A Primer on the Prototype

Developed by Staff Working Group
Presented by TACIR Staff

Basic Education Program Review Committee
21 November 2006
What past explanations of our models may have looked like to you.

Even I don’t get it!
But if it were that simple, it wouldn’t work!

What we wish we could make them look like.
What we hope to do for you today.

That's more like it!
2003 Staff Working Group

- TACIR staff
- Comptroller’s staff
- With review by outside experts from MTSU, TSU, VU
- Reporting to Governor Bredesen’s Task Force on Teacher Pay
We did not do this in a vacuum!
It was a collaborative process.
The Starting Point
Fundamental Principles of Equalization

#1 Substantially Equal Educational Opportunity for All Students
#2 Comprehensive Measure of Actual Fiscal Structure
#3 Taxpayer Equity
#1 Substantially Equal Educational Opportunity, Round I

The constitution contemplates that the power granted to the General Assembly will be exercised to accomplish the mandated result, a public school system that provides substantially equal educational opportunities to the school children of Tennessee.

Tennessee Supreme Court
1993
#1 Substantially Equal Educational Opportunity, Round II (1995)

It appears that the BEP addresses both constitutional mandates imposed upon the State—the obligation to maintain and support a system of free public schools and the obligation that that system afford substantially equal educational opportunities.

The BEP is designed to accomplish two significant objectives—provide an excellent education program for all K thru 12 students throughout the State and provide substantially equal educational opportunities for those students. ... Adequate funding is essential to the development of an excellent education program, and immediate equalization of funding would not necessarily insure immediate equalization of educational opportunities or a more excellent program.
#1 Substantially Equal Educational Opportunity, Round III (2002)

In short, determining how to fund teachers’ salaries and the appropriate level of those salaries are choices for the legislature to make, assuming of course that the legislature discharges its powers in a manner that comports with the Constitution.

...The critical point, however, is that the educational funding structure be geared toward achieving equality in educational opportunity for students, not necessarily "sameness" in teacher compensation.... The objective of teacher salary equalization is to provide substantially equal opportunities for students, not teachers.
#2 Comprehensive Measure of Actual Fiscal Structure

- Statutory authority of counties to tax
- Statutory authority of cities to tax
- Statutory authority of special school districts to tax
- Statutory requirement of sharing by counties with cities & SSDs
#3 Taxpayer Equity

- Similarly situated taxpayers treated similarly—consideration of economic well-being

- Differently situated taxpayers treated differently—consideration of tax exportability
First Things First

- Critical look at county model
- Close inspection of existing laws
- Closer look at how other states do it
- Critical look at all potential sources of data
Critical Look at County Model

- County model used in system-level formula
- Out-of-date tax equivalent payments
- State-shared taxes, which are embedded in city appropriations,
  - excluded from county revenue used for schools;
  - excluded from tax base measures for both cities and counties
- Poor measure of taxpayer well-being
- Service burden overlaps BEP components
Close Inspection of Existing Laws

Structure created by Tennessee General Assembly:

- differing authority of counties, cities and special school districts to raise funds for schools
- requirement that counties share their school revenue with cities & SSDs
- state tax revenue given to local governments and available or earmarked for schools
Most of the 50 states have only one type of local jurisdiction operating school systems, typically independent school districts that all have the same taxing authority.

In most of the remaining states, schools rely solely on property taxes for local revenue.

All of the local jurisdictions in states that rely on more than one source of local revenue have the same taxing authority.

No state has jurisdictions that operate schools and share revenue with other school systems.

Tennessee is unique in this respect.
Critical Look at All Potential Sources of Data

- Out-of-date tax equivalent payments—**EXCLUDED**
- State-shared tax revenue, which is embedded in or supports city appropriations,
  - excluded from county revenue used for schools;
  - excluded from tax base measures for both cities and counties
  
  **ALL AVAILABLE OR EARMARKED FOR SCHOOLS INCLUDED**

- Poor measure of taxpayer well-being—**PCI REPLACED WITH COUNTY MHI & SYSTEM POVERTY**
Putting the Pieces Together

- Limit scope to what is actually being done now
  - no tax rates recommended or imposed
  - actual average equals average of estimates
- Include factors for all three basic types of school systems
- Include all major sources of revenue
- Use regression to objectively estimate effect of factors on actual revenue—an entirely data-driven process
Limit scope to what is actually being done now

Average of estimates produced by regression model exactly equals average of actual revenue for schools

- Automatically limited to amount of revenue ‘fed into’ the model
- Simple average of first column of numbers = simple average of last column of numbers

No changes in state or local fiscal structures
Include factors for all three basic types of school systems

<table>
<thead>
<tr>
<th></th>
<th>County School Systems</th>
<th>City School Systems</th>
<th>Special School Districts</th>
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</thead>
<tbody>
<tr>
<td>Shared Property Tax Base</td>
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<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Unshared Property Tax Base</td>
<td></td>
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</tr>
<tr>
<td>Shared Sales Tax Base</td>
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<tr>
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<tr>
<td>State-shared Tax Revenues</td>
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<tr>
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<tr>
<td>School-age Population Poverty</td>
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</table>
Include All Major Sources of Revenue

Actual revenue per pupil
- All property tax revenue, including PILOTS
- All sales tax revenue
- All statutory local taxes
- All general fund transfers by cities for schools

Property tax base per student

Local sales tax base per student

Available and earmarked state-shared tax revenue per student
Use Regression to **Objectively** Estimate Effect of Factors on **Actual Revenue**

—an entirely data-driven process—

1. **Actual** revenue fed into formula
2. Compared to actual tax base and estimated wealth factors for each system
3. Base amount for all systems and one weight for each factor determined by formula
... and it all goes round and round
### And It Comes Out Here

**Values x Weights = Estimated Capacity**

<table>
<thead>
<tr>
<th>Factors</th>
<th>Values</th>
<th>Weights</th>
<th>Results</th>
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</thead>
<tbody>
<tr>
<td>Base Value Included for Each System</td>
<td>n/a</td>
<td>-$46</td>
<td>-$ 46</td>
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<tr>
<td>Shared Property Tax Base</td>
<td>$89,244</td>
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<td>Unshared Property Tax Base</td>
<td>$36,277</td>
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<td>Shared Sales Tax Base</td>
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<td>State-shared Tax Revenue</td>
<td>$235</td>
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<tr>
<td>Shared Tax Exportability Ratio</td>
<td>34.67%</td>
<td>+$537</td>
<td>186</td>
</tr>
<tr>
<td>Unshared Tax Exportability Ratio</td>
<td>16.69%</td>
<td>+$126</td>
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<tr>
<td>County Median Household Income</td>
<td>$33,732</td>
<td>+0.0148</td>
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<tr>
<td>System Child Poverty Rate</td>
<td>18.70%</td>
<td>-$1,438</td>
<td>-269</td>
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</table>

**Fiscal Capacity (Estimated Revenue) per Pupil:** $1,932
BUT Is This An Improvement?

What Is the Standard?
What Is the Standard?

“substantially equal educational opportunities for students”

_Tennessee Supreme Court_ 1993, 1995, and 2002
“Substantially Equal Educational Opportunities for Students”

More Disparity

Less Disparity
Disparity

Based on total—state and local combined—revenue per student
(estimated based on FY05 local revenue and FY07 state funding)

- Actual disparity now
  Coefficient of Variation = 0.122

- Estimated disparity with this method of equalization
  and no other changes
  Coefficient of Variation = 0.101
  and other proposed changes
  Coefficient of Variation = 0.xxx

- Actual disparity before Small Schools III (FY02)
  Coefficient of Variation = 0.120
The Ending Point

Significant Progress Toward . . .

#1 Substantially Equal Educational Opportunity for All Students

#2 Comprehensive Measure of Actual Fiscal Structure

#3 Taxpayer Equity
Can we bridge the divide?

Systems that benefit from a change

Systems that benefit from the status quo
It’s a BIG Change!

How do we make such a difficult transition?
Phase it in over time

along with

**significant adequacy improvements**

- Full funding for students at risk
- Increased funding for services to English language learners
- Increased funding for teaching resources—ask teachers what they need
- Class-size ratios that better match those in the highest performing schools
- Transition toward 100% state funding (?)
Hold Systems Harmless

*No system can be allowed to fall behind*
All Systems Should Advance!
Questions?