



## Understanding the Governor's Proposed Changes to the BEP Education Funding Formula and its Impact on the 2016-17 Budget Request

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***The Governor's proposed changes to the Basic Education Program (BEP) funding formula, presented in amendment 011771 to HB 2574 (SB 2565) and incorporated into the administration's 2016-17 budget request, delete current sections of the law that include the BEP 2.0 reform goals and replace them with a mix of current practice and new provisions. Some of the BEP 2.0 reforms, passed in 2007, were only partially implemented; the proposed statutory language puts selected administrative practices into law. Other provisions are new or modify the existing law. Additional amendments to the administration's BEP legislation (015013) and the appropriations bill (015000) are also reflected in this analysis.***

### Executive Summary

#### Current practice continues and is codified in law

➡ **The current method for determining fiscal capacity would be placed in law.** The state would continue to use a 50/50 mix of the fiscal capacity formula developed by the University of Tennessee's Center for Business and Economic Research (CBER) and the fiscal capacity formula developed by the Tennessee Advisory Commission on Intergovernmental Relations (TACIR) to determine the state and local shares of BEP-required funding. *The 2007 BEP reform, commonly referred to as BEP 2.0, established a goal in statute of using only the fiscal capacity formula developed by CBER.*

➡ **The current state-funded share of Instructional components would be placed in law.** On a statewide basis, the state-funded share of BEP Instructional components (primarily salaries and benefits of teachers and other licensed staff) would remain at 70 percent, keeping the average local-funded share at 30 percent. Assuming all other spending remains steady, for each new dollar generated by the BEP formula, districts will need to seek local appropriations, on average, of 30 cents, although actual local funding increases can vary significantly. *The 2007 BEP reform established a goal in statute of setting the state-funded share of BEP Instructional components at 75 percent.*

➡ **State funding of “hold harmless” provisions for districts continues, but with a few adjustments.** Hold harmless funding (referred to in the amendment as “minimum level of funding” and referred to elsewhere as “baseline funding”) sets a minimum funding level for a district that would otherwise receive less funding based on its BEP formula calculation. The proposed bill would reset the baseline year from 2006-07 (established under BEP 2.0 reforms) to 2015-16. Unlike the current law, the proposed hold harmless provision would adjust for any decreases in student enrollment, both for districts currently on stability funding (a cushion for those experiencing declining enrollments) and for all districts beginning in 2017-18 and continuing in future years. BEP funds that districts are receiving in 2015-16 (other than those associated with ADM enrollment levels), such as CDF monies, would continue to be part of districts’ baseline funding.

## Changes to BEP component structure

✦ **Three categories of BEP components – Instructional, Classroom, and Non-classroom – would become four, with the Instructional category split into an Instructional Salaries and Wages category.** A district would be required to spend funds generated in the Instructional Salaries and Wages category only within that category, unless its average weighted salary exceeds the statewide average weighted salary. Districts with an average salary above the statewide average may spend funds generated in the Instructional Salaries and Wages category on Instructional Benefits.

## Funding increases for BEP components

⬆ **Increases in funding for a 12th month of medical insurance premiums** for instructional personnel, and for a **5.6 percent increase to the salary unit cost allocated for each BEP-generated position**, are together projected to total \$134 million in increased state expenditures that will flow to school districts as new revenues. The increases in state spending on these components generates increases in local funding requirements, on average, of 30 percent.

⬆ **Increases in funding for Instructional components related to unique student populations include more English language learner (ELL) teachers and translators, and restructured special education service options designed to ensure the BEP formula does not create a disincentive to placing students in the least restrictive environment** and to better align with federal requirements. The state’s share of funding for these improvements is budgeted at \$13.9 million for ELL personnel and \$4.8 million for special education personnel.

⬆ **Increases in funding for technology**, doubling the current BEP component from \$20 million to \$40 million and increasing state funding by \$15 million.

⬆ **Increases for growing districts**, fully funding districts’ enrollment growth in 2016-17 that exceeds 1 percent. The administration’s appropriation amendment proposes a \$9 million increase for growth, bringing the total to \$19 million. *Growth funds are not part of the BEP formula; they are calculated separately and funded through a specific appropriation.*

## Funding decreases for BEP components

⬇ **Decreases in funding for the Cost Differential Factor (CDF)**, which supplements salaries in counties where wages in non-governmental sectors are above comparable statewide figures. Sixteen districts in five counties are receiving CDF funds in 2015-16. CDF funds would be further reduced from their current 50 percent funded level to a 25 percent funded level, with complete elimination contingent on future salary increases. CDF funds that districts currently receive will be included in the new 2015-16 baseline to be set by the hold harmless provisions of the amendment. State expenditures on this component are estimated to be reduced by about \$34.7 million. *The 2007 BEP reform had set a goal to eliminate all CDF funding.*

## Questions and Answers

**What current practices and implementation levels would be codified in the proposed statute, as amended?**

**1. Fiscal capacity determinations continue using a 50/50 split between two formulas.**

The fiscal capacity index for each county is used to determine the required local BEP share or match versus the state BEP share of funding. The greater a county's fiscal capacity to pay for education itself, the higher its required local match. The fiscal capacity index is currently based on 50 percent of the formula developed by the University of Tennessee's Center for Business and Economic Research (CBER) and 50 percent on the formula developed by the Tennessee Advisory Commission on Intergovernmental Relations (TACIR). The CBER formula tends to favor larger counties while the TACIR formula tends to favor smaller counties. BEP 2.0 set the goal of using only the CBER formula. Changes in which fiscal capacity formulas are used have no effect on state expenditures; they are strictly an issue of how state funding is allocated among competing school districts.

**2. Instructional components of the BEP remain at a ratio of 70 percent state-funded to 30 percent local-funded.** While the Governor is proposing to increase the salary unit cost (the total funding level for each teacher and other licensed staff position) used to calculate this component, any resulting increase in state funding of Instructional components is accompanied by a 30 percent increase in required local funding, on average. Individual districts, however, may have required local matches of significantly more or less than 30 percent, depending on their fiscal capacity. BEP 2.0 reforms had set the goal of increasing the state share for Instructional components to 75 percent.

**3. The Department of Education's authority to set a weighted ADM (average daily membership, or enrollment) to use in BEP calculations is set in statute.** The Department of Education already sets weights administratively for the ADM counts used in BEP calculations. (Existing weights are month 2 at 12.5 percent, month 3 at 17.5 percent, month 6 at 35 percent, and month 7 at 35 percent.) The Department has indicated there are no plans to change the current ADM weights for the upcoming school year.

Another change is that early graduates can continue to be included in ADM counts after they graduate, removing disincentives for districts to encourage early graduation. In 2014-15, there were 2,566 students in 68 districts who graduated early and were thus not fully counted in districts' ADM figures. This change is estimated to increase total BEP allocations by approximately \$4.3 million, which would be covered through state and local funding.

**4. The "hold harmless" provisions currently in statute are continued, but with a few adjustments.** Baseline, or "hold harmless" funding (referred to in the statutory amendment as the "minimum level of funding"), sets a minimum funding level for districts that would otherwise receive less funding based on their BEP formula calculations. The baseline, or minimum, funding level is reset from 2006-07 to 2015-16, with adjustments for student enrollment in districts that are receiving stability funding (funding designed to soften the transition to less funding where there are declining enrollments) during the new baseline year. A revision to the current hold harmless provisions is that, beginning in 2017-18, districts' baseline funding levels will be adjusted to continue to reflect any future decreases in enrollment.

When BEP 2.0 was enacted in 2007, the statute provided that no district would receive less state funding than that received for the 2006-07 school year. Because of the change in fiscal capacity determinations at that time (from 100 percent TACIR to 50 percent CBER and 50 percent TACIR), some districts experienced notable funding shifts. In 2014-15, nine districts were receiving hold harmless funding that totaled \$10 million, which suggests that state expenditures for hold harmless provisions can continue long term. This hold harmless funding based on the 2006-07 baseline will continue to be reflected in the new baseline year of 2015-16, as will the Cost Differential Factor (CDF) funds previously earned by school districts.

The current budget request includes \$6.48 million in increased state expenditures for formula adjustments including baseline and stability funding, as well as other adjustments and mandatory increases for BEP components. Baseline, or “hold harmless,” funding is covered above. Stability funding is essentially a “grace period,” allowing a district with declining student enrollment – and thus declining state BEP funds – to have one year of funding at its prior year’s BEP level, delaying the effect of decreased funding.

## **What are the new provisions and increased funding levels in the proposed statute, as amended?**

- 5. Three categories of BEP components – Instructional, Classroom, and Non-classroom – become four, with the Instructional category split into an Instructional Salaries and Wages category and an Instructional Benefits category.** The amended bill would require districts to spend funds generated in the Instructional Salary category within that category, unless a district’s average weighted salary exceeds the statewide weighted average. Once the average licensed salary threshold is met, districts may spend funds generated in the Instructional Salary category in the Instructional Benefits category.

State increases in the salary unit cost components, designed to increase salaries for teachers, principals, guidance counselors, supervisors, and other licensed personnel, have been used by some districts to cover rising benefit costs for those staff. Those districts will no longer be able to apply funds in this manner if their weighted salaries do not exceed the statewide average.

The weighted salary figure, calculated by the BEP Review Committee for its yearly salary analysis, is based on averages for instructional positions and eliminates variances due to staff education and experience levels. In 2014-15, the statewide weighted average salary was \$43,216; 52 districts were above that level; 89 districts were below. The weighted average is lower than the actual average salary, which in 2014-15 was \$50,175 for instructional staff and \$50,463 for all licensed staff.

The amendment would also *require districts to maintain budgeted levels of funding for salaries from year to year*. This is, in effect, a targeted maintenance of effort provision to ensure continued funding levels for a specific type of expenditure. (Existing maintenance of effort laws require continued total local funding for schools by the funding bodies, allowing adjustments for enrollment declines and other specified exceptions.)

Taken together, these changes do not impact state expenditures, but would establish new requirements regarding districts’ spending on salaries and push some districts to increase salaries.

- 6. The BEP would calculate funding for an additional month of medical insurance for instructional staff positions.** This provision in the amended bill increases medical insurance funding from the current 11 months to 12 months. Because districts are already funding insurance for staff based on 12 months of employment, this change will increase revenues for districts in the

Instructional Benefits category. The Governor's budget request proposes \$29.5 million for the state's share for this funding improvement.

The budget also proposes an additional \$15.2 million in state expenditures for the expected medical insurance increase expected as of Jan. 1, 2017.

The amendment deletes the BEP 2.0 goal that the state would fund medical insurance premiums at a 50 percent level. The state's contribution to medical insurance premiums is currently at the 45 percent level. The Department indicates that it would continue to calculate the BEP medical insurance component at the 45 percent level, but cover 12 months instead of 11 months.

7. **The BEP would increase the salary unit cost by 5.6 percent for the next fiscal year.** For each instructional position generated by the BEP formula (not the same as the actual number of licensed employees working in the districts), the salary unit cost applied would be \$44,430 for fiscal year 2016-17, an increase of \$2,365 from the 2015-16 salary unit cost of \$42,065 per position. The \$104.6 million in the budget proposal to cover the state-funded share of this funding improvement would have to be used by districts only for salary increases unless a district's average weighted salary was above the state's average. (*See point number five for further explanation.*)
8. **The Department of Education's current practice of rounding BEP-generated positions to the nearest one-half position is eliminated.** This proposed revision requires the BEP to be "student-based" such that each student entering or exiting a district impacts funding. The number of staff positions generated by the BEP are multiplied by the salary unit cost (*see point number seven*) to produce a dollar total to be allocated to a district (the BEP does not fund actual staff people employed by the district). Staff positions are usually generated through ratios of students to staff. Under current practice, the number of staff positions generated by the BEP are rounded to the nearest one-half position (e.g., a staff count of 22.48 or 22.87 would be rounded up to 22.5 or 23.0, respectively). Continuing with the example, a staff count of 22.48 or 22.87 would be applied without rounding to the salary unit cost under the amendment. This will not affect state expenditures, but will more precisely allocate BEP funds among districts.
9. **Revisions to the BEP components affecting unique student populations includes updating the definition of "at-risk" students, increasing the number of funded positions for English-language learner (ELL) teachers and translators, and condensing the number of special education service categories to address current funding disincentives for placing students in the most appropriate, least restrictive learning environment, and to bring the state in line with federal requirements.**
  - Students identified as at-risk will continue to generate BEP funds at 100 percent, but *the definition of "at-risk" is updated* to reflect changes in student eligibility for federal free- and reduced-price meal programs. Although no specific item in the Governor's proposed budget addresses this component, the administration's amendment states that the funding level statewide will be at least equal to the funding generated in 2015-16, with adjustments for decreased enrollment. At-risk funding is calculated using inflation factors each year; in 2015-16 it is \$542.27 per at-risk student.
  - *The state will increase its share of expenditures by \$13.9 million to fund ELL teachers at a 1:25 student ratio and translators at a 1:250 student ratio, based on the appropriation bill as filed.* The Governor's BEP legislation indicates a future goal is to further increase ELL teachers and translators, using ratios of 1:20 and 1:200, respectively. While these ratios were the goal of BEP 2.0 and are already in law, ELL staff positions are currently funded at a ratio



of 1:30 for teachers and 1:300 for translators. The increase in state expenditures will result in increased revenues for some districts, particularly for those with large ELL student populations, such as Metro Nashville Public Schools.

- *The budget request proposes an increase of \$4.8 million in state expenditures to fund changes in calculating the BEP component for special education services.* Currently, funds are generated based on calculating the numbers of students in each of 10 service level options, ranging from consultation (two contacts per month and direct services of less than one hour per week) to residential services (provided 24 hours per day). The revised special education component condenses the service options to four, broader categories. The goal of this change is to remove funding disincentives for placing students in the most appropriate, least restrictive learning environment, as well as to bring the state in line with federal requirements, which prohibit state funding mechanisms that focus on specific disabilities or placements.

**10. The funding for the BEP technology component is doubled, from \$20 million to \$40 million.** This component is a fixed dollar amount allocated to districts based on their ADM count. The average per-student rate in fiscal year 2015-16 is \$20.84 per student. Because technology falls in the Classroom category of components, the state funds 75 percent of this component, which would result in a \$15 million increase in state expenditures.

**11. Full funding for districts' enrollment growth of more than 1 percent in 2016-17 would be provided with an additional \$9 million under the administration's appropriations amendment, bringing total growth funding to \$19 million.** The law requires whatever growth funds are appropriated to be first allocated among districts with enrollment increases of more than 2 percent over the previous year, and to be applied on a pro rata basis if funds are not sufficient to cover all growth over 2 percent. Any additional funds appropriated can be allocated to districts with smaller growth rates. Growth funds appropriated for allocation in the current year (2015-16) totaled \$10 million. Growth funds are not a part of the BEP formula; they are calculated separately and funded through a specific appropriation.

**What are the decreased funding levels in the proposed statute, as amended?**

**12. The Governor's plan reduces the cost differential factor (CDF) payments to the selected districts that receive them from 50 percent to 25 percent of the calculated totals.** CDF payments supplement salaries in counties where wages in non-governmental sectors are above comparable statewide figures. State expenditures on this component are estimated to be reduced by about \$34.7 million. Sixteen districts are receiving a combined total of \$69.4 million in CDF funds in 2015-2016. CDF funds that districts currently receive will be included in the new 2015-16 baseline to be set by the hold harmless provisions of the amendment. *(See point number four for further explanation.)*

CDF is applied at the county level, so the 16 school districts that receive this additional funding are all located within five counties:

- Anderson (including Clinton and Oak Ridge city school districts),
- Davidson,
- Shelby (including the Arlington, Bartlett, Collierville, Germantown, Lakeland, and Millington city school districts),

- Sullivan (including Bristol and Kingsport city school districts), and
- Williamson (including Franklin Special School District).

At \$30.9 million, Shelby County Schools received 44 percent of the state's total CDF funding for fiscal year 2016.

The CDF was originally slated to be eliminated by BEP 2.0, with the funds saved to be used to increase the state share of Instructional components. The CDF has been phased out to the 50 percent funding level. The administration's amended statute also seeks the ultimate elimination of CDF funding, contingent on future increases to the Instructional Salaries and Wages component, but does not include a date for achieving this goal.



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