

**Basic Education Review Committee  
Minutes  
September 16, 2005**

**Members Present:** Peter Abernathy (for M. D. Goetz), Tommy Bragg, Ethel Detch (for John Morgan), Douglas Goddard, Graham Greeson, Vincent Harvell, Chris Henson, Karen King, Richard Kitzmiller, Gary Nixon, Lynnisie Patrick (for Harry Green), Kip Reel, Jesse Register (via conference call), Larry Ridings, Fielding Rolston (via conference call), Becky Sharber, Stephen Smith, David Thurman (for Connie Hardin), Tim Webb (for Lana Seivers), Les Winningham, and Jamie Woodson.

**Others Present:** Art Fuller, Rich Haglund, Lynne Holliday, David Huss, Kevin Krushenski, Pam Mason, David Sevier, Elfreda Tyler, John Warner and Karen Weeks

**Welcome and Approval of Minutes**

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 reviewed the agenda, and noted that the full committee will meet one more times prior to issuing its November 1, 2005 report.

The committee approved the committee minutes of August 24, 2005. Corrections to the minutes of the fiscal capacity subcommittee meeting September 7, were noted, and the minutes were approved as amended.

**Salary Equity Update by Region**

David Huss presented an analysis of salary disparity based on average instructional salary by region within Tennessee. The analysis used salary only (not including benefits). He noted that the BEP distributed \$35 million locally to various systems for salary equity and that the distribution of that money on the salary scale in each system was negotiated locally.

In the discussion, the following points were made:

- The average instructional salary is totally dependent on training and experience and includes career ladder and extended contract payments. It does not reflect salary strength.
- When a system is competing for teachers it is competing on scheduled salaries, not average salaries.
- The small school systems are generally pleased with the progress, but disparity has not disappeared.
- Even though the salaries for beginning teachers some areas were close there was the potential to lose teachers still, some systems salary schedule pick up at the 6 or 7 -year mark. This could potentially attract more experience teachers.

- The teachers who negotiate salary schedules sometimes tend to design schedules to favor those at the upper end.
- It appears that we are going in the right direction. We need to make sure that the trend does not reverse.
- It would be good if we could track where teachers moved. The retirement system may have such data, but it may not be current.

Nixon noted that this regional analysis was a good tool for looking at the disparity issue, because most teachers move within a region.

### **Total Teacher Compensation**

Kevin Krushenski presented an analysis of salaries and benefits by school system using a system of weighted averages. He noted that the BEP Review Committee decided in 2004 that analysis of disparity should include benefits.

The analysis used personnel and salary schedule information data provided by the Department of Education and TEA. A statewide average teacher training and experience demographic was then generated based on the percentage of teachers in each cell, from a Bachelors degree with 0 years experience to a PhD degree with 30+ years experience. This statewide average teaching demographic was applied to each individual system's salary schedule, so therefore, the only differences between systems results from the amounts they pay and not from the training and experience of their teachers. This methodology represents a method to compare how competitive a system's overall salary schedule is based upon the teacher demographic in the state.

(Note: On August 24, a FY05 TEA salary survey was distributed by the Department of Education, showing comparisons at various points on the salary schedule. However, this comparison would not take solely into account salary schedule strength, as described above).

**Exhibit 1** shows salary schedule strength and observed changes in statewide rank compared to the previous year. This comparison is based on the statewide average salary demographic, including weighted average salaries and weighted average insurance.

In developing the weighted average insurance, a statewide analysis of PPO, HMO, and POS health plans was researched and applied, including individual and family coverage. Each school system may choose any combination of plans to offer their employees. Some systems offer all three, while some may only offer a PPO and POS or only a PPO. The weighted average cost of the insurance package was calculated by creating a grid that placed the percent of teachers statewide that chose each type of plan and then applying that to the amount that each system paid. Therefore, any differences in total plan payments are due to the differences in how much a system chooses to pick up rather than which plan an employee chooses. Exhibit 1 compares the results of weighted average salary (alone), weighted average insurance (alone), and total teacher compensation (labeled as, salary plus insurance).

**Exhibit 2** shows salary strength as a percentage above and below 100% (or the statewide average), comparing changes from 2004 to 2005. The percentage change represents the degree to which a school system’s weighted average has moved closer or farther away from the mean of 100%.

**Exhibit 3** shows the average insurance cost paid by each local system in comparison to the total cost of the average insurance package. The state requires that each system pay at least 45%. The relative statewide rank for each system is also presented. Fifteen systems are not in the state local education plan and use their own plans.

**Exhibit 4** illustrates several options for evaluating disparity. The analyses show very little change from 2004 to 2005. Increases in the costs of insurance may have hindered the ability of systems to improve salaries.

	<b>Coefficient of Variation<sup>1</sup></b>		
	Weighted Average Salary	Weighted Average Insurance Paid	Total Teacher Compensation (Salaries Plus Insurance Paid)
2005	0.0697	0.1894	0.0712
2004	0.0691	0.1890	0.0686
Change	0.0006	0.0004	0.0026

**Exhibit 5** displays graphically weighted average salary ranked from low to high.

**Exhibit 6** displays systems ranked by weighted average salary but with health insurance benefits stacked on top of each bar. The top portion of the bar represents health care costs.

Additional exhibits show various other ways of ranking the data.

In the discussion that followed, the following points were made:

- Some local boards want to keep the local system contribution to health insurance low to discourage participation so that they can use the funds for other purposes.
- Low local board contributions may reflect the fact that some systems hire more teachers than are funded by the BEP.
- We are still in a hold harmless phase-in period. We may see more movement as we move out of hold harmless.
- It would be good if this analysis could be done on a regional basis, either using mapping software or by doing it manually.

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<sup>1</sup> The Coefficient of Variation is a representation of how closely the range of observed points are clustered around the average.

Karen King asked whether the committee has established a goal for reduction in salary disparity. The requirement is not that salaries be equal across the state.

Nixon responded that the committee has not established a goal, but that its responsibility is to monitor disparity and to report on it to the Board, General Assembly and Governor. The committee can make a recommendation if it sees a trend. We don't see a trend at this point. If the change were dramatic, we might make a recommendation.

The committee reaffirmed that it wanted to use the weighted average method—including analysis of both salaries and benefits—in analyzing salary disparity.

### **Fiscal Capacity Sub-Committee**

Gary Nixon presented a summary the sub-committee's findings regarding guiding principles for determining fiscal capacity. They included the criteria of being explainable (addressing issues of fairness and disparity), understandable (as simple as possible), and defensible plus the eight principles set forth by the U.S Department of Treasury in 1985 and subsequently used by TACIR in developing the Tennessee fiscal capacity index.

The committee addressed the issue of indemnification by recommending a five-year phase in based upon funds available and a hold harmless provision that would last until systems grew out of it (i.e. the hold harmless might last longer than five years). The fiscal year in which the system level fiscal capacity model is adopted should serve as the baseline year upon which hold harmless is calculated for each system.

Lynnisse Patrick noted that she had reviewed the context in which TACIR adopted the principles. She noted that at the time we were talking about a combination of revenue raising capabilities and expenditure needs. The current index does look at both sides.

The committee discussed the first principle: that fiscal capacity should focus on economic bases rather than policy determined revenue bases. The following points were made:

- We should look at all sources of revenue at the system level.
- The choice to have a school system is a policy decision.
- Should the state be subsidizing that decision?
- Cities are currently sharing on a sub-county basis.
- The current county fiscal capacity model is driving salary disparity.
- There will be unintended consequences; some cities may discontinue their school systems with considerable impact on the counties.
- The Superintendent's organization wants state reporting requirements for payments in lieu of taxes. This requires better enforcement. Many agree it ought to be in the model, but we need updated data. There have been attempts to change this via legislation, but typically chambers of commerce oppose it.

Jamie Woodson suggested that we should delete the last principle, that fiscal capacity should reflect adjustments for factors that cause differential costs. There was consensus on this point.

### **Prototype/CDF Phase-In Estimates**

Tim Webb presented a potential BEP scenario outlining the fiscal impacts of a simultaneous CDF reduction and prototype phase-in. The presented model shifts all current CDF dollars towards increases in the instructional salary component, resulting in a 75 / 25, state and local split. Following this CDF reduction, the system level prototype was then applied to the model. The potential scenario also transitions ELL to the classroom component.

The potential scenario did not include additional funds for at-risk or ELL, and was based on complete phase-in within the context of a single year.

He noted that preliminary estimates indicate that new state dollars for such a phase-in would run between \$28 and \$30 million annually.

Davis Huss provided an explanation of the difference between “hold harmless” and “stability”.

The difference between hold harmless and stability is summarized below:

**Hold Harmless** is a comparison of the 75 / 25 split before salary equity to the new 65 / 35 statewide split after the infusion of salary equity dollars. Funds are provided to ensure that no system receives less state money than it currently did before the implementation of the salary equity unit cost.

Method: Each year the BEP is independently run using two different instructional salary splits. The 75/25 split is based on each LEA’s average minimum mandated instructional salary, within the current year. The 65/35 split is based on the instructional salary equity unit cost within the current fiscal year (i.e. 35,585.84 in FY06). The school system receives the higher of these two calculated values within the instructional salary component.

**Stability** is a year to year comparison of total BEP funding. Schools systems cannot receive less state funding in the current year then the formula generated in the previous year.

Method: Under its current definition, stability applies primarily to systems which are experiencing a declining Average Daily Membership. That is, systems are held at a stable funding level in comparison to the previous year when less total state dollars are generated in the current year, due in most cases to declining ADM.

Under the current phase in model, school systems would have the capacity to grow out of stability based on increasing ADM throughout the course of the multiple year phase-in.

In addition to the amounts mentioned above by Webb, school systems will receive standard unit cost adjustments from year to year including salary increases and BEP maintenance.

It was noted that principle 7 in the recommendation of the Governor's Tax Force on Teacher Pay in 2003 recognized a specific link between CDF reduction and at-risk / ELL funding.

**7. Adjust the Cost Differential Factor (CDF)/At-Risk/English Language Learners (ELL) Components**—The CDF for instructional salaries should be replaced or readjusted provided that additional funds will be available to address the issue of equality of educational opportunity, including funds for students in families with low incomes (e.g., students eligible for free and reduced price lunch) and English language learners. This will have the effect of targeting funds to both rural and urban systems based on educational needs.

Fielding Rolston noted that the results from this scenario seem more reasonable than earlier projections of the impact of the movement from a 95 county fiscal capacity index to a 136 system index. He suggested that the committee give it more thought. We will be moving to a new model that will affect systems for years. He asked whether it met the explainable criteria.

Doug Goddard asked that the Department do some runs in which he includes the impact of teacher raises, at-risk funding, ELL funding, inflation, and enrollment.

Others suggested that we need to build in at-risk funding and ELL in order to be consistent with the recommendation of the Governor's task force.

In the BEP Review Committee's Report of 2004, the committee endorsed the concept of a 136 fiscal capacity index. We need to move forward with a recommendation for the November 1, 2005 report.

**Discussion of Immediate and Long Term priorities for the November 1, 2005 Report.**

It was suggested that Pre-Kindergarten and Alternative Schools be added to the list for consideration.

We have not yet received a response from the Attorney General regarding how the BEP should address the issue of inclusion of special education pre-school students in the ADM counts.

We should also seek an opinion from the Attorney General on whether change in the equalization formula is considered to be a change in component requiring that such change be sent to the General Assembly.

Karen King presented to the committee an analysis of the amount of state funds allocated per student by the BEP under the 95 county fiscal capacity model and under the proposed 136 system prototype model.

### **BEP Review Committee Report Draft Timeline**

Nixon noted that staff can begin working on parts of the report right now, based on information presented and discussion of the committee. Other aspects will await decisions made by the committee at its next meeting. The State Board of Education meets October 21, 2005

### **Next Steps**

The next meeting of the BEP Review Committee will be Monday, October 17, at 10:00 in the TSBA Conference Room. Nixon thanked TSBE for their hospitality in allowing members to use this room for their meetings.

- SDE will perform an additional BEP run incorporating the statewide and local system impact of increased funding for at-risk and ELL students.
- SBE staff will use the comptroller's data related to total teacher compensation and compile a regional salary comparison.
- SBE staff will prepare a preliminary draft of the November 1 report, based on committee discussion.

Nixon thanked staff members for their presentations, thanked committee members for their thoughtful deliberation and adjourned the meeting.