



# Basic Education Program: Overview and Historical Context

State Board of Education

September 24, 2015

# What is the BEP?

- Formula that determines the funding level required for each school system to provide a common, basic level of service for all students.

# History

- Adopted by the General Assembly in 1992 as part of the Education Improvement Act
- Developed in response to successful legal challenge by 77 small school districts, which claimed the state's previous funding mechanism (TN Foundation Program) was unconstitutional due to inequities
- Revised in 2007 (BEP 2.0)

# TN Supreme Court Decisions

- Small Schools I (1993)
  - Court finds the state’s funding method unconstitutional due to inequities for children living in areas with a lesser ability to raise revenue.
- Result:
  - General Assembly adopts the BEP (1992), providing for allocation of funds based on ability of local governments to raise revenue and the costs of components deemed by the state board to be necessary for school districts to provide a basic education.

# TN Supreme Court Decisions

- Small Schools II (1995)
  - Court declares state’s educational plan must include equalization of teacher salaries according to the formula.
- Result:
  - General Assembly attempts to equalize salaries by appropriating funds (\$12 million) to districts with low salary averages.

# TN Supreme Court Decisions

- Small Schools III (2002)
  - Court finds the state’s teacher salary equity plan does not equalize salaries according to the formula as it contains no mechanism for cost determination or annual cost review.
- Result:
  - Gov. Bredesen and General Assembly add \$27 million in the FY04 Budget for salary equalization
  - Task Force on Teacher Pay established by the Governor.
  - Teacher salaries included as a regular component of the BEP formula.

# Equity vs. Adequacy

- The current lawsuits against the state relative to funding focus primarily on adequacy, or the amount of funding, using the Small Schools cases as a legal basis.
- However, the TN Supreme Court Small Schools decisions are based on equity, not adequacy. The Court has never ruled on adequacy and, in fact, has been very clear that it is not the role of the Court to direct the General Assembly to fund education at any certain level.

# What level of funding is required?

As determined by the Court, Article XI, Section 12 of the TN Constitution requires the General Assembly to:

*maintain and support a system of free public schools that provides, at least, the opportunity to acquire general knowledge, develop the powers of reasoning and judgment, and generally prepare students intellectually for a mature life.*



# BEP Highlights

- Comprehensive funding mechanism with components necessary for funding a “basic” education (45 components)
- No “targeted” funding
- Funding is flexible; BEP is a funding formula, not a spending plan
- Formula heavily considers local ability to pay to address equity and the mandates of the TN Supreme Court

# BEP Components: 3 Categories

1. Instructional (State/Local = 70%/30%)
  - Ex: Teaching Positions
2. Classroom (State/Local = 75%/25%)
  - Ex: Textbooks, Instructional Equipment, etc.
3. Non-classroom (State/Local = 50%/50%)
  - Ex: Capital Outlay, Transportation

# BEP Components

- Original components established by the state board of education for the 1992-1993 school year
- Most recent revision prior to BEP 2.0 was in 2006 for FY 07 (at-risk; ELL improvements)
- Most recent component addition was in 2002 (ELL)

# How Does the BEP Work?

## 1. Funding

- State determines need

## 2. Equalization

- Based on Local Ability to Pay or Fiscal Capacity
  - Fiscal Capacity Indices provided by:
    - Tennessee Advisory Commission on Intergovernmental Relations (TACIR)
    - UT Center for Business and Economic Research (CBER)
  - County level determination

# Determining Need - ADMs

- ADMs (average daily memberships) drive the formula – funded on prior year’s ADMs
  - *Note: LEAs also receive some growth funding based on current year numbers.*
- ADMs generate:
  - Positions – teachers, supervisors, assistants
  - Funding – ADMs are multiplied by a Unit Cost for supplies, equipment, textbooks, travel, capital outlay, etc.
- Funding months and weighting
  - Month 2 – 12.5%                      Month 6 – 35%
  - Month 3 – 17.5%                      Month 7 – 35%

# Fiscal Capacity

## CBER Model (newer model per BEP 2.0)

- Determines a county's capacity to raise local revenues for education from its property and sales tax base
- Each county's fiscal capacity is the sum of:
  - The County's equalized assessed property plus IDBs multiplied by a statewide average property tax rate for education *plus*
  - The County's sales tax base multiplied by a statewide average sales tax rate for education
- Each county's fiscal capacity index is the ratio of its fiscal capacity to the total statewide fiscal capacity

# Fiscal Capacity

## TACIR Model (complex multiple-regression model)

- Per pupil own-source revenue
- Per pupil equalized property assessment
- Per pupil taxable sales
- Per capita income
- Tax Burden
- Service Burden

# Fiscal Capacity Used in FY 15 BEP

- 50% of TACIR Model & 50% of CBER Model
- Volunteer County Index
  - $(\text{TACIR Capacity Index} \times 50\%) + (\text{CBER Capacity Index} \times 50\%)$



# Stability Provision

- An LEA is on stability if the total state BEP funds it generates in the current year are less than the total state BEP funds generated the previous year
- Occurs most often due to declining ADMs
- Provides a one-year grace period before funding is reduced
- Currently affects 23 districts (\$3 million)
  - FY 15 = 57 districts (\$17 million)

# Baseline Provision

- An LEA is on baseline if the total state BEP funds it generates in the current year are less than the total state BEP funds generated in 2006-07 (per BEP 2.0)
- Essentially, baseline systems receive funding at a level greater than the formula, by itself, generates
- Currently affects 11 districts (\$9 million)

# Cost Differential Factor (CDF)

- Used to adjust BEP funding in systems where the cost of living in the county is greater than the statewide average
- Compares county wages in non-government industries to statewide wages
- Counties with above-average wages according to this index receive an increase
- Eliminated in BEP 2.0
- Counties receiving an adjustment currently receive 50% of the calculated CDF due to 50/50 TACIR/CBER split
- Currently affects 16 districts (\$89.5 million)
  - FY 15 = 16 districts (\$66 million)

# Maintenance of Effort

- Separate from BEP, although BEP match requirement factors into MOE
- Supplanting test used to ensure maintenance of local effort
- Governed by TCA 49-2-203 and TCA 49-3-314
- Budgeted local revenue must be equal to or greater than the previous year's budgeted amount, unless ADMs have decreased or unless there is a local agreement for one-time expenditures

# BEP Task Force

- Established by Governor Haslam in 2014; 12 members appointed, including Executive Director of SBE
- Last major revision to the BEP in 2007 (BEP 2.0) with considerable change in education since
- Task Force charged with examining the state's method of distributing resources within the BEP to school districts throughout the state
- Distinct from the BEP Review Committee
- No predetermined outcome

# BEP Task Force – Status

- Task Force Status Report submitted to the Governor earlier this year
- Focused on four key principles with five recommendations related to those principles
- Final meeting took place on September 17 with focus on principles and recommendations identified in the status report

# Identified Principles

1. Equity
2. Efficiency and Effectiveness
3. Flexibility and Innovation
4. Transparency

# Recommendation #1

**The BEP should incorporate one fiscal capacity model with one set of components**

- Currently at 50/50 split – TACIR/CBER
- BEP 2.0 designed to move to 100% CBER

*Principles Addressed: Transparency, Equity*



## Recommendation #2

**The BEP's fiscal capacity model should, to every extent possible, measure the ability of each local government entity with established schools to fund education**

- Current models are county-level – 95 indices for 141 districts
- Complexity of the state's laws, rules and regulations make implementation of a system-level model extremely difficult

*Principles Addressed: Transparency, Equity*

## Recommendation #3

**To the extent possible, the BEP should allocate resources on the basis of students with funds attached to each student based on need**

- TN is one of six states that allocates funds in the form of units with specific funding allocations tied to each unit
- Unit cost models more difficult to adjust for changing conditions
- Calculations of units can be difficult and lead to criticism about method or transparency
- Student-based allocation model appropriate for further consideration

*Principles Addressed: Equity, Efficiency and Effectiveness, Flexibility and Innovation, Transparency*

## Recommendation #4

**The BEP Task Force should couple any major recommended structural changes to the BEP with appropriate phase-in mechanisms**

- Revisions to the BEP fiscal capacity model will result in some districts generating more state funding and some generating less
- Phase-in provisions create additional challenges but can reduce negative impact

*Principles Addressed: Efficiency and Effectiveness*

## Recommendation #5

**The BEP Task Force should strive to ensure that the public has easy access to clear and intelligible information about how education funding is being distributed and spent**

- A common criticism of the BEP is the lack of clear information that is understandable to the public
- Considerable efforts have been made to provide information on state and district funding but school level funding information still lacking

*Principles Addressed: Equity, Efficiency and Effectiveness, Transparency*

# For Additional Information

- Tennessee Basic Education Program: An Analysis
  - <http://www.comptroller1.state.tn.us/orea/>
  - See legislative brief
- State Board of Education
  - <http://www.tn.gov/sbe/bep.shtml>
  - BEP Blue Book – up to date data on BEP components
  - BEP Handbook – comprehensive guide on calculations
- BEP Task Force Status Report
  - <http://tn.gov/education/topic/finance>



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