

**Basic Education Program
Review Committee
Annual Report**

November 1, 2005

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WORK OF THE COMMITTEE

Tennessee Code Annotated 49-1-302(4)(a) specifies that the State Board of Education shall establish a review committee for the Tennessee basic education program (BEP). This committee is directed to meet at least four times a year and regularly review the BEP components including the preparation of an annual report on or before November 1 of each year.

This report includes “recommendations on needed revisions, additions, and deletions to the formula, as well as, an analysis of instructional salary disparity among local education agencies”. This report considers “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”.

The BEP review committee is also directed “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 the requirements of the legislation.

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EXECUTIVE SUMMARY

In the effort to improve essential components of the Basic Education Program (BEP)¹, the BEP review committee has performed a comprehensive review of the funding formula related to the following areas:

- Salary disparity, including salary and benefits,
- Funding for at-risk students,
- Funding for English language learners (ELL),
- System level fiscal capacity,
- Indemnification,
- The instructional salary components of the BEP, and
- Unit component costs

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

Review of Salary Disparity

Based on an analysis of total teacher compensation, the statewide measure of salary disparity for 2004-05 is very comparable to the measure of disparity observed in the previous year. Total teacher compensation is a procedure that compares instructional salary and health benefit differences *independent* of variation in local teacher training and experience. Total teacher compensation analysis also controls for variation in the local health plans selected by teachers.

Immediate Priority

The Basic Education Program (BEP) Review Committee recommends studying and moving forward with comprehensive, simultaneous, and timely improvements to the BEP that include:

- the implementation of a system level fiscal capacity index (including consideration of the TACIR prototype or other alternatives),
- an increase in funding for at-risk and English language learners²,
- the elimination of the Cost Differential Factor (CDF)³, and
- the increase of the BEP instructional salary state share to 75%.

The BEP Review Committee recommends that these changes take place in a gradual, but timely manner indemnifying districts that would otherwise be harmed by such revisions.

¹ Tennessee Code Annotated 49-1-302 (4)(a)

² In accordance with formula recommendations from the 2004 BEP Review Committee Report.

³ The Governor's Task Force on Teacher Pay recommended replacement or readjustment of the CDF (2003).

Extended Priorities

Unit cost components should more appropriately reflect the basic requirements of quality educational programs in Tennessee. These areas include:

- a. Professional Development
- b. School Nurses
- c. Teacher Classroom Materials and Supplies
- d. Technology Coordinators
- e. System-wide Administrative and Instructional Technology
- f. Alternative Schools
- g. Attendance Supervisors
- h. Positions Outside the BEP
- i. Transportation
- j. Capital Outlay

The BEP Review Committee endorses the comprehensive findings and recommendations of this second annual report.

COMMITTEE RECOMMENDATIONS

Immediate Priority

The Basic Education Program (BEP) Review Committee recommends studying and moving forward with comprehensive, simultaneous, and timely improvements to the BEP that include:

- the implementation of a system level fiscal capacity index (including consideration of the TACIR prototype or other alternatives),
- an increase in funding for at-risk and English language learners⁴,
- the elimination of the Cost Differential Factor (CDF)⁵, and
- the increase of the BEP instructional salary state share to 75%.

The BEP Review Committee recommends that these changes take place in a gradual, but timely manner indemnifying districts that would otherwise be harmed by such revisions.

Extended Priorities

Unit cost components should more appropriately reflect the basic requirements of quality educational programs in Tennessee. These include the following areas:

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

School Nurses. The formula component for school nurses should be based upon a ratio of at least 1 nurse for every 1,500 students. Such a level of funding would still exceed the ratio of 750 recommended by the National Association of School Nurses. The component is currently funded at a ratio of 1 school nurse per 3,000 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 \$100 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.

Technology Coordinators. Technology Coordinators should be funded based upon a ratio of at least 1 coordinator per 2,500 students, compared to the current ratio of 1 coordinator per 6,400 students.

⁴ In accordance with formula recommendations from the 2004 BEP Review Committee Report.

⁵ The Governor's Task Force on Teacher Pay (2003) recommended replacement or readjustment of the CDF.

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.

Alternative Schools. A specific recommendation for alternative schools should be included in the committee's next annual report.

Attendance Supervisors. A specific recommendation for attendance supervisor positions should be included in the committee's next annual report.

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.

**REVIEW OF COMMITTEE DISCUSSION
SALARY DISPARITY**

Background:

The concluding opinion of Small Schools III⁶ states that “the salary equity plan under Tennessee Code Annotated § 49-3-366 does not include equalization of teachers’ salaries according to the BEP formula because it contains no mechanism for cost determination or annual cost review of teachers’ salaries.” Revisions to the formula and the infusion of salary equity funding beginning in the 2005 fiscal year have specifically addressed the issue of cost determination, incorporating real-world average salaries for teachers educating Tennessee students. Additionally, changes in statute now require the BEP Review Committee to conduct an annual cost review of teachers’ salaries.

Last year, the committee recommended that the measure for calculating salary disparity compare total teacher compensation, based on “salary schedule strength” and “health insurance package strength”, with the goal of representing a disparity baseline independent of regional and local variations in teacher training and experience, and which plan a teacher may choose.

The central tenets of this methodology include (Appendix A):

- 1) a statewide, weighted average salary for each cell, applied to the local salary schedule of each system;
- 2) a weighted average local health insurance benefit.

Discussion:

Issues of total teacher compensation were reviewed by the committee using the weighted average salary and weighted average insurance for each local system⁷. An analysis of the coefficient of variation across Tennessee reveals disparity is very comparable to last year’s, whether salary is considered individually or combined with insurance.

	Coefficient of Variation⁸		
	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

⁶ Tennessee Small School Systems v. McWherter

⁷ Total Teacher Compensation Data Analysis was performed by the Office of Education Accountability with data provided by the Department of Education and Tennessee Education Association.

⁸ The Coefficient of Variation is a representation of how closely values are clustered around the average.

Using the total teacher compensation methodology, the statewide weighted average salary for Tennessee is \$38,114. Once insurance paid by school districts is included, the average increases to \$43,267 (Appendix B).

Regional Salary Disparity, Based on Total Teacher Compensation Data

An additional analysis of regional salary disparity⁹, based on total teacher compensation reveals that within 11 identified regions¹⁰, 6 regions demonstrate a downward trend in salary disparity. Three regions demonstrate a mixed (increase) trend, and 2 regions demonstrate an upward trend in regional disparity (Appendix C).

This regional analysis was based on the comparison of surrounding, contiguous counties, using the maximum total teacher compensation salary level within each identified region as the reference point for disparity analysis.

FY05 Teacher Salary Survey Comparison

An additional method for assessing salary disparity was reviewed by the committee, comparing individual schedule cells, based on non-weighted teacher salary averages. Unlike total teacher compensation, which applies a common teacher training and experience demographic to every cell in the salary schedule, this comparison provides a general snapshot of trends and recognizes that differences in training and experience are not accounted for in cell comparisons.

This methodology was applied to 15 specific points¹¹ along the salary schedule, comparing the high and low values of fiscal years 2005 to 2004. Along each salary cell of comparison, a decreasing trend in disparity was observed, when comparing the high and low salary observed within the state for each compared cell.

Based on “Teacher Salary Survey Comparison” data, the average instructional personnel salary is \$43,751 for the 2005 fiscal year.

⁹ Regional Salary Disparity analysis performed by the State Board of Education staff.

¹⁰ Identified regions of comparison: Davidson County, Dyer County, Greene County, Hamilton County, Knox County, Jackson-Madison County, Clarksville, Memphis, Cookeville, Tri-cities, Williamson County

¹¹ Salary Schedule Points of Comparison: BS, MS, MS+, EDS, and PHD levels of training. Each level of training was compared at 0 Years, 15 Years, and the Maximum Years experience.

REVIEW OF COMMITTEE DISCUSSION AT-RISK STUDENTS¹²

Background:

The BEP component for at-risk funding was moved from the instructional segment to the classroom segment of the BEP, based on recommendations from the November 1, 2004 report. The BEP component for at-risk students was also redefined to include a percentage of the total K-12 at-risk student population. Under this definition, the BEP currently provides funding for 20 percent of at-risk students. The goal, as stated in the 2004 committee report, is to provide funding for 100 percent of K – 12 at-risk students.

The unit cost for at-risk students in the 2006 fiscal year is \$509.46 per student, based on a 75 state / 25 local classroom shares, accounting for \$34 million in state funding. This total includes the additional allocation of \$11 million for at-risk students in the Governor's fiscal year 2006 budget.

Discussion:

The committee reviewed several funding scenarios based on fiscal improvements for at-risk students linked to the simultaneous phase out of funds linked to the cost differential factor (CDF).

The committee also revisited the ten principles of the Governor's Task Force on Teacher Pay of 2003, specifically the relationship of a cost differential phase out to increased funding for at-risk students. Principle 7 in the recommendation of the Governor's Task Force on Teacher Pay recognized a specific link between CDF reduction and at-risk / ELL funding.

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.

In addition, the committee noted that there has been a transition from Standard Industrial Classification System (SICS) data to North American Industrial Classification (NAICS) data in the determination of CDF. A gradual phase-in will be completed in FY 2007. The complete transition will result in a reallocation of approximately \$143 million funding for CDF across systems and an increase in the number of systems eligible to receive CDF dollars.

¹²Students Eligible for Free and Reduced Priced Meals

The committee reviewed a number of fiscal projections based on FY06 ADM related to increased funding for at-risk students. These funding scenarios are outlined below:

At-Risk Funding Projection Modeled on the FY06 BEP	
% of K-12 At-Risk Students Funded	Estimation of New State Dollars (in millions)
30%	17.1
40%	34.2
50%	51.2
60%	68.3
70%	85.4
80%	102.5
90%	119.6
100%	136.6

It was noted that the various fiscal scenarios reviewed by the committee were based on funding 30 percent of at-risk K-12 students.

Fiscal projections based on funding 30 percent of at-risk students do not reflect the magnitude of dollars to compensate for the elimination of CDF funds, as currently allocated within the BEP. The committee continued to support its 2004 recommendation that the BEP include funding for 100 percent of at-risk students in grades K-12, based upon a reduction of five students from traditional classroom ratios within all grade levels.¹³

¹³ See 2004 BEP Review Committee Report. www.state.tn.us/sbe

**REVIEW OF COMMITTEE DISCUSSION
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. The goal, as stated in the 2004 committee report, is to provide for the funding allocation of 1 teacher for every 20 students and one translator for every 200 students.

Tennessee continues to experience dramatic growth in the number of ELL students served through public schools. As of the 2005-06 academic year, 24,732 ELL students generate positions within the BEP formula, affecting 119 of Tennessee's 136 districts (or 87.5 percent of the districts). This represents a 4.5 percent statewide increase from the previous fiscal year and the addition of 5,382 ELL students within the current fiscal year.

Discussion:

The committee reviewed several funding scenarios showing funding improvements at various teacher/student ratios and at various projections of ELL population, based on FY06 Average Daily Membership (ADM), as outlined below:

ELL Projections					
Estimation of New State Dollars (in millions)					
FY 06 ADM Projections		1:40	1:30	1:25	1:20
If	24,732	7.6 M	16.0 M	22.7 M	32.9 M
If	30,000	12.9 M	23.2 M	31.3 M	43.6 M
If	35,000	18.0 M	30.1 M	39.4 M	53.8 M

The committee supported moving the funding for English language learners to the classroom component of the BEP (75 state / 25 local shares). This transition would result in the allocation of ELL funds as a BEP classroom unit cost. Based on the committee's 2004 recommendation, the unit cost goal for ELL funding should be based upon the dollars required to fund 1 teacher for every 20 students and 1 translator for every 200 students¹⁴.

¹⁴ See 2004 BEP Review Committee Report. www.state.tn.us/sbe

REVIEW OF COMMITTEE DISCUSSION SYSTEM LEVEL FISCAL CAPACITY

Background:

Since the inception of the BEP, the fiscal capacity index has served as the formula's equalization mechanism. 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."

Improvements in the availability of data have provided the opportunity to revise the current model to fulfill more precisely the intent of the law by creating an improved profile of the "differences in the ability of local jurisdictions to raise local revenues." The current fiscal capacity index is based on a 95-county model, which cannot effectively equalize the BEP's local matching requirement across all 136 systems at the system level. In response to this challenge, the Governor's Task Force on Teacher Pay and the BEPRC asked staff of the Tennessee Advisory Commission on Intergovernmental Relations (TACIR) to develop a system-level prototype for committee review and discussion.

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, the Tennessee Advisory Commission on Intergovernmental Relations (TACIR) developed a system level prototype for committee review and discussion.

Discussion:

In researching and developing the system level prototype, TACIR, working with the Office of the Comptroller's Office of Research and Education Accountability, considered four separate models, consisting of two-tier and one-tier equalization formulas (see Appendix D). These models formed the basis of selection for the recommended prototype, which is a one-tier, full regression model. A complete description of the system level prototype is available on the web at <http://www.state.tn.us/tacir>. The committee reviewed figurative representations related to the prototype showing the predictive value for each independent variable within the model (Appendix E).

The committee also discussed recommended improvements to the 95-county model, as outlined below:

- 1) The elimination of tax equivalent payments from the property tax base, due to the inability of such data to reflect current fiscal condition.
- 2) The substitution of median household income (as a county level measure) in place of per capita personal income (PCPI), due to the prevalence of outliers, which

affect PCPI data, and the disproportionate impact of group quarters on PCPI for county systems.

- 3) The elimination of service responsibility if expected improvements to at-risk and English language learners are fully funded and incorporated into the formula.
- 4) The inclusion of state-shared tax revenue used to fund school systems.

Each of the recommendations, outlined above, is incorporated into the proposed system-level prototype. However, the committee decided not to recommend changes to the county-level model, since the ultimate goal is to move to a system-level formula for equalization.

The committee reviewed updated fiscal projections based on a data correction to Franklin SSD within the system-level prototype (Appendix F). These corrections resulted in changes affecting all systems throughout the state. It is important to note that similar changes in the existing 95 county model would also affect all systems.

The committee learned that three to four billion dollars in taxable telecommunication services can no longer be factored into the local option sales tax base, used to calculate fiscal capacity (See Appendix G). This type of data is no longer identified by situs in Department of Revenue reports.

**REVIEW OF COMMITTEE DISCUSSION
GUIDING PRINCIPLES
FOR A SYSTEM LEVEL TRANSITION**

A sub-committee made recommendations regarding the guiding principles to transition from a 95 county to a 136 system level model of fiscal capacity equalization, stating that the method of determination for fiscal capacity should be:

- explainable (addressing issues of fairness and disparity)
- understandable (as simple as possible)
- defensible

In addition, fiscal capacity¹⁵

- should focus on economic bases rather than policy determined revenue bases,
- should treat similarly situated taxpayers similarly in terms of taxes paid and the services received,
- should be estimated from a comprehensive, balanced tax base,
- should be as current and accurate as possible,
- should measure tax exportability—resident taxpayers in different jurisdictions should have similar fiscal burdens,
- should reflect service responsibilities that vary across jurisdictions, and
- should be based on multi-year averages to mitigate data errors and control volatility.

¹⁵ Source: U.S. Department of the Treasury, Office of State and Local Finances. *Federal-State-Local Fiscal Relations, Vol. I – III. Report to the President and Congress (September 1985).*

REVIEW OF COMMITTEE DISCUSSION INDEMNIFICATION

The committee discussed indemnification for districts that would otherwise be harmed by funding formula changes, based on the continuation of hold harmless and stability provisions as currently implemented and calculated by the Department of Education.

Hold Harmless: A comparison of the 75 percent state share and 25 percent local share before salary equity to the new 65 percent state share and 35 percent local share after the infusion of salary equity dollars. Funds are provided to ensure that no system receives less state money currently than it did before the implementation of the salary equity unit cost revision.

Method: Each year the BEP is independently run using two different instructional salary splits. The 75/25 shares are based on each school system's average minimum mandated instructional salary, within the current year. The 65/35 shares are 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 components.

Stability: A year-to-year comparison of total BEP funding. School systems cannot receive less state funding in the current year than the formula generated in the previous year.

Method: Under its current definition, stability applies primarily to systems that are experiencing a declining Average Daily Membership or increasing fiscal capacity. A system is held at a stable funding level in comparison to the previous year when less total state funding is generated for the system in the current year.

REVIEW OF COMMITTEE DISCUSSION INSTRUCTIONAL SALARY COMPONENTS

Background:

To support the implementation of salary equity funding, an additional category was added to the BEP, specifically dedicated to instructional salary components (TCA 49-3-354). All funds generated within these instructional components were to be used for instructional positions, funded at a 65 percent state share and 35 percent local share. A hold harmless provision¹⁶ was added specifying that “No LEA 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.”

Discussion:

The committee reviewed several fiscal scenarios projecting increases to the state share of the instructional salary segment of the BEP. The projections simulated the fiscal impact of increasing the instructional salary segment from 65 percent to 75 percent through the phased elimination of the cost differential factor (CDF). The scenarios included the reduction of funds used for CDF by 20 percent combined with simultaneous 2 percent increases in the instructional salary segment, until the state share reached 75 percent. The projections included some additional funds for at-risk students and English language learners, but not at the level recommended by the BEP Review Committee in its 2004 report.

It was noted that the elimination of CDF within the BEP formula would remove all factors applied to the BEP that account for differences in the cost of living and working throughout the state per the intent of the General Assembly expressed in TCA § 49-3-364. There is currently over \$140 million in the BEP dedicated to CDF.

¹⁶ TCA 49-3-366

**REVIEW OF COMMITTEE DISCUSSION
ADDITIONAL WORK OF THE COMMITTEE**

1. Pre-Kindergarten for At-risk Children.

Background:

The Governor’s Voluntary Pre-Kindergarten Program places a special emphasis on serving the needs of at-risk students, as defined by free and reduced priced lunch. The BEP statewide classroom split based on the fiscal capacity index serves as the formula through which funds are equalized for school systems receiving voluntary pre-K awards.

Discussion:

The BEP Review Committee supports high quality voluntary pre-kindergarten for all at-risk four year olds, as defined by eligibility for free and reduced priced lunch.

2. Special Education Pre-K Counts

Background:

TCA 49-10-102 (1) (A) defines children with disabilities as those between 3 and 21 years of age, inclusive. Further, TCA 49-10-113 (c)(1) states, “For the purposes of entitlement to state aid, children with disabilities shall be counted in the same manner as other children.”

Discussion:

The state currently includes students identified with disabilities in the special education option of services count within the current BEP funding formula. However, the state does not include special education preschool students in the ADM counts used to generate other positions outside of special education within the formula. The Department of Education has requested an Attorney General’s opinion regarding how special education pre-kindergarten counts should be administered within the formula.

3. Attendance Supervisors

Background:

The BEP Review Committee received a request from the Tennessee State Attendance Supervisors' Steering Committee defining the growing demands placed on school systems with the additional requirements of No Child Left Behind legislation, student management systems, and enforcement of truancy laws. Currently, the BEP does not generate funds for an attendance supervisor position within the formula.

Discussion:

The committee reviewed several fiscal projections related to funding attendance supervisors and agreed that the committee should present a formal recommendation in next year's annual report. Concern was expressed about making clear that the inclusion of a component not be construed as or accompanied by an earmark of the funds generated.

4. Alternative Schools

Background:

The Comptroller's Office submitted a report to the legislature in 2005 providing an overview of alternative schools in Tennessee. This report recommended that the State Board of Education convene a task force to address specific issues in alternative school programs.

Discussion:

The State Board of Education has formed a task force on alternative schools. This task force will present its findings to the BEP Review Committee for consideration in next year's annual report.

5. Inflation Indices

Background:

Last year the committee examined inflation indices related to formula unit cost adjustments.

Discussion:

The indices used in the formula have not changed over the past year (Appendix H).

REVIEW OF COMMITTEE DISCUSSION

BEP UNIT COMPONENT COSTS

Background:

Last year's review of unit component costs revealed numerous areas where the BEP omits or significantly under funds essential components required for the implementation of appropriate education programs. The cost of FICA (Social Security taxes) has been added to all duty free lunch and substitute teacher funds generated within the BEP, based on recommendations from the 2004 report.

Discussion:

The committee re-affirmed that the following areas should be priorities as funding becomes available for additional unit cost improvements.

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

School Nurses. The formula component for school nurses should be based upon a ratio of at least 1 nurse for every 1,500 students. Such a level of funding would still exceed the ratio of 750 recommended by the National Association of School Nurses. The component is currently funded at a ratio of 1 school nurse per 3,000 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 \$100 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.

Technology Coordinators. Technology Coordinators should be funded based upon a ratio of at least 1 coordinator per 2,500 students, compared to the current ratio of 1 coordinator per 6,400 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.

Alternative Schools. A specific recommendation for alternative schools should be included in the committee's next annual report.

Attendance Supervisors. A specific recommendation for attendance supervisor positions should be included in the committee's next annual report.

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.

APPENDIX A

Total Teacher Compensation Methodology

The calculation of total teacher compensation uses personnel and salary schedule information data provided by the Department of Education and TEA.

- 1. Calculation of statewide average teacher training and experience demographic.** A statewide average teacher training and experience demographic is 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.
- 2. Calculation of weighted average teacher salary for each system.** This statewide average teaching demographic is applied to each individual system's salary schedule resulting in an average weighted teacher salary schedule for each system. Meaning, the percentage of teachers in each cell is multiplied by the salary value for the corresponding cell. These values are subsequently added together to result in a weighted average salary.
- 3. Calculation of weighted average teacher insurance for each system.** 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 is 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.
- 4. Calculation of total teacher compensation.** The total teacher compensation for each system is determined by adding the weighted average teacher salary for each system to the weighted average insurance for each system

APPENDIX B.1 Total Teacher Compensation

SCHOOL SYSTEM	Weighted Average Salary 04	Weighted Average Salary 05	Weighted Average Insurance 04	Weighted Average Insurance 05	Total Teacher Compensation 04	Total Teacher Compensation 05
Anderson County	\$37,687	\$38,112	\$4,274	\$4,589	\$41,961	\$42,700
Clinton City	\$39,482	\$39,905	\$4,493	\$4,930	\$43,975	\$44,834
Oak Ridge	\$46,433	\$46,988	\$4,927	\$5,677	\$51,360	\$52,664
Bedford County	\$36,830	\$37,461	\$5,376	\$4,956	\$42,206	\$42,417
Benton County	\$35,798	\$36,219	\$5,367	\$5,927	\$41,165	\$42,146
Bledsoe County	\$35,241	\$35,660	\$3,827	\$4,605	\$39,069	\$40,265
Blount County	\$39,959	\$40,407	\$4,945	\$5,909	\$44,904	\$46,316
Alcoa City	\$43,926	\$44,462	\$5,584	\$6,242	\$49,511	\$50,704
Maryville City	\$44,183	\$44,958	\$4,265	\$4,335	\$48,448	\$49,292
Bradley County	\$38,325	\$39,102	\$4,409	\$4,876	\$42,734	\$43,978
Cleveland City	\$39,126	\$39,799	\$4,856	\$5,375	\$43,982	\$45,174
Campbell County	\$35,535	\$35,947	\$6,200	\$6,144	\$41,735	\$42,091
Cannon County	\$38,026	\$38,451	\$4,266	\$5,102	\$42,292	\$43,553
Carroll County	\$35,517	\$35,937	\$3,071	\$3,378	\$38,588	\$39,315
Hollow Rock-Bruceton SSD	\$35,772	\$36,173	\$3,471	\$3,706	\$39,244	\$39,878
Huntingdon SSD	\$35,571	\$35,985	\$3,371	\$3,678	\$38,942	\$39,664
McKenzie SSD	\$35,560	\$35,975	\$3,756	\$4,129	\$39,316	\$40,104
South Carroll SSD	\$35,564	\$35,977	\$3,417	\$3,642	\$38,980	\$39,619
West Carroll SSD	\$35,679	\$36,092	\$3,413	\$3,754	\$39,091	\$39,846
Carter County	\$35,769	\$36,193	\$5,381	\$5,940	\$41,149	\$42,132
Elizabethton City	\$37,955	\$39,025	\$4,984	\$5,506	\$42,939	\$44,531
Cheatham County	\$36,899	\$37,885	\$5,921	\$6,488	\$42,819	\$44,373
Chester County	\$35,682	\$36,100	\$4,637	\$4,928	\$40,319	\$41,028
Claiborne County	\$35,528	\$35,943	\$3,235	\$3,817	\$38,764	\$39,759
Clay County	\$35,651	\$36,062	\$3,071	\$3,443	\$38,722	\$39,504
Cocke County	\$35,479	\$35,930	\$5,181	\$5,615	\$40,660	\$41,545
Newport City	\$36,727	\$37,954	\$5,371	\$5,166	\$42,098	\$43,121
Coffee County	\$37,255	\$37,874	\$5,380	\$5,939	\$42,635	\$43,813
Manchester City	\$39,359	\$39,855	\$5,378	\$5,927	\$44,737	\$45,781
Tullahoma City	\$39,763	\$40,653	\$5,952	\$6,565	\$45,715	\$47,218
Crockett County	\$35,782	\$36,390	\$3,754	\$4,129	\$39,536	\$40,519
Alamo City**	\$36,680	\$35,528	\$3,413	\$3,754	\$40,093	\$39,282
Bells City	\$37,830	\$38,446	\$4,095	\$4,504	\$41,925	\$42,950
Cumberland County	\$35,476	\$36,724	\$6,179	\$6,791	\$41,655	\$43,516
Davidson County	\$44,737	\$45,279	\$5,357	\$5,727	\$50,094	\$51,006
Decatur County	\$35,772	\$36,283	\$3,671	\$3,978	\$39,443	\$40,261

APPENDIX B.1 (cont'd)
Total Teacher Compensation

SCHOOL SYSTEM	Weighted Average Salary 04	Weighted Average Salary 05	Weighted Average Insurance 04	Weighted Average Insurance 05	Total Teacher Compensation 04	Total Teacher Compensation 05
DeKalb County	\$36,563	\$37,072	\$4,306	\$4,744	\$40,868	\$41,816
Dickson County	\$37,190	\$38,411	\$4,256	\$4,884	\$41,445	\$43,295
Dyer County	\$37,809	\$38,427	\$4,593	\$5,043	\$42,402	\$43,470
Dyersburg City	\$40,704	\$41,375	\$5,710	\$6,042	\$46,413	\$47,417
Fayette County	\$36,683	\$37,105	\$4,111	\$4,518	\$40,795	\$41,623
Fentress County	\$35,646	\$36,177	\$5,413	\$5,965	\$41,059	\$42,142
Franklin County	\$36,110	\$36,745	\$4,961	\$5,476	\$41,071	\$42,221
Humboldt City	\$35,412	\$35,941	\$3,730	\$4,051	\$39,142	\$39,991
Milan SSD	\$35,527	\$35,940	\$4,014	\$4,434	\$39,541	\$40,374
Trenton SSD	\$35,384	\$35,528	\$3,671	\$4,206	\$39,055	\$39,734
Bradford SSD	\$35,297	\$35,711	\$3,671	\$4,482	\$38,968	\$40,193
Gibson SSD	\$35,929	\$36,588	\$3,949	\$4,346	\$39,878	\$40,934
Giles County	\$35,741	\$36,787	\$5,378	\$5,927	\$41,119	\$42,714
Grainger County	\$36,003	\$36,397	\$4,713	\$5,326	\$40,715	\$41,723
Greene County	\$35,914	\$36,338	\$4,945	\$5,405	\$40,859	\$41,743
Greenville City	\$40,721	\$41,247	\$4,732	\$5,162	\$45,452	\$46,410
Grundy County	\$36,067	\$36,483	\$3,880	\$4,187	\$39,947	\$40,670
Hamblen County	\$36,533	\$36,960	\$6,003	\$6,537	\$42,535	\$43,497
Hamilton County	\$40,703	\$41,137	\$5,058	\$5,018	\$45,761	\$46,154
Hancock County	\$35,745	\$36,158	\$3,075	\$3,389	\$38,820	\$39,546
Hardeman County	\$37,455	\$38,592	\$5,571	\$6,138	\$43,026	\$44,730
Hardin County	\$35,368	\$35,785	\$5,349	\$5,927	\$40,717	\$41,712
Hawkins County	\$36,258	\$36,752	\$5,191	\$5,718	\$41,449	\$42,469
Rogersville City	\$37,328	\$38,952	\$4,209	\$4,529	\$41,537	\$43,480
Haywood County	\$36,660	\$37,957	\$4,231	\$4,825	\$40,892	\$42,781
Henderson County	\$36,159	\$36,579	\$4,095	\$4,356	\$40,254	\$40,934
Lexington City	\$36,165	\$36,691	\$4,300	\$5,047	\$40,465	\$41,738
Henry County	\$35,574	\$35,998	\$4,484	\$5,203	\$40,058	\$41,202
Paris SSD	\$36,517	\$37,603	\$4,080	\$4,808	\$40,597	\$42,410
Hickman County	\$37,000	\$37,476	\$5,004	\$4,988	\$42,004	\$42,464
Houston County	\$35,900	\$36,675	\$4,271	\$4,578	\$40,171	\$41,253
Humphreys County	\$35,776	\$36,578	\$4,969	\$5,514	\$40,745	\$42,092
Jackson County	\$35,773	\$36,113	\$4,939	\$3,378	\$40,712	\$39,491
Jefferson County	\$35,563	\$35,972	\$5,381	\$6,082	\$40,943	\$42,054
Johnson County	\$35,957	\$36,384	\$3,932	\$3,868	\$39,890	\$40,252
Knox County	\$39,248	\$40,345	\$4,081	\$4,514	\$43,330	\$44,859
Lake County	\$36,022	\$36,435	\$4,801	\$5,277	\$40,823	\$41,713

APPENDIX B.1 (cont'd)
Total Teacher Compensation

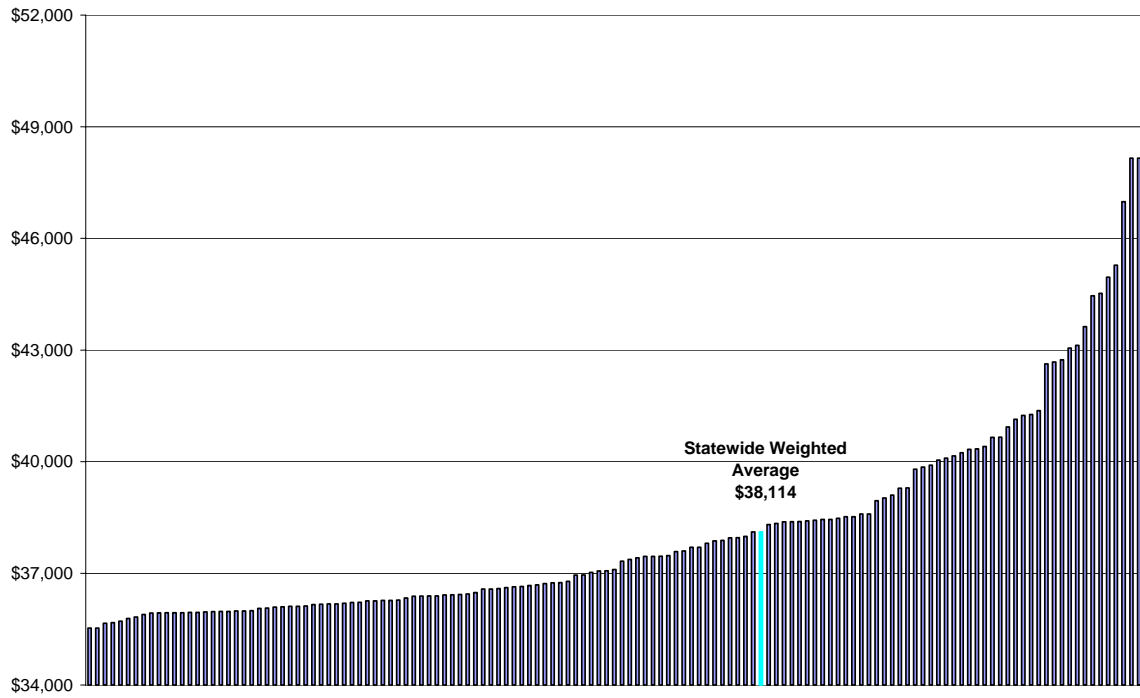
SCHOOL SYSTEM	Weighted Average Salary 04	Weighted Average Salary 05	Weighted Average Insurance 04	Weighted Average Insurance 05	Total Teacher Compensation 04	Total Teacher Compensation 05
Lauderdale County	\$36,943	\$38,341	\$5,872	\$6,527	\$42,815	\$44,867
Lawrence County	\$35,486	\$36,118	\$5,378	\$5,927	\$40,864	\$42,045
Lewis County	\$35,856	\$36,271	\$3,473	\$3,780	\$39,329	\$40,051
Lincoln County	\$35,607	\$36,121	\$4,046	\$4,454	\$39,653	\$40,575
Fayetteville City	\$36,492	\$37,585	\$4,970	\$5,447	\$41,463	\$43,032
Loudon County	\$37,670	\$38,382	\$5,381	\$5,940	\$43,051	\$44,322
Lenoir City	\$38,316	\$39,296	\$5,167	\$5,677	\$43,483	\$44,973
McMinn County	\$37,948	\$38,520	\$5,381	\$5,940	\$43,329	\$44,460
Athens City	\$41,791	\$42,679	\$5,380	\$5,940	\$47,171	\$48,619
Etowah City	\$36,883	\$37,370	\$5,563	\$6,244	\$42,446	\$43,614
McNairy County	\$35,653	\$36,067	\$3,839	\$4,674	\$39,492	\$40,741
Macon County	\$36,113	\$36,444	\$4,334	\$4,788	\$40,447	\$41,232
Madison County	\$39,321	\$40,042	\$2,649	\$2,628	\$41,970	\$42,670
Marion County	\$35,519	\$35,965	\$5,375	\$5,933	\$40,895	\$41,898
Richard City	\$37,396	\$37,809	\$3,175	\$3,489	\$40,572	\$41,298
Marshall County	\$37,825	\$38,595	\$5,665	\$5,990	\$43,490	\$44,585
Maury County	\$39,590	\$40,238	\$5,378	\$5,768	\$44,968	\$46,006
Meigs County	\$37,708	\$40,329	\$4,838	\$5,142	\$42,546	\$45,471
Monroe County	\$37,447	\$38,311	\$6,173	\$6,806	\$43,620	\$45,117
Sweetwater City	\$38,198	\$40,158	\$5,815	\$6,411	\$44,013	\$46,569
Montgomery County	\$40,007	\$40,656	\$4,996	\$5,356	\$45,003	\$46,012
Moore County	\$35,874	\$36,414	\$5,460	\$6,006	\$41,334	\$42,420
Morgan County	\$35,801	\$36,218	\$4,409	\$4,876	\$40,209	\$41,094
Obion County	\$36,142	\$36,951	\$4,541	\$5,278	\$40,684	\$42,229
Union City	\$37,008	\$37,455	\$6,021	\$5,983	\$43,029	\$43,438
Overton County	\$36,007	\$36,421	\$4,225	\$4,539	\$40,232	\$40,959
Perry County	\$35,534	\$35,947	\$3,311	\$3,618	\$38,846	\$39,565
Pickett County	\$35,482	\$35,895	\$3,071	\$3,378	\$38,554	\$39,273
Polk County	\$36,301	\$38,387	\$5,195	\$5,654	\$41,496	\$44,040
Putnam County	\$37,010	\$37,418	\$6,465	\$7,150	\$43,475	\$44,569
Rhea County	\$36,602	\$37,026	\$4,678	\$5,940	\$41,281	\$42,965
Dayton City	\$37,148	\$37,699	\$5,365	\$5,940	\$42,512	\$43,639
Roane County	\$37,770	\$38,523	\$6,044	\$6,668	\$43,814	\$45,191
Robertson County	\$37,128	\$38,394	\$6,775	\$7,243	\$43,903	\$45,637
Rutherford County	\$40,359	\$41,267	\$5,854	\$7,192	\$46,213	\$48,459
Murfreesboro City	\$42,362	\$43,123	\$5,156	\$5,594	\$47,518	\$48,717
Scott County	\$35,841	\$36,259	\$4,891	\$5,368	\$40,732	\$41,627

APPENDIX B.1 (cont'd)
Total Teacher Compensation

SCHOOL SYSTEM	Weighted Average Salary 04	Weighted Average Salary 05	Weighted Average Insurance 04	Weighted Average Insurance 05	Total Teacher Compensation 04	Total Teacher Compensation 05
Oneida SSD	\$35,571	\$35,986	\$4,161	\$4,878	\$39,732	\$40,865
Sequatchie County	\$36,646	\$37,064	\$4,774	\$5,704	\$41,420	\$42,768
Sevier County	\$37,213	\$37,703	\$5,041	\$5,557	\$42,254	\$43,259
Shelby County	\$47,601	\$48,152	\$3,928	\$4,494	\$51,529	\$52,646
Memphis City	\$47,600	\$48,152	\$5,182	\$5,606	\$52,782	\$53,758
Smith County	\$35,985	\$36,395	\$5,380	\$5,870	\$41,365	\$42,265
Stewart County	\$36,711	\$37,990	\$5,460	\$6,006	\$42,171	\$43,996
Sullivan County	\$36,112	\$36,618	\$5,191	\$5,642	\$41,302	\$42,260
Bristol City	\$42,185	\$43,052	\$4,668	\$5,024	\$46,853	\$48,076
Kingsport City	\$43,981	\$44,519	\$4,608	\$5,002	\$48,589	\$49,521
Sumner County	\$38,361	\$39,284	\$5,737	\$6,325	\$44,098	\$45,609
Tipton County	\$38,379	\$40,934	\$5,453	\$6,013	\$43,832	\$46,947
Trousdale County	\$35,858	\$36,272	\$3,771	\$4,378	\$39,630	\$40,650
Unicoi County	\$35,845	\$36,262	\$5,469	\$5,795	\$41,313	\$42,057
Union County	\$36,589	\$37,455	\$3,504	\$4,195	\$40,093	\$41,650
Van Buren County	\$36,328	\$36,647	\$3,075	\$3,389	\$39,404	\$40,035
Warren County	\$35,463	\$35,826	\$3,075	\$3,719	\$38,538	\$39,545
Washington County	\$37,131	\$38,474	\$4,629	\$6,449	\$41,760	\$44,924
Johnson City	\$41,529	\$42,739	\$4,984	\$5,284	\$46,513	\$48,023
Wayne County	\$35,261	\$35,676	\$3,621	\$3,928	\$38,882	\$39,604
Weakley County	\$36,123	\$36,639	\$4,120	\$4,537	\$40,243	\$41,176
White County	\$35,744	\$36,178	\$3,871	\$4,528	\$39,615	\$40,707
Williamson County	\$42,234	\$42,626	\$5,606	\$7,506	\$47,840	\$50,132
Franklin SSD	\$43,175	\$43,629	\$5,245	\$5,773	\$48,420	\$49,402
Wilson County	\$36,692	\$37,325	\$3,750	\$4,016	\$40,442	\$41,342
Lebanon SSD	\$39,392	\$40,092	\$3,049	\$4,888	\$42,441	\$44,980
AVERAGE AMOUNT	\$37,462	\$38,114	\$4,669	\$5,153	\$42,131	\$43,267

APPENDIX B.2 (cont'd)
Total Teacher Compensation

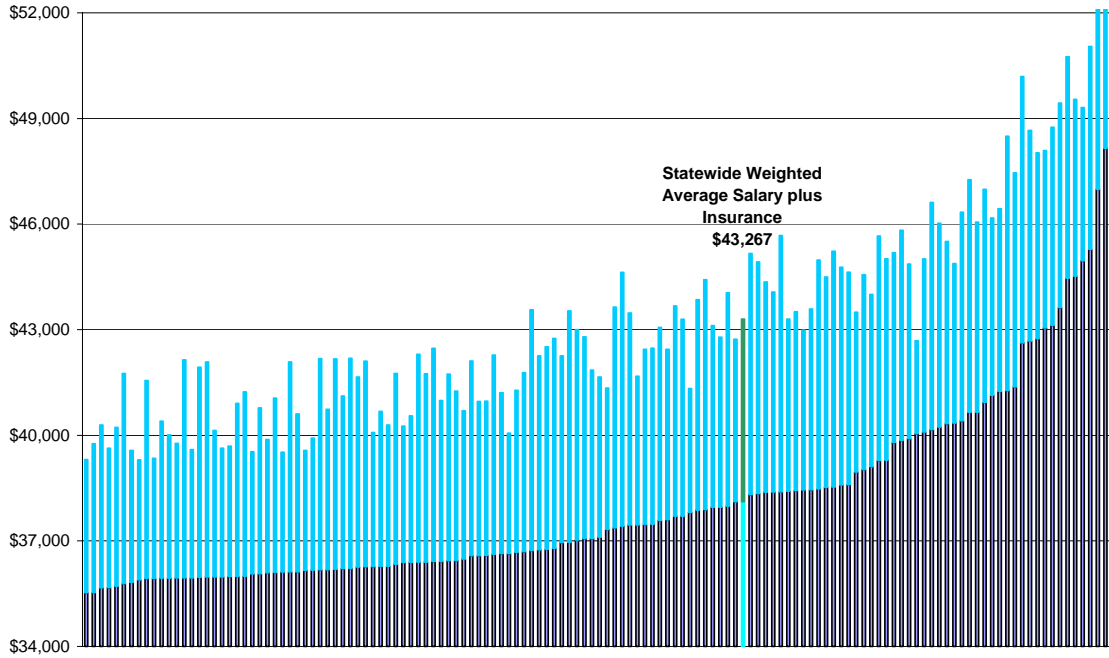
Weighted Average Salary



Appendix B.2 displays graphically weighted average salary ranked from low to high

APPENDIX B.3 (cont'd) Total Teacher Compensation

Weighted Average Salary Plus Health Insurance Paid
Ranked by Average Salary



Appendix B.3 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.

APPENDIX C.1
Regional Salary Disparity
Based on Total Teacher Compensation

County Region	General Trend in Regional Dollar Disparity <i>Comparison of FY05 to FY04</i>
Davidson County	Decrease Decrease in 8 surrounding systems Increase in 1 surrounding system
Dyer County	Mixed (Increase) Increase in 8 surrounding systems Decrease in 4 surrounding systems
Greenville County	Mixed (Increase) Increase in 6 surrounding systems Decrease in 3 surrounding systems
Hamilton County	Decrease Decrease in 9 surrounding systems
Knox County	Mixed (Increase) Increase in 9 surrounding systems Decrease in 5 surrounding systems
Jackson-Madison County	Increase Increase in 19 surrounding systems Decrease in 1 surrounding systems
Clarksville	Decrease Decrease in 5 surrounding systems
Memphis	Decrease Decrease in 3 surrounding systems Increase in 1 surrounding systems
Cookeville	Increase Increase in 6 surrounding systems Decrease in 1 surrounding systems
Tri-Cities	Mixed (Decrease) Decrease in 7 surrounding systems Increase in 4 surrounding systems
Williamson County	Decrease Decrease in 9 surrounding systems

General Decreasing Trend in Regional Dollar Disparity

- 5 Total County Regions - Decrease in Regional Disparity
- 1 Total County Region - Mixed Trend (Decrease) in Regional Disparity

General Increasing Trend in Regional Dollar Disparity

- 2 Total County Regions - Increase in Regional Disparity
- 3 Total County Regions - Mixed Trend (Increase) in Regional Disparity

APPENDIX C.2 Regional Disparity Methodology

All Calculations are Based on Total Teacher Compensation Data

Calculation of Dollar Disparity:

1. All dollar disparity values are compared to the system with the maximum total teacher compensation, within each fiscal year.
2. The ranked dollar value for each system is subtracted from the maximum, within each fiscal year.

Calculation of Percentage Disparity:

1. All percentage disparity values are compared to the system with the maximum total teacher compensation, within each fiscal year.
2. The dollar value for each ranked system is divided by the maximum. This percentage values is then subtracted from the number 1 or 100%.

Calculation of Change in Dollar Disparity:

1. Within each ranked position (e.g. rank #2 – rank #10), the dollar disparity value of FY04 is subtracted from FY05. The calculation of the dollar disparity value is described above.
2. The calculation of change in dollar disparity should always be interpreted in comparison to the system with the maximum total teacher compensation.

APPENDIX D Evaluated Fiscal Capacity Models

- **Evaluation team:**
 - ◆ *TACIR staff*
 - ◆ *Comptroller's Office of Education Accountability staff*
 - ◆ *Outside reviewers*

- **Two two-tier models, both w/regression-based county-level tier:**
 - ◆ *both with modified county model as tier one*
 - *property and sales tax bases combined into a single variable*
 - *median household income as measure of taxpayer equity*
 - *school-age child poverty as measure of service burden*
 - ◆ *algebraic tier two based on property and sales tax bases plus revenue available from state-shared taxes*
 - ◆ *regression-based tier two*
 - *shared and unshared combined property and sales tax base variables*
 - *system-level tax exportability*
 - *school-age child poverty*

- **Two one-tier models**
 - ◆ *algebraic based on property and sales tax bases plus revenue available from state-shared taxes*
 - *average tax and usage^{*} rates calculated from actual revenue for schools divided by tax base or available state-shared tax revenue*
 - *separate calculations for shared and unshared tax bases*
 - ◆ *full regression based on same components as current county model based on same components as current county model (Prototype Model)*

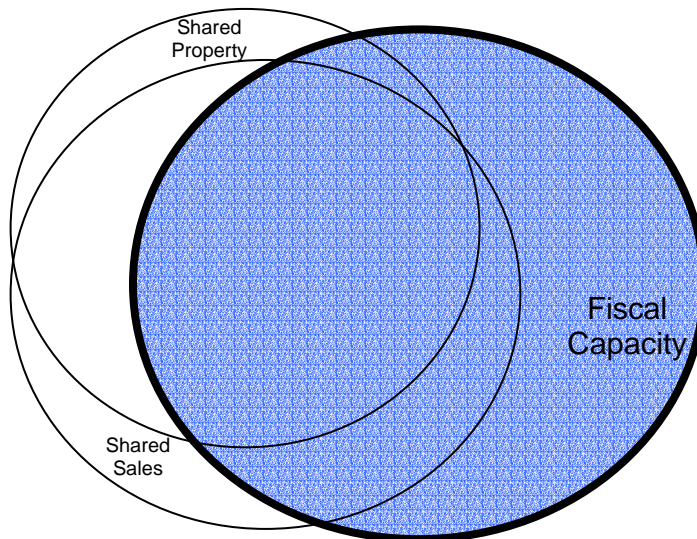
* Usage rate applies to state-shared tax revenue.

APPENDIX E.1

Effects of System Level Fiscal Capacity Variables

Overlapping Effects of Independent Variables on Fiscal Capacity in the 136-System Model
Venn Diagram Using Data from the 2005 Fiscal Capacity Model

Variances in the Per-Pupil Shared Property Tax Base variable explain 42.1% of the variance in Per-Pupil Local Revenue. Variances in the Per-Pupil Shared Sales Tax Base variable explain 55.4% of the variance in Per-Pupil Local Revenue. When both variables are included, 56.5% of the variance in Per-Pupil Fiscal Capacity is explained. As this diagram shows, they mostly explain the same variance. The Shared Property variable, most noticeably, adds very little extra explanatory power to the model, yet it is the largest and most important part of local funding.

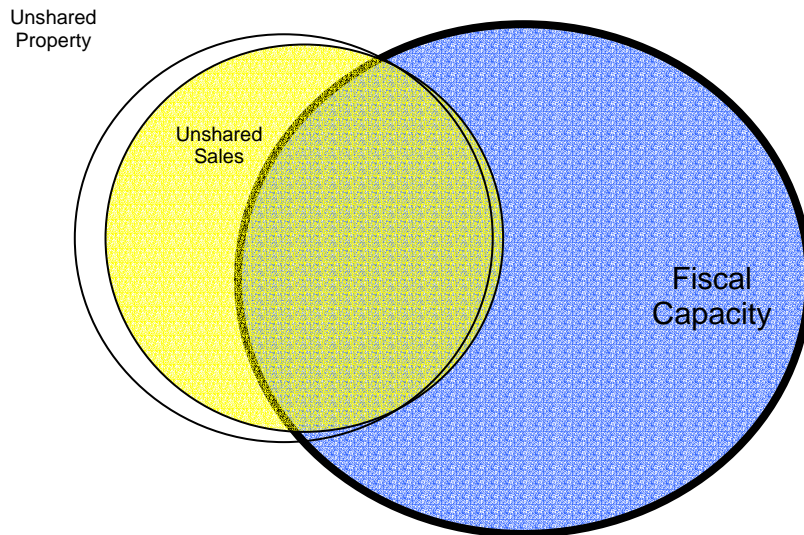


APPENDIX E.2
Effects of System Level Fiscal Capacity Variables

**Overlapping Effects of Independent Variables
on Fiscal Capacity in the 136-System Model**

Venn Diagram Using Data from the 2005 Fiscal Capacity Model

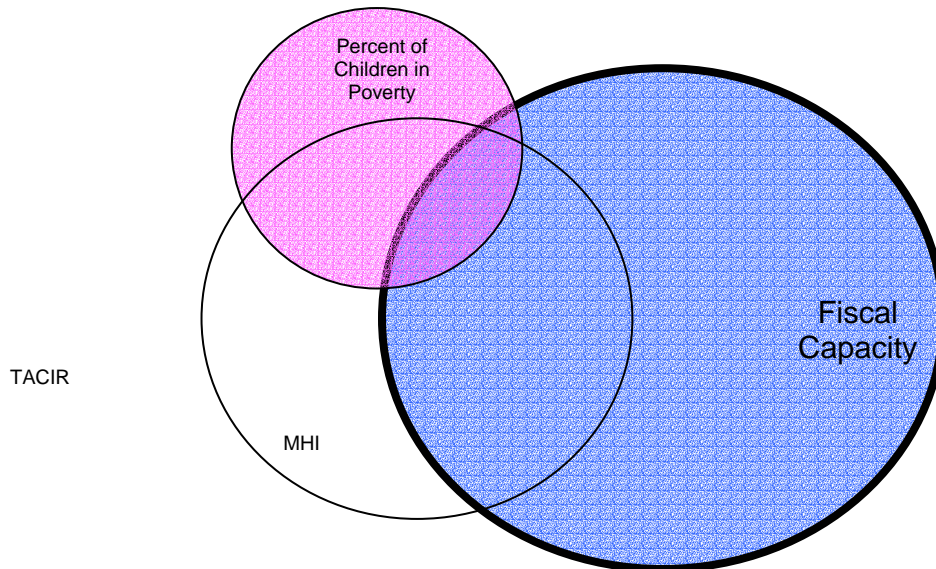
Variances in the Per-Pupil Unshared Property Tax Base variable explain 28.3% of the variance in Per-Pupil Local Revenue. Variances in the Per-Pupil Unshared Sales Tax Base variable explain 24.5% of the variance in Per-Pupil Local Revenue. When both variables are included, 28.4% of the variance in Per-Pupil Fiscal Capacity is explained. As this diagram shows, they mostly explain the same variance. The Unshared Sales variable, most noticeably, adds very little extra explanatory power to the model, but it remains an important part of local funding for city systems.



APPENDIX E.3
Effects of System Level Fiscal Capacity Variables

**Overlapping Effects of Independent Variables
on Fiscal Capacity in the 136-System Model**
Venn Diagram Using Data from the 2005 Fiscal Capacity Model

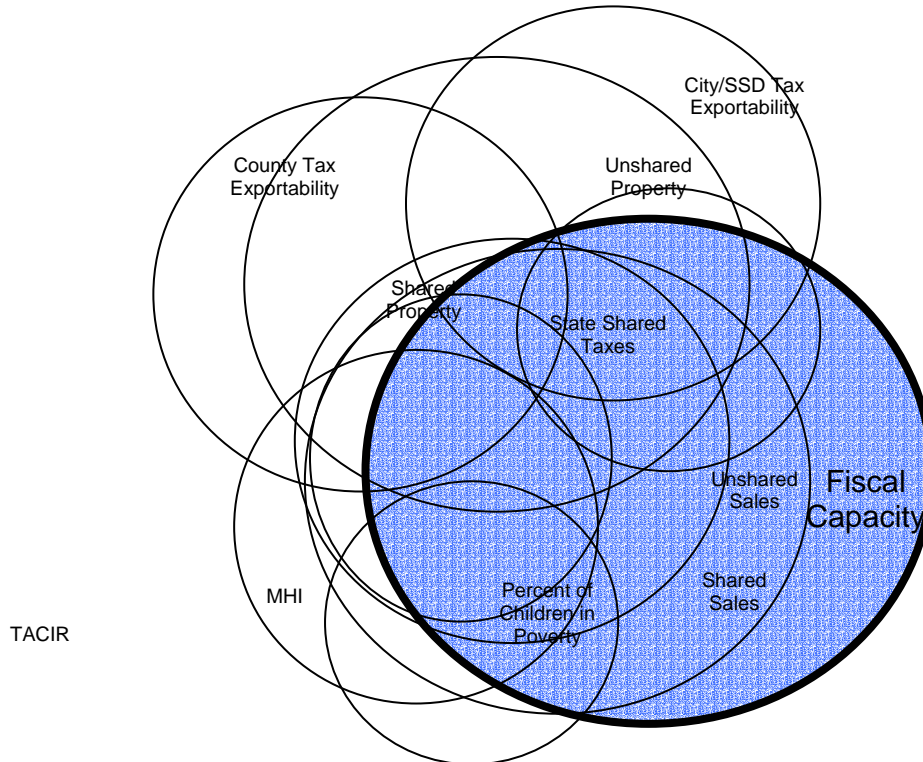
Variances in the Median Household Income variable explain 28.6% of the variance in Per-Pupil Local Revenue. Variances in the Percent of Children Living in Poverty variable explain 5.4% of the variance in Per-Pupil Local Revenue. When both variables are included, 29.9% of the variance in Per-Pupil Fiscal Capacity is explained. As this diagram shows, they mostly explain the same variance. The Percent of Children in Poverty variable explains very little variance on its own, and what is independent of Median Household Income overlaps with the Shared Property Tax Base, but it is the only income proxy available at the system level.



APPENDIX E.4 Effects of System Level Fiscal Capacity Variables

Overlapping Effects of Independent Variables on Fiscal Capacity in the 136-System Model

*Venn Diagram Using Data from the 2005 Fiscal Capacity Model
– effects are approximations based on partial regressions and correlation coefficients*



As this diagram shows, when all variables are included, overlapping effects are nearly impossible to separate and identify. But each variable, when run on its own, explains some variance and is significant. Each variable has its own theoretical basis for inclusion. Removing insignificant variables (those that overlap completely with other variables) would not change overall outcomes, but it would change outcomes for individual systems. Since each contributes to local fiscal capacity in its own right, all are included in the model.

APPENDIX F
Franklin SSD Correction

MEMORANDUM

TO: *BEP Review Committee Members*

FROM: Harry A. Green
Executive Director

DATE: July 21, 2005

SUBJECT: Correction of Franklin Special School District's Tax Base in System-level Fiscal Capacity Model

As you know, the Franklin Special School District (SSD) ranks highest among all school systems for local revenue per student. This is partly because it has the highest tax rate of all special school districts, but we have recently discovered that it also because they have the highest property value per student of any city or special school district. The property figure for the Franklin SSD in the prototype model has been revised because of this discovery.

The Tax Aggregate Report of Tennessee (TAROT), which is the source for the property values used in all TACIR fiscal capacity models, includes separate figures for the Franklin SSD and for the 9th SSD, also in Williamson County. This is the only special school district that has two figures in the TAROT. Past versions of the prototype have been based on the value reported for the Franklin SSD, but based on consultation with the Williamson County property assessor, the correct figure is the one reported for the 9th SSD. The amount reported for the Franklin SSD includes only the value of property inside both the special school district and the city of Franklin.

Using the correct, larger figure in the prototype model strengthens it, but the effect is a substantial increase in the fiscal capacity for the Franklin SSD. Unshared property, the main factor directly affected by the change, becomes highly significant, and the statistics for all of the revenue based factors in the model with the exception of unshared sales and the unshared tax exportability factor, which has also been corrected for the Franklin SSD. Median household income becomes less significant, and system-level child poverty becomes more significant. These effects make it possible to include an estimated child poverty rate for Carroll Co., which lowers the county area capacity slightly. The result for any particular system (see attached table) depends on its unique mix of fiscal capacity factors. There is no general pattern for the three types of school systems (county, city and special school district).

Attachment.

cc: TACIR Members

APPENDIX G
Telecommunications Sales Tax Base

MEMORANDUM

TO: *BEP Review Committee*

FROM: Harry A. Green
Executive Director

DATE: July 21, 2005

SUBJECT: *Telecommunications Sales Tax Base*

- Three to four billion dollars in taxable telecommunication services included in the local option sales tax base prior to fiscal year 2001-02 is no longer identified by situs in reports from the Department of Revenue and cannot be factored into fiscal capacity as it was in the past.
- This change accounts for the bulk of the large decline observed in the local option sales tax base figures used in both fiscal capacity models.
- The effect on the underlying tax base cannot be determined because the revenue reported is a lump sum that includes collections based on two different rates:
 - 2.5% on all (business and residential) intrastate telecommunications services, and
 - 1.5% on residential interstate service.

The reports received by the department from taxpayers do not separate collections from the two rates and types of services. Complicating the matter is the fact that the tax is also collected at a 2.25% rate on other telecommunication services.

- This revenue is distributed by the department to local governments, not based on situs, but half on the same basis as other out-of-state collections, and half based on population.
- Also, there is approximately \$2 million in state-shared revenue from the state sales tax on interstate services purchased by businesses. This money is collected from the state tax and shared with local governments is distributed based on cities' and counties' population. It does not affect the county fiscal capacity model, but it is part of the state-shared tax revenue included in the prototype. There is no local option tax on interstate business telecommunications services.

APPENDIX H

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).