



School Staffing Costs: From the BEP Formula to Paying Teachers in the Classroom

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During the 2016 legislative session, the Governor requested and the General Assembly appropriated a significant amount of new funds to invest in K-12 education through the state's Basic Education Program (BEP) formula. One specific area of investment was in teacher salaries.

When the Governor announced in his 2016 State of the State address, "We're funding the BEP portion of teacher salaries with 105 million new dollars," one might assume this means \$105 million additional state dollars will be spent on teacher pay raises.¹

But because the BEP is a formula for funding education, rather than a spending plan (within some general parameters), increases in state BEP dollars do not necessarily mean larger paychecks for every teacher. This is because BEP spending decisions are made at the local level. School districts determine to what extent this additional funding is spent on increasing pay for staff already employed or on hiring new staff. Districts may also spend this additional funding on staff benefits, but only if they meet a new salary threshold established in state law in 2016.

This brief takes a closer look at the path from the passage of the annual appropriations bill at the Tennessee State Capitol to the spending decisions made by local school districts.

State Decisions: the BEP Formula and Funding Requirements



The part of the BEP formula that allocates funds for school staff (for example, teachers, as well as principals and assistant principals, librarians, guidance counselors, and other instructional staff)^A has been the *Instructional Category* – one of the component categories that make up the total BEP formula.^B

Decisions made at the state level to change the formula and increase funding for the *Instructional Category* do not necessarily equate to higher pay for teachers, however, for three main reasons:

- The BEP allocates funds for positions, not people.
- The BEP allocates funds to positions based on a salary unit cost, not on actual salaries.
- The total BEP allocation for each district is funded on a shared basis between the state and local funding bodies. As the school districts' local funders, county commissions and city councils are mandated to appropriate sufficient funds to meet the BEP required local match and the maintenance of effort laws, but do not necessarily increase school funding at the same rate as the state does when it sets a funding increase.

Allocation

The distribution or apportioning of resources among various parties (in this case, school districts) according to a plan (in this case, the BEP). The BEP allocation is the amount of funding that the formula apportions on paper to each school district.

Appropriation

A legislative act authorizing the expenditure of a designated amount of public funds for a specific purpose. For the BEP, appropriations are the actual dollar amounts authorized by the General Assembly and local funding bodies, like county commissions, for the state and local funding shares of the BEP.

How they relate

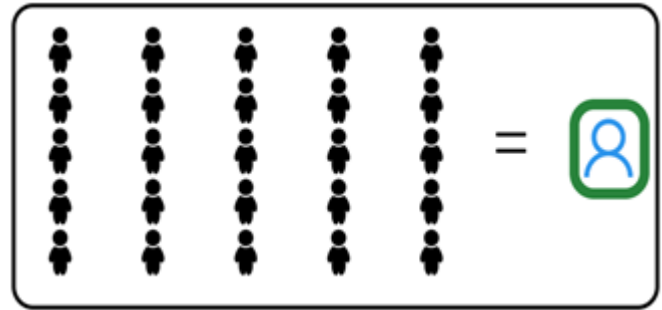
After each district's local funding share of the BEP is calculated and deducted from the total allocation, the remainder (which is the state's share) is appropriated from state revenues by the General Assembly. The required local share is appropriated by the local funding body for each district, plus any additional local revenues that it determines should go to the school district.

^A Other instructional staff funded by the BEP include social workers, psychologists, special education assessment staff, instructional supervisors, and translators.

^B The General Assembly approved a change in 2016 to split the Instructional Category into two: an Instructional Salaries and Wages category, and an Instructional Benefits category. See page 9 for additional information about this change.

■ The BEP funds positions, not people

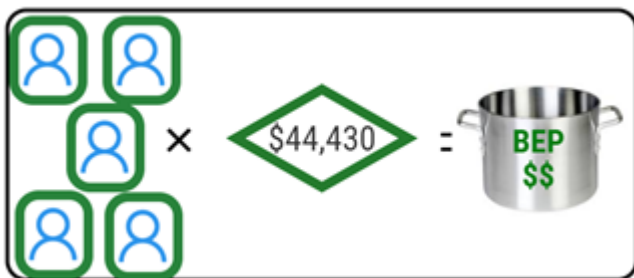
The number of positions for which the BEP allocates funds is based on ratios of students to staff or on specified enrollment levels. For example, one 4th grade teaching position is calculated for every 25 4th grade students. Similarly, one elementary school assistant principal position is calculated for schools with student enrollments of 880 to 1,099.² In this way, the BEP formula allocates funds for equivalent numbers of various types of staff for school districts of similar size.



One way for the state to increase the BEP instructional allocation is to reduce the student-to-teacher ratios used to calculate the number of staff positions. Reducing the ratios results in more staff positions that receive funding. In 2016, the General Assembly approved the Governor’s request to reduce the formula ratios for English as a second language (ESL) teachers and translators, resulting in an estimated \$20 million increase to the total BEP allocation.^c

■ The BEP calculates funding using salary unit cost

The formula generates the instructional allocation by multiplying the total number of instructional positions by the BEP *salary unit cost*, a dollar figure included in the state’s annual appropriations acts.



The same salary unit cost is applied to all instructional positions (for example, teacher, principal, librarian). The final result, after a benefits component is added, is a BEP instructional allocation, or a specified pot of funding for school districts’ staff. All instructional allocations are required to be

spent on compensation for instructional staff; increases in the instructional allocation can be used for salary raises for existing staff and additional salaries for new staff. Districts may also

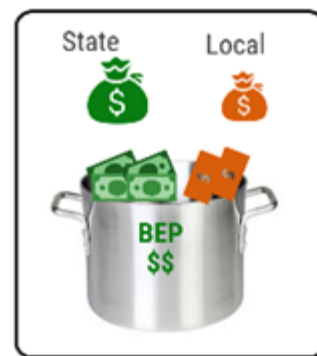
^c Although the ratios for ESL staff already stipulated in law (*Tennessee Code Annotated* 49-3-307) remained at 1:20 and 1:200 in the new 2016 BEP Enhancement Act (Public Chapter No. 1020) as the desired goal for teachers and translators, respectively, the actual ratios applied in the BEP formula were reduced from the previous 1:30 and 1:300 (*BEP Handbook for Computation*, 2016) to 1:25 and 1:250, as specified in the 2016 Appropriations Act (Public Chapter No. 758, Section 11).

spend increased allocations on staff benefit costs, such as health insurance, but only if they meet a new salary threshold established by state law in 2016.³

In the appropriations bill passed in April 2016, the General Assembly approved the Governor's requested increase in the *salary unit cost*, from \$42,065 per position in 2015-16 to \$44,430 per position in 2016-17.⁴

■ BEP allocations are funded by state and local revenues

Both the state and local jurisdictions contribute revenues toward the BEP allocation. The local share of the BEP allocation is determined by a county's ability to raise revenues, known as its fiscal capacity. Statewide, the local share, or "match," for the instructional component is 30 percent, but it varies widely by district. With the state's overall share of funding for the instructional component at 70 percent, the \$2,365 increase in total salary unit cost translates to an increase of approximately \$1,656 in state funding per position.



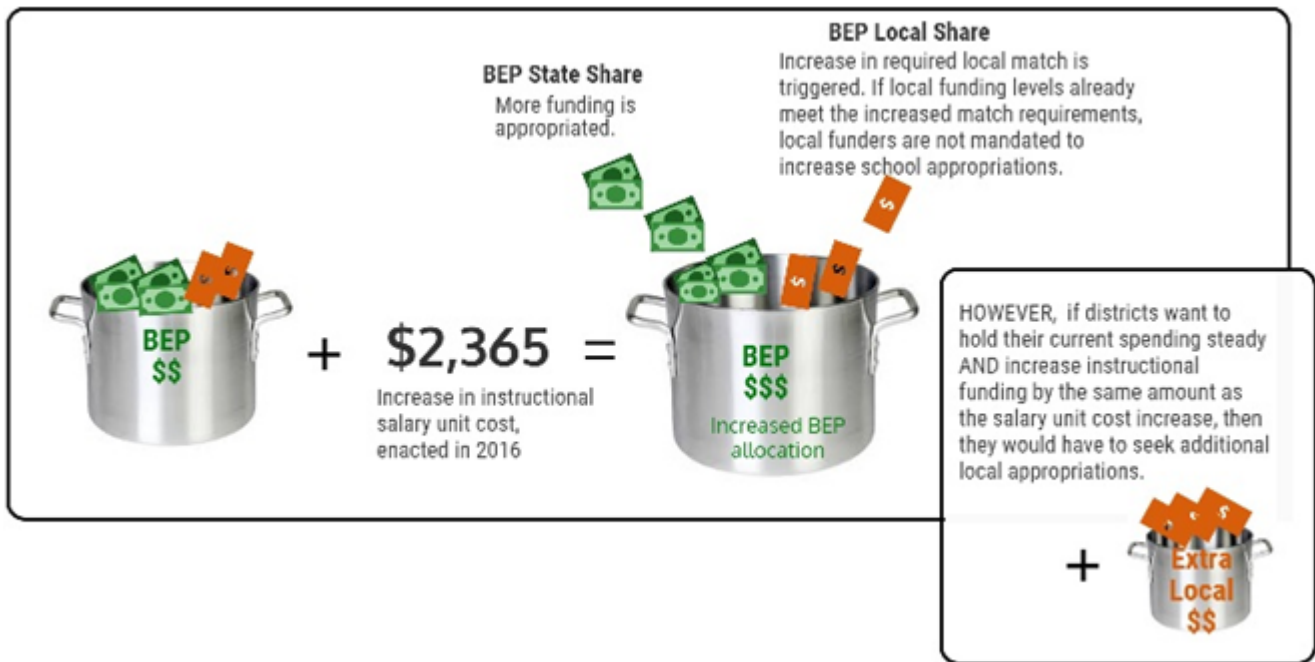
When the General Assembly increases the BEP's salary unit cost through the annual appropriations bill, the pot for instructional funding increases. A larger pot, or BEP allocation, requires more state and local revenue to fill that pot.

The state increases its funding for an increased BEP allocation through its appropriation bills. For 2016-17, the state appropriated close to \$124 million additional BEP dollars to cover its increased contribution to the bigger pot for instructional funding: \$105 million for the increase in salary unit cost plus \$14 million for the increase in the number of teacher and translator positions for ESL students and \$4.8 million for revisions to special education teacher ratios.⁵

For local government funding bodies, such as county commissions and city councils, a larger BEP allocation generated by changes at the state level means their required BEP local match will also increase.^D Most local funders typically already exceed their required match by contributing additional local funding for education programs beyond the BEP. Thus, they are not mandated to increase local appropriations. (The few district funding bodies that would not meet their local match requirements after a BEP increase must appropriate additional funds for education to fulfill their share of funding.) If, however, districts want to take advantage of the

^D Special school districts are not tied to the taxing authority of a county or municipality and so are often perceived as being their own funding body, but they must have the state legislature's approval for their tax levies that support school district operations.

full increase of a BEP instructional allocation, and do not want to shift any spending away from existing programs, they would have to seek additional local appropriations.



Local Decisions: BEP Spending and Additional Funding

School districts determine how to best use their BEP allocations, plus any additional local funding they receive, to meet their staffing needs and requirements. Because the BEP is a funding formula, rather than a spending plan (within some general parameters), a district can use its pot of BEP funding, plus any extra local funding, in ways that do not necessarily parallel the staffing totals and salary allocations generated by the BEP. For example:



- Districts often hire more staff than the number of positions generated by the BEP to meet class size requirements set by state law. Districts may also choose to hire a different mix of types of staff than that generated by the BEP.
- Districts can, and do, pay more than the BEP salary unit cost to be competitive in hiring and retaining the best teachers for their students.

- Districts determine whether increased BEP funding is best spent on increasing pay for staff already employed, hiring new staff, or a combination of both. Districts that meet a salary level threshold may also spend instructional salary and wages funding on staff benefits.
- Districts often seek additional local funding beyond the BEP allocation for salaries. Additional funding is mandated if an increase in the BEP allocation pushes a district's required local match above current local funding levels, although most districts already exceed their match and thus are not mandated to seek additional local funding. Increases in local funding levels reset the local maintenance of effort baseline, requiring future budget levels to meet the new, higher baseline.

When the General Assembly approves a budget with increased funding for teachers' salaries, each of these local decision points can affect how much of the BEP increase will actually flow into raises for existing staff, as well as how much additional local revenues for salaries will be requested and approved.

■ Districts typically hire more staff than the positions generated by the BEP

The BEP formula calculates the number of positions, and from those, the funding, for several categories of classroom teachers, plus 11 other types of instructional staff, such as principals and guidance counselors.

Tennessee school districts together employ about 10,700 (17 percent) more instructional staff in these positions.⁶ Approximately 8,400 of the additional staff are funded through local revenues and are mostly classroom teachers.⁷ The remaining additional positions – almost 2,400 – are funded through federal dollars and are mostly special education and regular classroom teachers. (Other instructional staff positions, such as pre-kindergarten teachers, curriculum and instructional materials personnel, reading specialists, Title I supervisors, speech and hearing specialists, and attendance staff, are not generated by the BEP and are not considered here.)

Although the BEP calculates the number of positions based on student enrollment for the district as a whole, districts are required to meet state class size limits within each school building. This means districts generally must hire more classroom teachers than the BEP calculates.^E The number of school buildings within a district can also impact the number of teachers a district hires beyond the BEP-generated number.

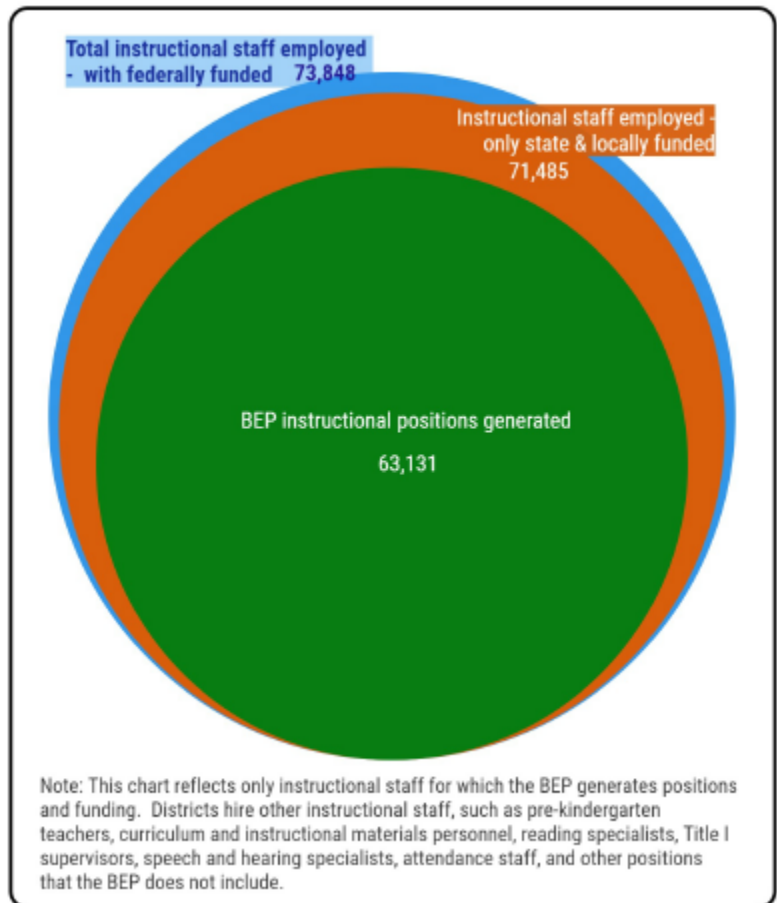
^E Class size limits are established in *Tennessee Code Annotated* 49-1-104.

Districts may also choose to hire additional instructional staff as they deem necessary to provide programs and services that meet their students' needs.

Instructional Staff. Most districts (133 out of 140 reviewed) employed more instructional staff than the number of positions generated and funded by the BEP formula in 2015-16.⁸

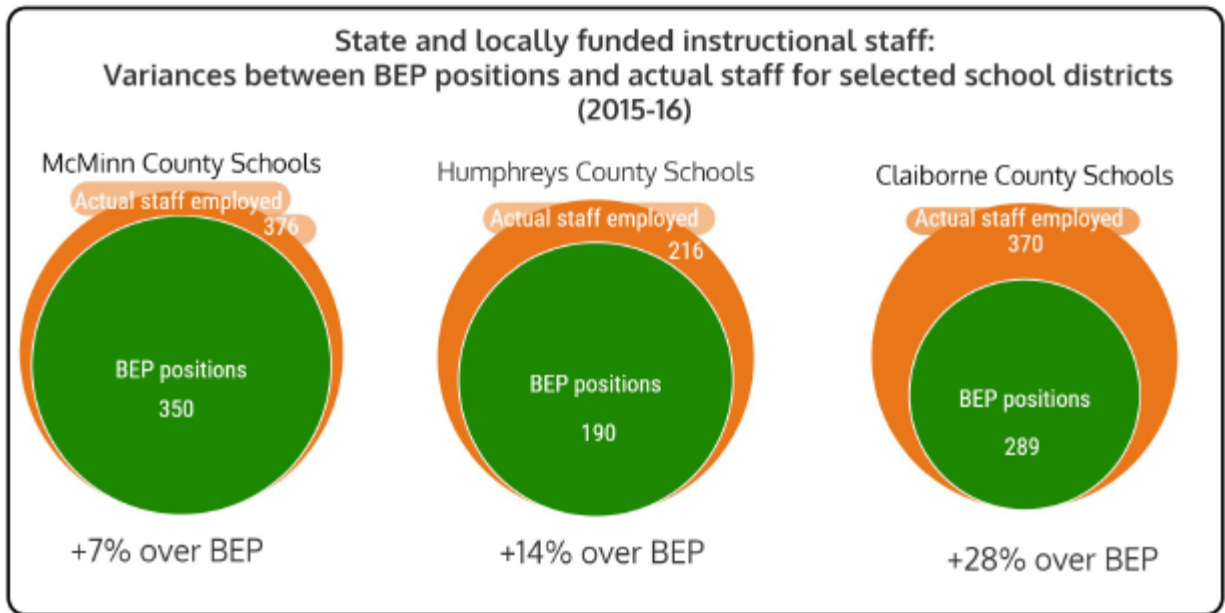
Excluding federally-funded staff, districts statewide employed about 13 percent more staff than the BEP funds, but the percentage of additional staff varied widely. Among the districts employing more staff, the median percentage was 14 percent above BEP levels, translating to about 21 more staff in Grundy County schools and 58 more staff in Lawrence County schools, for example.^F

Statewide variance between BEP positions generated and BEP instructional staff employed by districts, 2015-16



Classroom Teachers. Classroom teachers are the largest group of schools' instructional staff – about 87 percent of BEP instructional employees. Almost all districts (136 out of 140 reviewed) employed more classroom teachers than the BEP formula generates. Statewide, excluding federally-funded staff, districts employed and funded about 14 percent, or 7,700 more teachers than the number of teaching positions generated by the BEP. Among those districts employing more teachers, the median percentage was almost 16 percent over BEP-funded positions. That variance translates into 17 additional teachers in Milan Special School District and 86 more in Bradley County, both of which employed 16 percent more teachers in 2015-16.

^F The median is the midpoint of actual percentage differences in the districts if they were ranked highest to lowest. It is different than an average or overall statewide rate.



Districts pay staff more than the salary unit cost used in the BEP formula

The *Instructional Category* of BEP components was first added to the BEP in 2004 and set the baseline salary unit cost at \$34,000.⁹ In the appropriations act for 2004-05, passed one month later, the salary unit cost was increased by 2 percent.¹⁰ With an adjustment factor for teachers' annual movement along the approved salary schedule, the first salary unit cost used to generate BEP instructional allocations was \$34,680.¹¹

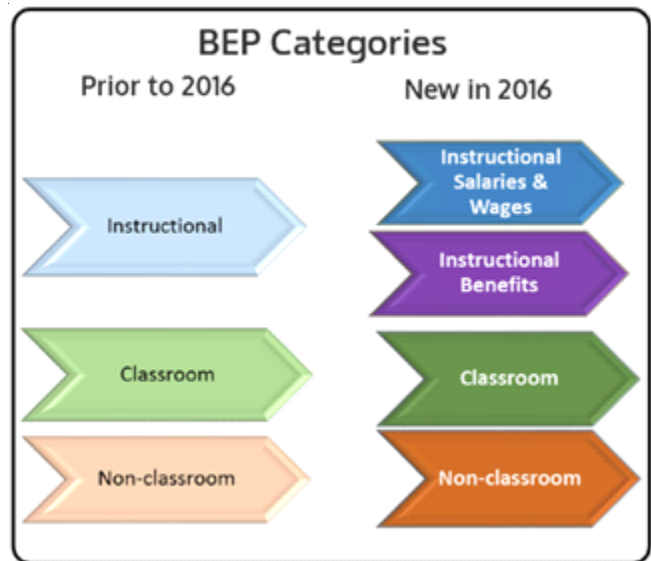
Many districts pay salaries that average more than the salary unit cost. The first BEP salary unit cost of \$34,680 was 79.3 percent of the statewide average instructional salary paid by districts in 2004-05 and 91 percent of the statewide weighted average salary, a figure that adjusts for variances in district salaries due to staff education and experience levels.^C Since 2004-05, the General Assembly has passed increases in the salary unit cost eight times; the most recent was in 2016, when it was increased to \$44,430.¹² In 2015-16, the salary unit cost was 82.4 percent of the state's estimated average instructional salary and 95.6 percent of the weighted average salary.^H

^G The average instructional salary in 2004-05 was \$43,744 (Department of Education's Annual Statistical Report, 2005, Table 5). The weighted average salary in 2004-05 was \$38,114 (BEP Review Committee's 2015 Annual Report, p. 18). The overall statewide share of instructional BEP components at that time was 65 percent.

^H In 2015-16, the BEP salary unit cost was \$42,065 (BEP Review Committee's 2016 Annual Report, p. 12); the estimated average instructional salary was \$51,035 (BEP Review Committee's 2016 Annual Report, p. 14) and the weighted average salary was \$ 44,024 (BEP Review Committee's 2016 Annual Report, p. 12). Note that the methodology for computing weighted average salary was revised in 2013-14. The statewide share of instructional BEP components in 2015-16 was 70 percent.

■ Districts can hire additional staff rather than direct all new funding to raises

Districts have been required to limit their use of the *Instructional Category* of BEP funding to only instructional costs: the salaries and benefits for teachers, principals, and other instructional staff.^I When districts receive larger BEP allocations in the *Instructional Category*, they determine to what extent this additional funding is spent on increasing pay for staff already employed, on compensation for new staff, or a combination of the two. When increased BEP allocations are used for salary increases, not all teachers in a district may receive the same percentage increase because of the districts' required differentiated pay plans.^J Districts may also spend additional funding on staff benefits, but only if they meet a new salary threshold established in state law in 2016.^K



In 2016, the General Assembly passed Public Chapter 1020 which made several changes to the BEP, including splitting the *Instructional Category* into two new categories: *Instructional Salaries and Wages* and *Instructional Benefits*, and reducing district flexibility in BEP spending decisions in some cases.^K

Under the new law, funds generated in the *Instructional Salaries and Wages* category must be spent only on instructional salaries, and not on benefits, until the district meets a salary threshold, the average weighted salary.^L Once districts meet the salary threshold, they can spend funds generated in the *Instructional Salaries and Wages* category on staff benefits, as well as salaries.

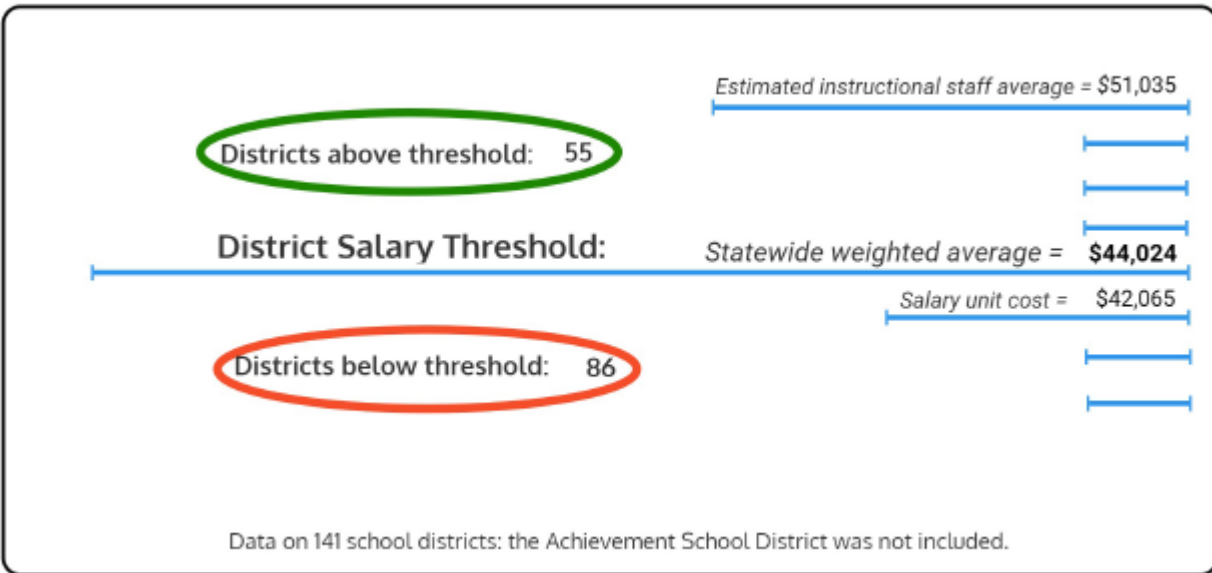
^I The earmark for *Instructional Funding* to be spent on instructional staff has been one of two earmarks for spending in the BEP. The other requires funds from the *Classroom Category* to be spent on either instructional staff or classroom items (school nurses, teacher and library assistants, substitute teachers, at-risk student needs, alternative schools, textbooks, supplies, and instructional equipment, etc.) Funds for the third category, *Non-classroom*, can be spent on any area.

^J *Tennessee Code Annotated* 49-3-306(h) requires districts to develop and implement differentiated pay plans to aid in staffing hard-to-staff subject areas and schools and in hiring and retaining highly qualified teachers. Districts can reward teachers who teach in high needs schools or high needs subject areas, reward teachers for high performance based on evaluation criteria, offer additional compensation to teachers who perform additional responsibilities, or adopt alternative salary structures.

^K For more on the changes to the BEP in 2016, see OREA's *Understanding the Governor's Proposed Changes to the BEP Education Funding Formula and its Impact on the 2016-17 Budget Request*, <http://www.comptroller.tn.gov/>.

^L The 2016 law requires the Department of Education to make adjustments to the provision limiting expenditures to salaries only for those districts that had unfunded enrollment growth in the prior year or had a loss of instructional funding appropriations in 2015-16.

Example of the new “salary threshold” requirement based on 2015-16 salary data



The average weighted salary adjusts for variances in district salaries due to staff education and experience levels.^M An unweighted average could simply reflect differences in teachers’ time on the job, rather than real differences in pay scales, since teachers typically earn more as they gain more years of experience and complete work toward advanced degrees. The weighted average salary is lower than the unweighted, actual average salary; more districts will meet a threshold using weighted average salary. Based on 2015-16 data, 55 of the 141 districts, or about 39 percent, would qualify (without adjustments) to use some of their *Instructional Salaries and Wages* allocations for benefits.¹⁴

The new law also requires districts to maintain budgeted levels of funding for salaries from year to year, with exceptions for districts with declining enrollment. The law ensures that local funding is not cut from instructional salary budgets when the state increases funds for instructional pay. Thus, for example, a higher-paying district, with a weighted average salary already above the state threshold, cannot reduce local funds appropriated for teachers and other instructional staff. This provision is, in effect, a targeted maintenance of effort provision specifically for salaries.

■ District spending decisions are contingent on local funding decisions

Local spending and funding decisions encompass not only school district decisions about the number of staff and their compensation, but also county commission and city council decisions about school budgets and local appropriation levels. Media coverage of increased state funding for instructional salary levels may lead school employees and local funders alike to expect a

^M The average weighted salary is calculated by the BEP Review Committee for its yearly salary analysis.

uniform increase in pay for all teachers. The structure of the BEP formula combined with multiple district decisions can make it difficult to understand why, for example, a \$2,300 increase in the salary unit cost does not cover the costs of a \$2,300 increase for all instructional staff employed by a district.

Although in some previous years, the state specified a set percentage raise for instructional staff, more recently the state has simply increased the salary unit cost figure, giving districts more flexibility in determining how to spend the larger allocation. Any increase in the BEP allocation involves an increased state funding share and an increased local funding share.

An increase in the local funding share will not require additional spending in most districts because local funding already exceeds the required local share. If, however, districts want to take advantage of the full increase of a BEP instructional allocation, and do not want to shift any spending away from existing programs, they would have to seek additional local appropriations. At the same time, increases in local funding levels for operational expenses, like salaries, become “locked in” to future years’ budgets through maintenance of effort laws.^N

After meeting the local match requirement and maintenance of effort laws, local funding bodies determine the local appropriation based on available resources and budget decisions.

^N *Tennessee Code Annotated* 49-2-203(a)(10) and *Tennessee Code Annotated* 49-3-314(c) are the state’s maintenance of effort laws. For more information, see OREA’s *Understanding Tennessee’s Maintenance of Effort in Education Laws*, Sept. 2015, <http://www.comptroller.tn.gov/>.

Endnotes

- ¹ Governor Bill Haslam, *State of the State Address*, Feb. 1, 2016, <https://www.tn.gov/> (accessed Aug. 29, 2016).
- ² Tennessee Department of Education, Office of Local Finance, *Tennessee Basic Education Program 2.0: Handbook for Computation*, March 2016, pp. 6, 19, <https://www.tn.gov/education> (accessed Aug. 29, 2016).
- ³ 109th General Assembly, *Public Acts, 2016, Chapter No.1020*, An act to amend Tennessee Code Annotated Title 49, Chapter 3, Part 3, relative to education finances (also known as the BEP Enhancement Act), <http://www.capitol.tn.gov/> (accessed Aug. 29, 2016).
- ⁴ 109th General Assembly, *Public Acts, 2016, Chapter No. 758*, An act to make appropriations for the purpose of defraying the expenses of the state government, p.44, <http://www.capitol.tn.gov/> (accessed Aug. 29, 2016), as compared to the previous appropriations act: 109th General Assembly, *Public Acts, 2015, Chapter No. 427*, An act to make appropriations for the purpose of defraying the expenses of the state government, p. 47, <http://www.capitol.tn.gov/> (accessed Aug. 29, 2016).
- ⁵ Governor Bill Haslam, *The Budget: Fiscal Year 2016-2017*, Feb. 1, 2016, pp. B-84 to B-85, <https://www.tn.gov/> (accessed Aug. 29, 2016).
- ⁶ Statewide figures in this section use data from all 142 school districts, including the Achievement School District.
- ⁷ Throughout this section, the source for statewide and individual district data on 2015-16 BEP positions generated and staff employed (both state- and locally-funded, and federally-funded) was a spreadsheet provided by the Tennessee Department of Education's Office of Local Finance.
- ⁸ OREA's district level analysis of BEP-generated staffing levels and actual staffing levels included 140 districts. Two districts were not included because of their unique characteristics: Carroll County, which is not a full service school district, and the Achievement Schools District, which does not receive its own BEP calculation. The Department of Children's Services receives a BEP allocation for its education program but was also excluded from the analysis because it does not have local funding and hiring procedures that are comparable to other school districts.
- ⁹ 103rd General Assembly, *Public Acts 2004, Chapter No. 670*, (approved May 14, 2004), An act to amend Tennessee Code Annotated, Title 49, relative to instructional salaries, <http://www.capitol.tn.gov/> (accessed Aug. 29, 2016).
- ¹⁰ 103rd General Assembly, *Public Acts 2004, Chapter No. 961*, Section 11, (approved June 15, 2004), An act to make appropriations for the purpose of defraying the expenses of the state government, <http://www.capitol.tn.gov/> (accessed Aug. 29, 2016).
- ¹¹ Tennessee State Board of Education, *Basic Education Program Review Committee 2015 Annual Report*, p.18, <https://www.tn.gov/sbe> (accessed Aug. 29, 2016). In a few earlier years (2004-2006), the General Assembly passed appropriations acts that stated only a percentage increase for "salary improvements" in the BEP. The actual dollar figure used in BEP calculations was this percentage increase combined with an increase reflecting the annual statewide movement on salary schedules toward higher experience and education levels. In subsequent years, the state's appropriations acts have stipulated specific dollar figures for salary unit cost, which have factored in any teacher or state employee raises and the movement on salary schedules, if funding has been available.
- ¹² 109th General Assembly, *Public Acts, 2016, Chapter No. 758*, An act to make appropriations for the purpose of defraying the expenses of the state government, <http://www.capitol.tn.gov/> (accessed Aug. 29, 2016).

¹³ 109th General Assembly, **Public Acts, 2016, Chapter No.1020**, An act to amend Tennessee Code Annotated Title 49, Chapter 3, Part 3, relative to education finances (also known as the BEP Enhancement Act), <http://www.capitol.tn.gov/> (accessed Aug. 29, 2016).

¹⁴ Tennessee State Board of Education, *Basic Education Program Review Committee 2016 Annual Report*, pp. 26-28, <https://www.tn.gov/sbe> (accessed Dec. 7, 2016).



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