

**Basic Education Program
Review Committee
Annual Report
November 1, 2004**

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EXECUTIVE SUMMARY

In the effort to improve essential components of the Basic Education Program (BEP), the General Assembly has adopted legislation directing the BEP Review Committee¹ to perform a comprehensive review of the funding formula, identifying needed revisions, additions, or deletions. This year, through a series of full-day meetings, the committee has performed a comprehensive review of the following areas:

- total instructional salary disparity,
- differences in benefits,
- inflation indicators,
- funding for at-risk students,
- funding for English language learners (ELL),
- unit component costs,
- the existing mechanism for funding equalization.

Each year, on or before November 1, this committee will submit a report to the Governor, the State Board of Education, and the Select Oversight Committee on Education, identifying funding formula needs. This first edition of the report summarizes the findings of the committee, presents the immediate and extended priorities identified by the committee, and includes needed technical corrections.

Salary Disparity

1. The Governor's Salary Equity Plan has decreased salary disparity across the state. In calculating disparity, health insurance should be included in order to provide a more comprehensive picture of total compensation.

Immediate Priorities

1. Funding for at-risk students should be substantially increased within the BEP, as a separate classroom component (funded at a ratio of 75 percent state and 25 percent local).
2. Funding for English language learners (ELL) should be substantially increased within the BEP, as a separate classroom component (funded at a ratio of 75 percent state and 25 percent local).
3. BEP Technical Corrections - The most current values for FICA should be incorporated into the BEP for duty-free lunch and substitute teachers.

¹ Public Chapter 670, House Bill 3510, 2004 Legislative Session

Extended Priorities

1. The state should move toward adoption of a fiscal capacity index based upon a 136 system-level model, transitioning from the current 95 county model; specific recommendations will be included in the committee's report on November 1, 2005.
2. Unit cost components should more appropriately reflect the basic requirements of quality educational programs in Tennessee. These areas include:
 - a. Pre-Kindergarten for At-Risk Children
 - b. Professional Development
 - c. School Nurses
 - d. Teacher Classroom Materials and Supplies
 - e. Technology Coordinators
 - f. System-wide Administrative and Instructional Technology
 - g. Positions Outside the BEP
 - h. Transportation
 - i. Capital Outlay

The BEP Review Committee strongly endorses the complete findings and recommendations of this first annual report.

RECOMMENDATIONS

SALARY DISPARITY

Salary Disparity Recommendation #1:

The baseline for district compensation, upon which salary disparity is calculated, should include statewide weighted average salaries for each cell, applied to the local salary schedule. In addition, the baseline for district compensation should include weighted average local health insurance benefits.

Both weighted averages should be research-based measures, substantially demonstrating “schedule strength” and “insurance package strength”, independent of local variations in training and experience.

Salary Disparity Recommendation #2:

Annually, the baseline measures of district compensation, including salary and health benefits, should be analyzed using local salary schedules and health benefits information submitted to the department of education.

In the event that such data is not available in time to meet legislative deadlines, a separate report on disparity will be submitted to the Governor, State Board of Education, and Select Oversight Committee on Education.

IMMEDIATE PRIORITIES

AT-RISK STUDENTS

At-Risk Recommendation #1:

The Basic Education Program formula should provide additional funding for 100% of at-risk students, grades K-12.

At Risk Recommendation #2:

The component for at-risk students should be funded as a separate classroom component (funded at the ratio of 75 percent state and 25 percent local), providing increased flexibility in responding to the needs of at-risk students.

IMMEDIATE PRIORITIES (continued)

At-Risk Recommendation #3:

The funding for 100% of at-risk students should be phased in over a period not to exceed five years, using either percentage increments of total at-risk students or increments of grade-levels served.

At-Risk Recommendation #4:

The funding for at-risk students should be based upon a reduction of five students from traditional classroom ratios, across all grade levels, as defined within the BEP.

ENGLISH LANGUAGE LEARNERS

ELL Recommendation #1:

The component for ELL students should be funded as a separate classroom component (funded at the ratio of 75 percent state and 25 percent local), providing flexibility in strategies employed and grade levels served.

ELL Recommendation #2:

The funding ratio reduction for ELL students should be based upon 1 teacher for every 20 students, and 1 translator for every 200 students.

BEP TECHNICAL CORRECTIONS - FICA

Unit Components Cost Recommendation #1:

The most current value of FICA should be incorporated into all duty free lunch positions generated by the BEP.

Unit Components Costs Recommendation #2:

The most current value of FICA should be incorporated into all substitute teacher positions generated by the BEP.

EXTENDED PRIORITIES

FISCAL CAPACITY INDEX

Fiscal Capacity Index Recommendation:

The BEP Review Committee endorsed the concept of a 136 system-level prototype. The committee voted to recommend, in its November 1, 2005 report, that Tennessee convert from a 95 county to a 136 system-level equalization model.

Future discussion will focus on issues related to local tax base and additional questions determined by the BEP Review Committee. An additional year will allow time for the committee to develop potential phase-in options and gain a better understanding of factors driving formula change. This review will facilitate the necessary conditions for BEP implementation.

BEP UNIT COMPONENT COSTS

Pre-kindergarten for At-risk Children. A new component should be added to the BEP to support high quality pre-kindergarten programs for at-risk students. Tennessee currently funds 2,500 at-risk children and federally funded Head Start serves approximately 16,000 children. The existing level of service leaves an additional 20,500 at-risk four-year olds unserved.

Professional Development. A new component for professional development should be formally incorporated into the BEP, funded at a 1% rate of instructional salaries. Georgia, for example, funds professional development at a rate of 1 ½ %.

School Nurses. The formula component for school nurses should be based upon a ratio of at least 1 nurse for every 1500 students. Such a level of funding would still exceed the recommended ratio of 750, determined by the National Association of School Nurses. The component is currently funded at a ratio of 1 school nurse per 3000 students. Additionally, the BEP spending mandate for school nurses should be removed from Tennessee code.

Teacher Classroom Materials and Supplies. The materials and supply allocation for classroom teachers should be based upon a rate of no less than \$300 per teacher. This funding level would be one hundred dollars above the existing \$200 allocation. In order to ensure an appropriate delineation between shared-pool and direct teacher resources, TCA 49-3-359(a) should be updated to reflect an increase of \$100 directly to classroom teachers.

EXTENDED PRIORITIES (continued)

Technology Coordinators. Technology Coordinators should be funded based upon a ratio of at least 1 coordinator per 2500 students, compared to the current ratio of 1 coordinator per 6400 students.

Technology. Funding for technology should be substantially improved to support system-wide administrative and instructional technology. The recurring allocation of \$20 million has not been improved since inception of the BEP.

Positions Outside the BEP. The BEP should provide funding to account for a proportion of additional positions outside the formula. This funding should be based upon a reduction in class sizes at grade levels K-6. Additional study is needed.

Transportation. A review of funding components for transportation should be included in the committee's next annual report.

Capital Outlay. A review of the funding components for capital outlay should be included in the committee's next annual report.

INTRODUCTION

In accordance with Public Chapter 670 of the 2004 legislative session, Tennessee Code Annotated 49-1-302(a)(4) was amended to include a reauthorization of the Basic Education Program (BEP) review committee.

In addition to maintaining the committee's core constituency of members, the following stakeholders were added to inform the committee's future work:

- chairs of the standing education committees for the senate and house of representatives,
- director of the office of legislative budget analysis;
- at least one member from each of the following stakeholders:
 - teachers,
 - school boards,
 - directors of schools,
 - county governments,
 - municipal governments,
 - finance directors (urban, rural, and suburban systems).

According to legislation, this committee is charged with the regular review of BEP components, including the preparation of an annual report on or before November 1 of each year. This first edition of the report is submitted to the Governor, State Board of Education, and Select Oversight Committee on Education.

As directed in the legislation, this report "shall include recommendations on needed revisions, additions, and deletions to the formula, as well as an analysis of instructional salary disparity among local education agencies".

This reauthorized committee must convene at least four times annually; its work as directed by the legislation shall include, but not be limited to, "the consideration of total instructional salary disparity among local education agencies, differences in benefits and other compensation among local education agencies, inflation, and instructional salaries in the southeast and other regions".

Section 9 of Public Chapter 670, House Bill 3510 also specifically directs the BEP review committee "to give special consideration to costs of enhanced services to address the needs of at-risk children, the cost of educating English language learners, and the development and implementation of a system level fiscal capacity model."

The enclosed report fulfills all of the required components as directed by Public Chapter 670, House Bill 3510.

WORK OF THE COMMITTEE

In accordance with Public Chapter 670, the BEP Review Committee has engaged in a series of meetings to ensure a high standard of deliberation regarding formula improvements. This report represents the foundation for continued dialogue throughout the current and future legislative sessions.

In addition to fulfilling the requirements of legislation, the committee has identified several priorities as critical to reflecting the true cost of delivering quality educational programs for all Tennessee students. Thoughtful discussion has centered on the following initiatives as a foundation for moving towards greater support for high quality teaching and learning.

1. A comprehensive review of total instructional salary disparity, including analysis of local education agencies (LEAs), review of inflation indicators, differences in benefits and other compensation, and salaries in states in the southeast and other regions.
2. A recommendation of funding improvements for at-risk students and English language learners:
 - a. Expanding the proportion of K-12 at-risk students funded through the formula.
 - b. Reducing class size ratios for ELL teachers and translators.
3. A recommendation of unit cost improvements, reflecting component areas under funded within the BEP.
 - a. Pre-Kindergarten for At-Risk Children
 - b. Professional Development
 - c. School Nurses
 - d. Teacher Classroom Materials and Supplies
 - e. Technology Coordinators
 - f. System-wide Administrative and Instructional Technology
 - g. Positions Outside the BEP
 - h. Transportation
 - i. Capital Outlay
4. An updated review of the fiscal capacity index, including analysis of the existing 95 county model and newly proposed 136 system-level prototype.

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1. TOTAL INSTRUCTIONAL SALARY DISPARITY

Background

In October 2002, the Tennessee State Supreme Court ruled that teacher salaries, “fail(ed) to comply with the State’s constitutional obligation to formulate and maintain a system of public education that affords substantially equal educational opportunity to all students”. The court concluded that teacher instructional salaries should be incorporated as a key BEP funding component, subject to an “annual review or cost determination”.

In November 2003, the Governor’s Task Force on Teacher Pay provided strategic and basic conclusions regarding a comprehensive approach to addressing teacher pay equity. These conclusions identified “early detection” as the mechanism to provide a “clear step-by-step picture of disparity concerns for school systems”; and called for a process of annual review “as the way to recommend cost adjustments to the BEP salary component”.

BEP Review Committee Discussion (Total instructional salary disparity):

The committee reviewed several measures for calculating disparity, using analysis performed by the department of education and office of the comptroller. Discussion revealed agreement on the need to assess disparity independent of local variation caused by training and experience. There was also consensus on the need to include local variations in health benefits as a component of the compensation baseline.

The committee agreed on the use of a weighted average salary, based on the statewide percentage of teachers in each salary schedule cell for each system. This weighted average included experience for all levels and degree attainment. A weighted average local measure of health insurance paid was then combined with the weighted salary average for each district, resulting in a baseline of total compensation (salary and health insurance), upon which disparity could be measured.

In addition to intra-state disparities, the committee reviewed Tennessee's relative rank in comparison to the Southeastern average and the average of contiguous states.

Findings (Total Instructional Salary Disparity)

a. Comparative Salaries

The average salary for Tennessee instructional positions (2003-04) was \$40,657, according to the Southern Regional Education Board². Over the past academic year, this represented a 2.5% increase, outpacing a 2.2% southern regional average increase. As a total percentage of SREB states, Tennessee's average was 97.3% of the aggregate regional profile, and 99.7% in comparison to contiguous states.

A ten year analysis of Tennessee's average salary, reveals a 33.2% increase compared to an SREB total increase of 36.3%.

It is important to note that such salary comparisons do not address cost-of-living variations among states or within states. Employee benefits, variations in degree attainment and level of experience are also not accounted for in such regional analyses.

The BEP adjusts for inflation based on the Consumption Price Deflator for Government Purchases. This inflation index, originally published by the U.S. Department of Commerce Bureau of Economic Analysis (BEA), estimates the increase in costs for state and local governments nationwide, and includes indices for compensation of state and local government employees, consumption of fixed capital, and purchases of intermediate goods and services.

b. A Decrease in Statewide Salary Disparity

An analysis of instructional salary disparity reveals the Governor's equity plan has decreased disparity, making salary schedules more competitive across Tennessee. (Appendix B)³. A more comprehensive analysis of the statewide effects, including health benefits, will become available as systems finalize their schedules for the current 2004-05 academic year.

Furthermore, the inclusion of health insurance in addition to weighted salary averages reveals additional reductions in disparity, using multiple district measures of comparison (Appendix C.2)⁴. Analysis, using quartile rank order, reveals a continuing trend towards disparity reduction. When such analysis is performed comparing the maximum and minimum districts, the addition of health insurance results in a slight disparity increase from 35.3 to 37.3 percent. A reliance on two single salary points—

² Gaines, G.F. (July 2004) *Focus on Teacher Pay and Incentives: Recent legislative actions and update on salary averages*. SREB

³ Appendix B provides exhibit representations of statewide total instructional salary disparity reduction.

⁴ Appendix C provides a comparative profile of weighted salary averages, including health benefits.

the maximum and minimum—provides an incomplete picture of overall statewide trends towards reduction in disparity.

c. Statewide District Ranks

The addition of health insurance to weighted salary averages reveals a shift in the relative rank order of districts across the state (Appendix C).

In general, there is wide variation in which districts improve or decline in rank order; however, districts on the lowest end of the salary scale tend to experience a reduction in disparity through the addition of health insurance benefits.

The lowest quartile districts (bottom 34 districts) experience an average increase in rank of +14.5 with the inclusion of health insurance benefits. Such figures are even more pronounced in an analysis of the relative change among the 20 lowest ranked districts.

2. AT – RISK STUDENTS

Background

State and federal accountability measures have refocused the efforts of schools and districts to meet the needs of all learners, including economically disadvantaged students⁵. The existing BEP formula targets funding for only 1/3 of at-risk enrollment, grades K – 3. In order to support Tennessee’s goals for achievement, the BEP Review Committee recognizes the need to expand such targeted resources towards all at-risk students. Daily, over 41 percent of Tennessee students receive free and reduced priced meals.

BEP Review Committee Discussion (At-Risk Students):

The committee considered various scenarios for expanding the number of at-risk students served by the formula. Such scenarios included increasing the proportion of students served by grade levels and increasing the percentage of students served in grades K-12. The committee reviewed fiscal projections under the existing instructional component (65/35 state/local ratio) and as a separate classroom component (75/25 state/local ratio).

The committee agreed that establishing at-risk as a separate classroom component would provide local systems the flexibility to customize resources. Funding projections were based on a 5 student reduction from the traditional classroom ratio. The committee questioned if this reduction alone appropriately reflected the

⁵ In the current BEP, ‘at-risk’ is measured by eligibility for Free and Reduced Priced Meals (FRPM)

necessary resources to improve preparation of at-risk students. However, there was the consensus that such ratio reductions, combined with the local flexibility to target resources, would provide an important first step towards meeting more appropriately the needs of at-risk students.

The committee also reviewed alternative measures of defining at-risk, noting that most states rely on free and reduced priced meals. This topic will serve as an area for further investigation as the committee moves forward.

Findings (At Risk Students)

- a. Serving the needs of at-risk students.

In an assessment of resources required to educate at-risk students, the committee agreed that the goal should be funding for all at-risk students in grades K-12, phased in over a period not to exceed five years.

- b. Changing the classification of at-risk funding to a classroom component (funded at the ratio of 75 percent state and 25 percent local).

In order to provide maximum flexibility, the committee agreed that changing the at-risk component of the BEP from an instructional salary component to a classroom component allows districts to target more appropriately resources, based on localized needs.

- c. Reducing the funding ratio proportion

At-risk students present unique challenges to Tennessee educators. Student needs can be addressed in a variety of ways including early intervention, after school programs, and expanded opportunities for parent involvement. However, the committee agreed that a reduction of five students in conjunction with its re-categorization as a separate classroom component would begin the process of more appropriately targeting the needs of at-risk students.

3. ENGLISH LANGUAGE LEARNERS

Background

The addition of English Language Learners as a separate component of the BEP was the first major modification to the formula since its inception. The existing component generates positions at a ratio of 1 teacher for every 50 students, and provides 1 translator for every 500 students. Such measures do not reflect an appropriate classroom standard for instructional quality.

Tennessee continues to experience dramatic growth in the number of ELL students served through public schools. Recent data show that the number of ELL students has grown more than 300% since the 1999- 2000 school year⁶. Currently⁷, over 19,350 ELL students generate positions within the BEP formula, affecting 83% of all Tennessee districts in all regions of the state.

BEP Review Committee Discussion (English Language Learners):

The committee examined the fiscal impact of reducing teacher and translator ratios throughout various increments. The committee also agreed that establishing ELL as a separate classroom component would provide local systems the flexibility to direct funding to target the needs of ELL populations.

Findings (English Language Learners)

Analysis was performed for student-teacher ratios of 1/40 and student-translator ratios of 1/400. Projections were also run at 1/30 (teacher), 1/300 (translator) ratios and 1/20 (teacher), 1/200 (translator) ratios. The committee also noted that successful ELL programs require flexibility in strategies to meet diverse school, parent, and student needs.

In order to provide maximum flexibility, the committee agreed that changing the ELL component of the BEP from instructional salary to a classroom component allows districts to target resources more appropriately.

4. BEP TECHNICAL CORRECTIONS

Background

The BEP includes components to fund duty free lunch teachers and substitute teachers.

Findings (Technical Corrections)

The components do not include funding for FICA for duty free lunch teachers and substitute teachers.

⁶ Source: U.S. Department of Education's Survey of the States' Limited English Proficient and Available Educational Programs and Services, 1991-1992 through 2000-2001.

⁷ FY 05 Fiscal Year

5. BEP UNIT COMPONENT COSTS

Background

Previous work of the BEP review committee (2000-01) included a comprehensive review of existing components, including a series of recommendations. In addition to the immediate priorities of at-risk students and English language learners, the following areas were examined using updated unit component costs.

- Pre-Kindergarten for At-Risk Children
- Professional Development
- School Nurses
- Teacher Classroom Materials and Supplies
- Technology Coordinators
- System-wide Administrative and Instructional Technology
- Positions Outside the BEP
- Transportation
- Capital Outlay

BEP Review Committee Discussion (Unit Component Costs):

A separate sub-committee examined cost estimates associated with each educational priority, reporting major findings to the larger committee. This analysis revealed numerous under funded or omitted BEP components.

Existing unit costs are based on past expenditures; however, BEP calculations for the current fiscal year reveal these costs are starting to “bottom out”. This phenomenon occurs as districts fail to use funds generated within specified BEP categories, particularly for materials and supplies. However, it is important to note that the BEP does not mandate spending in an overwhelming majority of formula categories, but rather generates education revenue for districts to allocate, based on local needs.

If the past practice of establishing unit costs had been applied this year, a \$38 million loss would have resulted for school systems. Instead, the Department of Education has devised a procedure to allocate unit costs based on the larger of two funding scenarios: (1) a three year average, indexed for inflation⁸ or (2) the previous year’s expenditure, indexed for inflation. The larger of these two values is then applied to the BEP for each district.

⁸ See Appendix D.

The BEP Review Committee voted unanimously to continue the revised method for calculating unit costs for FY06. This will provide time to identify alternative independent sources of data in the determination of inflation indicators.

Findings (Unit Component Costs)

A review of unit component costs revealed numerous and substantial areas where the BEP significantly omits or underfunds essential components required for the basic administration of traditional education programs. The findings are embedded in the recommendations which appear in an earlier section of this report.

6. FISCAL CAPACITY INDEX

Background

Since the inception of the BEP, the fiscal capacity index, produced by the staff of the Tennessee Advisory Committee on Intergovernmental Relations (TACIR), has served as the primary equalization mechanism of the BEP. TCA 49-3-356 specifies that “from the local portion of [BEP funding], there shall be a distribution of funds for equalization purposes pursuant to a formula adopted by the state board, as approved by the commissioners of education and finance and administration. It is the intent of the general assembly to provide funding on a fair and equitable basis by recognizing the differences in the ability of local jurisdictions to raise local revenues.”

Recent improvements in sources of data have provided TACIR with the opportunity to propose changes to existing variables in the current model. The availability of such data will allow the existing method of equalization to fulfill more appropriately the intent of legislation, presenting an improved profile of the “differences in the ability of local jurisdictions to raise local revenues”.

Additionally, current implementation of the fiscal capacity index is based on a 95 county model, which limits its capacity to capture equitably tax revenue across all 136 systems at the system level. In response to this challenge and other factors, TACIR developed a system-level prototype for committee discussion, based on all 136 systems.

BEP Review Committee Discussion (Fiscal Capacity Index):

A comprehensive overview of the fiscal capacity prototype was presented to the committee, highlighting major data source improvements used to develop a system-level model. Such improvements include the replacement of per capita personal income (PCPI) with median household income. PCPI tends to understate fiscal capacity in areas that include people who live in group quarters, such as prisons and colleges, and overstate fiscal capacity in areas with high income outliers. The new

prototype also includes a component for state-shared local tax revenue and a variable for state-shared tax revenue per pupil.

A complete overview of the prototype is available on the web via <http://www.state.tn.us/tacir/Fiscal%20Capacity/prototype.htm>

Committee discussion also examined incorporating specific recommendations into the 95 county model, including:

- Elimination of tax equivalent payments based on outdated data;
- Replacing per capita personal income with median household income. PCPI tends to understate fiscal capacity in areas with large group quarters and overstate fiscal capacity in relatively small counties with high income outliers;
- Considering whether service responsibility is too broad, examining whether it should be dropped or replaced by a variable that more accurately measures service burden not captured by the BEP.
- Including a measure of state-shared revenue used to fund school systems in order to improve model integrity.

Findings (Fiscal Capacity Index)

The committee concluded that the implementation of the system-level prototype, which includes all of the funds available to schools, would improve the fairness of the fiscal capacity index used in the BEP. Implementation would also result in a change in the responsibility of individual systems to contribute their share of funding to the BEP. The committee also acknowledged that implementation of the streamlined sales tax legislation (July 2005) will affect revenues available to local systems in ways that have not yet been fully analyzed; this challenge will occur whether or not any changes are made to the fiscal capacity index.

The committee endorsed the concept of a system-level prototype, and agreed that the November 1, 2005 report will include a recommended plan for Tennessee to transition from a 95 county to a 136 system-level equalization model. Over the next year, the committee will examine factors driving change within the new prototype. It is important to note that such factors will impact the formula, whether or not the 136-system level prototype is adopted. Future research and discussion will focus on, but not be limited to, the following factors (Appendix E):

1. Voluntary tax sharing agreements between and among cities and counties;
2. Differences in tax capacity related to the local option sales tax cap of 2.75%;
3. Treatment of the local tax base subject to Central Business Improvement District and Tourism Development Zone status;

4. Treatment of the tax base subject to the 15 year annexation hold harmless provision; and
5. Additional questions as determined by the BEP Review Committee.

The committee will also provide potential phase-in options related to the 136 system-level prototype, including a potential hold-harmless provision for districts negatively impacted by the transition.

7. ADDITIONAL WORK AND DISCUSSION OF THE COMMITTEE

Special Education:

Previously, the General Assembly directed the Board to develop a policy on caseload and class size for special education. A Board task force determined that, at a minimum, special education classes should be no larger than general education classes. Future discussion will closely examine the feasibility of obtaining such caseload and class size data, and serve as a basis for future discussion.

Cost Differential Factor (CDF):

The existing cost differential factor, as incorporated into the BEP, was designed to reflect the increased wages paid by certain counties, due to local marketplace and metropolitan differences. More comprehensive research regarding the CDF will be performed by the BEP review committee in the upcoming year.

Fee Waivers:

TCA 49-2-114 requires LEAs to “establish, pursuant to rules promulgated by the State Board, a process by which to waive all school fees for students who receive free or reduced priced lunches. The existing mechanism for fee waiver distribution within the BEP has no correlation to the number of students on free and reduced priced meals. Consequently, systems are not provided with sufficient resources to meet the fiscal demands as directed in Tennessee code. The committee will consider a more appropriate mechanism for incorporating fee waivers into the BEP.

Future Funding Needs:

In July 2003, the Office of Education Accountability published a comprehensive review⁹ of the BEP, identifying formula challenges which limit Tennessee’s capacity to support improved educational outcomes. The committee reviewed the findings in that report.

⁹ Comptroller of the Treasury. (July 2003). *Funding Public Schools: is the BEP Adequate?* Nashville, TN: Office of Education Accountability. <http://www.comptroller.state.tn.us/orea/reports/bepadequacy.pdf>

In addition, the committee reviewed recommendations on future funding needs from the following three groups: The Coalition for Tennessee's Future¹⁰, the Urban Caucus, and Tennessee Organization of School Superintendents. The upcoming year will be used to comprehensively review finding implications from each educational constituency group.

¹⁰ *Calculation of the Cost of an Adequate Education in Tennessee in 2001-02 Using the Professional Judgement Approach and The Successful School District Approach*, prepared by Augenblick, Palaich and Associates, Inc.

Appendix A: Public Chapter 670

Chapter No. 670]

PUBLIC ACTS, 2004

1

CHAPTER NO. 670

HOUSE BILL NO. 3510

By Representatives McMillan, Winningham, Maddox, Fitzhugh, Shepard, Pinion, McDaniel, Harmon, Borchert, Shaw, Buck, Tidwell, Litz, Yokley, Walker, Bone, Head, Hensley, Hood, Towns, Coleman and Mr. Speaker Naifeh

Substituted for: Senate Bill No. 3397

By Senators Crutchfield, Graves, Kurita, Norris, Burks, Herron

AN ACT to amend Tennessee Code Annotated, Title 49, relative to instructional salaries.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF TENNESSEE:

SECTION 1. Tennessee Code Annotated, Section 49-3-356, is amended by inserting the words and punctuation ", sixty-five percent (65%) in the instructional positions component" between the words "classroom components" and the words "and fifty percent".

SECTION 2. Tennessee Code Annotated, Section 49-3-366, is amended by deleting the section in its entirety and substituting instead the following:

Section 49-3-366

(a) Notwithstanding any other law to the contrary, effective with the 2004-2005 fiscal year, the dollar value of the BEP instructional positions component shall be thirty-four thousand dollars (\$34,000) per instructional position. In subsequent fiscal years, the dollar value of the instructional positions component in the BEP shall be set in accordance with the provisions of Section 49-3-351.

(b) No local education agency shall receive from the BEP in fiscal year 2004-2005 and in subsequent fiscal years a lesser amount of state funds for instructional salaries, benefits, insurance, and unit costs adjusted for any mandatory increases in these categories and adjusted for any changes in average daily membership, than it received for such purposes in the 2003-2004 fiscal year.

(c) The commissioner shall provide to each local education agency, as appropriate, a state funding plan to transition from prior appropriations pursuant to Section 11, Items 4(a) and 4(b) of Chapter 356 of the Public Acts of 2003, to funding under the BEP for the instructional positions component. In developing such plan, the commissioner shall consider the applicable local salary schedules for instructional positions, the fiscal capacity of the local education agency and the local effort in raising revenue. The department shall provide each local education agency notice of its obligations and anticipated revenues under such transition plan.

SECTION 3. Tennessee Code Annotated, Section 49-1-302(a)(4) is amended by deleting the following language and punctuation:

Appendix A (continued): Public Chapter 670

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The board shall establish a review committee for the Tennessee basic education program. The committee shall include the commissioners of education and finance and administration, or their designees. Others may be appointed by the board as determined by the board.

SECTION 4. Tennessee Code Annotated, Section 49-1-302(a)(4), as amended by Section 3, is further amended by designating the amended subdivision as (a)(4)(A) and by adding the following language as a new subdivision (a)(4)(B):

(B) The board shall establish a review committee for the Tennessee basic education program. The committee shall include the executive director of the state board of education, the commissioner of education, the commissioner of finance and administration, the comptroller of the treasury, the director of the Tennessee Advisory Commission on Intergovernmental Relations, the chairs of the standing committees on education of the senate and house of representatives, and the director of the office of legislative budget analysis, or their designees. The board shall appoint at least one member from each of the following groups: teachers, school boards, directors of schools, county governments, municipal governments which operate local education agencies, finance directors of urban school systems, finance directors of suburban school systems, and finance directors of rural school systems. The BEP review committee shall meet at least four times a year and shall regularly review the BEP components, as well as identify needed revisions, additions, or deletions to the formula. The committee shall annually review the BEP instructional positions component, taking into consideration factors including, but not limited to, total instructional salary disparity among local education agencies, differences in benefits and other compensation among local education agencies, inflation, and instructional salaries in states in the southeast and other regions. The committee shall prepare an annual report on the BEP and shall provide such report, on or before November 1 of each year, to the governor, the state board of education, and the select oversight committee on education. This report shall include recommendations on needed revisions, additions, and deletions to the formula as well as an analysis of instructional salary disparity among local education agencies.

SECTION 5. Tennessee Code Annotated, Section 49-3-354(b), is amended by adding the following language at the end of the subsection:

BEP funds earned in the instructional positions component must be spent for instructional positions.

SECTION 6. Tennessee Code Annotated, Section 49-3-306(a), is amended by designating the existing language as subdivision (a)(1) and by adding the following language to be designated as subdivision (a)(2):

(a)

(2) In addition to the state salary schedule developed by the commissioner for fiscal year 2004-2005 pursuant to subdivision (a)(1), the commissioner shall develop a local salary schedule for each local education agency for fiscal year 2004-2005. Notwithstanding the provisions of this section or any other law to the contrary, such local salary schedule shall provide that the local education agency adopt a local salary supplement for fiscal year 2004-2005 that is lower than the supplement paid in fiscal year 2003-2004, so long as any

Appendix A (continued): Public Chapter 670

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PUBLIC ACTS, 2004

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such reduction by a local education agency in the local salary supplement is not larger in amount than any increase in the state minimum salary for that local education agency for fiscal year 2004-2005 resulting from appropriations made pursuant to this act. Any reduction by a local education agency of the local salary supplement for fiscal year 2004-2005 shall be subject to existing collective bargaining agreements to which such local education agency is a party. In the event such agreement bars a reduction in local salary supplements and the local education agency is unable to reach an agreement permitting such reduction, the commissioner shall reduce the state minimum salary for that local education agency in an appropriate amount for fiscal year 2004-2005. Nothing in this subsection shall be construed to diminish or in any way serve to reduce any general state salary schedule increase that may be provided outside the parameters of this act. Nothing in this subdivision (a)(2) shall be construed to prohibit or modify the mandatory nature of negotiations of salary for fiscal year 2004-2005 where such supplements or improvements in salary are implemented subsequent to the commissioner's re-calibration or possible reduction of some local salary supplements as they existed on the 2003-2004 local salary schedules.

SECTION 7. Tennessee Code Annotated, Subsection 49-3-306(b), is amended by adding the following language at the end of the subsection:

The provisions of the foregoing sentence shall not prohibit a reduction in local salary supplements pursuant to subsection (a)(2).

SECTION 8. Tennessee Code Annotated, Subsection 49-3-306(e), is amended by adding the following language at the end of the subsection:

For fiscal year 2004-2005, such schedule shall include, as a minimum, the schedule recommended by the commissioner for salary equalization purposes under subsection (a)(2).

SECTION 9. In reviewing the basic education program for fiscal year 2005-2006, the BEP review committee is requested to give special consideration to costs of enhanced services to address the needs of at-risk children, the cost of educating English language learners (including teachers, translators and related professions) and the development and implementation of a system-level fiscal capacity model.

SECTION 10. If any provision of this act or the application thereof to any person or circumstance is held invalid, such invalidity shall not affect other provisions or applications of the act which can be given effect without the invalid provision or application, and to that end the provisions of this act are declared to be severable.

SECTION 11. This act shall take effect upon becoming law, the public welfare requiring it.

Appendix A (continued): Public Chapter 607

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PASSED: April 29, 2004


JIMMY NAIFEH, SPEAKER
HOUSE OF REPRESENTATIVES

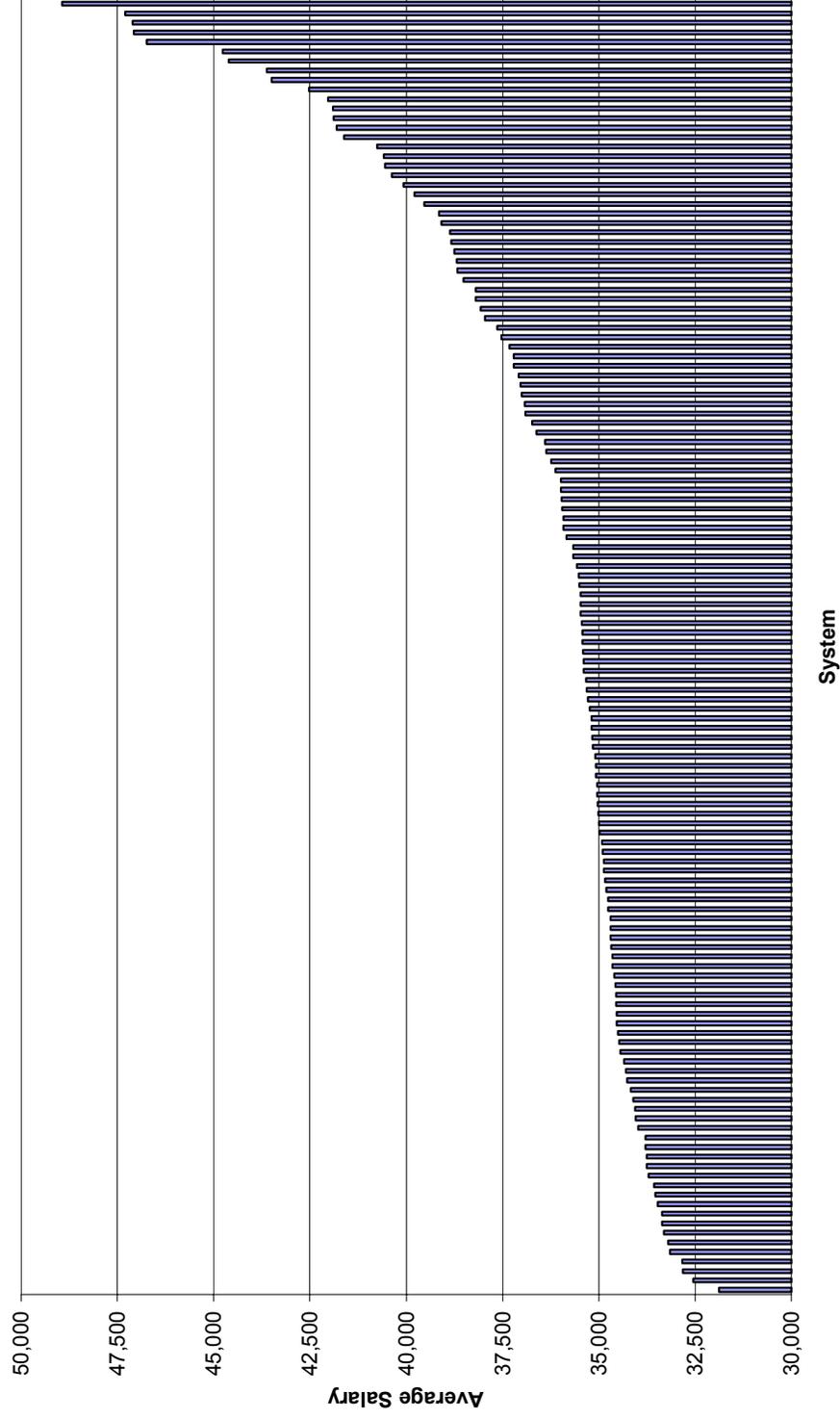

JOHN S. WILDER
SPEAKER OF THE SENATE

APPROVED this 14th day of May 2004

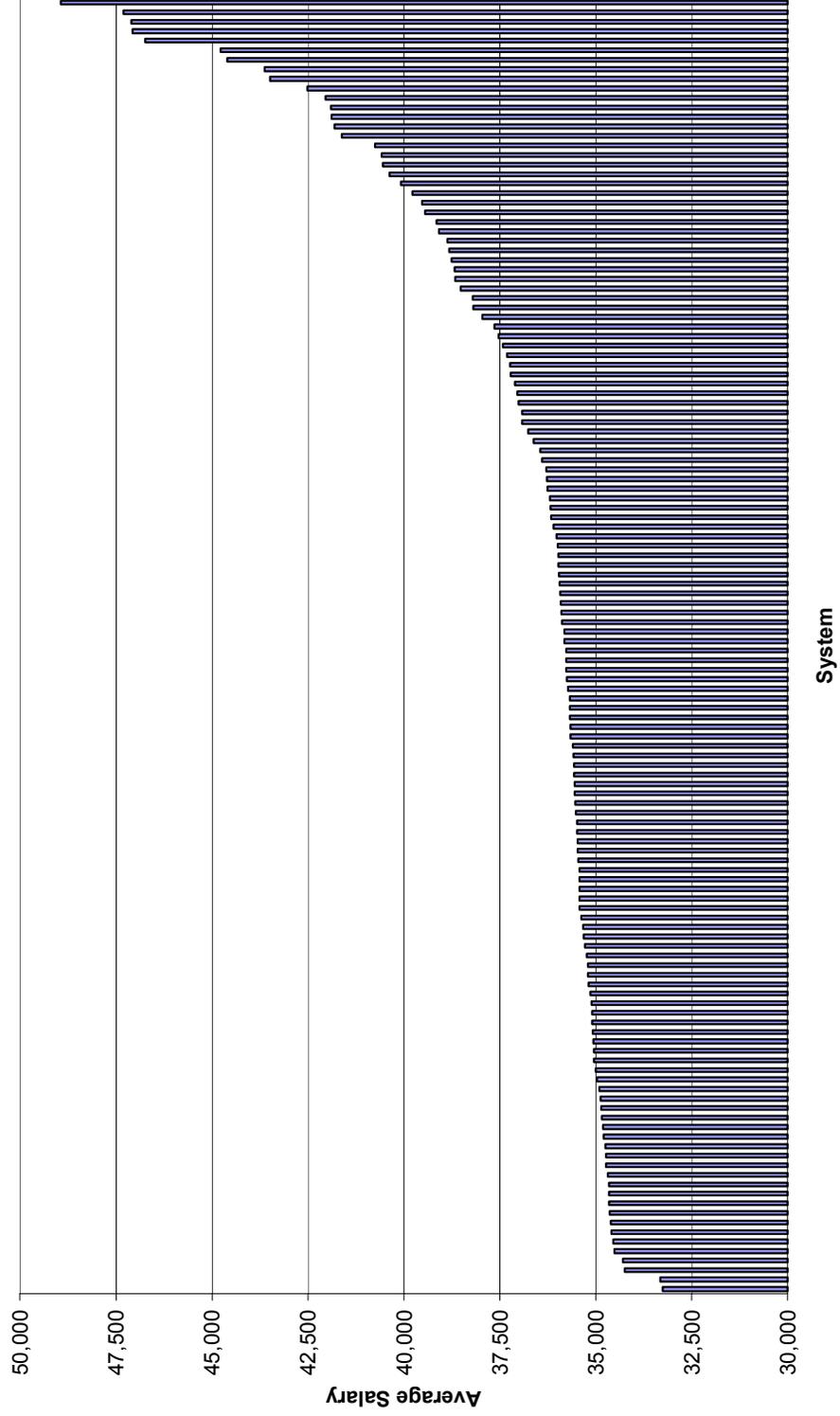

PHIL BREDESEN, GOVERNOR

Appendix B.1: Salary Disparity

Average Salaries Ranked by Average System Salary:
Before Equity Proposal

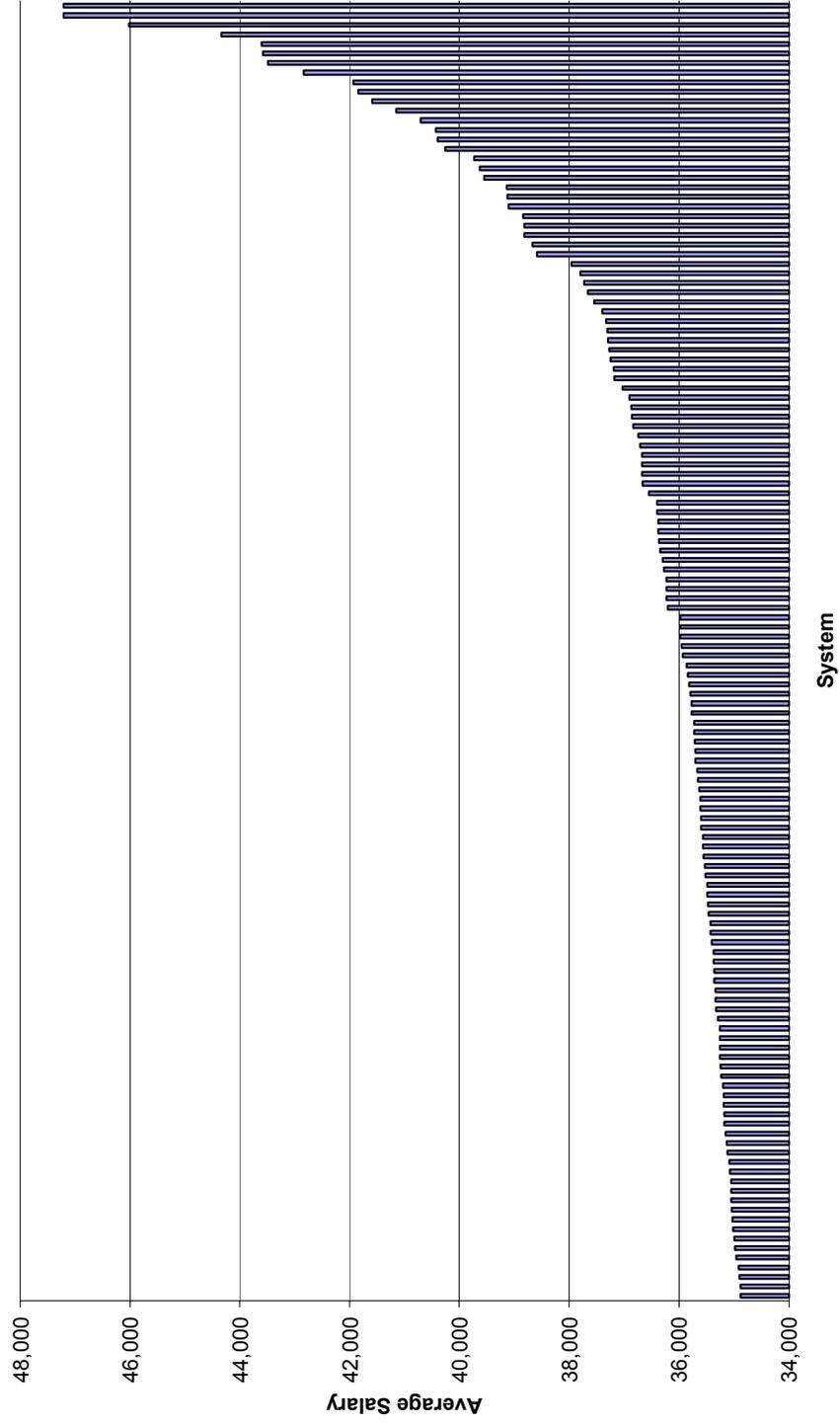


Appendix B.2: Salary Disparity
Average Salaries Ranked by Average System Salary:
After Salary Equity Proposal



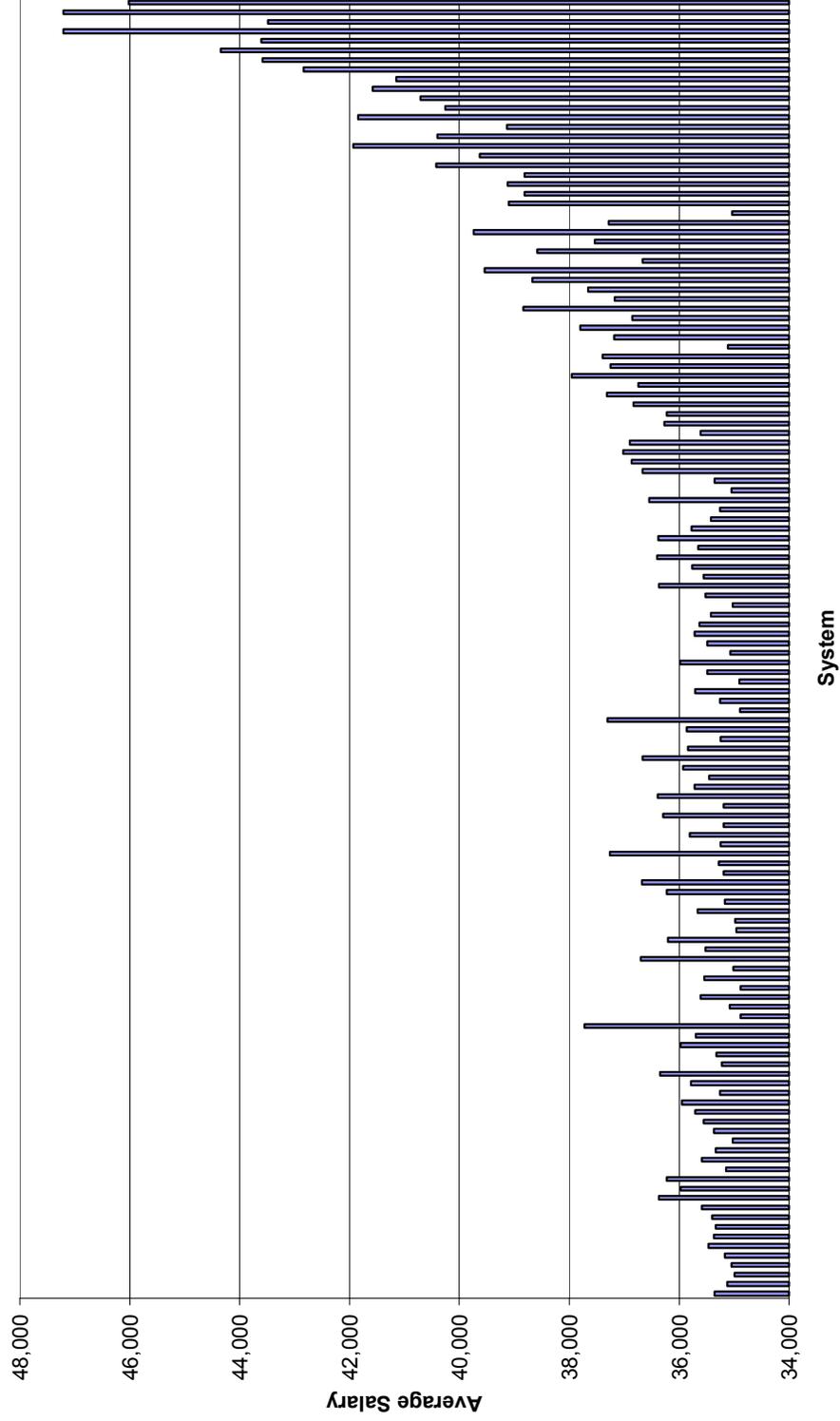
Appendix B.3: Salary Disparity

Average Salaries Ranked by Average System Salary:
Weighted Average System Demographics



Appendix B.4: Salary Disparity

Average Salaries Ranked by After Equity Proposal System Averages:
Weighted Average Personnel in each System



Appendix C.1

		WEIGHTED AVERAGE SALARY		WEIGHTED AVERAGE INSURANCE PAID		SALARY PLUS INSURANCE	
	SCHOOL SYSTEM	AVERAGE SALARY	RANKING	INSURANCE PAID	RANKING	INSURANCE	RANKING
10	Anderson County	\$37,208.30	39	\$4,273.68	86	\$41,481.97	54
11	Clinton City	\$39,196.24	20	\$4,493.04	79	\$43,689.28	24
12	Oak Ridge	\$46,073.14	3	\$4,927.04	64	\$51,000.18	3
20	Bedford County	\$35,974.38	68	\$5,376.20	37	\$41,350.58	57
30	Benton County	\$35,250.13	115	\$5,367.48	40	\$40,617.61	74
40	Bledsoe County	\$35,419.04	102	\$3,827.31	109	\$39,246.35	113
50	Blount County	\$39,647.29	18	\$4,944.89	62	\$44,592.18	19
51	Alcoa City	\$43,590.45	7	\$5,584.28	18	\$49,174.73	5
52	Maryville City	\$43,656.56	5	\$4,264.79	89	\$47,921.34	8
60	Bradley County	\$37,807.51	29	\$4,408.68	81	\$42,216.19	41
61	Cleveland City	\$38,672.01	26	\$4,855.73	66	\$43,527.74	25
70	Campbell County	\$35,260.54	111	\$6,200.20	3	\$41,460.74	55
80	Cannon County	\$37,751.06	30	\$4,266.49	88	\$42,017.56	46
90	Carroll County	\$35,728.30	80	\$3,071.39	132	\$38,799.69	124
	Hollow Rock-						
92	Bruceton SSD	\$35,552.68	92	\$3,471.34	121	\$39,024.02	120
93	Huntingdon SSD	\$35,017.95	132	\$3,371.38	125	\$38,389.33	132
94	McKenzie SSD	\$34,986.32	134	\$3,755.80	111	\$38,742.12	126
95	South Carroll SSD	\$35,289.42	109	\$3,416.58	122	\$38,706.00	127
97	West Carroll SSD	\$35,430.80	101	\$3,412.60	124	\$38,843.41	122
100	Carter County	\$35,492.46	97	\$5,380.51	26	\$40,872.97	67
101	Elizabethton City	\$37,269.71	38	\$4,984.07	56	\$42,253.77	38
110	Cheatham County	\$36,265.84	61	\$5,920.80	10	\$42,186.64	42
120	Chester County	\$35,333.44	106	\$4,636.87	74	\$39,970.31	100
130	Claiborne County	\$34,932.98	135	\$3,235.50	127	\$38,168.48	136
140	Clay County	\$35,220.90	117	\$3,071.39	132	\$38,292.29	133
150	Cocke County	\$35,242.67	116	\$5,181.30	49	\$40,423.97	87
151	Newport City	\$35,041.05	130	\$5,371.08	39	\$40,412.13	88
160	Coffee County	\$36,851.32	46	\$5,379.80	32	\$42,231.12	40

Appendix C.1 (continued)

	SCHOOL SYSTEM	WEIGHTED		WEIGHTED		WEIGHTED		SALARY PLUS	
		AVERAGE SALARY	RANKING	INSURANCE PAID	RANKING	INSURANCE	RANKING		
161	Manchester City	\$38,893.38	23	\$5,378.07	33	\$44,271.45	22		
162	Tallahoma City	\$39,156.31	21	\$5,952.16	9	\$45,108.47	18		
170	Crockett County	\$35,376.35	104	\$3,753.98	112	\$39,130.34	116		
171	Alamo City	\$37,455.19	33	\$3,412.68	123	\$40,867.87	68		
172	Bells City	\$37,388.85	35	\$4,095.16	98	\$41,484.02	53		
180	Cumberland County	\$35,201.84	120	\$6,178.64	4	\$41,380.48	56		
190	Davidson County	\$44,373.40	4	\$5,357.13	42	\$49,730.54	4		
200	Decatur County	\$35,441.20	100	\$3,671.28	117	\$39,112.48	118		
210	DeKalb County	\$36,231.48	63	\$4,305.53	84	\$40,537.01	77		
220	Dickson County	\$36,424.10	55	\$4,255.53	90	\$40,679.63	72		
230	Dyer County	\$37,414.70	34	\$4,592.74	77	\$42,007.44	47		
231	Dyersburg City	\$40,261.04	16	\$5,709.55	15	\$45,970.59	13		
240	Fayette County	\$36,408.97	56	\$4,111.47	96	\$40,520.44	78		
250	Fentress County	\$35,253.73	113	\$5,413.11	25	\$40,666.84	73		
260	Franklin County	\$35,515.56	95	\$4,961.38	60	\$40,476.94	80		
271	Humboldt City	\$35,055.89	128	\$3,730.34	114	\$38,786.23	125		
272	Milan SSD	\$35,252.91	114	\$4,014.14	102	\$39,267.05	112		
273	Trenton SSD	\$35,134.29	123	\$3,671.38	115	\$38,805.66	123		
274	Bradford SSD	\$35,022.11	131	\$3,671.28	116	\$38,693.39	128		
275	Gibson SSD	\$35,595.28	88	\$3,948.80	103	\$39,544.08	108		
280	Giles County	\$35,053.14	129	\$5,378.07	33	\$40,431.21	86		
290	Grainger County	\$35,728.15	81	\$4,712.71	71	\$40,440.87	84		
300	Greene County	\$35,637.02	85	\$4,945.07	61	\$40,582.09	76		
301	Greeneville City	\$40,411.27	15	\$4,731.62	70	\$45,142.88	17		
310	Grundy County	\$35,792.76	75	\$3,879.82	106	\$39,672.58	106		
320	Hamblen County	\$36,249.61	62	\$6,002.65	8	\$42,252.26	39		
330	Hamilton County	\$40,457.65	14	\$5,057.60	52	\$45,515.25	16		
340	Hancock County	\$35,470.54	99	\$3,075.40	129	\$38,545.93	131		
350	Hardeman County	\$36,692.35	49	\$5,571.36	19	\$42,263.70	37		

Appendix C.1 (continued)

	SCHOOL SYSTEM	WEIGHTED AVERAGE SALARY	RANKING	WEIGHTED AVERAGE PAID	RANKING	SALARY PLUS INSURANCE	RANKING
360	Hardin County	\$35,093.56	124	\$5,349.18	43	\$40,442.74	83
370	Hawkins County	\$35,952.82	69	\$5,191.23	46	\$41,144.05	60
371	Rogersville City	\$36,298.05	59	\$4,209.03	93	\$40,507.08	79
380	Haywood County	\$35,825.17	72	\$4,231.44	91	\$40,056.61	97
390	Henderson County	\$35,886.67	70	\$4,095.21	97	\$39,981.88	98
391	Lexington City	\$35,824.55	74	\$4,299.92	85	\$40,124.46	95
400	Henry County	\$35,298.39	107	\$4,483.54	80	\$39,781.93	105
401	Paris SSD	\$35,824.61	73	\$4,080.10	100	\$39,904.71	103
410	Hickman County	\$35,142.62	122	\$5,003.98	54	\$40,146.59	94
420	Houston County	\$36,615.61	52	\$4,271.30	87	\$40,886.91	66
430	Humphreys County	\$35,345.17	105	\$4,968.87	59	\$40,314.04	89
440	Jackson County	\$35,498.82	96	\$4,939.04	63	\$40,437.86	85
450	Jefferson County	\$34,915.09	136	\$5,380.50	27	\$40,295.60	90
460	Johnson County	\$35,679.78	83	\$3,932.27	104	\$39,612.05	107
470	Knox County	\$38,596.06	27	\$4,081.42	99	\$42,677.48	35
480	Lake County	\$36,477.51	54	\$4,801.15	68	\$41,278.66	58
490	Lauderdale County	\$35,990.35	66	\$5,871.64	11	\$41,861.99	50
500	Lawrence County	\$35,079.47	126	\$5,378.07	33	\$40,457.55	81
510	Lewis County	\$35,579.55	89	\$3,473.38	120	\$39,052.93	119
520	Lincoln County	\$35,271.70	110	\$4,046.38	101	\$39,318.08	111
521	Fayetteville City	\$35,792.25	76	\$4,970.40	58	\$40,762.66	71
530	Loudon County	\$37,206.34	40	\$5,380.50	27	\$42,586.85	36
531	Lenoir City	\$37,667.49	31	\$5,167.07	50	\$42,834.56	32
540	McMinn County	\$37,573.16	32	\$5,380.50	27	\$42,953.66	31
541	Athens City	\$41,173.16	12	\$5,380.47	31	\$46,553.62	11
542	Etowah City	\$36,530.00	53	\$5,562.69	20	\$42,092.69	44
550	McNairy County	\$35,378.12	103	\$3,839.47	108	\$39,217.60	115
560	Macon County	\$35,847.31	71	\$4,334.05	83	\$40,181.36	93
570	Madison County	\$38,860.31	24	\$2,648.52	136	\$41,508.82	52

Appendix C.1 (continued)

	SCHOOL SYSTEM	WEIGHTED		WEIGHTED		WEIGHTED		SALARY PLUS	
		AVERAGE SALARY	RANKING	INSURANCE PAID	RANKING	INSURANCE	RANKING		
580	Marion County	\$35,209.68	118	\$5,375.20	38	\$40,584.88	75		
581	Richard City	\$36,893.83	43	\$3,175.35	128	\$40,069.18	96		
590	Marshall County	\$37,335.50	36	\$5,664.98	16	\$43,000.49	30		
600	Maury County	\$39,130.03	22	\$5,378.04	36	\$44,508.07	21		
610	Meigs County	\$35,988.63	67	\$4,837.91	67	\$40,826.54	69		
620	Monroe County	\$36,874.63	45	\$6,172.67	5	\$43,047.30	29		
621	Sweetwater City	\$36,959.83	42	\$5,814.98	13	\$42,774.82	33		
630	Montgomery County	\$39,563.21	19	\$4,996.18	55	\$44,559.39	20		
640	Moore County	\$35,517.47	94	\$5,460.22	22	\$40,977.69	64		
650	Morgan County	\$35,526.11	93	\$4,408.68	81	\$39,934.79	102		
660	Obion County	\$35,650.10	84	\$4,541.42	78	\$40,191.52	92		
661	Union City	\$36,720.93	48	\$6,020.99	7	\$42,741.92	34		
670	Overton County	\$35,731.99	79	\$4,225.27	92	\$39,957.26	101		
680	Perry County	\$35,259.96	112	\$3,311.38	126	\$38,571.34	130		
690	Pickett County	\$35,207.87	119	\$3,071.39	132	\$38,279.26	134		
700	Polk County	\$35,056.79	127	\$5,195.28	45	\$40,252.07	91		
710	Putnam County	\$36,764.28	47	\$6,464.65	2	\$43,228.92	27		
720	Rhea County	\$37,042.80	41	\$4,678.31	72	\$41,721.11	51		
721	Dayton City	\$36,678.30	51	\$5,364.71	41	\$42,043.01	45		
730	Roane County	\$37,306.73	37	\$6,043.90	6	\$43,350.63	26		
740	Robertson County	\$36,404.60	57	\$6,774.74	1	\$43,179.34	28		
750	Rutherford County	\$39,782.28	17	\$5,854.05	12	\$45,636.33	15		
751	Murfreesboro City	\$41,888.13	10	\$5,156.07	51	\$47,044.20	10		
760	Scott County	\$35,566.00	91	\$4,891.11	65	\$40,457.11	82		
761	Oneida SSD	\$35,296.69	108	\$4,160.90	94	\$39,457.59	109		
770	Sequatchie County	\$36,371.46	58	\$4,773.68	69	\$41,145.14	59		
780	Sevier County	\$36,882.16	44	\$5,041.09	53	\$41,923.25	48		
790	Shelby County	\$47,234.57	1	\$3,928.15	105	\$51,162.72	2		
791	Memphis City	\$47,234.53	2	\$5,181.56	48	\$52,416.09	1		

Appendix C.1 (continued)

	SCHOOL SYSTEM	WEIGHTED AVERAGE SALARY	RANKING	WEIGHTED AVERAGE INSURANCE PAID	RANKING	SALARY PLUS INSURANCE	RANKING
800	Smith County	\$35,710.15	82	\$5,380.48	30	\$41,090.63	61
810	Stewart County	\$35,629.43	86	\$5,460.22	22	\$41,089.65	62
820	Sullivan County	\$35,624.27	87	\$5,190.61	47	\$40,814.88	70
821	Bristol City	\$41,614.28	11	\$4,668.01	73	\$46,282.29	12
822	Kingsport City	\$43,633.38	6	\$4,607.77	76	\$48,241.14	6
830	Sumner County	\$37,967.23	28	\$5,737.21	14	\$43,704.43	23
840	Tipton County	\$36,690.08	50	\$5,452.93	24	\$42,143.02	43
850	Trousdale County	\$35,089.94	125	\$3,771.38	110	\$38,861.33	121
860	Unicoi County	\$35,570.11	90	\$5,468.57	21	\$41,038.68	63
870	Union County	\$35,734.72	78	\$3,504.17	119	\$39,238.89	114
880	Van Buren County	\$36,053.69	65	\$3,075.40	130	\$39,129.09	117
890	Warren County	\$35,187.87	121	\$3,075.40	130	\$38,263.26	135
900	Washington County	\$36,289.20	60	\$4,629.46	75	\$40,918.66	65
901	Johnson City	\$40,723.09	13	\$4,983.96	57	\$45,707.05	14
910	Wayne County	\$34,986.44	133	\$3,621.38	118	\$38,607.83	129
920	Weakley County	\$35,742.73	77	\$4,119.85	95	\$39,862.58	104
930	White County	\$35,473.35	98	\$3,871.46	107	\$39,344.81	110
940	Williamson County	\$41,922.65	9	\$5,606.33	17	\$47,528.98	9
941	Franklin SSD	\$42,839.38	8	\$5,244.95	44	\$48,084.33	7
950	Wilson County	\$36,227.50	64	\$3,750.00	113	\$39,977.50	99
951	Lebanon SSD	\$38,853.29	25	\$3,048.80	135	\$41,902.09	49
	AVERAGE AMOUNT	\$37,017.48		\$4,668.91		\$41,686.39	

Appendix C.2: Salary and Health Benefits

136 Total Districts, Rank Order			
Based on Weighted Salary Average + Health Insurance			
Rank Order	Salary Disparity (only)	Salary and Health Insurance Disparity	Change
Top Quartile vs. Bottom Quartile	15.5%	14.9%	-0.6%
Top 20 vs. Bottom 20	20.5%	20.0%	-0.5%
Maximum vs. Minimum	35.3%	37.3%	+2.0%

Appendix C.3: Salary and Health Benefits

District Position (Rank Order)	Average Change in Rank Order, Based on the Addition of Health Benefits to Salary Averages
First Quartile	-3.9
Second Quartile	-2.0
Third Quartile	-8.7
Fourth Quartile	+14.5
Top 20	-0.3
Bottom 20	18.2
Maximum	-1
Minimum	46

Appendix C.4: Salary and Health Benefits

SALARY (only) – Rank Order, 136 Total Districts			
Top Quartile vs. Bottom Quartile		Top Quartile Average	Bottom Quartile Average
86.6%	The bottom quartile district salary average represents 86.6% of the top quartile salary average	40,619.8	35,169.0
\$5,450.83	This represents a difference of \$5,450.83 between the minimum and maximum quartiles.		
15.5%	Measure of disparity (difference between max-min quartiles - divided by - lowest quartile salary average)		
Top 20 vs. Bottom 20			
83.0%	The bottom 20 district salary average represents 83.3% of the top 20 district average.	Top 20 Average 42,263.8	Bottom 20 Average 35,081.8
\$7,181.99	This represents a difference of \$7,181.99 between the bottom and top 20 districts averages.		
20.5%	Measure of disparity (difference between max-min quartiles - divided by - lowest quartile salary average)		
Maximum vs. Minimum			
73.9%	The Minimum district salary is 73.9% of the Maximum district salary.	Max 47,234.6	Min 34,915.1
\$12,319.48	This represents a difference of \$12,319.48 between the highest and lowest district.		
35.3%	Measure of disparity (difference between max-min - divided by - minimum weighted average salary)		

Appendix C.5: Salary and Health Benefits

Salary and Health Benefits – Rank Order, 136 Total Districts			
Top Quartile vs. Bottom Quartile		Top Quartile Average	Bottom Quartile Average
87.0%	The bottom quartile salary and health benefits average represents 87.0% of the top quartile.	45,472.3	39,564.6
\$5,907.74	This represents a difference of \$5,907.74 between the minimum and maximum quartile.		
14.9%	Measure of disparity (difference between max-min quartiles - divided by - lowest quartile salary average)		
Top 20 vs. Bottom 20			
83.3%	The top 20 quartile salary and health benefits average represents 83.3% of the top 20.	47,297.7	39,414.6
\$7,883.03	This represents a difference of \$7,883.03 between the top and bottom 20 district salary and health insurance averages.		
20.0%	Measure of disparity (difference between max-min quartiles - divided by - lowest quartile salary average)		
Maximum vs. Minimum			
72.8%	The Minimum district salary is 72.8% of the Maximum district salary.	Max	Min
\$14,247.61	This represents a difference of \$14,247.61 between the highest and lowest district.	52,416.1	38,168.5
37.3%	Measure of disparity (difference between max-min - divided by - minimum weighted average salary)		

Appendix D: Inflation Indices

Inflation Indices

Currently, BEP unit costs are inflated each year based on the **Consumption Price Deflator for Government Purchases**, as reported by the University of Tennessee Center for Business and Economic Research. This inflation index includes Compensation, Non-Compensation, and Combined categories and each is applied to the appropriate unit cost. The index, originally published by the U.S. Department of Commerce Bureau of Economic Analysis (BEA), estimates the increase in costs for state and local governments nationwide, and includes indices for compensation of state and local government employees, consumption of fixed capital, and purchases of intermediate goods and services.

The **U.S. Chained Consumer Price Index (CPI)**, published by the U.S. Department of Labor Bureau of Labor Statistics (BLS) is an alternative inflation index. It estimates the increase in costs for a market basket of goods and services purchased by a typical household. The CPI is based on prices in metropolitan areas that include about 87% of the U.S. population. The major components of the CPI are:

- FOOD AND BEVERAGES (breakfast cereal, milk, coffee, chicken, wine, full service meals and snacks);
- HOUSING (rent of primary residence, owners' equivalent rent, fuel oil, bedroom furniture);
- APPAREL (men's shirts and sweaters, women's dresses, jewelry);
- TRANSPORTATION (new vehicles, airline fares, gasoline, motor vehicle insurance);
- MEDICAL CARE (prescription drugs and medical supplies, physicians' services, eyeglasses and eye care, hospital services);
- RECREATION (televisions, cable television, pets and pet products, sports equipment, admissions);
- EDUCATION AND COMMUNICATION (college tuition, postage, telephone services, computer software and accessories);
- OTHER GOODS AND SERVICES (tobacco and smoking products, haircuts and other personal services, funeral expenses).

Appendix E: Impact of Streamlined Sales Tax

August 23, 2004

Commissioner Loren Chumley
Tennessee Department of Revenue
Andrew Jackson Building, Room 1200
Nashville, TN 37242-1099

Dear Commissioner Chumley:

As you know, Tennessee Municipal League President Bob Kirk, Dyersburg Alderman, appointed a study committee to examine Tennessee's streamlined sales tax legislation. President Kirk named me as Committee Chair and named Kingsport Mayor Jeanette Blazier Committee Vice Chair. The committee held its first meeting in Nashville on August 12.

The first meeting of the study committee featured a comprehensive review of the history of the Streamlined Sales Tax Project, including major US Supreme Court rulings, the multi-state effort to develop a framework for simplicity and uniformity in sales and use taxation, and a detailed review of Tennessee's conforming legislation. Particular attention was given to provisions of Tennessee's legislation that are likely to have local government revenue impacts.

The study committee understands the goals of the Streamlined Sales Tax Project and appreciates the widespread concern about the long-term viability of the sales tax in Tennessee. The committee also understands the benefits of active participation in the Project and having a "seat at the table." However, the fact that Tennessee's conforming legislation is slated to take effect July 1, 2005, is a matter of grave concern to local governments throughout the state.

If Tennessee's legislation takes effect, and if Congress were to enact legislation granting states the power to compel out-of-state vendors to collect and remit state and local sales taxes or if the US Supreme Court overturns its 1967 *National Bellas Hess* and its 1992 *Quill* ruling, it is a strong possibility that the benefits of conforming to the Streamlined Sales Tax agreement might far outweigh the costs. However, neither Congress nor the US Supreme Court has acted and the prospects for such action in the reasonably near future are in question. Without federal legislative or judicial action, it might still be the case that benefits outweigh costs, but it appears that no robust analysis has been conducted to ensure that this is the case.

The committee recognized that some elements of Tennessee's legislation may decrease local revenue, some may increase revenues, and some may shift local revenue among Tennessee's local governments. However, the committee felt strongly that a much better understanding of costs and benefits should be achieved before any change takes effect. Based on the committee's initial assessment of Tennessee's legislation, there is a high potential for large and sudden net reductions and shifts in state shared tax revenue and local option sales tax revenue.

Clearly, a change as monumental as the one in question should come only after a thorough impact analysis has been performed and after the Governor, legislators, and local government officials have reviewed and debated the merits of the change.

In its first official action, the TML streamlined sales tax study committee voted unanimously to request that the Tennessee Department of Revenue perform a detailed and methodologically

Appendix E: Impact of Streamlined Sales Tax

sound impact analysis associated with PC 357 of 2003 and PC 959 of 2004. The committee's request is outlined below.

1. The study committee requests that the Department of Revenue assess for each municipality the shared sales tax impact associated with changes to the taxation of:

- a. Cable television services (*converted to privilege tax*).
- b. Satellite television services (*converted to privilege tax*).
- c. Tangible personal property purchased by common carriers for use out-of-state (*converted to privilege tax*).
- d. Interstate telecommunications services sold to business (*current state rate reduced*).
- e. Manufacturers purchases of water (*converted to privilege tax*).
- f. Manufacturers purchases of energy fuels (*converted to privilege tax*).
- g. Electricity and liquefied gas sold to farmers and nurserymen (*made exempt from state taxation*).
- h. Aviation fuel (*converted to privilege tax*).
- i. Non-exempt sales of dyed diesel fuel for off-road use (*converted to privilege tax*).
- j. Machinery used to remanufacture industrial machinery (*exemption threshold removed*).
- k. Farm machinery (*exemption threshold removed*).
- l. Animal grooming and bathing services (*15% exemption repealed, bathing made taxable, grooming made exempt*).
- m. Membership dues (*exemption threshold removed*).
- n. Caskets, burial vaults and urns (*exemption threshold removed*).

2. The study committee requests that the Department of Revenue assess for each municipality and each county the local sales tax impact associated with changes to the taxation of:

- a. Cable television services (*pulled out of local tax base and converted to shared tax*).
- b. Tangible personal property purchased by common carriers for use out-of-state (*special local rate repealed and converted to shared tax*).
- c. Interstate telecommunications services sold to business (*made subject to prevailing local option sales tax rates*).
- d. Interstate telecommunications services sold to non-business (*made subject to prevailing local option sales tax rates*).
- e. Intrastate telecommunications services (*made subject to prevailing local option sales tax rates*).
- f. Manufacturers purchase of water (*special local rate repealed and converted to shared tax*).
- g. 2.25% option for out-of-state vendors (*repealed*).
- h. Materials owned by nonprofit colleges or universities when used by a contractor in performance of a contract with the university (*pulled out of local tax base with no replacement revenue*).
- i. Single article sales (other than motor vehicles, aircraft, watercraft, modular homes, manufactured homes, and mobile homes) (*certain single articles will be made fully subject to local option sales taxes*).
- j. Machinery used to remanufacture industrial machinery (*made totally exempt from local option sales taxes*).
- k. Farm machinery (*made totally exempt from local option sales taxes*).

Appendix E: Impact of Streamlined Sales Tax

- l. Animal grooming and bathing services (*grooming made totally exempt, bathing made fully taxable*).
- m. Membership dues (*made fully taxable under local option sales tax*).
- n. Caskets, burial vaults and urns (*made fully taxable under local option sales tax*).

3. The study committee requests that the Department of Revenue assess for each municipality and each county the local tax impact associated with the change from origin-based sourcing to destination-based sourcing.

I realize that you and your department face numerous demands and limited resources. If you believe it will be impossible to fulfill this request in a timely fashion, then, in-lieu-of the impact analyses outlined above, I request the data necessary for TML to conduct the analysis. To conduct the analyses described above, data will be needed by jurisdiction and by SIC code (or other industry classification or designation). I understand that in certain limited circumstances, particularly when very small towns are involved, the release of jurisdiction and industry specific data could pose taxpayer confidentiality issues. However, I am confident that these issues can be resolved without much difficulty.

I look forward to working with you on this most critical matter.

Sincerely,

Tommy Bragg

TML Streamlined Sales Tax Study Committee Chair
Murfreesboro Mayor

cc: Governor Phil Bredesen
Deputy Governor Dave Cooley
Governor's Senior Advisor for Legislation & Policy Anna Windrow
Finance & Administration Commissioner Dave Goetz
Senate Finance Committee Chair Douglas Henry
House Finance Committee Chair Tommy Head
Comptroller John Morgan
Treasurer Dale Sims

Appendix F: System-level Fiscal Capacity
For Funding Education in Tennessee
September, 2004

New Model versus Current Model—Highlights

- Provides system-level fiscal capacity for use in equalizing system-level funding formula
- Retains regression-based modified representative tax system approach
- Retains and enhances pupil and taxpayer equity measures
 - ♦ Tax base variables include state-shared tax revenue available to fund school systems
 - ♦ Per Capita Income replaced by
 - ✓ *Median Household Income for county area—eliminates problem of group quarters and outliers in smaller counties*
 - ✓ *Child Poverty Rate for school systems—only income-related data available at that level*
- Remains a fiscal behavioral model—does not set normative standards for local revenue
- Own-source revenue includes state-shared tax revenue used to fund school systems
 - ✓ *More comprehensive—state-shared tax revenue substitutes for local revenues*
 - ✓ *Improves data integrity—state-shared tax revenue cannot be separated out of city general fund transfers*
- Service Burden (public school students divided by population) no longer needed—covered by more comprehensive BEP Formula (separately funds academic, vocational and special education plus additional funds for English language learners and at-risk students)

A complete description of the fiscal capacity prototype can be found at the following website: <http://www.state.tn.us/tacir/Fiscal%20Capacity/prototype.htm>

Appendix F (continued)

New Model versus Current Model
Comparison of Variables

Variables	Current Model	New Model
Local Revenue	<i>Does not include state-shared tax revenue except in City General Fund Transfers</i>	<i>Includes state-shared tax revenues used to fund school systems</i>
Property per Pupil	<i>County area</i>	<i>County area & school systems</i>
Sales per Pupil	<i>County area</i>	<i>County area & school systems</i>
State-shared Tax Revenue per Pupil	<i>Does not include</i>	<i>Includes state-shared tax revenues available to fund school systems</i>
Ability to Pay	<i>County-area Per Capita Income</i>	<ul style="list-style-type: none"> ♦ <i>County-area Median Household Income</i> ♦ <i>System Child Poverty Rate</i>
Resident Tax Burden/Tax Exportability	<i>County-area residential & farm assessment divided by total assessment</i>	<i>Business-related* property assessment divided by total assessment</i> <ul style="list-style-type: none"> ♦ <i>County-area ratio</i> ♦ <i>System ratio</i>
Service Burden	<i>Public School Students (ADM) divided by Population</i>	<i>Not included because BEP has become more comprehensive</i>

* Commercial, industrial, utility and personal property.

A complete description of the fiscal capacity prototype can be found at the following website: <http://www.state.tn.us/tacir/Fiscal%20Capacity/prototype.htm>