Basic Education Review Committee
Minutes
August 24, 2005

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

Others Present: Keith Brewer, Art Fuller, Danny Grant, Lynne Holliday, David Huss, Kevin Krushenski, Pam Mason, Libby McCroskey, Katherine Mosher, Bruce Opie, Wayne Qualls, Cathy Pierce, David Sevier, Patrick Smith, David Snowden, Elfreda Tyler, and Karen Weeks.

Welcome and Approval of Minutes

Gary Nixon, Executive Director of the State Board of Education and chair of the committee, welcomed all members, including newly appointed members Tommy Bragg, Larry Ridings, and Becky Sharber, and asked members to introduce themselves. He reviewed the agenda, and noted that the full committee will meet two more times prior to issuing its November 1, 2005 report. In addition, several subcommittees are meeting to provide additional information to the full committee.

The committee approved the committee minutes of July 21, 2005. A correction to the minutes of the fiscal capacity subcommittee meeting August 10, 2005 was noted.

Cost Differential Factor, Potential BEP scenarios

Tim Webb, Department of Education, presented materials illustrating a concept that would make the following adjustments to the BEP over a five year period:

- Reduce the CDF by 20% each year
- Increase the state share of the instructional component by 2% each year (goal: 75%)
- Move ELL funding to the classroom component in year one
- Increase the At Risk unit cost each year
- Increase the ELL unit cost each year

The concepts presented are consistent with those presented by the Governor's Task Force in 2003.

In a power point presentation (also distributed to the members) Webb discussed costs for the hypothetical model. Other amounts and time frames are also possible depending upon the condition of the economy and resulting revenues.

The presentation included the following points:

1. There are some slight shifts in the distribution of the CDF as a result of the necessary shift from Standard Industrial Classification System (SICS) data to North American Industrial Classification System (NAICS) data, which is being phased in over a three-year period. Full implementation of NAICS in the CDF will occur in 2007. The total estimated cost of the CDF is $128 million.

2. The cost of implementing the CDF phase out, return to 75% state share, and improvements to ELL and At Risk, under the hypothetical scenario, would be about $40 million each year in addition to base improvements to the BEP. The $40 million amount was established for modeling purposes. Other scenarios could be developed depending upon fiscal conditions.

3. The cost of moving ELL to a classroom component in year one is $1.2 million, including hold harmless and stability.

4. A presentation of sample LEAs, showed the impact of the changes on 12 rural, 12 suburban, and 6 urban school systems.

5. The costs for implementing the at-risk component range from $25.6 million to serve 30% of eligible children (current amount) to $140 million to serve 100% of eligible children.

Increasing At-Risk Funding	
Based upon current estimates the following percentages of K-12 At Risk Funding cost:	
30%	25.6 M
40%	42.0 M
50%	58.3 M
60%	75.0 M
70%	91.0 M
80%	107.4 M
90%	123.8 M
100%	140.1 M

6. The costs for implementing the ELL component vary depending upon assumptions about the growth in ELL population. To get to the desired 1/20 teacher/student ratio would cost between $33 million and $54 million depending upon assumptions regarding ELL population. We currently have 19,352 ELL students; the highest projection is 35,000 students.

ELL Projections					
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

In the discussion that followed, several points were clarified. Hold harmless funds are currently being directed to school systems that were adversely affected by the switch from 75/25 to 65/35 for the new instructional component; the hold harmless is projected go away by 2011.

Implementation of the proposed CDF/BEP plan would shorten the time for elimination of hold harmless and help districts that currently are under hold harmless. Rapidly growing districts would also benefit as the state/local share returns to 75/25, in that each new student will generate more instructional funds than under 65/25. Webb believes that investing in returning to 75/25 is a better investment than investing modest amounts in at-risk and ELL. In the first year, the state will need to invest $25 million in the package addressing the CDF and 75/25 ratio issues and will have about $15 million to invest in ELL and at-risk. In other years, the relative proportions may shift somewhat.

We will not be able to achieve the goal of serving 100% of at-risk students (those eligible for free and reduced priced meals) during the five-year projection. We may get closer to achieving the goal of ELL teacher/student ratio of 1/20 in 5 years.

BEP Special Education Counts

Tim Webb presented information regarding counts of children receiving special education services in programs for 3 and 4-year-olds. The state does not include special education preschool students in the ADM counts in calculations to generate state aid. 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." The state does include students identified with disabilities in the special education option of services count within the current BEP funding formula.

Webb distributed information requested previously by the committee regarding special education counts for 3 and 4 year olds by system (04-05 data) and information about additional funding associated with those numbers. The projected costs total $18.5 million. The projected costs assume one teacher per 20 students and other costs generated by the student count.

The Department has submitted an official request to the Attorney General regarding special education counts and the administration of such counts within the BEP formula.

Salary Equity Update

Tim Webb presented an analysis by the Department using one method of measuring salary equity, which compares salaries for Shelby County and Bledsoe County, which were the highest and lowest paying districts prior to implementation of the most recent salary equity adjustments. The disparity in the salary schedule average decreased from 51.49% to 34.09% from January 1, 2003 to January 1, 2005. In addition, he distributed information showing that the average instructional salaries were $43,751, surpassing the Southeast Average for the 2005 fiscal year.

Also distributed was the FY05 TEA salary survey, showing comparisons at various points on the salary schedule: 0 years experience, 15 years, and maximum for each of the various levels of training.

Fiscal Capacity Subcommittee

Gary Nixon presented a report of the work of the Fiscal Capacity Sub-committee.

At the BEP Review Committee meeting on July 21, 2005, Harry Green, TACIR, presented an update of proposed changes both in the 95-County Model and the 136-System Model. In constructing the models, the staff intentionally did not look at the impact on systems. The update included two years of data, by school system.

It was pointed out that data for many of the factors included in the system model were not available when the county model was first developed.

Nixon reminded the committee that a bill was introduced last session (but did not pass the House) requesting the Committee to develop guiding principles regarding changes in the determination of fiscal capacity and for indemnification of local systems that would be negatively impacted by such a transition, to be reported to the Senate and House Education Committees by January 1, 2006. The Committee agreed to the appointment of a subcommittee to develop such guiding principles.

Nixon reported on work by that subcommittee; the development of guiding principles is currently a work in progress. The subcommittee met on August 10, 2005 and discussed general concepts to be researched further by staff. The full BEP Review committee received copies of those minutes. The subcommittee will meet again on September 7 at 10:00 and hopes to have a report for the full committee at the next meeting.

Review of minutes related to TACIR's recommendations for changes to 95 county model

Nixon introduced the discussion noting that last year, TACIR recommended that four changes to the 95 county model be made in the event that the 136 system level model did not receive action. The four changes involved eliminating outdated tax equivalency payments; replacing per capita personal income by median household income; revising service responsibility burden to account only for burden not addressed by the BEP formula; and including state-shared tax revenue for all systems. He asked for discussion from the committee. Members asked for data on how the proposed changes would affect the counties.

Some members suggested that we should not make changes in the 95 county model, when the ultimate goal was to move to a 136 system model. Others questioned the need to move to a system level model. Several members asked for an explanation of the rationale for moving to a system level model and questioned the perceived complexity of the prototype system model presented by TACIR and discussed at the committee's meetings last year. The issue of how to handle state-shared taxes is the most difficult to address, because of the differences in how local communities share and spend these revenues. Some members suggested that if state shared money is there, it must be treated the same, and not based upon the choices made in the local community.

Members of the committee offered various rationales for moving to the 136 system model. The basic issue is one of fairness: the state contribution to the BEP for each system should be based upon the fiscal capacity of each system. The urban systems were hurt by the most recent salary equity solution and the inequities created must be addressed.

It was suggested that we consider incentivising systems to make a greater effort.

It was noted that the Board can change the fiscal capacity model, provided that the Commissioners of Finance and Administration and Education agreed. This change does not need to be approved by the General Assembly.

Senator Hagood noted that reaching a decision on the 136 system model should continue to be a priority of the committee.

For the benefit of new members, and other committee members as well, a special study session will be scheduled for September 13 at 1:00 in the SBE Board room on the fiscal capacity index. Members were encouraged to review the materials presented by Harry Green at the July 21, 2005 meeting of the full committee.

Total Teacher Compensation

The committee must consider the issue of salary disparity each year as part of its ongoing responsibilities. The committee will review data on total teacher compensation, including both salary and benefits, at its next meeting.

Attendance Supervisors

Gary Nixon brought to the attention of the committee the request of the Tennessee Attendance Supervisors' Steering Committee that one additional attendance supervisor be added to the BEP. He presented four different scenarios for adding additional attendance supervisor positions to the BEP, ranging in cost from $6 million (to add one new position to each school system) to $2.3 million (to add positions based upon school system size).

Priorities for November 1, 2005 Report

Nixon asked members to consider whether they wished to revise the list of extended priorities included in the November 1, 2004 report. Some suggested that revision of the fiscal capacity model and pre-kindergarten funding be moved from the list of extended priorities to the list of immediate priorities.

He asked the committee to consider whether other items, such as alternative schools (as suggested by the Comptroller's report) and attendance supervisors should be added to the list. Additional discussion on these and other priorities will take place at the next meeting of the committee.

Next Steps

Nixon asked the committee for direction and what data the committee needed to further its work. Staff will provide the following for the next meeting:

- Impact of proposed changes in the 95 county fiscal capacity model.
- A report on guiding principles for the 136 system fiscal capacity model.
- Data on total teacher compensation, including salary and benefits.
- **Other? (Have I missed something?)**

The following additional meetings have been scheduled:

- Fiscal Capacity Subcommittee: September 7 at 10:00, SBE conference room. (Conference call participation available).
- Fiscal Capacity Study Session for new and other members: September 13 at 1:00, SBE conference room.
- BEP Review Committee: September 16 from 10:00 to 3:00, TSBA conference room.

Nixon thanked members for their thoughtful deliberation and adjourned the meeting.