

Education Funding

Roane County

September 12, 2013

Roane State Community College

By Wesley Robertson

Executive Summary 38

Secondary Education Funding

- **State**
 - **Local**
 - Federal
 - Internal School Service Funds
 - Contributions/Private Grants/Foundations
- 
- A diagram consisting of a blue rectangular box with a downward-pointing arrow at the bottom. Two blue arrows point from the words 'State' and 'Local' in the list above to the top-left and top-right corners of the box, respectively. The text 'Focus of Presentation' is written in white inside the box.

State Funding

- 1980s Tennessee Foundation Program (TFP)
 - Inadequate funding
 - No Inflation Adjustment
 - Inflexible use of money
 - No consideration of locals ability to pay
 - Lawsuit(s)

State Funding

- Early 1990 to 1992
- Education Improvement Act –EIA 1992
- Two successful legal challenges by small schools resulting in funding changes since 1992
- A third legal challenge is under consideration

Basic Education Program (BEP)

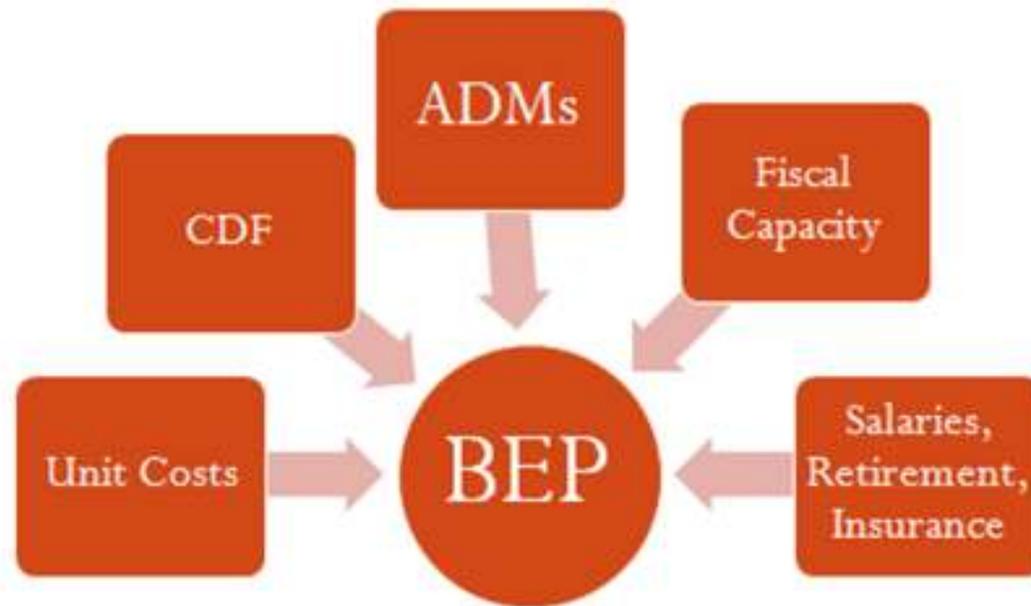
- **Funding formula, NOT a spending plan**
- Provides flexibility
- Attempts to keep up with increased costs
- Formula contains a number of components (45 total) that the Legislature has deemed necessary for schools to succeed

Basic Education Program (BEP)

- Two distinct and separate parts:
 - Formula that generates the total dollars
 - Local Ability to Pay (Fiscal Capacity)
- TN Department of Education generates the total dollars
- Local Ability to Pay (Fiscal Capacity)
 - Tennessee Advisory Commission on Intergovernmental Relations (TACIR)
 - UT Center for Business and Economic Research (CBER)

Basic Education Program (BEP)

BEP—many inputs



Basic Education Program (BEP)

Instructional	Classroom	Non-Classroom
Regular Education	K-12 At-risk Class Size Reduction	Superintendent
Vocational Education	Duty-free Lunch	System Secretarial Support
Special Education	Textbooks	Technology Coordinators
Elementary Guidance	Classroom Materials and Supplies	School Secretaries
Secondary Guidance	Instructional Equipment	Maintenance and Operations
Elementary Art	Classroom Related Travel	Custodians
Elementary Music	Vocational Center Transportation	Non-instructional Equipment
Elementary Physical Education	Technology	Pupil Transportation
Elementary Librarians (K-8)	Nurses	Staff Benefits and Insurance
Secondary Librarians (9-12)	Instructional Assistants	Capital Outlay
ELL Instructors	Special Education Assistants	
ELL Translators	Library Assistants	
Principals	Staff Benefits and Insurance	
Assistant Principals Elementary	Substitute Teachers	
Assistant Principals Secondary	Alternative schools	
System-wide Instructional Supervisors	Exit Exams	
Special Education Supervisors		
Vocational Education Supervisors		
Special Education Assessment Personnel		
Social Workers		
Psychologists		
Staff Benefits and Insurance		

Basic Education Program (BEP)

- ADMs (average daily membership) drive the Formula – funded on prior year’s ADMs.
- ADMs generate:
 - Positions – teachers, supervisors, assistants
 - Funding dollars – ADMs are multiplied by a Unit Cost for supplies, equipment, textbooks, travel, capital outlay, etc.
- Funding months and weighting
 - Month 2 – 12.5%
 - Month 3 – 17.5%
 - Month 6 – 35%
 - Month 7 – 35%

Basic Education Program (BEP)

Unit Costs

- Equipment, supplies, travel, substitute teachers
 - 3 year average
 - Average is inflated up two years
- Textbooks
 - 3 year average
 - Average is inflated up one year
- Alternative Schools, Duty Free Lunch, Maintenance & Operations
 - Prior year value is inflated up one year
- Capital Outlay
 - Square footage cost obtained from RS Means publication
 - Formula – each ADM generates square footage, multiplied by a cost, then amortized to arrive at a yearly cost
 - Includes architect fees and equipment

Basic Education Program (BEP)

- Cost Differential Factor (CDF)
 - Adjusts BEP funding in LEAs where the cost of living in the county is greater than the statewide average
 - Compares county wages in non-government industries to statewide wages
 - Increase applied to salaries, retirement and FICA contributions
 - Currently 50% of the CDF is applied in the formula

Basic Education Program (BEP)

- Fiscal Capacity
 - TACIR Model (complex multiple-regression model)
 - CBER Model
 - Based on property and sales tax bases
 - Model in BEP 2.0
- Currently a TACIR/CBER mix is used in BEP calculation (50%/50%)

Fiscal Capacity TACIR Model

Per Pupil Own-Source Revenue

Amount of local money that the school systems in the county report that they spend on education, divided by enrollment average daily membership (ADM)

Per Pupil Equalized Property Assessment

Total property assessment for the county area, equalized by the appropriate county appraisal-to-sales ratio, and then divided by ADM. This is a measure of the local ability to raise revenue.

Per Pupil Taxable Sales

Local sales tax base divided by ADM-measure of the local ability to raise revenue.

Per Capita Income

Per capita income is included in the fiscal capacity model as a proxy measurement for ability to pay for education; and for all other local revenue not accounted for by property or sales taxes.

Tax Burden

Ratio of total equalized residential and farm assessment in each county divided by the total equalized property assessment. This variable is intended as a proxy for a county's potential ability to export taxes. A high residential/farm ratio indicates a low ability to pass taxes on to non-residents.

Service Burden

Included as a reflection of spending needs. It equals average daily membership divided by county population. The greater the number of pupils per 100 residents, the greater the fiscal burden for each taxpayer.

Fiscal Capacity CBER Model

Per Pupil Equalized Property Assessment

Total property assessment for the county area, equalized by the appropriate county appraisal-to-sales ratio, and then divided by ADM. This is a measure of the local ability to raise revenue.

Per Pupil Taxable Sales

Local sales tax base divided by ADM-measure of the local ability to raise revenue.

Statewide Education Spending

Expenditures	
Instruction	\$4,901,664,221
Support Services – Student	348,670,836
Support Services – Instructional Staff	536,245,474
Support Services – Administration	\$715,402,688
Support Services-Operations & Maintenance of Plant	715,696,110
Other Current Expenditures	910,536,612
Total Current Expenditures	\$8,128,215,943
Community Services	60,362,694
Early Childhood Education	93,249,485
Capital Outlay	91,568,076
Debt Services Operating Transfers	426,732,301
Capital Projects	403,174,782
Grand Total of All Expenditures	\$9,203,303,281
Total Operating Expenditures*	\$8,229,189,860
Operating Expenditures Per PUPIL ADA*	\$9,123

*Operating Expenditures Per Pupil ADA includes: Current Expenditures Per LEA Financial Report (excluding Student Body Education and Adult Education); U.S.D.A. Commodity Value; and State Level Program and Administrative Expenses.

How much money is the BEP

- State Share \$3,826,174,000
- Local Match \$2,028,518,000
- Total BEP \$5,854,692,000

School District Total Revenue Sources

	State Average	Roane County
Local Funding	39.2%	48.9%
State Funding	46.5%	39.5%
Federal Funding	14.3%	11.7%

- 2011 – 2012 State Report Card

Where the BEP funds are generated

Roane County Actual BEP

- [Roane County FY14 BEP Summary](#)
- [Roane County FY14 BEP Detail](#)

Instructional Funding

INSTRUCTIONAL COMPONENT (STATE SHARE = 70%)

REGULAR K-12 TEACHERS

All pupil/teacher ratios in kindergarten through Grade 12 are based upon average daily membership as provided for in the Education Improvement Act. The following ratios are used to calculate K - 12 teacher personnel allocations.

Grade Level	Funding Level	Average Class Size Requirement	Maximum Class Size
K-3	20:1	20	25
4-6	25:1	25	30
7-9	30:1	30	35
10-12	26.5:1	30	35

- Funds generated in the instructional component must be spent on instructional salaries and benefits
- In total, state funds 70% of the instructional component and local funds 30%
- Example: LEAs earn 1 teacher for every 20 students in grades K-3

Example

Volunteer County		2012-2013 BEP			
Instructional Components					
Position Classification	<u>ADMs</u>		<u>Ratio</u>		<u>Positions</u>
Instructional Teachers					
Regular					
K-3	2,822	÷	20.0	=	141.00
4-8	1,580	÷	25.0	=	63.00
7-9	2,052	÷	25.0	=	82.00
10-12	1,552	÷	22.08	=	70.50
Career Technical	184	÷	18.67	=	11.00

Classroom Funding

CLASSROOM COMPONENT

TEXTBOOKS

Textbook sales forecast information is received from the Office of Curriculum and Instruction, Textbook Services. This information is averaged with the two prior years to calculate a three-year average for textbook costs. The three-year average is then inflated one year using the CBER deflator schedule.

Textbook funds for FY2012 are allocated at the rate of \$76.75 per pupil.

FORMULA: System ADM multiplied by \$76.75 = allocation

EXAMPLE:

1,047 Multiplied by \$76.75 Equals \$80,357.25

Textbook needs estimate is provided by the Office of Textbook Services, Department of Education.

- Funds generated in the classroom component must be spent on classroom components or instructional salaries and benefits
- In total, state funds 75% of the classroom component and local funds 25%

Example

Other Classroom Allocations

At Risk

Total Eligibles	2,204	x	\$509.46	=	\$1,122,849.84
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Substitute Teachers

Total ADM	8,206	x	\$60.00	=	\$492,367.96
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Alternative Schools

Total ADM	8,206	x	\$3.36	=	27,572.61
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7-12 + CTE	3,788	x	\$29.25	=	110,801.21
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Duty-free Lunch

Total ADM	8,206	x	\$10.75	=	88,215.93
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Textbooks

Total ADM	8,206	x	\$76.75	=	629,820.68
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Classroom Materials & Supplies

reg. k-12 + Opt. 7-9	8,022	x	\$74.50	=	597,643.26
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Career Technical	184	x	\$157.75	=	29,037.91
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Sp. Ed.	659	x	\$36.50	=	24,065.36
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Instructional Equipment

reg. k-12 + Opt. 7-9	8,022	x	\$64.25	=	515,417.17
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Career Technical	184	x	\$99.75	=	18,361.53
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Sp. Ed.	659	x	\$13.25	=	8,736.06
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Classroom-related Travel

reg. k-12 + Opt. 7-9	8,022	x	\$13.75	=	110,303.29
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Career Technical	184	x	\$21.50	=	3,957.62
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Sp. Ed.	659	x	\$17.25	=	11,373.36
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NonClassroom Funding

NON-CLASSROOM COMPONENT

CAPITAL OUTLAY

The cost of different types of schools is calculated based on the following factors:

- 100 square feet per student in elementary school
- 110 square feet per student in middle school
- 130 square feet per student in high school

- \$121 per square foot for construction for elementary schools
- \$125 per square foot for construction for middle schools
- \$123 per square foot for construction for high schools

- 10% additional for equipment per school
- 5% additional for architects' fees per school
- 6% for twenty years of debt retirement

These factors resulted in a cost of:

- \$11,962,966 per elementary school
- \$20,391,419 per middle school
- \$31,617,822 per high school

Forty years is considered to be the usable life of a school.

The average daily membership is used to determine the number of square feet per school system. Thus if a school system has 2,250 students, divided 500 elementary, 750 middle and 1,000 high school, the square foot figures would be 50,000 elementary, 82,500 middle and 130,000 high school. The total cost would be \$63,972,207. Dividing the total cost by 40 to determine the single year cost results in \$1,599,305 in capital outlay funds.

- Funds generated in the non-classroom component must be spent on non-classroom components, classroom components or instructional salaries and benefits
- In total, state funds 50% of the non-classroom component and local funds 50%

Example

Work Sheet #2: Capital Outlay

		ADMs					
Square Footage Requirement							
k-4	1,976	x	100	=	197,643.64		
5-8	1,951	x	110	=	214,568.07		
9-12	784	x	130	=	101,964.13		
Total Square Footage Requirement					<u>514,175.83</u>		
Estimated Cost of Construction							
k-4 sq. footage	197,644	x	\$117.00	=	23,124,308.10		
5-8 sq. footage	214,568	x	\$120.00	=	25,748,168.04		
9-12 sq. footage	101,964	x	\$118.00	=	12,031,768.82		
Subtotal Estimated Cost of Construction					<u>60,904,240.96</u>	→	\$60,904,241
Equipment Allocation Rate				x	10.0%	→	
					<u>6,090,424.10</u>	→	6,090,424
Subtotal Estimated Cost of Construction					<u>60,904,240.96</u>		
Architect's Fees				x	5.0%		
					<u>3,045,212.05</u>	→	3,045,212
Total Estimated Cost of Construction							<u>\$70,039,677</u>
Estimated Annual Cost of Construction							
Debt Service Period					@	20 years	
Debt Service Rate					@	6.00% interest	
Amortization Cost						<u>\$120,428,984</u>	
Life Expectancy					+	40 years	
Grand Total Capital Outlay Funding						<u>\$3,010,725</u>	

BEP Inadequacies

- Positions are generated from a system wide perspective.
- Local BOEs must satisfy staffing level requirements at a school level.
- What does this mean from a local funding perspective?
- School “A” has 10 first graders
- School “B” has 10 first graders
- State law and State Board regulations require a teacher at School “A” and School “B”
- The State only funds one position through the BEP

BEP Inadequacies

- The State mandates teacher raises.
- The State mandates that every teacher in the State receive the raise.
- The State only funds one teacher's raise from previous example.
- The Local BOE is forced to fund the raise by:
 - Increasing expenditures and asking for increased revenue.
 - Increasing expenditures and asking for permission to use fund balance.
 - Decreasing a current expenditure to offset mandated raise expenditure.

Timeline of BEP Information

- November BEP Review Committee submits report to General Assembly
- October to November Governor begins budget hearings with each Department.
- Late January Governor presents budget during the State of the State.
- In April DOE sends first estimate to Local BOE.
 - May estimate
 - June estimate
- In July DOE sends final allocation to Local BOE.
- There can also be January adjustments to the BEP for insurance premium changes.

Local Funding

Where does it come from?

- **Property Taxes**

- Assessed property values (Assessor of Property)
- Tax rate allocated for Schools
- Collection rate
- Value of penny on property tax rate



Local Funding

Where does it come from?

- **Local Option Sales Tax**
 - Half of revenue must be appropriated to education
- **Other Sources (wheel tax, etc.)**



County Legislative Body's Requirement

- **The following laws are the source of the Education Maintenance of Effort(MOE) test.**
- **TENN.CODE ANN. §49-3-314 (c)(1)**
No LEA shall use state funds to supplant total local current operating funds, excluding capital outlay and debt service.
- **TENN.CODE ANN. §49-2-203(a)(10)(A)(ii)**
No LEA shall submit a budget to the local legislative body that directly or indirectly supplants or proposes to use state funds to supplant any local current operation funds, excluding capital outlay and debt service.

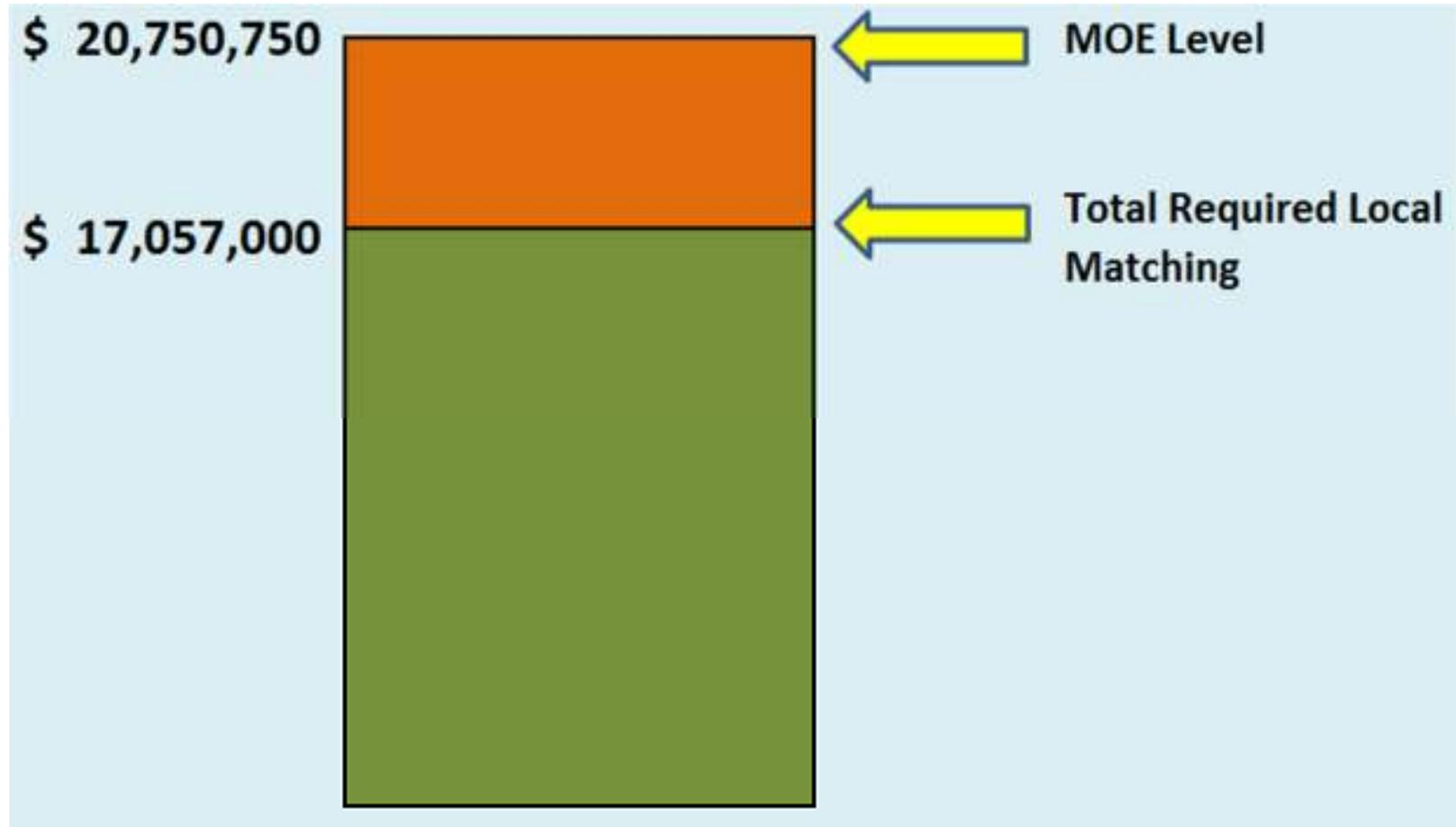
What Does That Mean?

- Budgeted local revenues for the 2013-2014 Fiscal Year **MUST BE EQUAL TO OR GREATER THAN** the budgeted local revenues for the 2012-2013 Fiscal Year, as amended. Budgets **CANNOT** be amended below the Maintenance of Effort levels of the prior year.
- MOE is not a one-time, pass-fail test; it must be maintained throughout the fiscal year.

Actual MOE Test

- Roane County MOE test
 - [Roane County MOE test](#)

Local Revenue Breakdown



TCA §49-3-352(c)

Uses of Fund Balance

- The accumulated fund balance in excess of three percent (3%) of the budgeted annual operating expenses for the current fiscal year may be budgeted and expended for any education purposes but must be recommended by the board of education prior to appropriation by the local legislative body.

TCA §49-3-352(c)

Uses of Fund Balance

- **In other words, there is no requirement to have 3% of operating expenses in fund balance – but LEAs cannot use fund balance to balance their budget unless the fund balance exceeds 3% of operating expenses. If the fund balance is in excess of 3% of operating expenses, then the excess can be used for any education purposes, as long as the use is first approved by the board of education.**

TCA §49-3-352(c)

Uses of Fund Balance

- Provisions applicable after operating budget is adopted.
 - ...shall be available to offset shortfalls of budgeted revenues...
 - ...shall be available to meet unforeseen increases in operating expenses.

Planning

- **Strategic Plan**
 - District goals & objectives (TCSPP)
 - Individual schools' SIP
- **Revenue Plan**
- **Expenditure Plan**

Required Additional Expenditures

- **Labor (salaries & benefits) = over 80% of operating budget**
 - Health insurance
 - Pension
 - Salary steps
 - Required state teacher raise

Required Additional Expenditures

- **Opening New Schools**
 - Staff
 - Utilities
 - Materials & Equipment



Required Additional Expenditures

- **Inflation**
 - Fuel
 - Utilities
 - Materials & Supplies
 - Multi-Year Contracts

Calendar

- **Develop/review goals, objectives and needs assessment (Jan, Feb)**
- **Develop draft budget, allow public input (March, April) – post on district website**
- **Make any necessary revisions (May)**
- **Vote on revised budget, present to governing body (June, July)**
- **Send final certified copy of budget to State by August 1**



Statistical Data

- **District data (size of operation)**
 - # Employees (certificated / classified)
 - # Years experience (25 yrs / 30 yrs)
 - # Buildings (square footage / acreage / number of portables)
 - # Buses (regular ed / special ed)
 - # Students (ADM / ADA)

Statistical Data

- **State Report Card**
 - District
 - Individual schools
- **State Data**
 - Expenditure per pupil calculation
 - Other data (Annual Statistical Report)

Current Education Funding Issues

- Hiring staff to meet the demands of new State Regulations
- State Salary Schedule Changes
 - [State Board approved condensed schedule](#)
 - [2012-2013 schedule](#)
- Non Traditional Public School Choices
 - Charter Schools
 - Virtual Schools
 - Vouchers
 - Special Commission to study
 - “Money follows the child” true, but all the expenditures do not
 - “Fixed costs” cannot be cut, therefore non-traditional public schools create increased expenditures

Current Education Funding Issues

- Healthcare reform
 - Staff not currently covered
- One-time PARCC readiness allocation in FY14
 - \$51 million allocated state-wide
- Tennessee Schools Systems for Equity
 - Adequacy? (Average salary ≈ \$49,000+, BEP funds \$40,447)

BEP Review Committee

- Capital Outlay improvement from FY11 was corrected in FY14 budget
 - \$34.4 million increase
- Teacher insurance not fully funded
 - Comptroller issued letter addressing this
 - Local governments are required by state law to fund at least 45% of 12 month premium
 - State is required by state law to fund at least 45% of 12 month premium
 - State is only funding 10 months of the 12 month premium, which equates to 37.5%
 - \$57.6 million to fix
- BEP 2.0
 - No further implementation until significant increase in state funding
 - \$152.4 million to fully implement
- Other BEP Review Committee recommendations

Tennessee Code Citations

- T.C.A. § 49-3-356
- T.C.A. § 49-2-203(a)(10)(A)(ii)
- T.C.A. § 49-2-101
- T.C.A. § 49-3-351(c)
- T.C.A. § 49-3-352

Discussion or Questions?

