

Teacher Salaries in Tennessee, 2015-2018



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More than \$300 million in new, recurring state dollars was appropriated by the General Assembly through the Instructional Salaries and Wages category of the Basic Education Program (BEP), the state's education funding formula, between fiscal years 2016 and 2018. The legislative intent for the appropriations was to increase teacher salaries across the state. Some legislators have expressed concerns that state dollars have had less effect in improving teachers' salaries than expected, however. The purpose of this report is to address questions raised by former Speaker Harwell, Chairman Gresham, and Senator Kelsey regarding:

- how much new state funding was used to raise teacher salaries,
- to what degree districts concurrently increased local funding for teachers or relied on the influx of new state money to provide teacher raises,
- how much new state and local funding was used for purposes other than raising teacher salaries, such as hiring new teachers; enhancing benefits for teachers already employed; or funding teacher aides, assistants, or similar support positions, and
- whether districts used state funding for teacher salaries for unallowable purposes.

Based on an OREA survey of local school districts, interviews with stakeholders, and analysis of data that included districts' revenues and expenditures, staffing, salary schedules, insurance plans, and BEP allocations and calculated positions, this report concludes:

- The majority of districts that responded to OREA's fall 2018 survey reported awarding salary increases to teachers for three consecutive years (fiscal years 2016, 2017, and 2018), resulting in a 6 percent rise in average classroom salaries statewide.
- Districts used increased state salary funding to add instructional positions, in addition to providing pay raises, as allowed by the state statutes concerning the BEP. The share of new state salary funding spent on adding instructional staff versus increasing salaries for staff already employed could not be determined, however.
- Total local revenue budgeted for school districts increased at about the same rate as BEP state revenue, but salary expenditures (whether for new hires or raises) could not be linked back to their revenue source, either state or local.
- The Tennessee Department of Education has found that for the past three years, all districts have complied with the 2016 state law requiring districts:
 - (a) to maintain their budgeted level of local funding for salaries and wages from the prior year, and
 - (b) to not use increases in state BEP Instructional Salaries and Wages funding to offset local expenditures in these categories.

Following the influx of new state funding, most districts reported giving a raise to teachers in fiscal years 2016, 2017, and 2018, resulting in a 6 percent rise in average classroom salaries statewide.

The majority of districts reported giving a raise to teachers for three consecutive years, from 2016 through 2018.^A In fiscal year 2015, when the state did not provide new state instructional salaries funding, 68 districts reported giving raises to teachers. Following the first year of additional state funding in fiscal year 2016, the number of districts that

^A In each of the three fiscal years from 2016 through 2018, 88 districts reported giving a raise to teachers, representing 68 percent of the 140 districts surveyed.

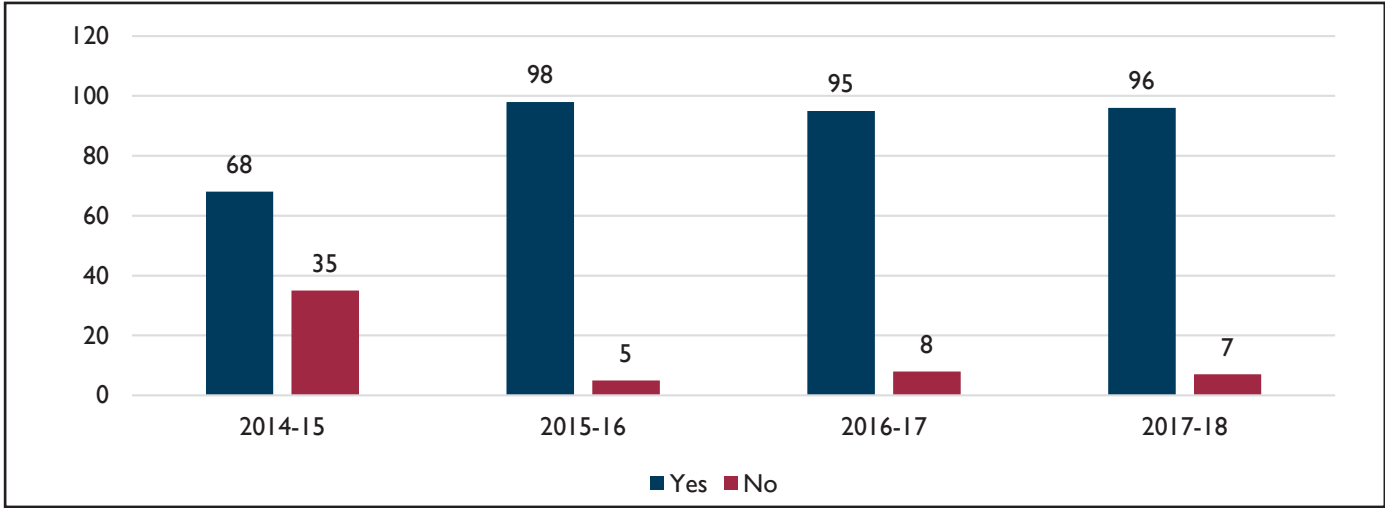
reported giving raises increased to 98. See Exhibit 1: Number of districts giving raises to instructional employees, 2015-2018.

In the two fiscal years following increased state funding for instructional salaries – 2017 and 2018 – the number of districts that reported giving raises held steady, at around 96 districts. One district reported giving no raises over the four-year period.

Districts reported their teacher raises in a fall 2018 survey conducted by OREA. A total of 103 districts responded (74 percent). Districts that did not respond to the survey may have also given raises. OREA’s survey asked districts about raises they gave to instructional employees, most of whom are classroom teachers, but also include other licensed school staff such as principals and guidance counselors.

New state funding for instructional salaries, 2015-2018	
Fiscal year	State appropriation for instructional salary increases
2014-15	\$0
2015-16	\$97,600,000
2016-17	\$104,600,000
2017-18	\$100,386,000
Total increase (2015-2018)	\$302,586,000

Exhibit 1: Number of districts giving raises to instructional employees, fiscal years 2015-2018



Source: OREA survey of directors of schools, September 2018.

Districts were most likely to give raises by increasing the district salary schedule, which, in most districts, sets base pay for all teachers at specified education and experience levels. One-time bonuses and across-the-board raises outside of the salary schedule were also used by districts to increase teacher pay. Because of the variation within and across districts in how they awarded raises in different years and which staff received raises in different years, the survey did not collect data on the amount of raises awarded.

Between 2015 and 2018, Tennessee’s average classroom salary increased 6.2 percent, or about \$2,979, from \$47,979 to \$50,958. This growth made Tennessee the third fastest-growing state in the Southeast for instructional teacher salaries, behind North Carolina and Georgia. See Appendix A for growth in average classroom salaries by district between 2015 and 2018.



What is the difference between teachers and instructional staff?

Instructional staff refers to all positions funded under the BEP instructional category, including classroom teachers, principals, assistant principals, librarians, guidance counselors, and others.

Classroom teachers refers only to K-12 classroom teachers in regular, special, and career and technical education.

In 2017-18, classroom teachers were 61,061 of the 73,951 total instructional staff funded by state and local dollars, or 83 percent.*

*Note: These figures do not include federally funded positions.

Understanding the salary unit cost and district BEP funds for teacher raises

When media reports indicate a Governor's proposed budget increases teacher pay by, for example, 2 percent, what they are referring to is a 2 percent increase to the BEP's salary unit cost – a dollar figure in the state's annual appropriations act that drives the amount of funding provided for each instructional position (classroom teachers and others) in the BEP – not a 2 percent increase in salary for all teachers.

Between 2015 and 2018, the state increased the salary unit cost from \$40,447 to \$46,225, or about 14 percent. The unit cost was increased by the General Assembly another 2 percent for fiscal year 2019, raising it to \$47,150. Governor Lee has proposed a \$71 million increase for a "2.5 percent pay raise for teachers" for fiscal year 2020.

Year	State appropriation for instructional salary increases	Salary unit cost
2014-15	\$0	\$40,447
2015-16	\$97,600,000	\$42,065
2016-17	\$104,600,000	\$44,430
2017-18	\$100,386,000	\$46,225
2017-18 Total Increase (2015-2018)	\$302,586,000	14.3%
2018-19	\$55,124,000	\$47,150
2019-20 (proposed)	\$71,250,000	\$

Note: The totals above reflect state allocations specifically for teacher compensation in each year's annual appropriation act and do not include additional state funds allocated based on enrollment growth, new positions, or staff ratio adjustments. These funds are distributed to districts through the Instructional Salaries and Wages category of BEP funding.

The salary unit cost is a key state-level factor in the amount of BEP funding each district is allocated. Two district-level factors are student enrollment and fiscal capacity, a district's ability to raise local funding for education.

The BEP formula allocates staff positions based on a ratio of enrolled students. For example, for every 25 grade 4 students, the formula allocates one classroom teacher position. More students will result in more positions. A district's total staff positions are then multiplied by the salary unit cost. The same salary unit cost is applied to all instructional positions (e.g., teacher, principal, librarian). More positions, generated by more students, results in a larger funding allocation.

Fiscal capacity is then applied to the district's total allocation to determine the split between state and local funding. Under the BEP, the state funds 70 percent of both Instructional categories (Salaries and Benefits), 75 percent of the Classroom category, and 50 percent of the Nonclassroom category on a statewide basis. The level of state funding for individual districts varies considerably, however. A district with a higher fiscal capacity is considered to possess a greater ability to raise revenue through local sources and may receive state funds of 64 percent for its instructional components, while a district with lower fiscal capacity has less ability to raise local revenues, and as a result, may receive state funds of 76 percent for the same instructional components.

If a 2 percent increase to the state's salary unit cost raises it to \$47,150 (as it did in fiscal year 2019), the state's funding share would be 70 percent, or \$33,005 for each BEP-allocated position in a district. If the district had a relatively high fiscal capacity and received 64 percent in state funding, the allocation for each district position would be \$30,176. With most districts paying an average salary higher than the salary unit cost and employing more staff than are covered by BEP funding, the available state and local dollars earmarked for salaries must stretch over more teachers than the staff positions generated by the BEP.

See Appendix B for a step-by-step example of district scenarios with state BEP increases.

In addition to providing raises, districts also used increased state BEP instructional salaries funds to hire more instructional staff.

In addition to using BEP instructional salaries funds to provide raises for staff already employed, districts can use the funds to hire additional instructional positions.

Between fiscal years 2015 and 2018, districts increased instructional staffing positions funded through state and local dollars by approximately 1.97 percent, from 72,522 to 73,951.^B

Overall, the total number of classroom teachers decreased by about 635 positions, about 1 percent, between 2015 and 2018. The largest category, at 1,854 new positions, included instructional coaches and interventionists. (See box on RTI2 initiative.) The remaining new hires were principals (28), assistant principals (86), librarians (21), guidance counselors (81), psychological staff (4), and attendance staff (5).

Almost all districts employ more staff than the number of positions generated by the BEP. The need to fund additional staff positions beyond those generated by the BEP was cited by directors of schools as the most significant constraint on increasing teacher salaries during this period of increased state funding, according to a fall 2018 OREA survey. Typically, all teachers in a school district are paid on the same salary schedule. When districts raise salaries by increasing their salary schedule pay levels – the most common method of awarding raises cited in the district survey – all teachers then become eligible for raises, usually by completing another year of teaching. Because districts employ more staff than are covered by BEP funding, the available state and local dollars earmarked for salaries must stretch over more teachers than the staff positions generated by the BEP. The same phenomenon applies to districts that give across-the-board raises to teachers.

For every additional position a district hires beyond those calculated by the BEP (except those funded through federal grants), the district pays 100 percent of the salary, health insurance, retirement, and other personnel benefits from local funding. OREA could not identify either the state or local funding amounts that were directed to salaries for new positions or salary increases for district staff already employed.



BEP position and district staff increases

The BEP calculated an increase in instructional positions of 1.84 percent for all districts statewide between 2015 and 2018, while districts increased overall instructional staff by about 1,430 positions, or 1.97 percent, over the same time period.

Districts employed 15 percent more instructional employees than were allocated through the BEP formula statewide in 2017-18.

Funded: 64,462
Staffed: 73,951

Note: Figures do not include federally funded positions.



New staff and position funding for Response to Instruction and Intervention (RTI²)

The increase in instructional positions hired between 2014-15 and 2015-16 may have been in part due to the RTI² staffing requirements. In 2014-15, Tennessee began implementing Response to Instruction and Intervention (RTI²), an early intervention program, in public schools. The first year, instructional RTI² positions were required in all elementary schools. The requirement expanded to middle schools in 2015-16, followed by full implementation, including high schools, in 2016-17.

The state added funding to the BEP for a minimum of one RTI² position per district in fiscal year 2018-19, with additional funding allotted at a ratio of one position for every 2,750 students in FY2019.

^B Figures do not include federally funded positions.



The Basic Education Program (BEP)

The Basic Education Program (BEP) is Tennessee's main source of funding for K-12 public schools and provides over \$4.7 billion of state funding for education. The formula is split into four main categories:

1. Instructional Salaries and Wages, which generates funding for classroom teachers and other licensed positions, such as principals and librarians;
2. Instructional Benefits, which covers retirement and health insurance for classroom teachers and other licensed personnel;
3. Classroom, which includes textbooks, classroom supplies, technology, and some positions such as nurses and instructional assistants; and
4. Nonclassroom, which includes superintendents, school buses, maintenance and operations, and capital outlay.

Once funding is generated and totaled for all four categories, the overall amount – over \$7 billion in FY 2019 – is split into two parts: a state share and a required local match. The required local match comes from local revenue sources, mainly local property taxes and the local option sales tax. Most districts contribute more local money to K-12 education than is required under the BEP.

Overall, the state funds 70 percent of the total funding amount calculated for both the Instructional Salaries and Wages and the Instructional Benefits categories of the BEP, while the remaining 30 percent is funded through local matching dollars. Local match rates for individual districts may be more or less than 30 percent, depending on the district's fiscal capacity or ability to raise local funds for education.

Overall, local budgeted funding for school districts increased at about the same rate as state BEP funding between fiscal years 2015 and 2018.

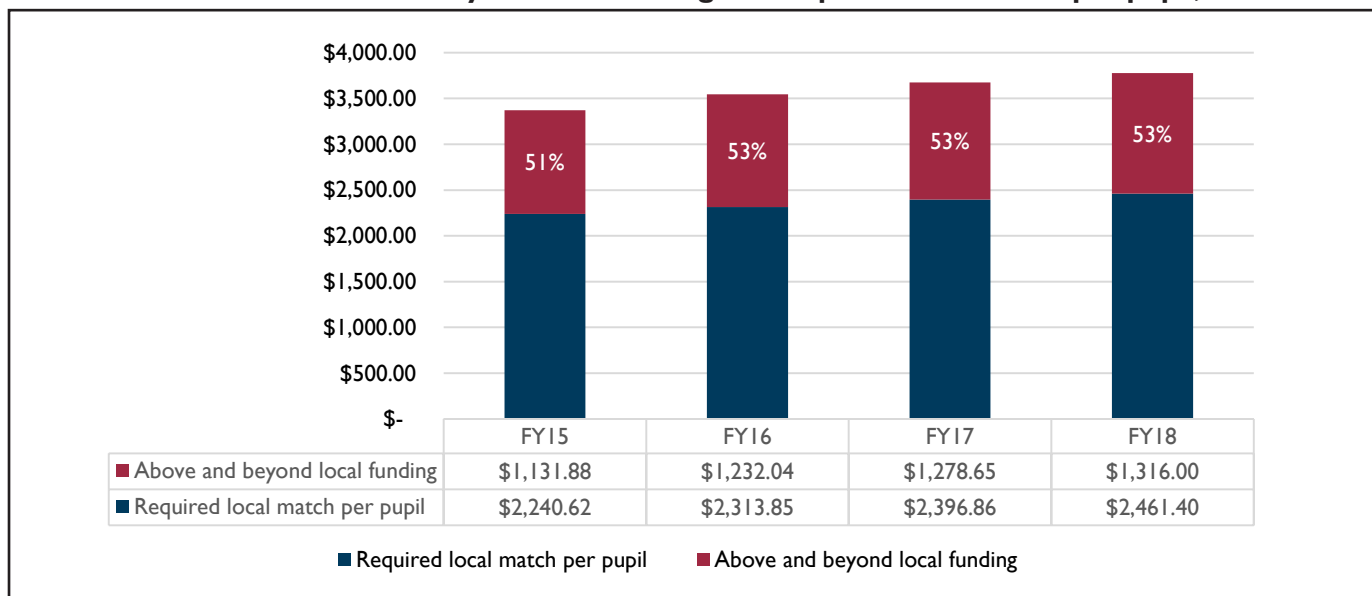
As the state increased total funding for the BEP by 13 percent between 2015 and 2018, local budgeted funding for education kept pace at about 12.8 percent. State funding increases to the BEP trigger an increase in the BEP required local match amount from local school districts. Most districts do not have to increase local appropriations to comply with any increases in their required local match, however, because local funding levels in most districts already exceed the required local match.^c Thus, most districts have a “cushion” between the required local match and their total local funding for education. This cushion is sometimes referred to as local “above and beyond” funding, as it is above and beyond the BEP required local match. In fiscal year 2018, local funding for education exceeded the required local match in all but three districts.

Statewide, the cushion between required local match funding and the additional above and beyond local funding per pupil increased, from 51 percent to 53 percent, between 2015 and 2018. The wider gap indicates that local districts increased spending from local dollars over the past several fiscal years. Total local dollars budgeted for schools increased by \$400 million between 2015 and 2018, a per-pupil increase of about \$405.

While the statewide trend shows an increase in the cushion between required local match and above and beyond funding, the trend varies greatly at the individual district level, and large districts can skew the statewide trend. For example, Davidson County and Shelby County accounted for 38 percent of the total above and beyond local funding for the entire state in fiscal year 2018. Combined with the next four largest districts – Hamilton, Knox, Rutherford, and Williamson – six of the 141 local districts account for over half (56 percent) of all additional local funding.

^cBy law, districts are required to budget at least the same amount of funding to school districts that they budgeted the previous year, a provision known as maintenance of effort. An increase to a district's required local match may also trigger an increase in the district's maintenance of effort, requiring the local funding body to allocate additional dollars for education in subsequent years. *Tennessee Code Annotated* 49-3-314(c)(2).

Exhibit 2: Statewide above and beyond local funding and required local match per pupil, 2015-2018



While overall local budgeted funding kept pace with state funding increases, the amount of the increased local funding spent on instructional salaries is unknown.

The challenge with determining the amount of the increased local funding spent on instructional salaries stems from difficulties in accurately tracking expenditures by school districts back to revenue sources. The BEP allocates funding by category (e.g., Instructional Salaries and Wages, Classroom, etc.) but state law does not require local funding to be budgeted by BEP category. When districts prepare their budgets, BEP funding from the state and local matching dollars are commingled and the dollars “lose their identity” in terms of revenue source. District budgets do not identify what portion of expenditures are paid for with state funds versus local funds.

Districts must budget at least the same overall amount for teacher salaries as the previous year, but once this requirement is met, a district’s priorities and spending commitments determine how additional local funds will be spent, whether on teacher salaries or other items. The BEP is often described as a “funding formula, not a spending plan,” and the spending flexibility accorded to locals under the BEP further complicates tracking expenditures back to their revenue source. For example, districts may spend funding generated for building maintenance through the BEP on anything school-related, including instructional salaries. When a district increases spending on teacher salaries, it is not possible to determine what portion, if any, of the revenues came from state funds generated through the Classroom or Nonclassroom categories of the BEP or from additional local funding. Districts, cities, and counties report expenditures based on the Comptroller’s Chart of Accounts. Changes to the Chart of Accounts that would allow tracing expenditures to a state or local revenue source would be a significant undertaking and would likely require an investment in new financial software.

In addition, the BEP in some cases classifies funding into more detailed categories than those used by school districts for expenditure reporting. For example, the BEP calculates funding for health insurance for instructional positions and noninstructional positions separately, while each district’s budget groups both positions into total health insurance expenditures.

OREA developed several approaches to analyzing how much new local funding districts used to increase teacher salaries, including an evaluation of the amounts districts budgeted for instructional salaries from one year to the next, as well as an analysis of districts’ salary schedules between 2015 and 2018. Given the limitations outlined above,

however, the inability to accurately track expenditures by school districts back to their revenue source proved to be a significant barrier to drawing strong conclusions.

Statewide, total expenditures on instructional salaries and insurance increased by about 9 percent.

Because expenditures cannot be distinguished by state and local revenue sources, OREA analyzed districts’ total expenditures by four categories, as one way to determine districts’ spending priorities overall. OREA analyzed district expenditures between fiscal year 2015, the year prior to the first increase in the salary unit cost in the BEP, and fiscal year 2018, the most recent year of data available. OREA classified spending into four categories:

1. Salaries
2. Insurance
3. Retirement

Together, these three categories roughly correspond to the two BEP funding categories of Instructional Salaries and Wages and Instructional Benefits.

4. Other

The “other” category includes expenditures such as textbooks, transportation, maintenance and operation of facilities, central office, and the board of education, among others, and roughly corresponds to the two BEP funding categories of Classroom and Nonclassroom.^D

OREA found that, statewide, districts increased spending for instructional salaries and health insurance by about 9 percent while spending on retirement increased about 8 percent.^E At the individual district level, the growth in salary expenditures varied, from a decrease of 10 percent to an increase of over 26 percent.

For the three primary categories related to teacher compensation, spending may go up for several reasons including:

Salaries	Insurance	Retirement
<ul style="list-style-type: none">• Giving teachers raises• Hiring more teachers• Retaining teachers who increase salary automatically as they move up steps on the salary schedule	<ul style="list-style-type: none">• Insurance premiums going up• Teachers switching from a lower-cost plan to a higher-cost plan• The district paying more of employees’ premiums• Adding more teachers to the insurance plan through hiring or teachers’ choices	<ul style="list-style-type: none">• Salaries going up – contributions are a set percentage of salary• TCRS contribution rate going up based on the actuarial valuation – FICA is set in federal law and has not changed for several years• Adding more teachers to the retirement plan through hiring

The expenditure data OREA used for this analysis is reported by districts to the Tennessee Department of Education (TDOE) and is based on the state’s standardized system of accounting and reporting, which does not align directly with how revenues are generated through the BEP. Because the expenditure data is reported on the modified accrual basis of accounting, spending on large items, such as capital assets (e.g., a new building), is recorded as a total expenditure in the first year the money is spent, as opposed to full accrual accounting, which would spread the costs over the expected life span of the purchase. For example, if a district spends \$20 million on a new building expected to last 20 years, the district may depreciate the building for \$1 million each year over the span of 20 years. District expenditure reports would reflect the building “costs” of \$1 million per year. The data available to OREA, however,

^D Because the BEP funds instructional salaries and benefits in a different manner than districts report expenditures, some support staff positions are included in the analysis for salaries, retirement, and benefits.

^E Some support employees are included in the salaries, retirement, and health insurance totals. These totals exclude 13 districts (including the Achievement School District) because they did not report expenditure data for 2015. Excluding these 13 districts produces the same results as including them in the analysis; the percentage increases are less inflated, however, due to removing 100 percent increases for those districts’ expenditures: Achievement School District, Alcoa City, Blount County, Bradley County, Campbell County, Cheatham County, Clinton City, Hawkins County, Jefferson County, Kingsport City, Monroe County, Polk County, and Sullivan County.

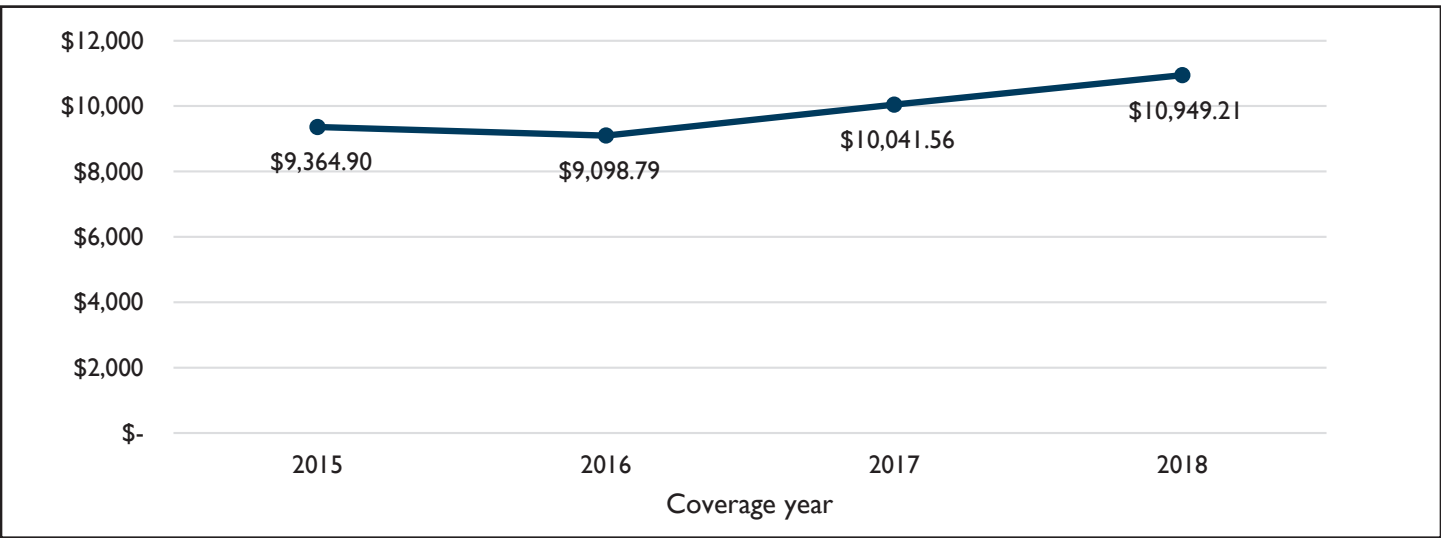
appears to record the entire \$20 million in year one, thereby inflating some districts’ expenditures for certain items in the “other” category. This phenomenon is also found across numerous equipment account codes. Even omitting capital asset expenditures, equipment expenditures totaled about 58 percent of districts’ “other” expenditures in fiscal year 2018. Thus, equipment expenditures alone can distort conclusions about expenditure trends at the district level. For this reason, OREA limited the analysis of expenditures to categories related to compensation (salaries, insurance, and retirement).

Health Insurance

Rising health insurance premiums were cited by directors of schools as the second largest constraint on increasing teacher salaries during this period of increased state funding, according to OREA’s fall 2018 survey. (The greatest constraint cited by directors was the need to fund additional staff positions beyond those generated by the BEP. See page 5.) Several districts cited the need to stay competitive with the benefits they offer – like health insurance – to attract and retain employees.

Average insurance premiums increased approximately 17 percent, or about \$1,600 per enrollee, between fiscal years 2014-15 and 2017-18 for districts on the state’s local education health insurance plan.

Exhibit 3: Districts’ average annual aggregate health insurance premiums, 2015-2018



OREA calculated the average cost sharing for districts based on three years of insurance premiums using data reported by districts to the Tennessee Education Association. TEA, in an agreement with TDOE, has collected district health insurance data for a number of years but was unable to obtain complete data for 2017-18. Average premium costs for all districts increased each year between 2014-15 and 2016-17. The amount districts pay toward employees’ insurance costs varies across the state and by plan (i.e., individual or family).



Additional state funds for employee health insurance premiums

In 2011, the Comptroller’s Office alerted the commissioners of the Department of Education and the Department of Finance and Administration that because the BEP formula calculated only 10 of 12 months of insurance premiums, the state was actually funding teachers’ health insurance premiums at an annual average of about 37.5 percent, instead of the required 45 percent. School districts were required to pay insurance premiums for each of the 12 months in a year and had to cover the two months not funded by the state. In FY 2016, the state added \$29,270,000 in recurring funds to pay for the 11th month of insurance premiums for teachers. In FY 2017, an additional \$29,480,000 in recurring funds was added to complete the transition to 12 months of state funding for teacher insurance.

Most districts pay more than the state minimum requirement of 45 percent for licensed instructional employees’

premiums, with over half of districts paying at least 75 percent of the premium cost over the time period. Eight districts covered 100 percent of the cost.

Exhibit 4: District cost sharing of employee health insurance premiums for licensed employees enrolled in individual coverage plans

District share of health insurance premium*	Number of districts
45-50%	4
51-75%	52
76-99%	78
100%	8

*Based on a three-year average for fiscal years 2015, 2016, and 2017.

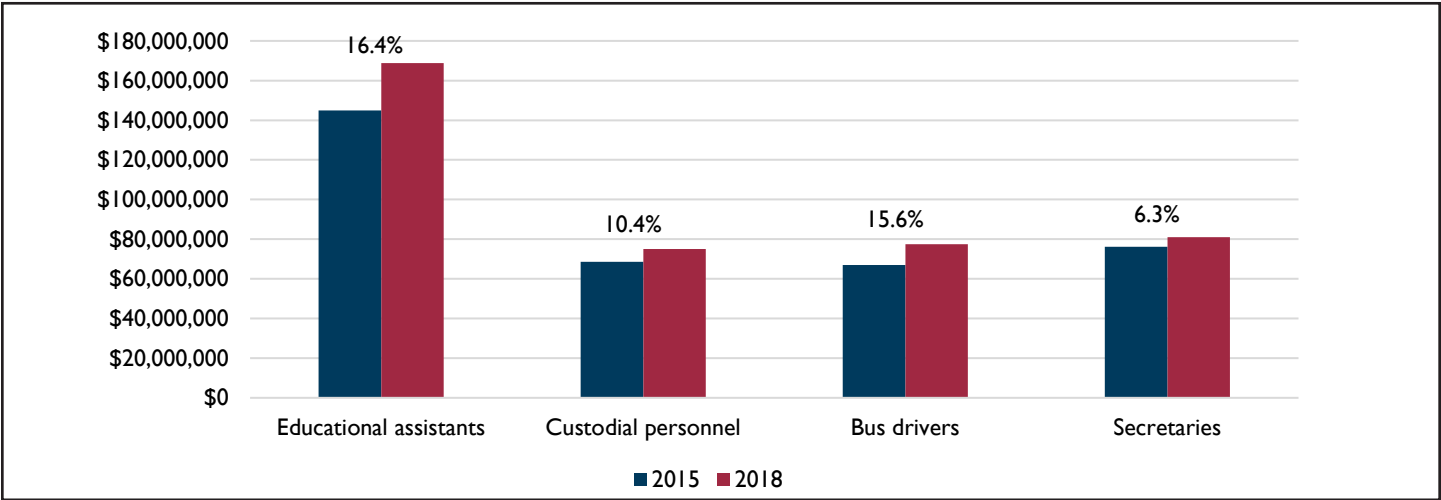
Raises for Support Staff

The General Assembly increased the salary unit cost for support positions, such as educational assistants, secretaries, and bus drivers, by about 14 percent, between fiscal years 2015 and 2018. According to a fall 2018 OREA survey, 75 of 103 districts that responded (73 percent) reported giving a raise to some support staff for the 2016, 2017, or 2018 fiscal years. In interviews with OREA, district officials noted that competition with private industry for both pay and benefits for some positions, such as bus drivers, is making it increasingly difficult to retain quality employees.^F

Spending by districts on educational assistants, which accounts for the largest share of support personnel salaries, increased 16 percent from 2014-15 through 2017-18. District expenditures on bus drivers increased almost 16 percent as well, while spending for custodial personnel and secretaries increased by 10 and 6 percent, respectively.

District budgets do not identify what portion of expenditures are paid for with state funds versus local funds, and districts do not report salary or staffing information for support positions to TDOE. Until 2015-16, the Tennessee Education Association collected district salary schedules for non-licensed, support staff positions. Given these budgeting and reporting barriers, the extent to which these increased expenditures for support staff resulted from hiring more positions, giving raises to those already employed, or some combination of both is unknown.

Exhibit 5: Expenditures for select support personnel, 2015-2018



Note: Totals exclude select districts from each category because they did not report expenditure data for one or both years.

^F Like the salaries for instructional positions, there is a state and local funding contribution for support staff positions. Instructional assistants are funded in the BEP Classroom category, with a 75/25 state-local split, while custodians, school secretaries, and transportation personnel are funded through the BEP Non-classroom category, with a 50/50 state-local split.

Although the law states that districts are not to use increases in state funds to offset local expenditures for teacher salaries, general fund expenditures are not traced back to their revenue sources to distinguish between state and local revenue sources used for district expenditures.

As noted previously, the BEP is often referred to as a “funding formula, not a spending plan.” There are a few requirements in law about how districts may spend their BEP funds, however.

A 2016 state law requires districts

- (a) to maintain their budgeted level of local funding for salaries and wages from the prior year, and
- (b) to not use increases in state BEP instructional salaries funding to offset local expenditures in these categories.^G

TDOE has found all districts complied since 2017, the first year districts were required to comply with the 2016 state law.

In addition, districts must spend funds generated by the instructional components of the formula on instructional salaries and benefits. This requirement was formalized in statute when the Instructional category was split in two, forming Instructional Salaries and Wages and Instructional Benefits. The law states:

When funds are appropriated through the basic education program (BEP) funding formula for instructional salaries and wages, all such funds must be expended by an LEA on instructional salaries and wages; provided, however, if an LEA’s average licensed salary exceeds the statewide average salary, such funds may also be expended on instructional benefits.^H

TDOE confirms district spending levels on salaries primarily by looking at their budgets at the beginning of the school year. Any state BEP revenues for salaries, including new funds from an increase to the salary unit cost, must be reflected in the district’s budget for instructional salaries, and the locally funded revenues cannot decrease from the prior year unless the district has an enrollment decline. Districts must only maintain local funding levels and do not have to increase local funding parallel to the state’s increase. As TDOE staff explained, districts may not have to add any additional local dollars to their budgets if funding levels are already above their required local match.

If a district’s budget for instructional salaries does not meet the prior year’s level and enrollment levels are not a factor, TDOE also compares the current year budget to the previous year’s total expenditures. If higher-paid staff are replaced by lower-paid staff from one year to the next, the instructional salary budget may drop below the prior year’s budget, but TDOE considers such districts in compliance with the law.

Although the law states that districts are not to use increases in state funds to offset local expenditures, TDOE determines whether districts are in compliance based on budgeted funding rather than actual expenditures. This is because general fund expenditures are not traced back to their revenue source. If a district’s budget does not comply with the law, TDOE compares total expenditures on salaries to total funding budgeted for salaries, without distinguishing between state and local funding. Because districts can, for example, spend state BEP dollars from the Nonclassroom category on instructional salaries (but not vice versa), it is not always accurate to assume that any funding in excess of state instructional dollars are local dollars.

^G *Tennessee Code Annotated* 49-3-306(b)(C).

^H *Tennessee Code Annotated* 49-3-306(b)(4)(B)(i).

The state provides two sources of additional funding for salary increases in qualifying districts, administers a salary-related spending restriction established in 2016, and sets a minimum statewide salary schedule.

Salary Equity Funding and Cost Differential Factor Funding

The state allocates funding through two additional funding streams to increase teachers' salaries: salary equity funding and cost differential factor funding.

Salary equity funding is an annual appropriation of \$14.5 million outside of the BEP that is split among 83 districts for which the average weighted salary for instructional positions is below the statewide average. The amount individual districts receive from salary equity funds varies, from \$8,418 in Coffee County to \$597,026 in Cumberland County in fiscal year 2018. Districts may use these funds to raise teacher pay through such methods as increasing the district salary schedule, providing across-the-board raises outside the salary schedule, or awarding bonuses. Salary equity funds may not be used to hire additional staff.



Average weighted salary is a method to compare districts' salaries on a level field by adjusting for staff variances in education and experience levels. The percentage of teachers statewide in each category of education (bachelor's or master's degree) and with each year of experience (0-30) is calculated. For each district, those statewide percentages are then multiplied by the average salary earned by district employees in each of the categories.

TDOE has not reassessed which districts qualify for salary equity funding since the first appropriation for salary equity funding was made in 2015. As a result, the same 83 districts have received salary equity funding each year. The average weighted salary in some of these districts, however, has risen above the statewide average since 2015, the first year of eligibility determination, meaning they were not eligible to receive the funds in certain years. Other districts that did not originally qualify for salary equity funding have become eligible in certain years but have not received funding. For fiscal year 2020, which will use average weighted salaries from the 2017-18 school year, five districts slated to receive salary equity funds have moved above the statewide average, while nine districts that did not originally qualify but now do are not slated to receive funding.

Cost differential factor (CDF) funding is included within the BEP formula for districts in counties where wages in nongovernmental sectors (e.g., construction, manufacturing, leisure and hospitality, etc.) are higher than the statewide average.¹ The CDF provides additional BEP funding in these districts to help attract and retain teachers. Because CDF is included in the BEP formula, adjustments are partially funded with local match dollars. In fiscal year 2019, \$30.7 million in CDF funding was split among 15 districts, with amounts ranging from \$34,000 in Clinton City to \$12.8 million in Shelby County.

CDF funding has decreased during the past decade. Legislative changes to the BEP in 2016 lowered CDF funding from 50 percent of the amount calculated by the BEP formula to 25 percent, and the 2017-18 appropriations act further reduced CDF funding to 20 percent of the calculated amount. The CDF is slated to be fully eliminated from the BEP formula contingent on future increases to the Instructional Salaries and Wages category.

Spending Restrictions on Instructional Salary Funds

Prior to 2016, the BEP had three funding categories: Instructional Salaries and Benefits, Classroom, and Nonclassroom. The 2016 BEP Enhancement Act split the Instructional category (forming Instructional Salaries and Wages and Instructional Benefits) and prohibited certain districts from spending state BEP instructional funding for salaries on instructional benefits. Districts with an average weighted salary below the state average must spend all BEP

¹ The Boyd Center for Business and Economic Research (CBER) at the University of Tennessee calculates the CDF index each year. CBER first finds the three-year average wage of 14 nongovernment industries in every county and the state as a whole, such as construction, manufacturing, retail trade, education services, and health and social services. CBER weights the average wages for each industry by county based on the statewide distribution to create an "aggregate wage." If the county's weighted average wage for all industries exceeds 95 percent of the state average, it receives a CDF adjustment for instructional salaries and benefits. In FY 19, CDF was funded at 20 percent of CBER's calculated value.

funds generated in the Instructional Salaries and Wages category on salaries for licensed instructional positions; the funding cannot be used for instructional benefits.^J (Districts with an average weighted salary above the state average may use BEP Instructional Salaries and Wages funding on either salaries or benefits.)

Restricted districts increased their average weighted salaries by 3.2 percent in the first two years of spending restrictions (2017 and 2018), slightly more than unrestricted districts, which increased their average weighted salaries by 3 percent.

Since the threshold used to determine a district's restricted status is based on an average for all districts, a certain number of districts will always be above and below the average. A specific district's restricted status may change over time, however, as its average weighted salary rises above or falls below the statewide average. In fiscal year 2017, when spending restrictions were first put into place, 89 districts' average weighted salaries were below the state average of \$43,216. Seven of these districts have increased their average weighted salary enough to no longer be subject to the spending restriction for the 2020 fiscal year.^K

State Minimum Salary Schedule

The State Board of Education adopts a state minimum salary schedule each year, and state law requires all districts to adopt their own salary schedules that at least meet the minimums for teacher pay in the state's minimum salary schedule.^L Between 2014-15 and 2017-18, the State Board increased the base pay on the state's minimum salary schedule by 9 percent, from \$30,876 to \$33,745. When the board increases the state minimum salary schedule, districts that are not already paying above the new state minimum must increase their salary schedules accordingly. In 2017-18, 46 districts had to raise their salary schedules to meet the state minimum amounts, which triggered an aggregate increase of about \$1.2 million in new local funds, affecting 1,553 actively employed educators. In 2018-19, the State Board increased the minimum starting salary an additional 3.7 percent to \$35,000, requiring an aggregate increase of about \$1.6 million in new local funds, affecting 2,295 educators in 54 districts.

Conclusion

More than \$300 million in new, recurring state dollars was appropriated by the General Assembly through the Instructional Salaries and Wages category of the Basic Education Program between 2015 and 2018. The legislative intent for the increased state funding was to increase teacher salaries across the state.

The majority of districts that responded to OREA's fall 2018 survey reported awarding salary increases to teachers for three consecutive years (fiscal years 2016, 2017, and 2018). Those pay raises increased the state's average classroom teacher salary by 6.2 percent (just under \$3,000), making Tennessee the third fastest-growing state in the Southeast for teacher salaries during fiscal years 2015 through 2018.

Some legislators expressed concerns that increased state funding had less effect in improving teachers' salaries than expected, however.

Part of the explanation is that the state's main lever for increasing state funding for salaries – the BEP formula's *salary unit cost figure* – is not directly linked to pay raises for every teacher. The increased funding generated through the salary unit cost is applied only to BEP-calculated positions; most districts fund additional positions, and in the 2015 through 2018 period analyzed, the growth rate for staff employed by districts was 1.97 percent versus a growth rate of 1.84 percent in BEP-calculated positions.

^J *Tennessee Code Annotated* 49-3-306(b)(4)(B)(i).

^K Bedford County, Dyer County, Huntingdon Special, Polk County, Sevier County, Union City, and White County.

^L *Tennessee Code Annotated* 49-3-306(a)(1).

Also, the salary unit cost figure is not tied to the average salary that districts pay teachers. If a teacher's salary is above the salary unit cost, a 2 percent increase in the salary unit cost would result in less than a 2 percent raise if local funds are not also increased. See Appendix B for a step-by-step outline of salary funding at the district level.

Another part of the explanation for the lower-than-expected impact of increased state salary funding is that local districts must match state funding with required levels of local funding, but districts do not have to increase local funding at the same rate as the state. While the law requires districts to maintain their previous year's budget for local funding of instructional salaries, there is no requirement that local dollars must be increased or that any local increases must be used for salary expenditures.

A limited number of state requirements apply to local contributions and spending for K-12 education under the BEP. TDOE reports that districts have complied with these requirements. OREA did not find any indicators of noncompliance but concluded that the available financial data for districts does not permit tracking salary expenditures back to their revenue sources. Combined with districts' flexibility in spending non-salary BEP dollars for salary costs (but not vice versa), the limitations of available data made it difficult to draw strong conclusions about how state and local dollars were spent statewide across multiple years.

Policy Considerations

The General Assembly may wish to require districts to report how they spend new BEP funds for instructional salaries. Because the BEP calculates revenues differently than districts report expenditures, it is not possible using existing district expenditure reports to connect how much new state or local funding corresponds to the amounts used to increase teacher salaries. An in-depth salary survey of selected districts could be conducted periodically to obtain a more complete picture of district salary trends.

TDOE should develop a process to determine which districts are eligible for salary equity funding each year and require districts to report how the funds were used to raise teacher salaries in their district. Because the same amount of funding has been distributed to each district for the past five years, districts that are no longer eligible for salary equity funding but have continued to receive it and use it to increase teachers' base pay may fall below the average weighted salary threshold if their funding allocation is reduced or eliminated. TDOE should assess the effect of any reduction or elimination of funding in such districts. For fiscal year 2020, which will use average weighted salaries from the 2017-18 school year, five districts slated to receive salary equity funds have moved above the statewide average, while nine districts that did not originally qualify but now do are not slated to receive funding.

Appendix A: Average classroom teacher salaries

District	2014-15	2017-18	Percent increase
Anderson County	\$45,087.97	\$47,111.62	4.5%
Clinton City	\$43,413.42	\$46,685.99	7.5%
Oak Ridge	\$58,971.25	\$65,334.35	10.8%
Bedford County	\$43,594.51	\$47,519.15	9.0%
Benton County	\$43,416.81	\$46,543.68	7.2%
Bledsoe County	\$44,116.65	\$50,207.95	13.8%
Blount County	\$48,774.78	\$51,445.22	5.5%
Alcoa City	\$60,139.10	\$62,202.54	3.4%
Maryville City	\$58,547.66	\$63,864.09	9.1%
Bradley County	\$48,848.13	\$51,441.63	5.3%
Cleveland City	\$48,804.29	\$53,698.23	10.0%
Campbell County	\$43,252.42	\$47,696.62	10.3%
Cannon County	\$42,585.82	\$46,192.61	8.5%
Carroll County	\$40,407.23	\$43,979.33	8.8%
Hollow Rock-Bruceton	\$40,637.98	\$44,701.18	10.0%
Huntingdon SSD	\$44,008.41	\$48,624.56	10.5%
McKenzie SSD	\$45,691.05	\$48,730.43	6.7%
South Carroll SSD	\$42,623.74	\$46,421.89	8.9%
West Carroll SSD	\$42,451.27	\$46,800.29	10.2%
Carter County	\$42,167.78	\$44,851.14	6.4%
Elizabethton City	\$44,368.27	\$49,062.91	10.6%
Cheatham County	\$42,808.52	\$45,529.24	6.4%
Chester County	\$43,803.76	\$46,994.28	7.3%
Claiborne County	\$41,155.33	\$45,066.57	9.5%
Clay County	\$41,895.21	\$45,748.10	9.2%
Cocke County	\$43,337.12	\$47,502.45	9.6%
Newport City	\$46,434.12	\$47,644.63	2.6%
Coffee County	\$45,073.58	\$47,047.51	4.4%
Manchester City	\$48,700.64	\$52,897.55	8.6%
Tullahoma City	\$47,637.11	\$51,805.15	8.7%
Crockett County	\$42,716.38	\$45,943.35	7.6%
Alamo City	\$41,512.12	\$44,128.60	6.3%
Bells City	\$44,590.50	\$47,397.29	6.3%
Cumberland County	\$41,928.47	\$44,247.21	5.5%
Davidson County	\$50,132.75	\$55,606.12	10.9%
Decatur County	\$43,661.03	\$47,490.37	8.8%
DeKalb County	\$42,718.47	\$43,330.89	1.4%
Dickson County	\$44,599.24	\$46,975.52	5.3%
Dyer County	\$44,744.35	\$50,240.57	12.3%
Dyersburg City	\$49,403.90	\$52,745.19	6.8%
Fayette County	\$40,317.34	\$43,894.72	8.9%
Fentress County	\$41,353.88	\$44,853.76	8.5%
Franklin County	\$44,715.00	\$48,190.02	7.8%
Humboldt City	\$41,298.80	\$43,400.38	5.1%
Milan SSD	\$43,031.20	\$46,188.30	7.3%
Trenton SSD	\$43,163.24	\$46,572.91	7.9%

District	2014-15	2017-18	Percent increase
Bradford SSD	\$41,407.39	\$44,150.13	6.6%
Gibson SSD	\$41,853.41	\$46,320.87	10.7%
Giles County	\$44,700.42	\$46,364.70	3.7%
Grainger County	\$44,021.72	\$46,754.75	6.2%
Greene County	\$43,835.31	\$47,964.30	9.4%
Greenville City	\$49,512.81	\$53,021.45	7.1%
Grundy County	\$42,021.95	\$42,129.75	0.3%
Hamblen County	\$45,889.87	\$50,803.72	10.7%
Hamilton County	\$48,298.33	\$51,463.02	6.6%
Hancock County	\$41,486.32	\$42,047.36	1.4%
Hardeman County	\$44,082.73	\$47,080.35	6.8%
Hardin County	\$43,094.67	\$44,999.85	4.4%
Hawkins County	\$42,403.27	\$45,204.57	6.6%
Rogersville City	\$47,396.53	\$50,723.97	7.0%
Haywood County	\$42,845.32	\$43,648.22	1.9%
Henderson County	\$43,634.71	\$47,397.38	8.6%
Lexington City	\$43,860.51	\$44,805.62	2.2%
Henry County	\$45,994.30	\$49,068.90	6.7%
Paris SSD	\$47,191.12	\$50,541.07	7.1%
Hickman County	\$41,723.05	\$44,860.03	7.5%
Houston County	\$44,784.93	\$47,858.84	6.9%
Humphreys County	\$43,672.80	\$45,916.47	5.1%
Jackson County	\$42,487.12	\$46,742.63	10.0%
Jefferson County	\$43,736.27	\$47,020.65	7.5%
Johnson County	\$42,204.14	\$43,939.58	4.1%
Knox County	\$46,410.07	\$50,229.43	8.2%
Lake County	\$40,670.89	\$42,518.46	4.5%
Lauderdale County	\$41,392.38	\$45,701.80	10.4%
Lawrence County	\$44,937.82	\$48,386.26	7.7%
Lewis County	\$43,046.03	\$47,390.44	10.1%
Lincoln County	\$45,876.08	\$49,151.25	7.1%
Fayetteville City	\$46,234.17	\$49,454.86	7.0%
Loudon County	\$45,946.75	\$48,567.95	5.7%
Lenoir City	\$49,541.46	\$53,219.75	7.4%
McMinn County	\$47,644.17	\$49,446.09	3.8%
Athens City	\$52,919.47	\$54,150.83	2.3%
Etowah City	\$42,299.91	\$47,206.50	11.6%
McNairy County	\$41,260.17	\$45,244.95	9.7%
Macon County	\$42,851.15	\$46,966.19	9.6%
Madison County	\$46,273.09	\$49,512.12	7.0%
Marion County	\$44,376.66	\$47,331.94	6.7%
Richard City SSD	\$40,556.73	\$41,354.72	2.0%
Marshall County	\$45,623.18	\$49,359.70	8.2%
Maury County	\$45,140.33	\$49,252.57	9.1%
Meigs County	\$46,890.43	\$49,707.31	6.0%
Monroe County	\$43,328.82	\$46,839.94	8.1%
Sweetwater City	\$47,863.37	\$52,074.61	8.8%
Montgomery County	\$48,453.01	\$52,809.54	9.0%

District	2014-15	2017-18	Percent increase
Moore County	\$44,461.51	\$48,695.73	9.5%
Morgan County	\$42,547.08	\$45,487.90	6.9%
Obion County	\$44,847.58	\$47,940.09	6.9%
Union City	\$42,994.72	\$49,654.44	15.5%
Overton County	\$42,157.03	\$44,256.59	5.0%
Perry County	\$43,207.86	\$46,436.12	7.5%
Pickett County	\$43,093.83	\$46,628.88	8.2%
Polk County	\$45,660.46	\$51,237.30	12.2%
Putnam County	\$46,617.91	\$48,339.74	3.7%
Rhea County	\$43,142.88	\$44,444.30	3.0%
Dayton City	\$45,607.39	\$48,664.36	6.7%
Roane County	\$49,041.74	\$51,548.80	5.1%
Robertson County	\$42,670.49	\$46,363.05	8.7%
Rutherford County	\$47,539.37	\$52,087.85	9.6%
Murfreesboro City	\$49,000.48	\$54,072.60	10.4%
Scott County	\$42,085.52	\$44,536.39	5.8%
Oneida SSD	\$43,108.60	\$45,294.74	5.1%
Sequatchie County	\$44,006.39	\$46,954.09	6.7%
Sevier County	\$48,282.12	\$51,543.04	6.8%
Shelby County	\$57,354.70	\$56,480.95	-1.5%
Arlington	\$57,247.72	\$60,635.01	5.9%
Bartlett	\$56,752.23	\$57,889.86	2.0%
Collierville	\$57,544.08	\$58,113.69	1.0%
Germantown	\$56,989.52	\$57,487.65	0.9%
Lakeland	\$59,040.49	\$56,432.60	-4.4%
Millington	\$53,344.89	\$55,945.49	4.9%
Smith County	\$41,462.54	\$41,985.77	1.3%
Stewart County	\$44,698.66	\$49,355.66	10.4%
Sullivan County	\$43,802.91	\$47,760.74	9.0%
Bristol City	\$50,398.49	\$54,461.38	8.1%
Kingsport City	\$54,117.40	\$57,440.32	6.1%
Sumner County	\$46,136.83	\$47,367.09	2.7%
Tipton County	\$48,456.93	\$52,040.72	7.4%
Trousdale County	\$41,407.27	\$46,216.81	11.6%
Unicoi County	\$41,835.96	\$45,365.80	8.4%
Union County	\$43,066.52	\$44,233.69	2.7%
Van Buren County	\$43,649.70	\$49,197.21	12.7%
Warren County	\$43,817.65	\$45,674.61	4.2%
Washington County	\$45,241.01	\$48,209.05	6.6%
Johnson City	\$54,336.83	\$58,370.48	7.4%
Wayne County	\$43,533.16	\$46,988.93	7.9%
Weakley County	\$42,678.44	\$45,542.68	6.7%
White County	\$45,002.28	\$49,716.55	10.5%
Williamson County	\$48,270.21	\$51,617.25	6.9%
Franklin SSD	\$54,282.36	\$57,808.40	6.5%
Wilson County	\$44,988.55	\$47,816.86	6.3%
Lebanon City	\$49,582.18	\$54,433.84	9.8%
State average	\$47,979.10	\$50,958.26	6.2%

Appendix B: State BEP Increases for Salaries – A District Scenario

When the General Assembly increases the salary unit cost appropriation, it directly impacts the BEP allocation calculated for each school district. The step-by-step scenarios below show what might happen once a district receives its new state BEP allocation.

Setting the stage:

- Volunteer District employs 250 instructional staff at an average salary of \$50,000 per year.
- Volunteer District already allocates local funds for education above the local required match.
- The BEP funds 230 instructional positions for Volunteer District, based on a salary unit cost of \$47,150.
- The state pays, on average, 70 percent of the Instructional Salary and Benefits categories.
- Volunteer District’s fiscal capacity – the district’s ability to raise local funds for education – matches the state average for a 70/30 state-local split. This means the state funds 70 percent of the BEP instructional salary allocation for Volunteer District.

Scenario One: The district employs more staff than the BEP funds

Volunteer District receives \$33,005 per position in state BEP funding for 230 of its 250 positions.

$$\begin{aligned} \$47,150 \text{ salary unit cost} \times 70\% \text{ fiscal capacity} &= \$33,005 \text{ state funding/position} \\ \$33,005 \times 230 \text{ positions} &= \$7,591,150 \text{ total state BEP instructional funding} \end{aligned}$$

Volunteer District funds its 30 percent share for each position as well as additional above and beyond local funding to pay the average \$50,000 per position.

$$\begin{aligned} \$47,150 \text{ salary unit cost} \times 30\% \text{ local share} &= \$14,145 \text{ local match/position} \\ \$33,005 \text{ state funds} + \$14,145 \text{ local match} &= \$47,150 \text{ total state/local share} \\ \$14,145 \text{ local match} \times 230 \text{ positions} &= \$3,253,350 \text{ local required match funding for 230 BEP-funded positions} \end{aligned}$$

$$\begin{aligned} \$50,000 \text{ average salary} - \$47,150 \text{ state/local share} &= \$2,850 \text{ additional local funding per position} \\ \$2,850 \times 230 \text{ funded positions} &= \$655,500 \text{ additional local funding for 230 BEP funded positions} \end{aligned}$$

Because Volunteer District employs 20 additional positions beyond what the BEP formula funds, it must fund 100 percent of the salaries for these employees.

$$\$50,000 \text{ average district salary} \times 20 \text{ additional positions} = \$1,000,000 \text{ additional local funding}$$

Totals: \$7,591,150 total state funding (61 percent of total district funding for salaries)

$$\begin{aligned} \$4,908,850 \text{ total local funding} &= (\$3,253,350 \text{ local match} + \$655,500 \text{ additional} + \$1,000,000 \text{ for 20 additional positions}) \\ &= (39 \text{ percent of total district funding for salaries}) \end{aligned}$$

Results: State funding is 61 percent of the total district funding instead of 70 percent based on fiscal capacity because:

- The district has more positions than funded by the BEP,
- The district pays its instructional staff more, on average, than the BEP salary unit cost, and
- The district’s fiscal capacity local share of 30 percent for instructional salaries applies only to its BEP allocation. Additional local funds raise its effective share.

Scenario Two: The state increases the salary unit cost by 2 percent...

The state increases the salary unit cost by 2 percent or \$943.

$$\$47,150 \text{ salary unit cost} \times 2\% \text{ raise} = \$48,093 \text{ or } \$943 \text{ increase per position}$$

After the district's 70/30 state-local fiscal capacity is applied, Volunteer District receives \$660 additional state funds for the 230 BEP instructional positions.

$$\$943 \text{ increase per position} \times 70\% \text{ state share} = \$660 \text{ new state funding/position}$$

$$\$660 \text{ per position} \times 230 \text{ funded positions} = \$151,800 \text{ additional state funding for salaries}$$

... and the district increases teachers' pay using only the state increase

Using only the \$151,800 in new state funding for raises, the district must make it stretch across 250 staffed positions, instead of the 230 BEP-calculated positions, thus shrinking the state increase from \$943 to \$607.20 per teacher.

$$\$151,800 \text{ state funds} / 250 \text{ positions} = \$607.20 \text{ state funds per teacher}$$

Added to the average \$50,000 base salary for Volunteer District teachers, this results in an average 1.2 percent state-funded raise for district teachers, from the 2 percent increase to the salary unit cost.

The district raises **no additional local funds** to increase salaries from \$50,000 to \$50,607 for all 250 teachers.

... and the district increases teachers' pay by 2 percent

Volunteer District must increase its \$50,000 average salary by \$1,000 to give a 2% raise.

Volunteer District's local match for the state's increase to salary unit cost is \$283 for the 230 funded positions.

$$\$943 \text{ increase per position} \times 30\% \text{ local share} = \$283 \text{ local match for 230 funded positions}$$

Volunteer District chooses to add to its \$283 local match for BEP positions an additional \$117 in local funding to reach \$1,000 average increase per teacher.

$$\$660 \text{ state} + \$283 \text{ local match} + \$57 \text{ additional local} = \$1,000 \text{ raise}$$

This equates to additional local funds of \$340 per teacher for the 230 funded positions in the BEP, or \$78,200.

$$\$340 \times 230 = \$78,200 \text{ local funds}$$

The district funds the \$1,000 average increase for the 20 positions not funded through the BEP.

$$\$1,000 \text{ local raise per teacher} \times 20 \text{ positions} = \$20,000 \text{ local funds}$$

The district must raise a total of **\$98,200 in additional local funds** (\$78,200 + \$20,000) to increase the average instructional salary from \$50,000 to \$51,000 for all 250 teachers.

In summary, when the state increases the salary unit cost by 2 percent ...

... and Volunteer district passes along only the state increase	... and Volunteer district increases teachers' pay by 2 percent
All teachers in the district would receive a 1.2% raise	All teachers in the district would receive a 2 percent raise
No additional local funding is necessary	An additional \$98,200 in local funds must be raised or transferred from other local services and appropriated by the local funding body



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