

**Basic Education Review Committee
Minutes
October 11, 2006**

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

Others Present: Pamela Anstey, Leonard Bradley, Roger Campbell, Cory Curl, Mike Dalton, Ethel Detch, Art Fuller, Karen Gagliano, Tammy Grissom, Rich Haglund, Bill Hammon, Lynne Holliday, Alexandria Honeycutt, Helen James, Chad Jenkins, Candice Jones, Sherry Kast, Sondra Keys, Kevin Krushenski, Toni Lancaster, Cliff Lippard, Pam Mason, Rose Naccarato, Bill Nolan, Denise Paige, Gary Peevely, Peggy Pesterfield, Pete Peterson, Dawn Robinson, Evelyn Rockholt, David Sevier, Tom Shamblin, Don Thornton, Pat Turner, Elfreda Tyler, Karen Weeks and John Werner.

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.

Minutes: Nixon stated that staff was still receiving comments for the September 28 minutes and that they would be presented for approval at the next meeting.

BEP Alternative Scenarios: Leonard Bradley of the Peabody Center for Education Policy, presented on behalf of Jim Guthrie alternative scenarios for determining local school district fiscal capacity for school support. He acknowledged the assistance of Cory Curl, Department of Education, and members of the Board staff. He presented an overview of the methodology.

Bradley and Gary Nixon presented two different illustrative scenarios. The first is a response to the requests of the General Assembly to provide an alternative method for determining fiscal capacity and assumes a property tax rate of \$1.10 per \$100 of assessed property value and a sales tax (for education) of 1.00% of local tax base. The rates were designed to have the state fund approximately 65% of education costs. The second is the alternative plus the inclusion of at-risk and ELL improvements; the assumptions were funding of 100% of at-risk students and 1/20 teachers and 1/200 translators for ELL students. The first scenario includes \$142.7 million in new state dollars (including \$59.7 million in hold harmless for county wide districts and \$81.8 million in hold harmless for other districts). The second scenario includes \$446.7 million in new state dollars (including \$15.4 million hold harmless for county wide districts and \$16.3 hold harmless for other districts). (The current hold harmless resulting from the change in funding improved salaries at a 65/35 state/local split is \$50

million.) Each district is assumed to have a discreet tax base. The effect is to require a larger local share for some city districts but to give them a larger tax base. The net impact on the county is shown in the final column, with () representing hold harmless.

In the discussion that followed committee members raised a number of issues:

1. Does the BEP accurately reflect the differences in costs associated with grades K-8 and 9-12? The formula generates more teachers in K-8, but costs of high school may be greater and only partially accounted for in other components, such as vocational education and allocation of principals.
2. The proposals require an examination of a number of finance issues.
3. If local revenue sharing is changed, do counties have sufficient other tax bases to provide local supplementation? The issue of equalizing expenditures above the formula requires examination.
4. In the future, what parameters would be used to determine local tax rates? How we weight property and sales taxes is important. (Any changes would adopted by resolution, as is done for any change in the BEP).
5. Over time, all improvements would be paid by the state (unless the local tax requirements are changed by the state). What was the rationale for this determination?
6. The impact of the required local contribution on individual taxpayers is important, although it probably would not rise to the level of constitutional challenge.
7. The proposed model represents a tax capacity model, not a fiscal capacity model, because the model omits consideration of income (a measure of taxpayers' ability to pay taxes). But the inclusion of income poses problems, because measures of annual income are only estimates.
8. The system does not address the issue of adequacy. Every system except two provides funding above the BEP formula amount. The committee should provide the General Assembly with additional thoughts beyond the legislative mandate regarding fiscal capacity. The components need to be reexamined.
9. The discussion raises a number of issues related to equity. The current formula does not recognize the needs of individual students and thus creates an inequity. Sales tax collections are not distributed equitably; the state invests in some locations—with community colleges and other improvements—but not in others.

10. The implications of having discreet taxes need further exploration. What are the implications of discreet taxes for annexation? How would other shared taxes, such as wheel taxes be handled?

Nixon stated that in exploring these scenarios, the committee has done what the legislature requested in developing alternative proposals. The committee now has two proposals on the table: the TACIR prototype and the alternative that it has been discussing for the last few meetings. The legislature has directed the committee to develop a consensus recommendation.

BEP Unit Component Costs: Tim Webb presented a report showing increases in state funding required to support committee recommendations included in the 2005 BEP Review Committee Report for both immediate priorities and extended priorities. Costs are based on FY 2007 estimates; they are based on a particular change and are not cumulative.

In addition, he provided data on fully funding growth which would be an additional \$24.8 million and on reducing class size (excluding art, music, PE, ELL, vocational and special education) by one student (\$54.1 million), two students (\$114.2 million), and so on. Growth funding would require significant new dollars in the first year and then would be recurring. Adjustments for growth would be made at the end of the year.

The CDF in Hamilton County is lower than the state average. One explanation is that several retailers are reporting all of their regional staff in Hamilton County, rather than just those that live and work there, resulting in a lot of low wage workers being attributed to that county.

Salary Equity Analysis. Kevin Krushenski presented an analysis of salary disparity including a series of graphs showing weighted average salaries, weighted average local health insurance benefits, and total teacher compensation, comprised of combined weighted average salaries and benefits. In 2004, the committee recommended that the measure for calculating salary disparity compare total teacher compensation, based on “salary schedule strength” and “health insurance package strength.” This method eliminates consideration of training and experience.

An analysis of the coefficient of variation across Tennessee shows that disparity in 2005 was slightly higher (but not significantly) than in 2004, which is the first year in which the salary equity funds were infused into the formula. In 2005 the coefficient of variation for salaries plus insurance paid was 0.0717 compared to 0.0691 in 2004.

He also has developed maps which show competitive advantages and disadvantages in various regions. When completed, his report will show regional comparisons. Committee members noted that the gap has stayed the same.

Next Steps. Nixon asked the committee to generate ideas for the report to be presented to the General Assembly November 1, 2006. The following suggestions were offered:

- Run some scenarios changing the relative weights of property and sales tax computational rates.
- Develop a side by side analysis comparing the TACIR prototype and the alternative scenario, including improvements.
- Include fully funding growth as part of the two scenarios.
- Display the amount of supplemental local effort.
- Examine the issue of equity for taxpayers, in relation to household income. Use this examination to evaluate whether the scenarios are fair.
- Examine the finance implications of the discreet tax base called for in the alternative scenarios.
- Consider the fact that streamlined tax rates are to go into effect July 1, 2007.
- Include ideas related to adequacy.
- Include in the scenarios growth, materials and supplies (an inexpensive improvement that is linked to improved student performance), and truant officers.

It is possible that the committee will simply decide to present both proposals to the General Assembly.

Next Meeting. The next meeting will be **October 23 from 10:00 to 3:00** at the Williamson County Board of Education. Directions will be sent to members via email.

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.