



OFFICE OF RESEARCH AND EDUCATION ACCOUNTABILITY

HOW WILL STATE FUNDING CHANGE DURING THE SHIFT FROM BEP TO TISA?



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LINDA WESSON
Assistant Director



JASON E. MUMPOWER
Comptroller of the Treasury

The Basic Education Program (BEP) has been Tennessee's funding formula for K-12 education for 30 years. It determines the total amount of required funding for the state's 141 local school districts and divides the required funding between the state's share and the local districts' share. Most districts provide additional local funding for schools beyond the required local share. The state's share makes up almost 25 percent of all state dollars budgeted. In the last year of the BEP (fiscal year 2022-23), the state budgeted \$5.36 billion to distribute to local school districts under the formula, out of a total \$22.01 billion state dollars. In the first year of TISA (fiscal year 2023-24), the Governor's budget request seeks to distribute \$6.51 billion to school districts under the formula, out of a total \$26.41 billion state dollars.

The state's new replacement for the BEP, the Tennessee Investment in Student Achievement (TISA) formula, adopted by the General Assembly in 2022, and set to be implemented for the 2023-24 school year, also determines total required funding and sets the state and local shares each must contribute to the total funding amount. The changes in how the state allocates funding to local districts does not affect districts' ability to spend education funds as they think best. TISA, like the BEP, is a funding formula, not a spending plan.

The key difference between the BEP and TISA formulas is the unit of funding. The BEP is calculated on itemized resources used by schools and districts and scaled to size based on student enrollment. TISA is calculated on a per-student basis, using student enrollment and students' identified learning needs.

While there are some significant differences in how the new formula works, there are several features that will remain familiar. This brief takes a look at how state education funding decisions will change from the BEP to TISA.

Overview

The key difference between the BEP and TISA is the unit of funding. Whereas the BEP calculates funding for 46 separate resources used in schools and districts and scaled in size based on student enrollment, TISA calculates funding directly by student enrollment and student characteristics, such as special learning needs.

- BEP examples: 25 students generate one classroom teacher position. Each teacher position generates a standard salary unit cost (not related to actual salaries paid). A standard textbook cost-per-student figure is generated from a three-year average of actual textbook costs and multiplied by student enrollment.
- TISA example: a standard base funding-per-student dollar figure is set and multiplied by student enrollment. The base figure includes funding for teacher salaries, benefits, textbooks, and other resources that were calculated separately by the BEP.

Another difference is that where the BEP specified different shares of state funding for the total dollars allocated in four categories of components (75 percent for one category, 70 percent for two categories, and 50 percent for the remaining category), TISA specifies 70 percent state funding for two formula categories and 100 percent state funding for the other two categories. This change, in addition to a prospective large increase in state dollars, is expected to help keep most districts' share of funding from increasing much in the near future.¹

One other notable difference is the greater transparency and clarity of the funding formula, reflected in two ways:

- more of the key elements will be adopted through a public process of law or agency rulemaking, and
- the formula is simpler and therefore easier for non-experts to understand and engage with.

TISA versus BEP

What's in general law?

The provisions of TISA are located all in one, mostly new part of state law, codified as *Tennessee Code Annotated* 49-3-101 through 49-3-115.

The new section of code created by TISA's passage encompasses not only the formula calculation but also the division of funding between the state and local shares, the distribution of funds, requirements for a guide to and training on the formula, district reporting and accountability for how funds are spent, the TISA review committee, and the Tennessee Department of Education's (TDOE's) rulemaking authority.

The statutory prescriptions for the BEP calculation are scattered across several sections of Title 49, Chapter 3, Part 3 of the *Tennessee Code*, among other school funding and appropriation provisions. The most recent (2016) revisions to BEP are found primarily in *TCA* 49-3-307. The state and local funding shares for the four component categories are in that section of the law, as are provisions for calculating English learner teacher and translator positions, special education positions, and the fiscal capacity formula. Separate sections address student transportation calculations (49-3-309); teacher supplies, duty-free lunch, school nurses (49-3-359); state and local funding shares and fiscal capacity (49-3-356); funding for fast-growth districts (49-3-351); and provisions for salaries for director of schools positions (49-3-362).

Many factors used in the BEP calculation are not specified in law. In fact, several sections of law specifically give either the State Board of Education (SBE) or the Commissioner of Education the responsibility to develop portions of the funding formula, which were often only recorded in either the annual BEP Blue Book or the BEP Handbook for Calculation (last updated in September 2018).

Formula elements in the funding calculation

As noted, the TISA formula consists of **base level funding** – a single amount allocated for each student. TISA also includes **weighted funding** – set in law as percentages of the base funding – for students with certain characteristics, based either on where they attend school – a small school district, a sparse school district, or a school with concentrated poverty – or conditions that affect their learning – from an economically disadvantaged background, learning the English language, learning with a disability, or characteristics of dyslexia.^A For example, students attending small or sparse school districts or schools with concentrated poverty will generate an additional 5 percent of the base funding amount. (Weights are cumulative: a student at a school that qualifies for the concentrated poverty weight AND is in a district that is both small and sparse will generate an additional 15 percent of the base funding for that district.) The largest weight is 150 percent generated for students falling into the unique learning needs (ULN) level 10 category. Since the weights are tied to the base funding, any increase in the base funding (through the appropriations act) will automatically increase the amount of weighted funding. Changing the weights, however, would require a change in the general law.

Direct funding is a third category of TISA funding, which is fully funded by the state; no local matching funds are required. Direct funding will be calculated as dollar amounts for specific types of students named in the law – for example, 4th grade students not yet proficient in reading, students enrolled in career and technical education (CTE), high school juniors or seniors taking their first ACT exam or their first ACT retake, K-3 students (for literacy instruction), and public charter school students.^B The direct funding per student will be set through the state budget and appropriations process.

^A A sparse district is defined in TISA to be a county school district with fewer than 25 students per square mile.

^B Technically, the funding covers a postsecondary readiness assessment; for most Tennessee students, that is the ACT.

Finally, **outcome bonuses or incentives** that are established by law as part of TISA are earned by districts based on students meeting specified benchmarks (established in agency rules) in the previous year. Funding for outcome bonuses is subject to available appropriations. A 12-member advisory group will advise the Commissioner of Education annually on outcome bonus criteria and amounts.

In contrast, BEP components were often not stated in law, but were listed in the annual BEP Blue Book, prepared by TDOE and published by the SBE, with the relevant student ratios or cost specifications. Most were based on the average daily membership (ADM) of a school district or grade levels within a district.^c Examples from the *BEP Blue Book* include:

- Elementary school counselor 1 per 500 ADM students (grades K-6)
- Textbooks \$85.00 per ADM student
- Pupil transportation Allocated to systems that provide transportation using a TDOE formula based on the number of pupils transported, number of miles transported, and density of pupils per route mile.

Some components – with district staffing for Response to Instruction and Intervention (RTI2) being a recent example – were added to the BEP calculation through new recurring funds in the state budget and approved as part of the lump sum for the BEP in the General Assembly’s annual appropriations act, but are defined at the district funding level only in the *BEP Blue Book*. Thus, in the fiscal year 2018-19 budget, an additional \$13.3 million was included for a new Response to Instruction and Intervention (RTI2) staff component; the *BEP Blue Book* specified that this equates to one RTI2 staff position per 2,750 ADM, with a minimum of one RTI2 staff position per school district.

Fiscal capacity

Under TISA, the process to equalize local funding requirements based on counties’ ability to raise revenues (their fiscal capacity) remains the same as it did under the BEP. Counties’ ability to raise local tax revenues for K-12 students’ education is calculated under a formula that is, itself, an average of two separate formulas (the Tennessee Advisory Commission on Intergovernmental Relations (TACIR) model and the Boyd Center for Business and Economic Research’s model) used to estimate each county’s fiscal capacity in relation to the other counties. Counties with lower fiscal capacity to raise revenue are considered to need more assistance from the state and districts in those counties receive a higher proportion of state funds available. Counties with higher fiscal capacity are considered able to shoulder more of the education expense themselves and thus receive a smaller share of state funding available.

The local share of education funding (or the local match) is only required for base level and weighted funds allocated under TISA. Statewide, the local match will total 30 percent of the base level and weighted funds allocated under TISA. Direct and bonus funding under TISA have no local match requirements. The TISA law requires that the fiscal capacity formula be evaluated by the Comptroller’s Office and approved by the State Board of Education, and that the annual calculations and data used be reported publicly.

Under a 2016 revision of law, one of the BEP statutes included a more detailed description of the two models used to calculate counties’ fiscal capacity than what is included in the TISA law, but the process of equalizing local match requirements for districts remains unchanged from the BEP formula. Under the BEP, the formula was to be approved by the Commissioners of Education and of Finance and Administration and adopted by the State Board of Education.

^c More specifically, the BEP was based on weighted ADM from the preceding school year, with certain months of enrollment given more weight. TISA will be based on an unweighted ADM average from the preceding school year.

Transparency of the formula calculations and feedback for change

TISA requires TDOE to create a “professional development series,” which is to include an in-depth explanation about how the TISA formula works, as well as guidance on linking budget and spending decisions to investments in stronger student achievement. TDOE must provide the professional development series to various school district and charter school officials and employees at their request. The professional development series must also be made available through TDOE’s website. In addition, TDOE must produce an annual TISA guide specifying the district data that will be used in TISA calculations and the procedures for submitting the data to the department.

The TISA law establishes a standing TISA Review Committee, which will have the same membership and purpose as the BEP Review Committee. Additionally, the TISA law establishes a process for districts to annually provide TDOE and the Comptroller’s office with feedback and recommendations about the formula. The law also requires TDOE to submit an annual report to the General Assembly, beginning in 2025, that includes three groups of data:

- TDOE’s academic analysis of districts, including their state report card results,
- a summary of the districts’ recommendation and feedback, and
- expert feedback, including cost reviews and recommendations.

TISA also creates an advisory group to weigh in on the outcome bonuses portion of the formula.

The main ratios and dollar values of the BEP components were outlined in the annual *BEP Blue Book*, but the details of the calculations were described in the *BEP Handbook for Computation*. Neither document was required by law. The Handbook was first published after a 2010 Comptroller report noted that there was no written procedure for calculating the BEP and has not been updated since 2018. The BEP Review Committee made annual recommendations for revisions to the formula.

What’s in the annual appropriations act?

The annual appropriations act will remain the key source under TISA for determining actual dollars going to local schools, as it was with the BEP. The TISA act contains no actual dollar amounts. The **base funding** per student, on which much of the formula builds, will most likely be requested in each year’s budget proposal and then acted on through the General Assembly’s appropriation act.

TISA’s base funding per student will be the new key dollar figure in calculating Tennessee education funding.

Because the base funding amount now encompasses former BEP components like instructional salaries and benefits and classroom technology and the weighted funding (which is dependent on base funding) covers former BEP components like at-risk students and English language (EL) teachers and translators, some of the separate appropriation act provisions for the BEP will no longer be required.

TISA’s **direct allocations and outcome bonus funding** will also be part of the appropriations act: these are portions of the funding formula that are 100 percent state funded.

Additional elements that are outside of the TISA formula but authorized under the TISA law and “subject to available appropriations” include:

- cost differential factor (CDF) grants for districts in counties in which the cost of living is greater than the statewide average,
- district growth funding, including both fast growth stipends and infrastructure stipends, and

- maintenance of effort grants, available to districts designated as distressed or at risk by the Commissioner of Economic and Community Development if a district’s fiscal capacity or required local match will increase the district’s maintenance of effort funding level.

Under the BEP, the dollar amount funded for each instructional position allocated to districts – or the salary unit cost – was the key dollar figure that determined local education finances. In the appropriations act, it is referred to as “the dollar value of the BEP instructional positions component.” Because the biggest cost to any district is its staff and because the state paid 70 percent of statewide instructional costs computed by the BEP, this figure was crucial to BEP funding. The dollars funded for ratios of teachers, counselors, librarians, principals, assistant principals, instructional supervisors, social workers, psychologists, and RTI staff were all calculated using this salary unit cost. BEP salary calculations also impacted BEP components for retirement benefits, which were based on a percentage of the salary allocation.

The biggest BEP financial driver was the salary unit cost for all instructional positions. In the appropriations act, it was referred to as “the dollar value of the BEP instructional positions component.”

Other BEP calculation variables were included in the appropriations act, such as the state share of funding for district health insurance, total dollar amount for the technology component, and the rate of cost differential factor (CDF) funding. The appropriation act also provided separate state funding, as available, for district growth, and teacher compensation disparity funding for low-paying districts.

Salary Equity and Disparity Funds

One specific element outside of both the BEP and TISA formulas is additional teacher salary funds for low-paying districts.^D Known by multiple names – salary equity, salary equalization, compensation disparity – this additional funding stream actually has a two-part history:

- 1995 – 2004 Appropriations were made for salary equalization in response to Tennessee Supreme Court rulings in 1995 and 2002 on the “Small Schools” lawsuits, until an instructional salary component was added to the BEP formula.
- 2014 – 2022 Appropriations were made for teacher compensation disparity, likely in response to BEP Review Committee reports including analysis showing an increase in disparity between the highest and lowest paying districts.

The passage of TISA is not expected to change the teacher compensation disparity appropriation – still often referred to as “salary equity” – that the state has provided to lower-paying districts for the past nine years. The appropriation was originally distributed to districts in which the average weighted instructional salaries were below the statewide average. As of January 2023, district eligibility for these funds had not been reassessed since the initial appropriation in 2014. In fiscal year 2021-22, 10 districts were eligible for the salary equity funds (with weighted instructional salaries from 0.1 percent to 6 percent below average) but did not receive funds, even as nine districts with above-average salaries (from 0.01 percent to 6 percent) received salary equity funds.

Under the BEP, salary equalization funding was started in 1995 (before the BEP formula included an instructional salary component) as a response to a Tennessee Supreme Court ruling in the case known as Small Schools II.^E Public Chapter 520 was enacted that year to establish a state appropriation to provide additional funds for districts with below-average compensation (including both salary and employer-paid insurance premiums). A \$5 million appropriation was made to be distributed to

^D In addition to salary equity funds, some other funding for local districts will remain outside the state’s funding formula under TISA, as it did under the BEP: Voluntary Pre-k, summer programming, and Lottery for Education Afterschool Programs (LEAPS).

^E For a summary of the Small Schools lawsuits, see <https://tennesseencyclopedia.net/entries/tennessee-small-school-systems-v-mcwherter/> and <https://caselaw.findlaw.com/tn-supreme-court/1066735.html>.

districts for the 1995-96 school year. By 2003, the salary equalization appropriation had grown to \$12.3 million. But the 2002 Tennessee Supreme Court ruling in *Small Schools III* found that the state's existing salary equity plan was not sufficient to equalize salaries. In response, the state increased its salary equalization funding by an additional \$27.2 million for fiscal year 2003-04. In 2004, Public Chapter 670 was enacted, creating a new, fixed instructional salary component for the BEP formula. The 2004 appropriations act directed that former salary equalization funds were to be redistributed through the revised BEP formula and provided an additional \$35 million for the transition to help raise the average salaries for instructional positions funded by the BEP and to ensure no district received less instructional salary funding under the revised BEP system.

In subsequent years, no specific appropriation was designated for salary equalization until 2014, when an appropriation of \$8.5 million was made to address “teacher compensation disparity.”^F In 2015, the amount of this appropriation increased to \$14.5 million, and that same amount has been appropriated every year since and distributed by TDOE to districts with average weighted salaries below the statewide level.

Teacher salary improvements

Despite Tennessee's shift to the student-based TISA formula, one vestige of the resource-based BEP formula remains: a provision allowing the General Assembly to require districts to spend some or all of any funding increases on increasing teachers' salaries. Under TISA, the General Assembly may designate a portion of any increase in TISA base funding solely for salary increases to currently employed educators – defined as those who provide direct service to students at school sites and receive annual evaluations. Teacher salaries are the major resource in providing K-12 education and were the biggest single component funded by the BEP.

Under the BEP, legislators struggled to direct BEP funding increases to teacher salaries, adding a statutory requirement in 2019 for districts to report how they spent funding increases that legislators intended for salary increases and a requirement in 2021 that the budget and appropriations act make distinctions between classroom teachers and other licensed school staff for purposes of salary increases. (Both of these provisions have been eliminated under TISA.) Under the BEP, districts were generally free to spend BEP funding as they wished. TISA is similar in this regard: districts have wide discretion to spend funds as they see fit.

What's in agency rules?

The TISA law authorized TDOE to make rules to implement the funding formula, a first for the department. TDOE's rules for TISA must be submitted to the State Board of Education (SBE) for a recommendation before the official rulemaking process begins. TDOE's pending rules for TISA primarily address student eligibility, district documentation requirements, and specific computations involved in each category of TISA funding.^G Specifically, the rules address:

- student characteristics for each type of weighted funding, particularly the 10 levels of unique learning needs (students with disabilities, characteristics of dyslexia, or who are English learners) and how districts must apply the eligibility requirements to count students for each level of weighted funding;
- the methods to count eligible students for direct funding and specifically how the three levels of career and technical (CTE) programs will be determined;
- outcome bonus criteria and their calculation method (as percentages of the TISA base funding amount);

^F Disparity funding appears to have been implemented following BEP Review Committee reports from 2012 and 2013 that showed rising teacher compensation disparity after the beginning of the 2008 Great Recession.

^G The Joint Government Operations Committee reviewed the TISA rules in January 2023 and approved a positive recommendation. The rules become effective on Feb. 15, 2023, but are subject to final approval of the full General Assembly in its 2023 rule omnibus bill.

- eligibility criteria and process for allocating fast-growth stipends, infrastructure stipends, CDF grants, transition funding (for districts receiving less under TISA than they did under their last year of BEP), and future safety net provisions to ensure districts don't experience declines in TISA allocations of more than 5 percent in one year;
- specific process for computing districts' local match with their fiscal capacity;
- data source and process for counting students in each category of funding; and
- required steps for TDOE, the State Board, and local districts and charter schools if the General Assembly restricts a portion of the base funding amount for educator salary increases.

Under the BEP, neither TDOE nor the State Board of Education adopted rules relating to the calculation or implementation of the BEP formula. Neither TDOE nor SBE was authorized to do so. In fact, while state law directed SBE to develop and adopt policies, formulas, and guidelines for distributing state funds among public schools, the law stated that these were not to be considered rules subject to promulgation under the Uniform Administrative Procedures Act. The board's primary role related to district funding was to approve the department's estimate of BEP allocations by April 1 each year. Calculation specifics not in general law or the appropriations act were determined administratively by the department, and any changes to BEP components were to be approved by the Commissioner of Education and the Commissioner of Finance and Administration.

Endnotes

¹ Mandy Pellegrin, *How Does TISA Affect School Districts' Local Funding Requirements?*, The Sycamore Institute, April 4, 2022, <https://www.sycamoreinstituten.org/how-tisa-affects-school-districts-local-funding-requirements/>. Projections by Sycamore Institute comparing local match requirements of TISA compared to those of BEP were based on the General Assembly not increasing state funding levels more than 3.9 percent annually. As state funding increases, local match requirements also increase. Most districts' level of local funding in 2021-22 was higher than their BEP match requirements or future projected TISA match requirements. Maintenance of effort requirements are projected to keep districts' local funding levels above TISA local match requirements for about 10 years, according to the Sycamore Institute's analysis.

Office of Research and Education Accountability Staff

Director

◆ Russell Moore

Assistant Director

◆ Linda Wesson

Principal Legislative Research Analysts

◆ Kim Potts

Associate Legislative Research Analysts

Erin Brown

Carley Easley

Lance Iverson

David Melendez

Robert Quittmeyer

◆ Dana Spoonmore

Cassie Stinson

Publication Specialist

◆ Paige Donaldson

Program Coordinator

◆ Caitlin Kaufman

◆ Indicates staff who assisted with this project



Office of Research and Education Accountability

Russell Moore | *Director*
425 Rep. John Lewis Way N.
Nashville, Tennessee 37243
615.401.7866
www.comptroller.tn.gov/OREA/