

**Basic Education Review Committee
Minutes
August 30, 2006**

Members Present: Peter Abernathy (for M. D. Goetz), Tommy Bragg, Ethel Detch (for John Morgan), Douglas Goddard, Graham Greeson, Vincent Harvell, Chris Henson, Carol Johnson, Karen King, Richard Kitzmiller, Gary Nixon, Bruce Opie (for Lana Seivers), Lynnisse Patrick (for Harry Green), Kip Reel, Larry Ridings, Fielding Rolston, Rebecca Sharber, Stephen Smith, David Thurman (for Connie Hardin), Les Winningham, and Jamie Woodson.

Others Present: Angi Agle, Pamela Anstey, Leonard Bradley, Roger Campbell, Cory Curl, Dan DiGregorio, Art Fuller, Danny Grant, Bill Hammon, Bob Harrison, Lynne Holliday, Alexanderia Honeycutt, Helen James, Kevin Krushenski, Warren Langevin, Cliff Lippard, Pam Mason, Rose Naccarato, Jaqueline Nash, Bill Nolan, Sue Ogg, Denise Paige, Gary Peevely, Cathy Pierce, Nancy Richie, David Sevier, Joe Sullivan, Elfreda Tyler, and Karen Weeks.

Welcome and Introductions: Gary Nixon, Executive Director of the State Board of Education and chair of the committee, welcomed all members and asked members to introduce themselves.

House Resolution 286: Gary Nixon reviewed House Resolution 286, which approved revisions to the BEP components made in 2006 with respect to funding for at-risk students and ELL and which directed that: “The BEP Review Committee shall develop a consensus recommendation on a system-level fiscal capacity model which provides a phase-in process and hold harmless provisions and include such recommendation in its November 2006 report.”

In the committee’s report of November 2005, the committee had recommended the implementation of a system level fiscal capacity index, including consideration of the TACIR prototype or other alternatives.

The legislature is expecting a formal recommendation from the committee on November 1, 2006 relative to a system level fiscal capacity index.

Peabody Center for Education Policy: The State Board of Education, in consultation with others on the Tennessee data analysis team, has requested assistance from the Peabody Center for Education Policy with both short term objectives (an alternative system level reform model) and long term objectives (a 21st century education finance system).

Leonard Bradley¹ of Peabody presented a review of work to date on behalf of Jim Guthrie². In addressing the short term objectives, the data study group has met with Ken Morrell of the Comptroller’s Division of Property Assessments and the State Board of Equalization and determined that information on assessed property is available by school district (in the tax aggregate report issued

¹ Leonard Bradley, Lecturer, Peabody College of Education

² Jim Guthrie, Chair, Leadership Policy and Organizations, Peabody College of Education

annually on March 1). Data on sales tax collected by districts is not immediately available, but could be. The center could help with technical issues, by developing various scenarios and determining what hold harmless would be required. Determining what to do with the information is the responsibility of those involved in the BEP review process and the members of the legislature.

In addressing the long term objectives, the staff is putting together published and unpublished materials for the study group.

Nixon noted that the initial thinking was that the amount generated by a flat tax rate levied on assessed property, plus the amount generated by a flat rate on local sales, would equal the local proportion of the BEP. The rest would be made up by state funds. Locals could determine what taxes to use in contributing their local share.

Moving to a system level fiscal capacity measure will likely require more hold harmless than the current \$50 million devoted to that purpose, according to Bradley.

Fielding Rolston stated that such a proposal would meet the criteria of being understandable, explainable, and defensible. It takes care of a lot of issues that the committee has addressed. The data are available.

In the discussion that followed, a number of issues were raised:

1. How can we take into account for the value of property taken off the tax rolls by various tax abatement mechanisms? The state does not adequately enforce reporting and in many cases the value of the property is not reported to the state. Some property generates in lieu of taxes revenue. School systems report revenues generated to the Department of Education.
2. How can we take into account issues related to capital improvements and deferred capital needs? Can we identify other states that have recognized capital needs in their formulas, especially those without income taxes? The Comptroller's Office did a report on capital needs several years ago, which can be a source.
3. Should a fiscal capacity model focus on operating funds only?
4. In assessing the sales tax base, do we use the maximum sales tax rate that is allowable or what school systems actually use to support education?
5. Should the model include the taxpayers' ability to pay—as measured by median income or poverty—to measure economic well-being in a district, as the TACIR model does?

6. Should the model be based on capacity as an economic measure or what the local policy has actually been? To what extent should local effort be a factor?
7. The TACIR model looks only at capacity and does not address policy issues.
8. We should analyze what other sources of taxes local schools use in Tennessee and what are used in other states.
9. Counties with high wealth do not have the same ability to draw federal funding to school districts as low wealth counties do.
10. We should recognize that there are variations in revenues available to school systems resulting from state laws dealing with shared taxes. The TACIR model assumes that taxes will be shared in accordance with existing laws.
11. We acknowledge that there are problems with the tax aggregate report; it is not the responsibility of the BEP Review Committee to deal with them. We currently rely on local reporting for the tax aggregate report. It is currently the most comprehensive and reliable estimate of available local property tax base.
12. While we are focusing on distribution of funds, we should keep in mind what we are trying to accomplish in meeting the needs of students. We should take into consideration the real costs incurred by locals in meeting needs.
13. If we consider goals and adequacy at the same time that we develop a policy on capacity, it will help resolve the winners and losers issue and will minimize the need for hold harmless funds. The BEP formula has provided a good start in addressing needs, but we need to enhance it.

Senator Jamie Woodson noted that the legislature has requested a consensus recommendation on fiscal capacity by November 1. The Education Summit created by House Joint Resolution 1026 will address the broader issues. While property and sales tax capacity are critical, the other 6-9 factors including personal income should not necessarily be dropped, if the goal is equity.

In response to a question regarding whether the committee could give an interim report on November 1, Senator Woodson stated that we need to show a diligent effort. The legislature is looking for guidance from this broad based group. She expressed confidence that we can draw upon data and analyses already available.

Fielding Rolston stated that the task is to come up with the best system level model that we can. Gary Nixon noted that the Senate Education Committee wanted the BEP committee to look at other models.

House Joint Resolution 1026: On behalf of the Comptroller, Kevin Krushenski presented resolution 1026, sponsored by Representative Brown and supported by Representative Winningham and Senator Woodson. The resolution provides data indicating the need for Tennessee to examine ways to improve the outcomes for students in grades Pre-K through 16, and directs the Governor to convene an education summit by September 30, 2006. The legislation specifies the education constituencies to be represented and that the summit will include subcommittees related to Pre-K to 12, higher education, accountability, and education funding. An interim report is to be presented in January 2007 and a final report by January 15, 2008. He stated that letters will go out to the named education constituencies soon inviting nominations to the membership of the education summit panel. In response to a question, Krushenski stated that the recommendations would be conceptual in nature and not necessarily limited to current tax sources. The Comptroller's Office has contacted the Governor's Office throughout the summer, but because of the Governor's illness has not yet set a date.

Next Steps: The committee will meet next on **Thursday September 28**, when preliminary findings on fiscal capacity will be presented and discussion on BEP formula items will also be on the agenda. Follow up meetings will be held on **October 11 and October 23**.

Graham Greeson invited members to attend a presentation by Dr. Richard Sims on the impact of investing in education to be held at TEA October 19, 2006 at 2:00.

Nixon thanked TSBA for providing the committee with the meeting room. He encouraged members to forward to him by email any additional thoughts on items to be included in the discussion. He also thanked committee members for their thoughtful deliberation and adjourned the meeting.