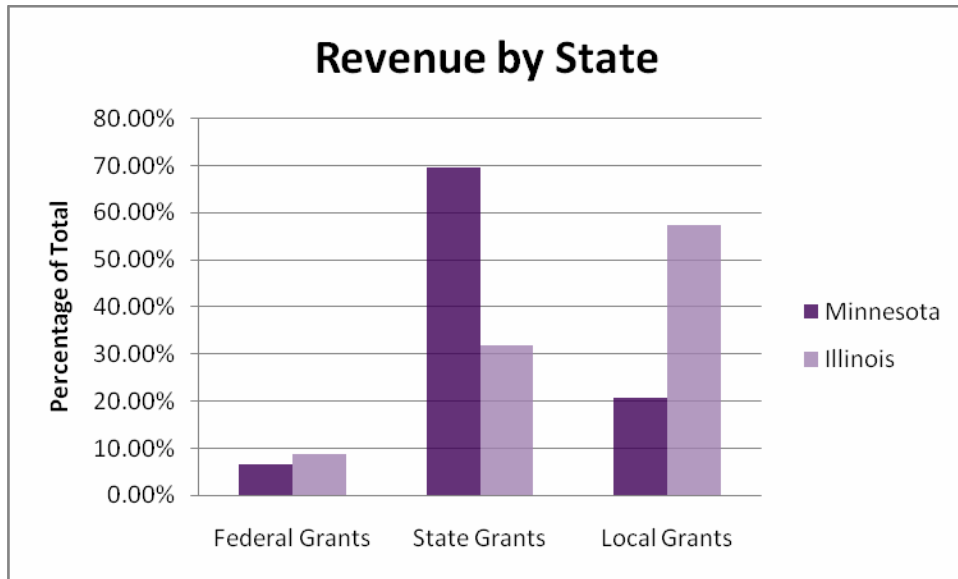


Figure 2: Minnesota's Median Household Incomes

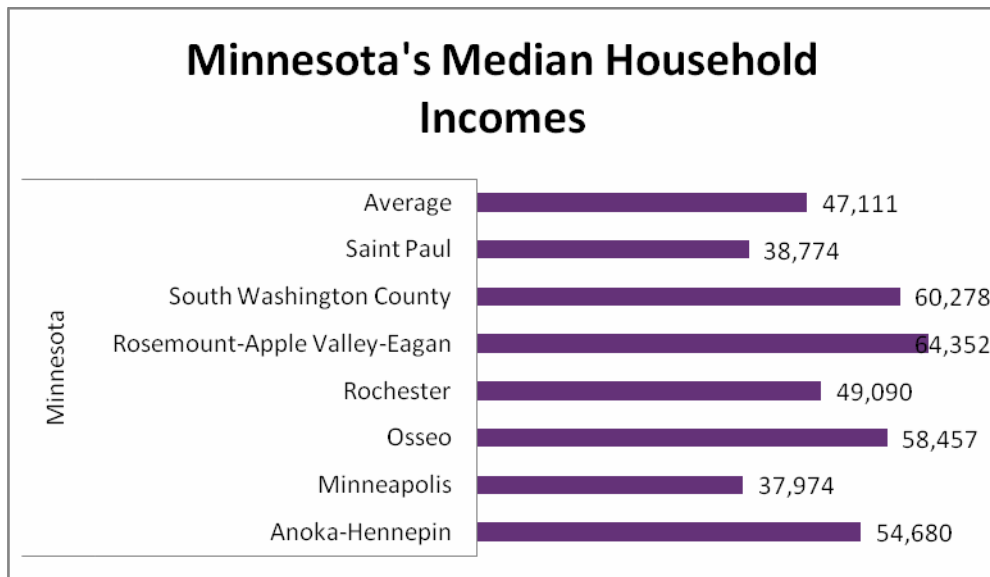


Figure 3: Revenue in Minnesota School Districts

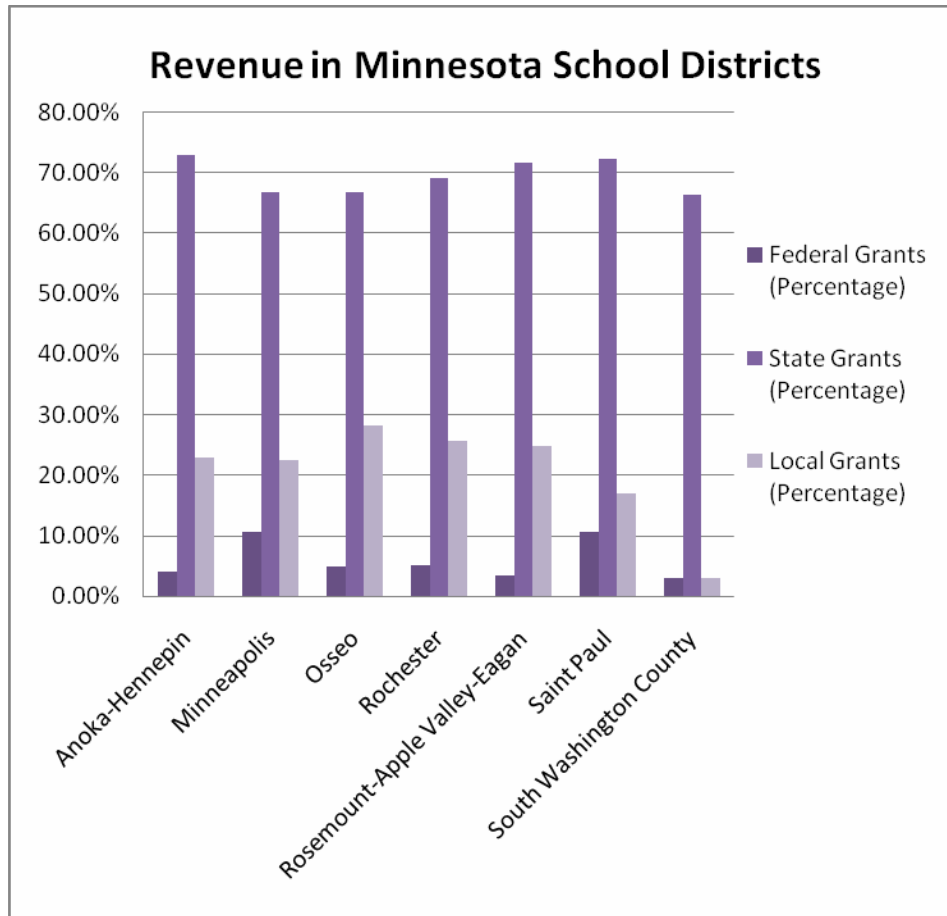


Figure 4: Illinois Median Household Incomes

Figure 5:  
Revenue  
in Illinois  
School  
Districts

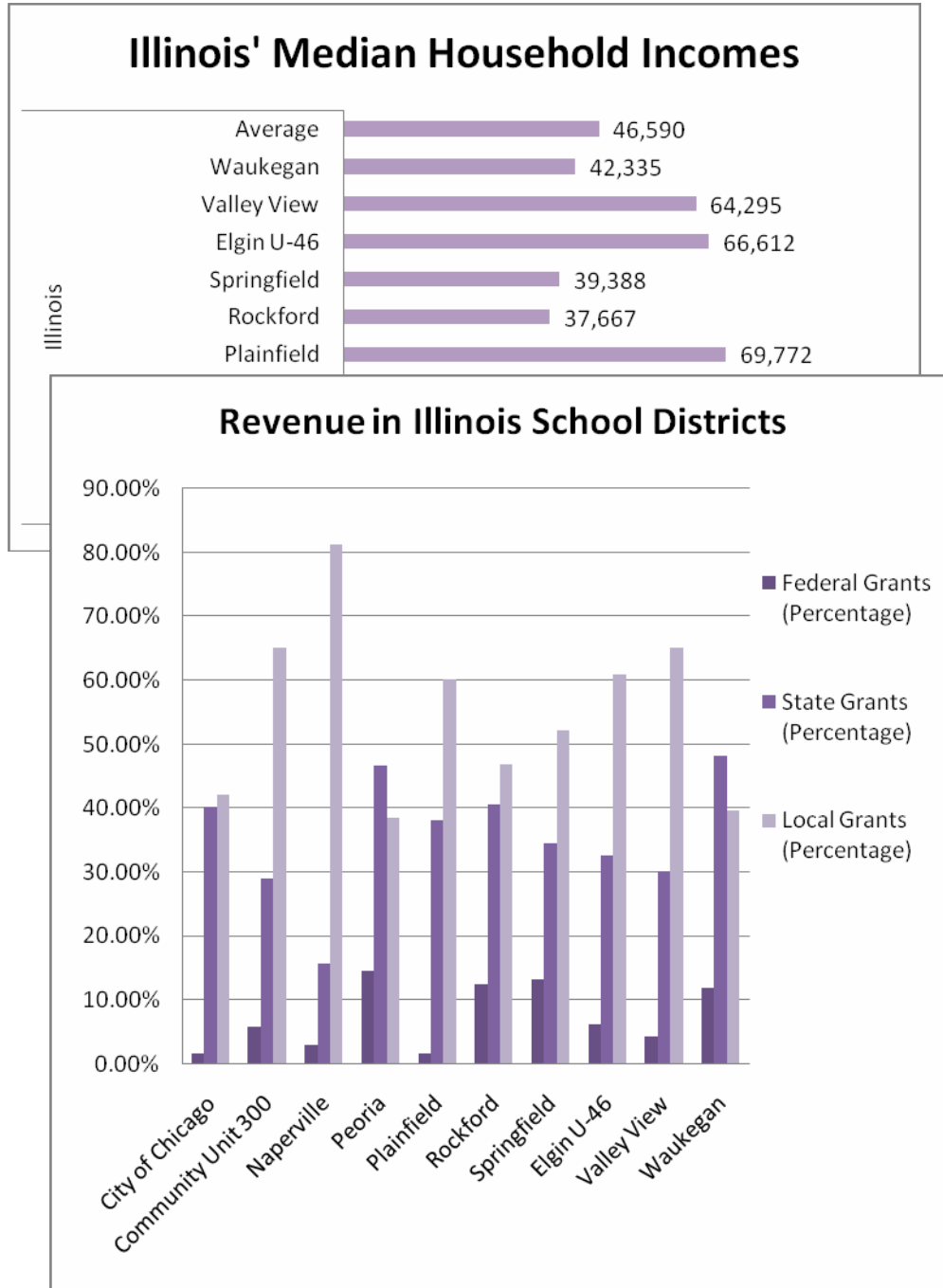


Figure 6: Test Scores by State

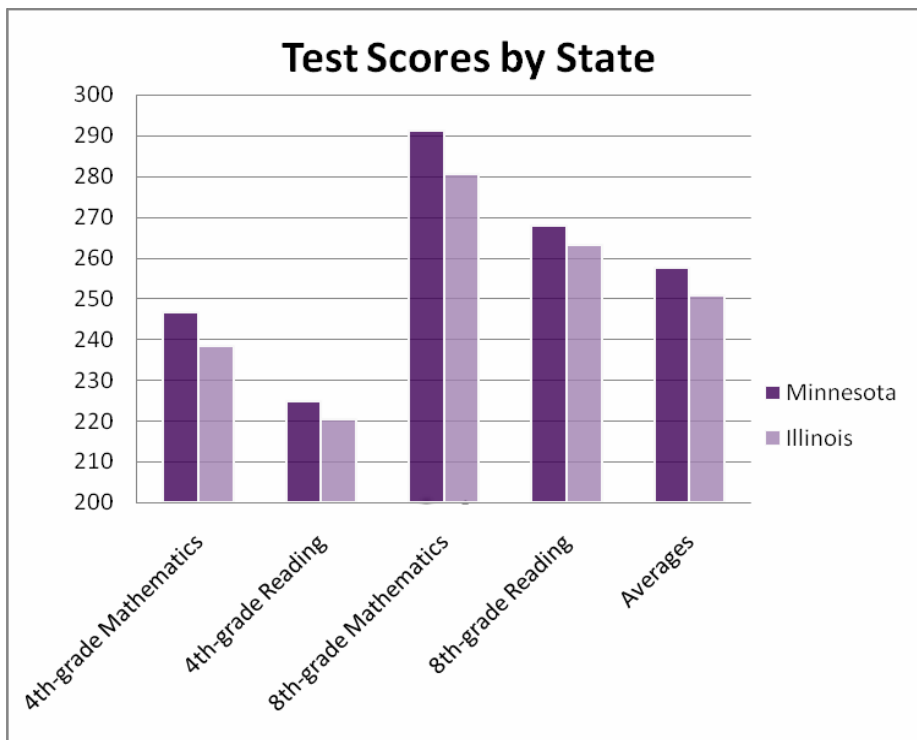


Figure 7: Test Scores by Locale

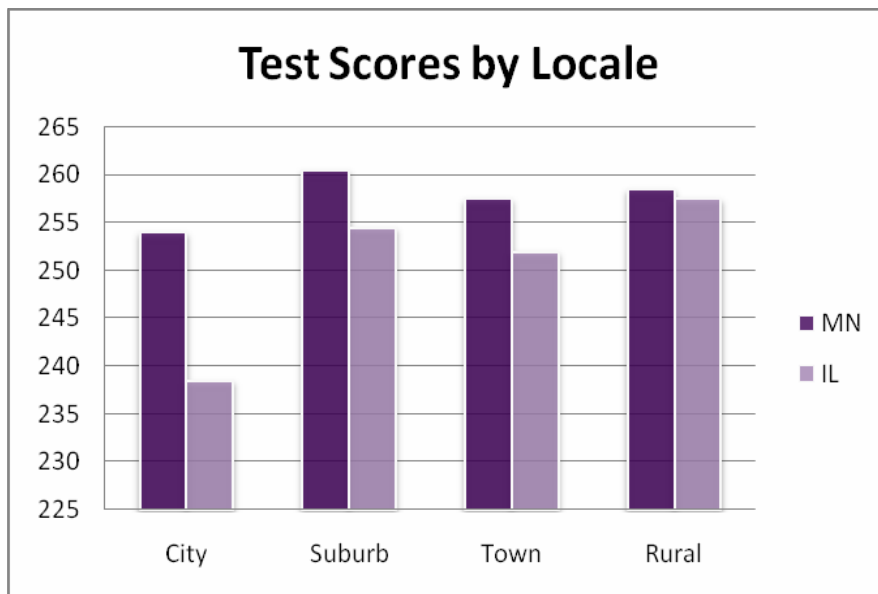


Figure 8: Students per Computer

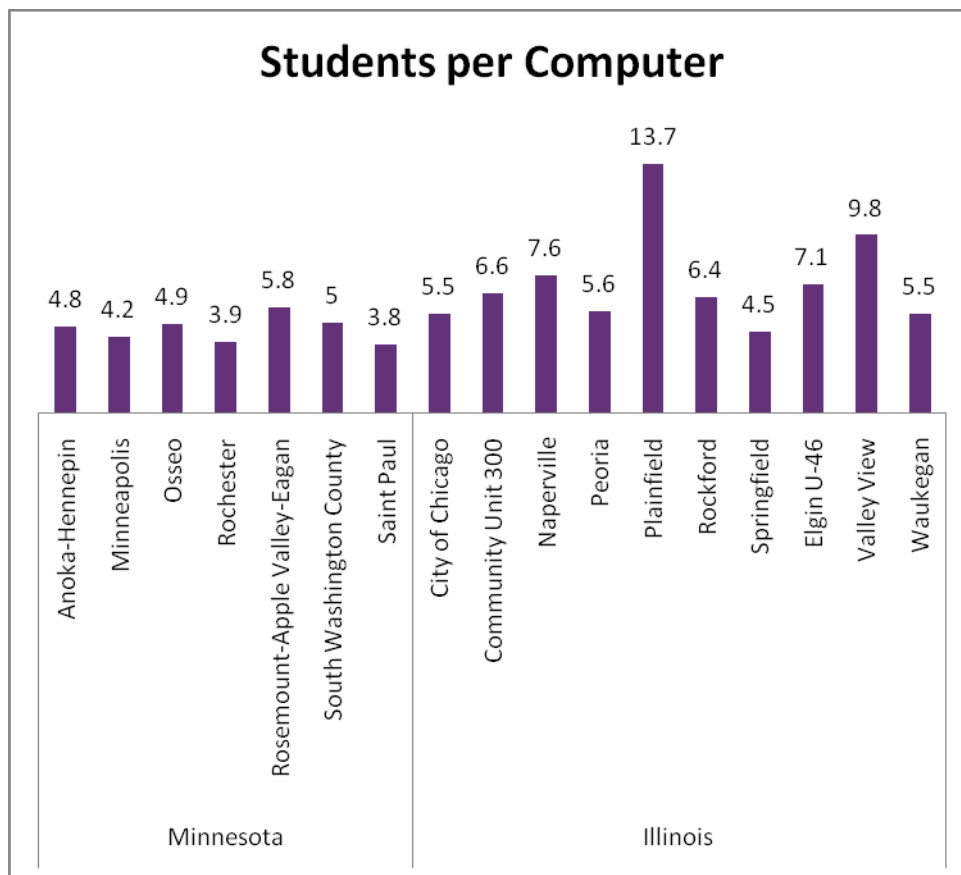


Figure 9: Students below Poverty Line

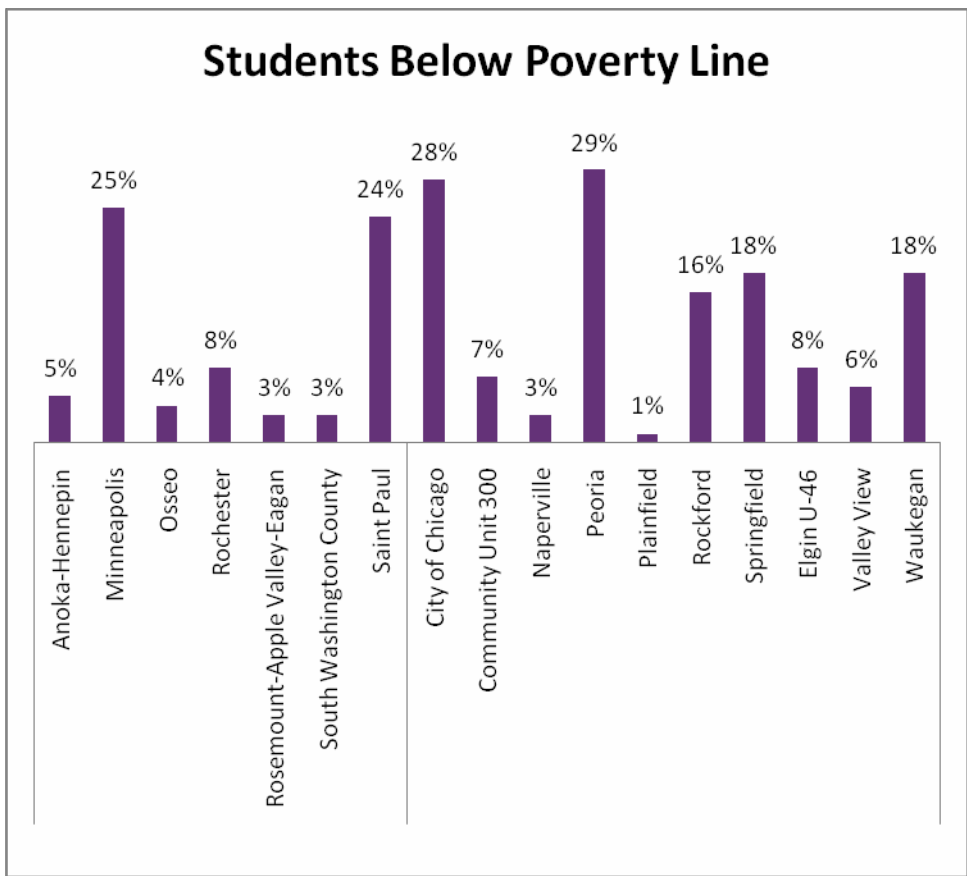


Figure 10: Revenue by Source

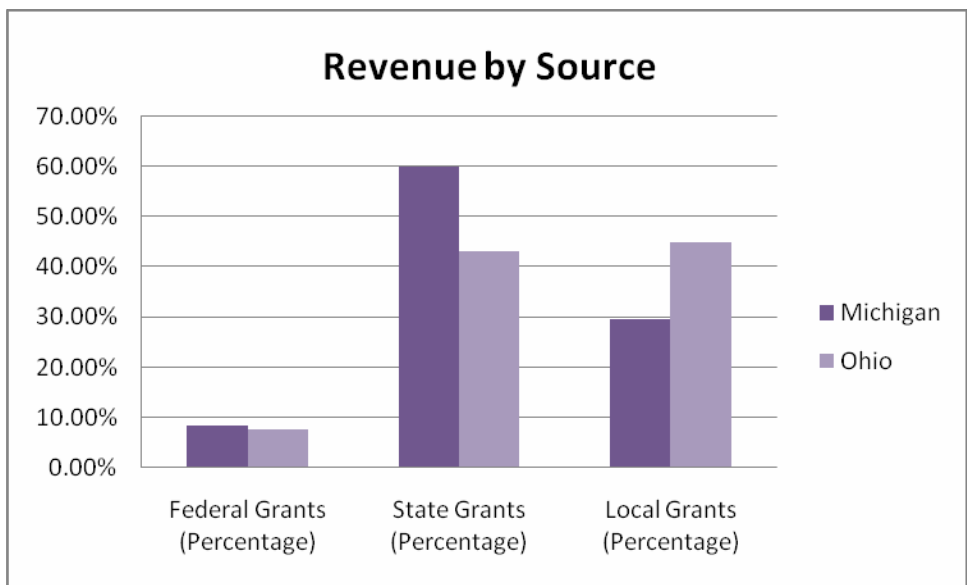


Figure 11: Comparing Revenue in Michigan Districts

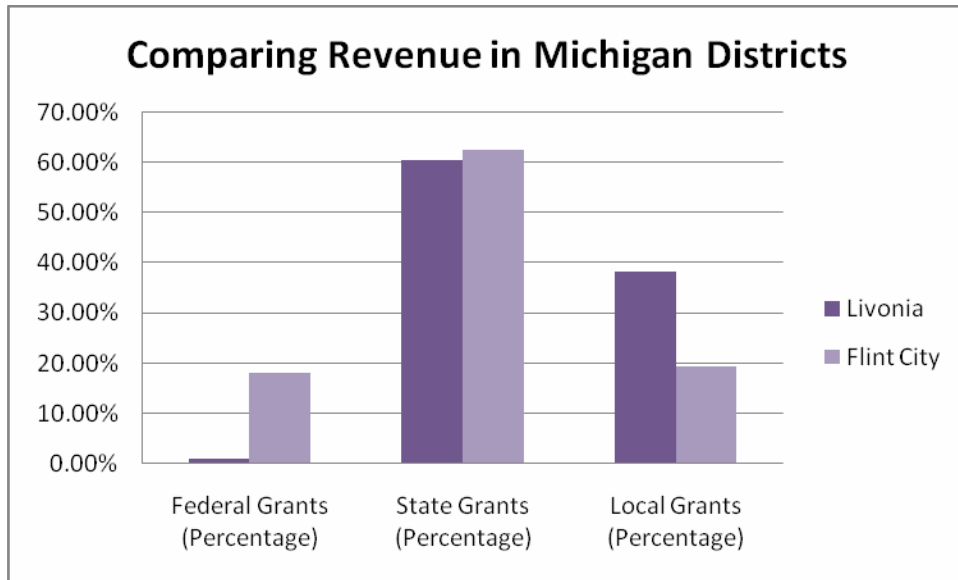


Figure 12: Comparing Revenue in Ohio Districts

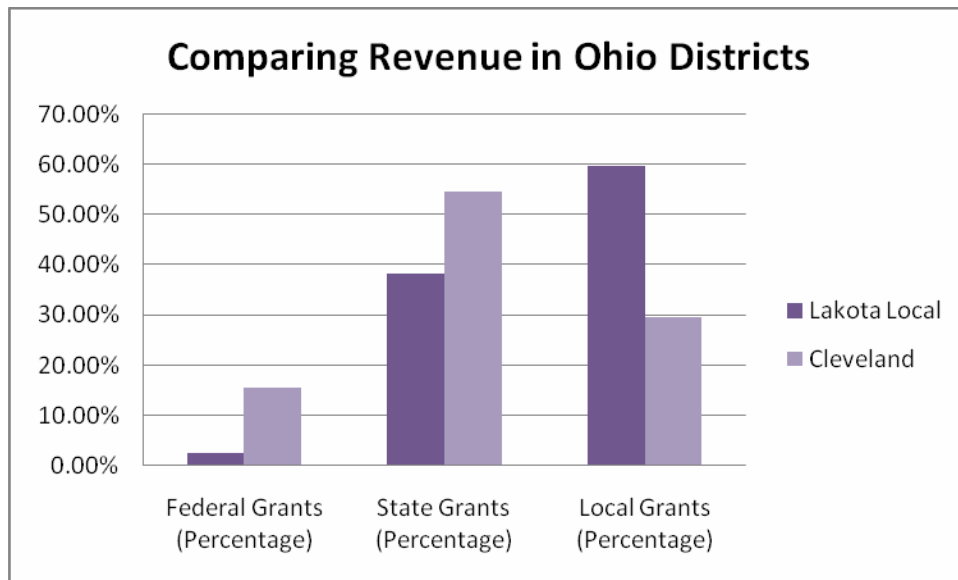




Figure 13: Test Scores by State

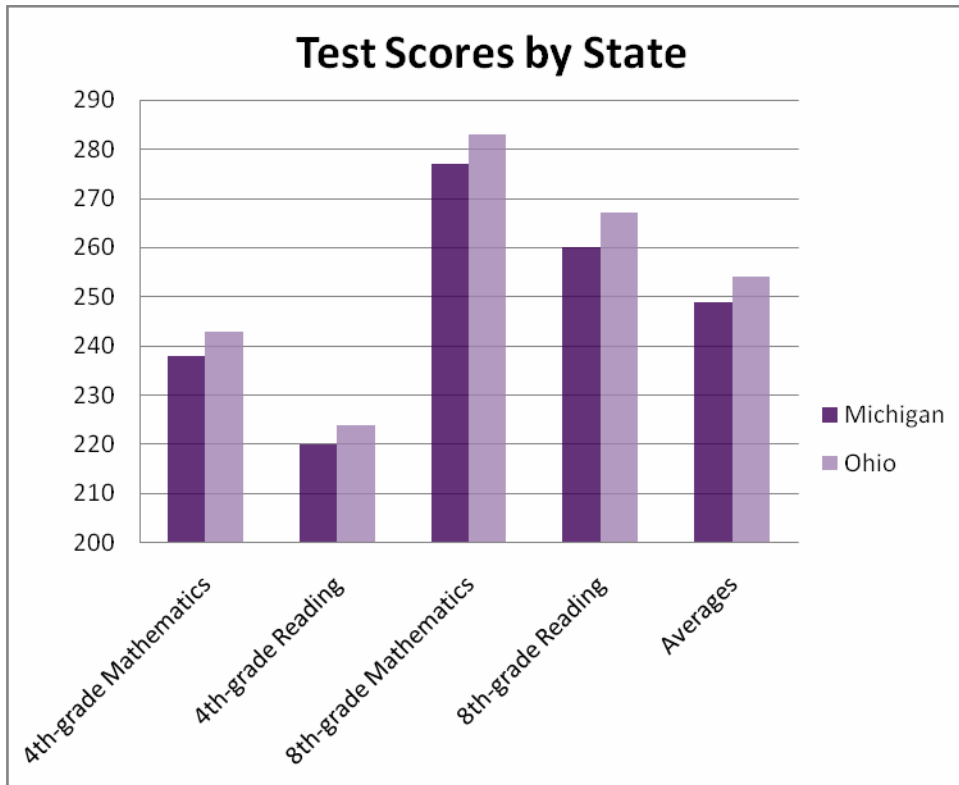


Figure 14: Differences in Test Scores by Locale

