

BEP Review Committee Annual Report

November 1, 2006

Discussion of the Committee

- System Level Fiscal Capacity
- Adequacy
- Immediate and Extended Priorities
- Salary Equity Analysis

Recommendation on Fiscal Capacity

- **The BEP Review Committee has arrived at consensus on the following language related to system level fiscal capacity and the November 1, 2006 report.**
- *The BEP Review Committee Report on November 1, 2006 will include a discussion of various models for measuring fiscal capacity, a report on salary disparity, and recommendations for immediate priorities and extended priorities. **The committee will continue to work on system level fiscal capacity issues and a small group will address issues related to adequacy, with a report and recommendations on both issues to be presented by February 15, 2007.***

The committee had discussion on the advantages and disadvantages of various equalization scenarios.

Background on Equalization

- The committee established criteria in its November 1, 2005 report that the method for equalization should be
 - Explainable
 - Understandable
 - Defendable
- Based on this criteria, the Peabody Center for Education Policy was approached in the effort to explore an alternative model.

Equalization Scenarios

- System Level Prototype
 - 9 variables
 - Multiple linear regression
- Alternative Model
 - Flat Computational Tax Rate
 - Sales and Property Values Only
 - Elimination of Tax Revenue Sharing in Counties with Multiple School Systems

Equalization Scenarios

- Total State Funding
 - Topic of further discussion by the committee
 - Statewide property tax rate
 - State assumes responsibility for education funding
- 95 County Model
 - Status Quo
 - 5 variables
 - Multiple Linear Regression

The Committee Generated Tables Based on Four Equalization Models

SYSTEM LEVEL PROTOTYPE

ADVANTAGES

DISADVANTAGES

Captures multiple sources of revenue including property, sales, and shared taxes.

Double counts property and sales in counties and cities with school systems

Captures ability to pay (income, poverty)

Potentially reduces state \$ to poor counties if adequacy is not addressed.

Easily replicated from year to year

A change in one county causes a ripple effect

Quasi Familiar—not a big change from 95 county model

Requires hold harmless

Not too complicated; state uses econometric models for other purposes such as projecting revenue

No impact on other finance issues

ALTERNATIVE MODEL

ADVANTAGES

DISADVANTAGES

Simplicity, transparency

Changes tax bases of counties and cities, with important implications

Step toward Total State system

Annexation issues, PC 1101; may increase competition between cities and counties for economic development

State picks up improvements, assuming tax rates stay constant

Debt service on outstanding bonds; counties are currently obligated

Raises equity issues for supplementation, if the issue of adequacy is not addressed.

Reduces state \$ to several poor counties. May not hold up in courts, if adequacy not addressed.

Establishes arbitrary rates for sales and property; weights subject to manipulation

Does not take into account ability to pay—median income or poverty

Requires hold harmless

TOTAL STATE FUNDING

ADVANTAGES

DISADVANTAGES

Transparency, simplicity

Large change, politically difficult to enact

Equitable

Difficulty in enacting a state property tax

Not a “distribution” model

Public finance issues: tax abatements granted by industrial development boards

Capital outlay not considered

95 COUNTY MODEL

| ADVANTAGES | DISADVANTAGES |
|--|--|
| No change, status quo, familiar | No change, status quo |
| Requires no new funds except for BEP maintenance | Treats unequal districts as if they faced the same fiscal challenges |
| Requires no hold harmless | Complexity because of multiple factors |
| Captures ability to pay (income) | Some factors are outdated, need to be changed |
| | A change in one county causes a ripple effect |
| | Contributes to disparity in salaries |
| | |

Immediate Priority Recommendation

- The Basic Education Program (BEP) Review Committee recommends moving forward with comprehensive, simultaneous, and timely improvements to the BEP, consisting of the following immediate priorities:
 - An increase in funding for at-risk students,
 - An increase in funding for English language learners,
 - Full funding of growth in Average Daily Membership, and
 - The restoration of the BEP instructional salary state share to 75%.

Immediate Priority: Fiscal Projections

| Additional Funding of At-Risk | | |
|--------------------------------------|--|---------------|
| 67% of Eligibles | | \$51,708,000 |
| 100% of Eligibles | | \$111,642,000 |

| Additional Funding of ESL Translators, Teachers | | |
|--|--|--------------|
| 1/200, 1/20 . | | \$26,222,000 |
| 1/300, 1/30 | | \$10,407,000 |
| 1/400, 1/40 | | \$2,616,000 |

Immediate Priority: Fiscal Projections

| Growth Funding - 100% | | |
|------------------------------|--|--------------|
| FY2003-04 | | \$20,802,000 |
| FY2004-05 | | \$26,406,000 |
| FY2005-06 | | \$24,781,000 |

| State Funding | | |
|----------------------|--|---------------|
| 68% Instructional | | \$49,916,000 |
| 71% Instructional | | \$119,690,000 |
| 75% Instructional | | \$224,082,000 |

Salary Equity Analysis Based on Total Teacher Compensation

- Total Teacher Compensation
 - Includes the application of a weighted salary and health insurance average
 - Allows for common basis for comparing school districts independent of the distribution of training and experience within a district.

Salary Equity Analysis Based on Total Teacher Compensation

- Regional disparity trends have been stabilized at levels comparable to the previous year.
 - A noticeable decrease (improvement) in disparity measures around Knoxville, TN.
 - A noticeable increase in disparity around Clarksville, TN.
- Statewide measures of disparity increased slightly, but not at a level that was statistically significant.

BEP Review Committee Report

- System Level Fiscal Capacity
- Immediate and Extended Priorities
- Salary Equity Analysis
- <http://www.state.tn.us/sbe>

The next meeting of the BEP Review Committee is November 21, 2006 and will focus on more discussion related to these issues and the new February 15, 2007 deadline.