

**Basic Education Program (BEP) Review Committee  
Minutes  
October 23, 2006**

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

**Others Present:** Angi Agle, Pamela Anstey, Leonard Bradley, Roger Campbell, Ed Cromer, Cory Curl, Mike Dalton, Ethel Detch, Art Fuller, Bill Hammon, Lynne Holliday, Jamie Hollin, Alexandria Honeycutt, Helen James, Chad Jenkins, Sondra Keys, Kevin Krushenski, Cliff Lippard, Pam Mason, John McAdams, Mitchell Moore, Rose Naccarato, Jacqueline Nash, Bill Nolan, Denise Paige, Pete Peterson, Cathy Pierce, Nancy Richie, Dawn Robinson, David Sevier, Tom Shamblin, Janice Shelby, Joe Sullivan, Don Thornton, Elfreda Tyler, Bobby Webb, Karen Weeks, and Bob Wilson.

**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. He called attention to the letter he had received from Commissioner of Finance, M.D. Goetz, forwarded electronically to members, in which he encourages the committee to develop a proposal that “meets the fiscal realities the state faces.”

**Minutes:** Fielding Rolston moved approval of the September 28 minutes; Chris Henson seconded, and the minutes were approved unanimously. Nixon stated that staff was still receiving comments regarding the October 11 minutes and that they would be presented for approval at the next meeting.

**Adequacy and Alternative Fiscal Capacity Scenarios:** Nixon introduced the topics by noting that the committee has discussed moving to a system-level model of fiscal capacity in concert with other improvements. He asked members whether they recommend going forward with equalization alone or in concert with other improvements. He noted that the issue of adequacy would be taken up in several other settings:

- Education summit established legislative resolution,
- University of Washington pilot (funded by the Gates Foundation) that facilitates decision-making based on research regarding performance (if you do this strategy, what can you expect), and
- Peabody offer to bring in experts to meet with key decision-makers in a series of seminars on funding for performance.

Senator Jamie Woodson stated that we need to discuss adequacy over the long term but that the committee currently has the information and data available to move forward now on the equity issue.

John Morgan made some observations regarding the Alternative Model which the committee had developed, noting that the model had been a useful vehicle in raising some issues that need to be thought about with respect to adequacy and tax implications. The discreet tax base called for in the Alternative Model would work if it actually covered all the costs of providing education. The problem is that most systems are spending considerably more than the minimum required by the BEP formula, and others need to do so in order for students to achieve. Mr. Morgan noted that the alternative model met two out of the three previously established committee criteria related to the consideration of new fiscal capacity models. He agreed the model was explainable and understandable. He did not believe the fiscal impacts of the model were defensible, in relationship to the history of Tennessee's Small Schools lawsuit. A plan that has the effect of reducing resources to some of the poorest counties is not equitable and probably would not meet a court test. The discreet tax base changes the relationships between cities and counties in profound ways. In addition:

- The model does not work well for capital outlay. Debt service on bonds already issued would continue to be a county-wide responsibility.
- The Comprehensive Planning Statute, Chapter 1101, has required counties and cities to discuss and plan for growth based on the existing legal environment. Had local governments known that an industry's location would impact the local contribution for schools and the ability to raise revenues, different decisions might have been made. In most counties, the largest portion of the budget is for schools. The model would have the effect of pitting cities against counties.
- Some taxes, such as wheel taxes, would continue to have to be shared.

Leonard Bradley noted that the model does have pervasive collateral effects. This committee does not have the authority to address some of the public finance issues that are raised.

Senator Woodson stated that this is the discussion that the legislature intended when it directed the committee to report back to it on November 1. This is the most diverse group in the state with expertise on these issues.

Nixon called members attention to the table providing estimated revenues for 2005-06, as requested by the committee.

Art Fuller walked the committee through a series of tables showing a side-by-side comparison of the TACIR Prototype and the Alternative Model requested by the committee. He noted that the work represented a collaborative effort with data from other staff members. Four different sets were presented for System Level Impacts (for illustrative purposes only):

- Without Additional Improvements, assuming a property tax rate of \$1.10 and sales tax of \$1.00.
- Without Additional Improvements, assuming a property tax rate of \$0.92 and sales tax of \$1.25.
- With Additional Improvements for at-risk students (at \$750 per at-risk student) and ELL students (at 1:20 teacher/student and 1:200

translator/student), assuming a property tax rate of \$1.10 and sales tax of \$1.00.

- With Additional Improvements for at-risk students (at \$750 per at-risk student) and ELL students (at 1:20 teacher/student and 1:200 translator/student), assuming a property tax rate of \$0.92 and sales tax of \$1.25.

Each scenario showed for both models Total BEP Cost, Local Share, State Share, Change in State Share, and the Hold Harmless required. When improvements are added, the hold harmless decreases.

An additional table provides Estimated BEP Funds generated under the following assumptions: instructional share, 65%; CDF, 100%; at-risk eligibles funded 100.0%; at risk-per eligible, \$750; ELL per student, 1:20 and 1:200; teacher supplies, \$300/teacher; fiscal capacity, system\_level prototype; and additional attendance supervisor, 1 position/high school. Full funding of growth was not included, nor was BEP maintenance or hold harmless. Tim Webb noted that the estimated additional cost of the state share would be \$269 million.

Lynnise Patrick presented two tables showing the TACIR Prototype System-Level Capacity for Fiscal Year 2006-07. The two charts include the two sets of assumptions built into the Alternative Model with respect to property tax and sales tax. The chart represents an update of material previously given to the committee.

Graham Greeson suggested that the committee could recommend that systems be required to contribute at least as much as their fiscal capacity indicates.

**Salary Equity Regional Comparison.** Art Fuller provided tables showing regional comparisons of salary equity, using data presented at the last meeting by Kevin Krushenski. The measure used in the regional comparison was total teacher compensation comprised of weighted average salaries and weighted average local health insurance benefits. While the statewide analysis shows very little change from 2004, the first year in which the salary equity funds were infused into the formula, the regional analysis shows some slight changes. Five regions show slight decreases in disparity, 4 show slight increases, and 3 show mixed results. The most pronounced decrease was in the Knoxville region.

### **Immediate and Extended Priorities**

Nixon suggested that the committee spend some time identifying the advantages and disadvantages of each of four alternative means of equalization:

1. TACIR Prototype (system-level model)
2. Alternative Model (discreet tax base)
3. Current 95 County Model
4. Total State Funding Model

The committee developed the following table of comparisons:

### **1. TACIR Prototype (System-Level Model)**

#### **Advantages**

- Captures multiple sources of revenue including property, sales, and shared taxes.
- Captures ability to pay (income, poverty)
- Easily replicated from year to year
- Quasi Familiar—not a big change from 95 county model
- Not too complicated; state uses econometric models for other purposes such as projecting revenue
- No impact on other finance issues

#### **Disadvantages**

- Double counts property and sales in counties and cities with school systems
- Some poor systems receive less money than under current system
- A change in one county causes a ripple effect
- Requires local match for formula improvements
- Requires hold harmless

### **2. Alternative Model (Discreet Tax Base, Sales and Property)**

#### **Advantages**

- Simplicity, transparency
- Step toward Total State system
- State picks up improvements, assuming tax rates stay constant

#### **Disadvantages**

- Changes tax bases of counties and cities, with important implications
- Annexation issues, PC 1101; may increase competition between cities and counties for economic development
- Debt service on outstanding bonds; counties are currently obligated.
- Some poor systems receive less money than under current system or under TACIR prototype
- Raises equity issues for supplementation, if the issue of adequacy is not addressed
- 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

### **3. Current 95-County Model**

#### **Advantages**

- No change, status quo, familiar

- Requires no new funds except for BEP maintenance
- Requires no hold harmless
- Captures ability to pay (income)
- Makes adjustments within counties

#### **Disadvantages**

- No change, status quo
- Treats unequal districts as if they faced the same fiscal challenges
- Complexity because of multiple factors
- Some factors are outdated, need to be changed
- A change in one county causes a ripple effect
- Requires local match for formula improvements
- Contributes to disparity in salaries

#### **4. Total State Model**

##### **Advantages**

- Transparency, simplicity
- Equitable
- Not a “distribution” model

##### **Disadvantages**

- Large change, politically difficult to enact
- Difficulty in enacting a state property tax
- Public finance issues: tax abatements granted by industrial development boards
- Capital outlay not considered

In the discussion that followed, members agreed that we need to have a discussion about what we want to achieve, identify resources required (costs), and then develop a plan for phased implementation. The current BEP formula generates only 62-63 percent of the average expenditure of other SREB states. The total expenditures for K-12 in Tennessee (including local supplementation above the BEP) represent approximately 90 percent of the SREB average.

At the request of the committee, Morgan presented a summary of a plan to have a system based on total state funding.

- The BEP formula would be based on resources needed to achieve specified student outcomes and would take into account the needs of different kinds of students.
- The state would provide all funding, once the bar was established.
- The revenues would be raised by recouping a part of the local option sales tax designated for education and supplementing by a statewide property tax (equalized so that the effective tax rate is the same across counties).
- Local systems would be allowed to supplement.
- Local property tax rates could be diminished if the state assumed responsibility.

- The plan achieves equity.
- Some issues and complexities are similar to those in other models. For example, even if industrial development boards granted tax abatements, at a minimum counties would have to pay their share of the property tax for schools.
- Capital outlay would remain a local issue.

Members agreed that the BEP formula has not kept up with the changing needs of schools. Some elements in the BEP were inadequate from the very inception of the BEP. In the final analysis, all of the models except the status quo will cost the same if we provide adequate resources. Each of the models, including the TACIR prototype, could specify that the state would pay for improvements.

Each of the three models that work with local tax bases will have to deal with the issue of sales tax streamlining that goes into effect July 1, 2007. When the streamlined sales tax model goes into effect, local governments will be held harmless. Discreet measurements will be made by retailers regarding deliveries out and in; the numbers are not as dramatic as people have feared. Mitigation payments will be paid out of the increased state tax collections that are anticipated.

**Recommendations:** Nixon noted that the committee is facing two issues: fiscal capacity (equity) and adequacy. The legislative resolution requests a recommendation on system-level fiscal capacity by November 1. The statute requires the committee to make recommendations regarding funding needs each November 1. In exploring the TACIR and alternative scenarios, the committee has done what the legislature requested in developing alternative proposals. The committee has analyzed the advantages and disadvantages of these two proposals plus the current 95-county model and a total state funding system. He asked whether there was a consensus.

Members agreed that we should move forward on both equity and adequacy. After discussion about the need to respond to legislative directives in good faith and the need to have the recommendations in time for the state budget cycle, the committee considered several timeframes.

Fielding Rolston moved and Graham Greeson seconded the following motion:  
The BEP Review Committee Interim Report on November 1, 2006 will provide an update on the status of its work, including a report on salary disparity and BEP components. A small group will be appointed to address the issues of adequacy and equity and will report its findings and recommendations to the BEP Review Committee for consideration in developing a report to be issued no later than April 1, 2007.

The motion failed by a vote of 5 in favor, 8 against, and 7 abstentions.

John Morgan moved and Doug Goddard seconded the following motion:  
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 motion was adopted by a vote of 19 in favor and 1 abstention. The 1 abstention vote was later amended to a vote in favor of the motion. The final vote count was 20 in favor of the motion.

The committee outlined the following items to be included in the list of immediate priorities:

- Full funding of all (K-12) At-Risk Students
- Full funding of all ELL Students
- 100% Growth Funding
- Restoration of BEP instructional salary state share to 75%

The committee outlined the following items to be included in the list of extended priorities:

- Readjustment of the Cost Differential Factor
- Reduction of Class Size to Fund Positions Outside the BEP
- Professional Development
- School Nurses
- Teacher Classroom Materials and Supplies (\$100 addition)
- Technology Coordinators
- Technology
- Alternative Schools
- Capital Outlay
- Transportation per ADM

**Next Steps.** The next meeting will be Tuesday, **November 21 from 10:00 to 3:00.** Announcement of the location will be sent to members. The committee requested a review of the TACIR prototype and a fuller presentation on a system of total state funding.

Nixon expressed appreciation to Rebecca Sharber for providing the meeting room at the Williamson County Administrative Offices. He also thanked committee members for their thoughtful deliberation and adjourned the meeting.