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Funding For Learning:

An Analysis Of K-12 Education Finance In Tennessee



SCORE
State Collaborative on Reforming Education



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Introduction

Does Tennessee spend enough to educate children? Two-thirds of voters and about seven out of ten parents in Tennessee think the state's public schools do not receive enough funding, according to a September 2021 poll commissioned by the State Collaborative on Reforming Education (SCORE). This view is widely held despite state budgeting practices under three governors that since 2010 increased the state appropriations for K-12 education by 20 percent when adjusted for inflation.

Yet, throwing money at a problem does not always yield the hoped-for results. As a fiscally conservative state, Tennessee has insisted on seeing better student performance from increased investment in education. Increases in teacher pay in the 1980s were accompanied by expectations that teachers would develop their professional skills and become better teachers. When Tennessee embarked on major funding increases and reforms in the 1990s, it also introduced more accountability to ensure that spending more resulted in students learning more. Statewide assessment and student growth measures have enabled other components of accountability for educators, schools,

and districts, including better evaluation systems and disaggregated data for assessing whether all students are being served well.

Since 2007, Tennessee students have made record-setting gains in academic achievement. Improved proficiency in reading, math, and science have lifted state performance on The Nation's Report Card from the bottom fifth to near the national average. Looked at that way, Tennessee has seen improved results from increased spending. But digging deeper into state data reveals that the education system has not helped students from historically underserved groups – who account for roughly half of Tennessee's public school students – match the academic performance of their more privileged peers.

This report by SCORE examines the connections between education finance and student achievement in Tennessee and offers a set of student-focused principles, grounded in recent research, to help guide policymakers to a fairer, fuller approach to education funding that will support greater achievement for more students.

Education Finance: Why Now?

Since at least 2007, Tennessee has continually introduced policies tied to improving student academic performance and college and career readiness: high academic standards, strong instruction, and wider and more affordable access to college. Through 2019, the state has made across-the-board improvements in proficiency rates and college enrollment and completion. Nevertheless, 2019 data show that the K-12 education system underperformed for economically disadvantaged students, students of color, and students with disabilities:

- » **Black students were less than half as likely to achieve reading proficiency by third grade than White students.**
- » **English learners and students with disabilities both had college-going rates that were 27 percentage points lower than the state average.**
- » **Hispanic Tennesseans were about half as likely to attain a postsecondary credential as White Tennesseans.**
- » **Economically disadvantaged students were about half as likely to achieve Ready Graduate status versus the state average.**

New research since 2015 has shown that increased funding to address student learning needs can significantly improve academic achievement, high school graduation rates, and life outcomes for students – particularly for students from historically underserved groups.¹ A focus on improving outcomes for students should be wide enough to encompass improving Tennessee's education finance systems. While the state has invested more funding in K-12 education and pursued other improvements, a concerted effort to target state resources to student needs could accelerate the state's overall academic achievement efforts.

The COVID-19 pandemic has underscored and worsened disparities in learning and opportunities and heightened the urgency to address underlying inequities and barriers.² The SCORE poll found that 45 percent of parents believe their child started the 2021-22 school year behind academically, with higher concern among suburban parents and parents of high school students. During the public health crisis, the state has been spending to expand broadband and

technology access for students, develop protocols for safe in-person learning, and invest in online tools for virtual lessons. Across Tennessee, school districts plan to invest about \$4 billion in federal education resources on research-based strategies such as high-dosage tutoring programs and summer learning to get students back on track in their educational journeys.³

Despite a decade of rapid improvement in student achievement, multiple indicators show Tennessee has some ways to go – particularly for students of color, students from low-income households, and students with disabilities. According to the Education Week Quality Counts rankings that incorporate both student achievement and school finance information, Tennessee is close to the national grade on student achievement while sitting at the bottom of the nation for school finance.⁴ If Tennessee seizes the opportunity to improve its education finance systems to address inequities of student opportunity and empower educator leaders to better leverage resources to meet student needs, the state could propel its students toward the top of the nation in student achievement.

Tennessee ranks near the bottom of states on outcomes for economically disadvantaged students despite being at or near the middle of states on the Nation's Report Card for overall education outcomes. Combined with research demonstrating the outsize impact of additional resources on the outcomes for students from disadvantaged backgrounds, Tennessee can catapult to the top of the nation if resources better meet the unique needs of individual students.

The state's primary education finance policy lever is the nearly 30-year-old Basic Education Program funding formula, commonly called the BEP. Despite some changes over the last 30 years, the formula's fundamentals remain the same, but students are living and learning in a very different world.

| | WHEN BEP WAS DEVELOPED IN 1992 | THE WORLD FACING STUDENTS IN 2021 |
|--------------------|---|---|
| COLLEGE AND CAREER | About four-fifths of jobs required only a high school diploma. ⁵ | By 2025, more than half of the jobs in Tennessee will require a postsecondary credential. |
| STUDENTS | The demographic breakdown of Tennessee's more than 830,000 public school students: ⁶ <ul style="list-style-type: none"> » 22.9 percent Black » 0.5 percent Hispanic » 0.9 percent Asian » 75.6 percent White | The demographic breakdown of Tennessee's about 1 million public school students: <ul style="list-style-type: none"> » 24.2 percent Black » 11.8 percent Hispanic » 2.4 percent Asian » 61 percent White |
| TECHNOLOGY | The internet was a 2-year-old invention that didn't become commonplace in homes or schools until later in the decade. ⁷ | School districts across Tennessee raced to provide one computing device per student to access virtual learning during the pandemic. |

For all Tennessee students to be successful, the state should have a K-12 funding formula that conforms to four guiding principles:

- » **Driven by student need:** The state's education funding formula should ensure that funding is structurally rooted in the needs of students and is distributed fairly, in accordance with both students' unique needs and the varying capacity of communities to raise local revenue.
- » **Flexibility and responsibility:** The state's education funding formula should give districts the autonomy to respond to local student needs and empower education leaders to be stewards of resources. The funding system should be understandable and clear enough that parents, taxpayers, and voters have the information they need to assess how well education leaders are using the resources.
- » **Transparency and predictability:** The state's education funding formula should produce predictable allocations based on reproducible data that reflect student needs and empower policymakers and education leaders to make responsible resource allocation decisions.

» **Modernization:** The state's education funding formula should correspond with what is needed to provide an education for all students, today.

While Tennessee has increased funding and added several new components to the BEP formula since its adoption, the overall approach has stayed relatively similar over the last 30 years. As state and local education leaders look to the future and recovery from the pandemic, they should take the opportunity to reassess some of the underlying policies and consider new approaches that can better support students. Given Tennessee's current strong financial standing, multiple indicators of inequitable learning opportunities, and research and data about what works for students, state leaders are in good position to address opportunity barriers for all Tennessee students by modernizing the education finance system.

Education Finance Challenges And The Impact On Students

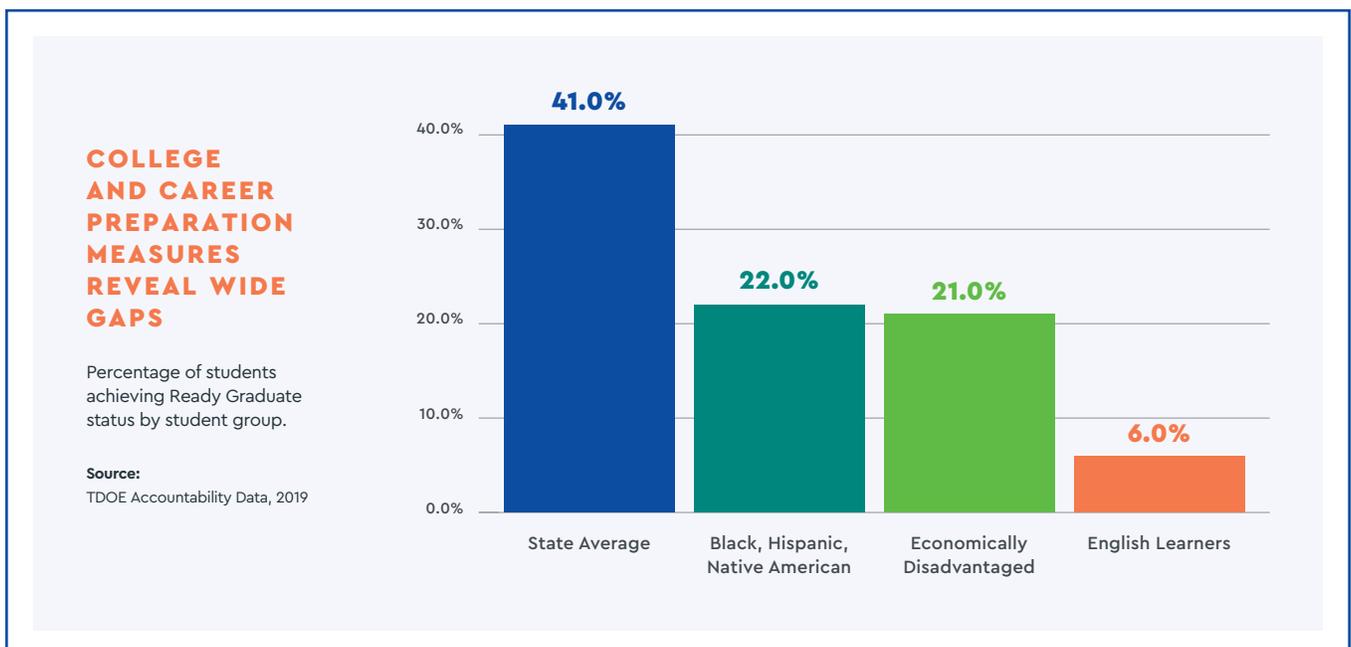
A variety of finance challenges still hinder student opportunities to reach the high expectations the state has set for them. Tennessee must address these challenges to create an education finance system that accelerates student performance and supports better and fairer outcomes for students.

College And Career Readiness: Advising And Advanced Coursework

Today just 22 percent of Tennessee jobs that require only a high school diploma pay more than \$35,000 a year, a key indicator that Tennessee needs to equip a large majority of students to earn postsecondary credentials on the way to a self-sustaining career.⁸ Fewer than two-thirds of Tennessee high school graduates enroll in higher education immediately after high school, and less than half of these students finish within six years. The rate of success for economically disadvantaged students is particularly low. Economically disadvantaged students make up on one-quarter of the state's high school freshman population, and only one in ten economically disadvantaged high school freshmen will attain a postsecondary credential.⁹

The economic benefits of completing higher education are undeniable. Three years after graduation, degree holders earn 1.5 times more than those with only a high school diploma.¹⁰ A 2019 study of labor statistics also projected that through 2026, occupations requiring a postsecondary credential will grow much faster than occupations requiring no credential, diminishing job prospects of Tennesseans with only a high school diploma.¹¹ Tennessee parents identified college and career readiness among the top two categories for increased state spending in the 2021 SCORE poll.

When Tennessee updated its accountability system in 2018, it added a measure called "Ready Graduate" that captures the percentage of high school seniors who met a set of milestones, such as career technical courses or dual enrollment courses, that increase their probability of seamlessly enrolling in higher education and securing high-quality employment. In 2019, schools had supported less than half of all Tennessee seniors to reach Ready Graduate status, with worse outcomes for students who are Black, Hispanic, economically disadvantaged, or learning English.¹²



College and career advisers often drive higher rates of college attendance and persistence, especially for disadvantaged students.¹³ In Tennessee, local education leaders have recognized the need for advising that is focused on postsecondary opportunities and adopted various approaches to providing it: school counselors, dedicated college and career advisers, or nonprofit organizations. While the BEP formula provides funding for school counselors, it falls short of what students need in a world where postsecondary attainment is increasingly necessary for a successful career.

The BEP formula provides funding for school counselors based on student enrollment, but the current workloads are too high and do not encourage innovative approaches.

Under the BEP, one counselor is funded for every 500 students in grades K-6 and 350 students in grades 7-12. In 2019, actual hiring practices in Tennessee indicated these ratios were too high to meet student needs for academic advising, social-emotional counseling, and college and career advising as the statewide ratio is 1:335. This ratio far exceeds the nationally recommended ratio of 1:250.¹⁴ School district leaders tapped into local funds to employ 215 more counselors than the BEP funded.¹⁵ Besides creating an unmanageable counselor workload, the BEP does not encourage or fund innovative approaches to counseling services, such as dedicated college and career advisers. Again, some school districts have used local funds to cover these services, but that option is not affordable for all districts.

Insufficient college and career advising hampers Tennessee's progress on student preparedness.

Tennessee invested in postsecondary preparation by increasing early postsecondary opportunities (EPSOs) – a set of experiences that includes career and technical education, dual enrollment, and Advanced Placement (AP) courses. Recent efforts include the Governor's Investment in Vocational Education (GIVE), the AP Access for All program, and a new state law supporting equitable access to advanced coursework.¹⁶ Wider access to college and career advising will provide students support for the postsecondary planning and decision-making that sets them up to make the most of these opportunities.

Tennessee students cannot benefit from the full potential of the state's work to develop better pathways to college and career, widen postsecondary access with Tennessee Promise, and better connect education and workforce under the current BEP funding formula for advising services.

Students With Disabilities: Meeting Complex Student Needs

Despite recent noteworthy efforts to improve identification and support of students with disabilities (SWD) through initiatives such as Response to Instruction and Intervention and Multi-Tiered System of Supports, outcomes for SWDs continue to trail those of their peers.¹⁷ 2019 data for grades 3-8 indicate that:

» **11.6 percent of SWDs scored on-track or mastered in math vs. 40.8 percent of all students.**

» **7.4 percent of SWDs scored on-track or mastered in English language arts vs. 33.7 percent of all students.**

These stark disparities in performance suggest that SWDs are not receiving fair opportunities for success.¹⁸ Tennessee must prepare all students for fulfilling lives after graduation, and this responsibility cannot be lessened for students with disabilities, who make up about 13 percent of Tennessee's students.

The BEP formula does not reflect the wide-ranging and unique needs of students with disabilities.

The BEP calculates the number of special education positions to be funded based on four levels of student need. At the higher end of the scale, an educator may have a caseload of 91 SWDs who have less severe needs or as few as 8.5 students who have the most severe needs. But the true variation in SWDs is broader, with the state's almost 130,000 SWDs grouped into 13 disability categories, with each category containing a broad spectrum of student needs.¹⁹

The federal funding shortfall contributes to overall resource and opportunity gaps for students with disabilities.

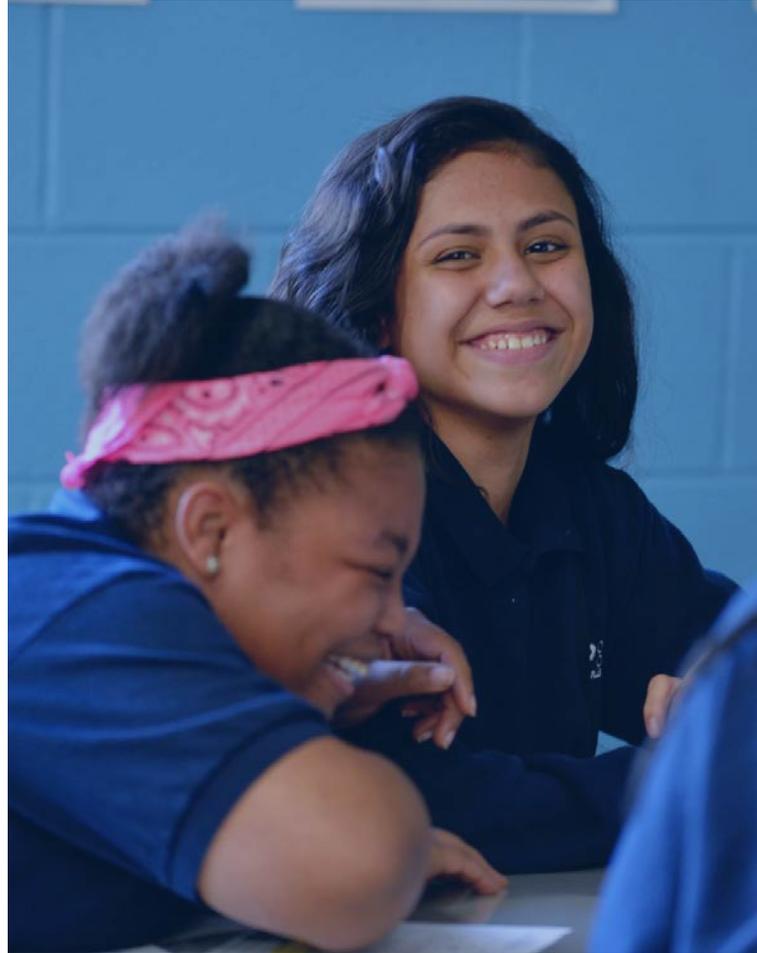
The Individuals with Disabilities Education Act (IDEA) passed by Congress promised to cover 40 percent of the costs to educate students with disabilities.²⁰ As of 2017, federal funds only supplemented 14 percent of special education costs, putting more financial pressure on states and school districts to make up the shortfall.²¹

While the BEP recognizes the unique needs of SWDs, many local communities spend above and beyond what the BEP requires to serve their students. In FY2019, school districts used \$52.6 million in local funding to employ 379 special education teachers and 819 special education assessment

positions beyond what the formula covered.²² The real student needs may be even higher, as districts with less ability to raise local funds struggle to fund and fill the positions their students need.

Students with disabilities need stronger transitions to college and career. School counselors and transition services for students with Individualized Education Plans (IEPs) can improve both college and career outcomes – especially for low-income students.²³ More funding dedicated to both people and services would also provide diverse learners with the opportunities to reach grade-level expectations and prepare for successful futures.²⁴

| DISABILITY CATEGORY | NUMBER OF TENNESSEE CHILDREN (AGES 3 TO 21) |
|----------------------------|---|
| Learning disabled | 37,471 |
| Intellectually disabled | 8,617 |
| Speech/language impaired | 31,950 |
| Emotionally disturbed | 3,240 |
| Autism | 12,533 |
| Health impaired | 18,807 |
| Physically impaired | 575 |
| Hearing impaired or deaf | 1,079 |
| Visually impaired or blind | 522 |
| Deaf and blind | 10 |
| Multi-disabilities | 2,046 |
| Developmentally delayed | 12,222 |
| Traumatic brain injury | 321 |



Rural Students: Stronger Educational Opportunities

Tennessee's estimated 300,000 rural students face significant barriers to success when compared with suburban and urban students.²⁵ While the statewide poverty rate for children is about one in four, in rural areas it is one in three.²⁶ Rates of higher education credential attainment also are lower. And rural communities have less fiscal capacity to support education.

The current school finance system, while accounting for local fiscal capacity, does not include specific consideration of rural challenges including:²⁷

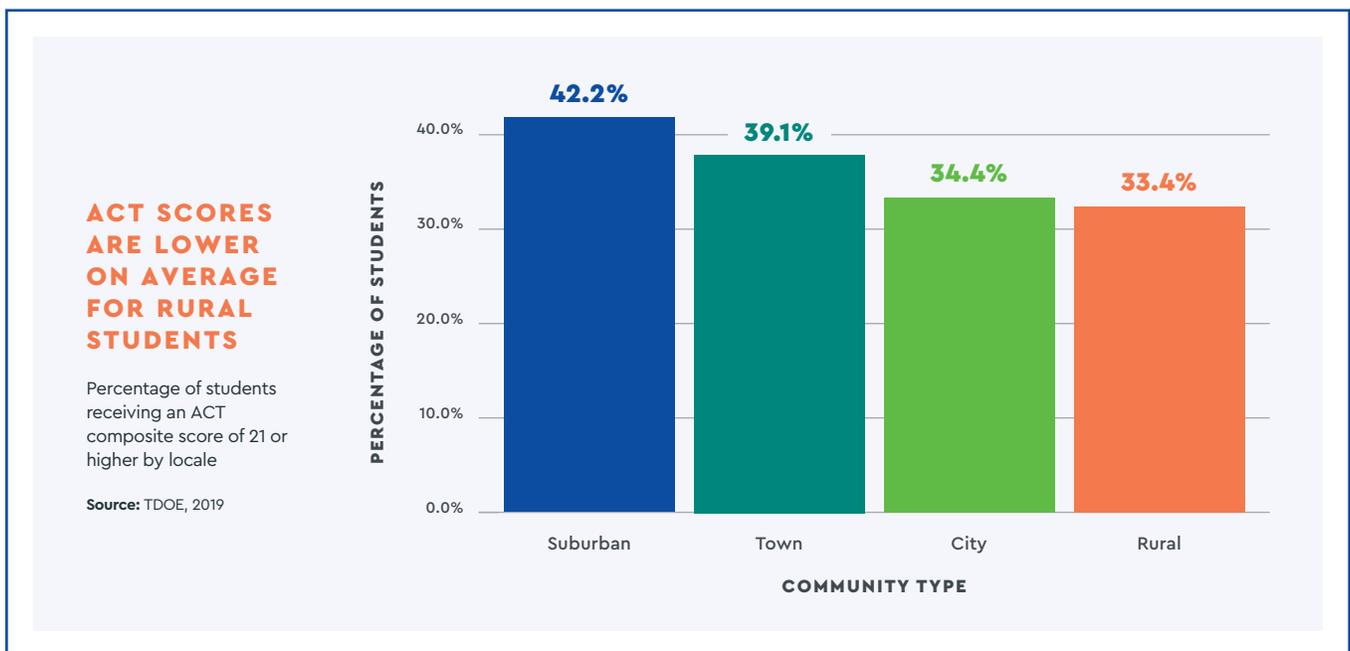
- » Lower population densities and fewer schools that require students to travel farther and greatly reduce the opportunities to achieve economies of scale for services and course offerings
- » Greater difficulties in attracting and retaining educators, and particularly for hard-to-staff subjects such as mathematics, world languages, and career and technical education

» Less student access to healthcare and technology, increasing family reliance on school resources to address these needs

» Higher poverty rates and lower rates of postsecondary attendance and attainment

K-12 education does not have a widely accepted definition of a "rural student," making it difficult for the BEP formula to account for such students, schools, and districts. While the National Center of Education Statistics classifies individual schools as rural, town, suburban, and urban, more than half of Tennessee's school districts have two or more school types within the districts' boundaries. The BEP formula calculates funding by using district and county data, complicating its ability to better target support to rural students.

Tennessee's rural students experience worse academic outcomes. Academic proficiency rates are 13 percentage points lower for rural students than students in suburbs. In 2019, only 33 percent of rural students scored at least a 21 on the ACT, while 42 percent of suburban students met that threshold for a HOPE scholarship for college.²⁸



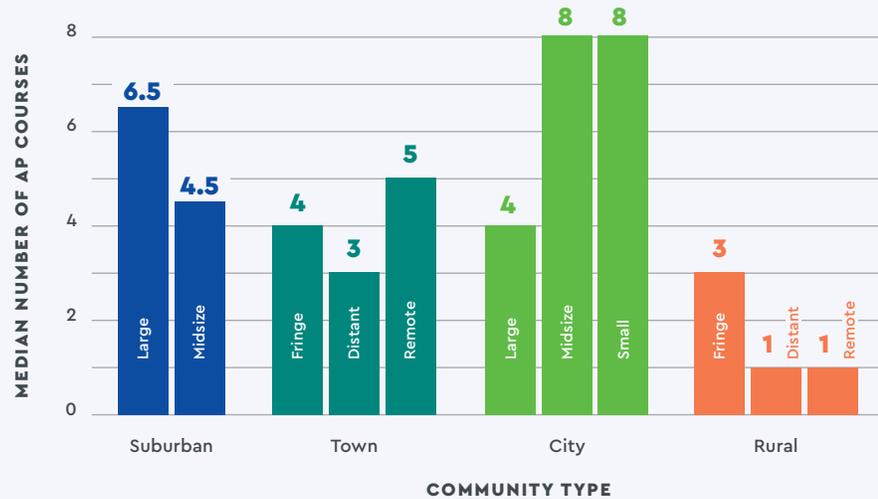
These indicators reflect the barriers within rural communities. Almost 25 percent of rural families lack high-speed internet, and data show rural students have about

half the opportunities for more rigorous classes, such as Advanced Placement, as students in small and mid-sized cities.²⁹

RURAL STUDENTS HAVE LESS ACCESS TO CHALLENGING COURSES

Median number of AP course options by locale

Source: TDOE, 2019



With less local fiscal capacity, rural districts have a harder time attracting and retaining higher skilled educators seeking more resources and better pay, and the BEP does not account for this challenge. Rural schools frequently lack the economies of scale to hire central office or instructional support positions such as instructional coaches and curriculum supervisors, making instructional improvement more challenging.³⁰ Within the BEP formula, only one component – transportation funding – directly responds to unique rural challenges.

To better serve rural communities, Tennessee's school finance system must more fully consider the unique challenges of serving rural students well. Without a more targeted allocation of resources, rural students will continue to carry unequal burdens to achieving success in K-12 and higher education.



Public Charter Schools: High-Quality Options For High-Need Students

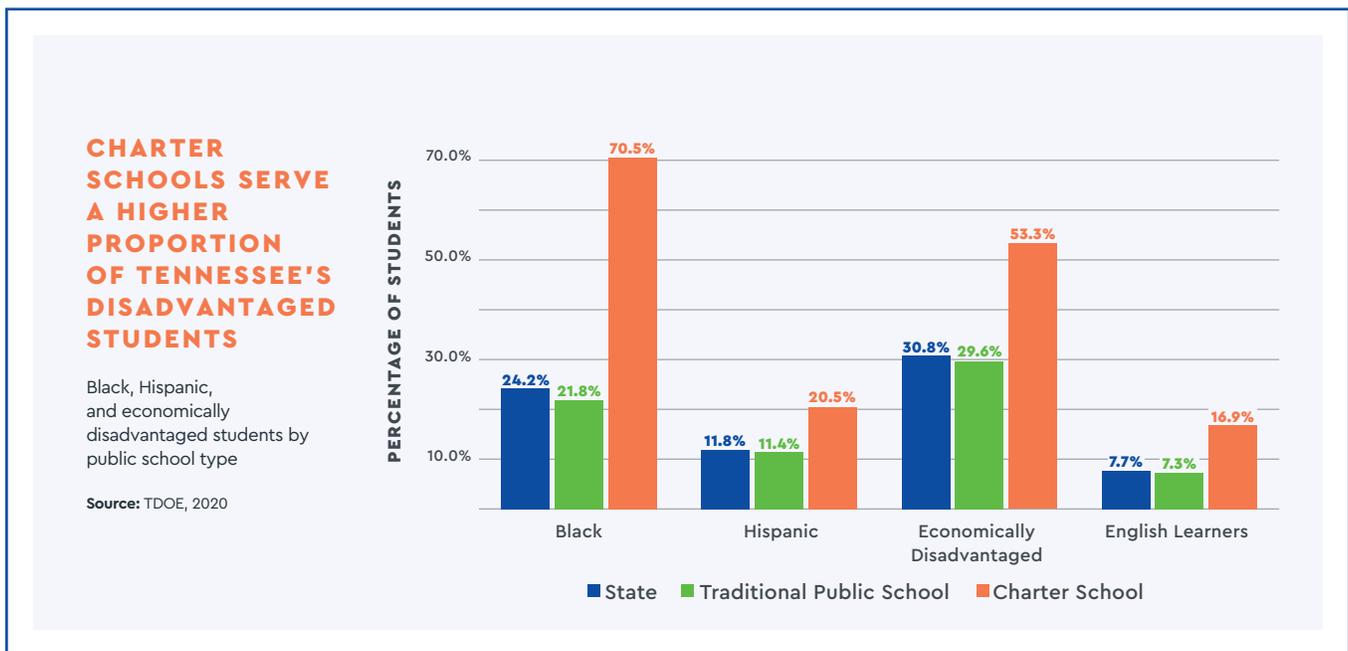
More than 40,000 students in Nashville, Memphis, Knoxville, and Chattanooga attend the state's nonprofit public charter schools, and charter schools serve higher percentages of students of color and economically disadvantaged students. But a charter school's funding is based on the average per pupil expenditure of all students in the district, not on the characteristics of the charter school's student population. This uneven allocation of resources makes it harder for charter schools to fully serve their target communities. To close opportunity gaps and boost outcomes, Tennessee must ensure that its education finance system fairly allocates resources to charter schools to support student needs.

Charter schools demonstrate promising academic results for Black, Hispanic, and economically disadvantaged students.³¹ Pre-pandemic data from Metro Nashville Public Schools show that economically disadvantaged elementary students at charter schools were outperforming those at traditional schools by 5.8 percentage points in ELA proficiency and 13.7 percentage points in math proficiency.³² These data suggest that charter schools may be better at supporting student achievement by students from disadvantaged backgrounds.

However, charter schools face two key challenges that reduce the resources available to students: per pupil funding that is not closely matched to student need and limited facilities funding.

Public charter schools receive per pupil funds based on home district averages. State Board of Education rules require a charter school's per-pupil allocations to be equivalent to the home district's average per pupil expenditures based on their average daily membership (ADM)³³ – inclusive of charter enrollment. While this method links funding to student enrollment, it does not reflect the learning needs of students with disabilities, from economically disadvantaged backgrounds, or who are English Learners. In Nashville, that means public charter schools are educating higher percentages of students from most historically underserved groups with spending that is less compared to traditional district schools.

Public charter schools consistently report that securing adequate facilities funding is a challenge. With lower facilities allocations than traditional public schools, charter schools end up spending an estimated 10 percent of per-pupil funding on facility costs.³⁴ This 10 percent equates to about \$1,000 per student that is diverted from student supports and instruction to provide a place for students to learn. In Nashville, that means public charter schools have been educating higher percentages of students from various historically underserved groups with lower spending compared to traditional district schools.



Teacher Compensation: Making Pay More Competitive

The best way a school can improve learning is to provide students with great teachers.³⁵ Tennessee has recognized this fact with decades of nationally leading work to improve teacher quality, teacher compensation, and the teaching talent pipeline.

- » **Teacher compensation:** Tennessee has made recurring investments of over \$1.5 billion in teacher salary and benefits since FY2000.³⁶ During the same time, overall K-12 education funding increased \$2.5 billion. Tennessee's public pension system serving teachers and other public employees is among the highest rated in the nation, providing a reliable source of compensation in retirement.³⁷
- » **Teacher quality and evaluation:** Tennessee teachers have consistently reported on the state's annual survey that teacher evaluation is supporting improvements in teaching and student learning, and research has confirmed that the rate of year-over-year improvement in teaching increased following the state's teacher evaluation reforms.³⁸

- » **Teacher pipeline:** Tennessee has focused on improving teacher preparation, retention, and diversity. The state adopted an education preparation program report card that incorporates student outcomes, supported grow-your-own programs to expand high-quality access to the teaching profession, and codified district-level teacher diversity goals to improve the racial and ethnic diversity of the teacher workforce.³⁹

Even with these strong policies and practices intended to make Tennessee the best state to be a teacher, teacher compensation remains low compared to the nation and the Southeast. In the 2021 SCORE poll of parents and voters, improving teacher pay was identified as the top priority for increased state funding for K-12 education.

The structure of the BEP makes it difficult for state-level policymakers to ensure that their increases to teacher compensation funding will lead to raises in teachers' paychecks. As detailed in previous sections, the BEP does not generate funding for all the positions districts need to serve students well. The BEP gives districts great flexibility in how they use state salary funds, allowing a portion of compensation increases to be directed to funding the rising cost of benefits or filling unfunded but essential positions. The BEP also allows districts with a strong stream of locally generated revenue to use it as local leaders see fit. The cumulative effect of these elements dilutes the impact on overall teacher compensation when state policymakers choose to invest in teacher salaries.⁴⁰







The Basic Education Program

The Basic Education Program provides the framework for K-12 education funding in Tennessee. The Tennessee General Assembly created the BEP in 1992 to determine the funding for a set of core components deemed necessary for a basic education and has updated it twice in 29 years. It is a resource-based formula that determines the cost of delivering education based on the cost of specific resources like teacher salaries and instructional materials – one of the few remaining such formulas in the country today.

A resource-based formula: The BEP calculates and distributes funding across four K-12 education categories based almost entirely on a school district's average enrollment and with little consideration of student needs.

1. Instructional salaries. This category supports compensation costs for teachers, principals, counselors, librarians, and other school personnel that provide instructional leadership and support for students. The state funds an average of 70 percent of this calculation.

2. Instructional benefits. This category covers retirement contributions and insurance premiums for the positions in the instructional salaries category. The state funds an average of 70 percent of this calculation.

3. Classroom costs. This category supports costs related to the classroom: funding for at-risk students, textbooks, instructional equipment, technology, nurses, and instructional assistants. The state funds an average of 75 percent of this calculation.

4. Non-classroom costs. This category is for expenses related to district operations and maintenance, such as superintendent compensation, maintenance and operations, and construction and other capital funding. The state funds an average of 50 percent of this calculation.

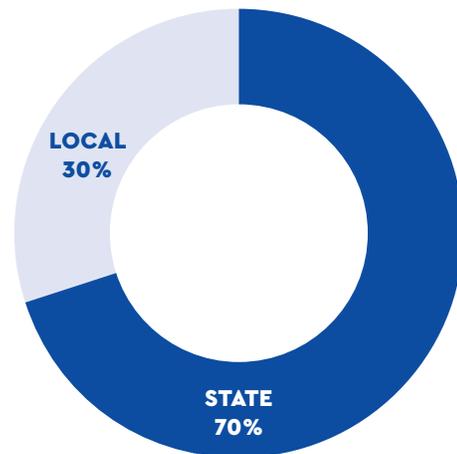
BEP CALCULATES FUNDING BASED ON ENROLLMENT, UNIT COSTS

1. The BEP formula calculates total education funding for each district based on 46 components.
2. It then assigns the statewide share and local share for each component category.
3. The formula calculates each district's local share using two fiscal capacity models.
4. At their discretion, local governments contribute additional funds beyond what the BEP requires.

24 COMPONENTS IN INSTRUCTIONAL SALARIES AND BENEFITS

| | |
|-----------------------------------|----------------------------|
| Teacher | Asst. principal elementary |
| CTE teacher | Asst. principal secondary |
| SPED teacher | Instructional supervisor |
| Elementary counselor | SPED supervisor |
| Secondary counselor | CTE supervisor |
| Elementary art teacher | SPED assessment staff |
| Elementary music teacher | Social worker |
| Elementary librarian | Psychologist |
| Secondary librarian and assistant | RTI staff |
| ELL instructor | Staff insurance |
| ELL translator | Staff benefits |
| Principal | Staff retirement |

STATEWIDE SHARE OF FUNDING: INSTRUCTIONAL



DEFINITIONS

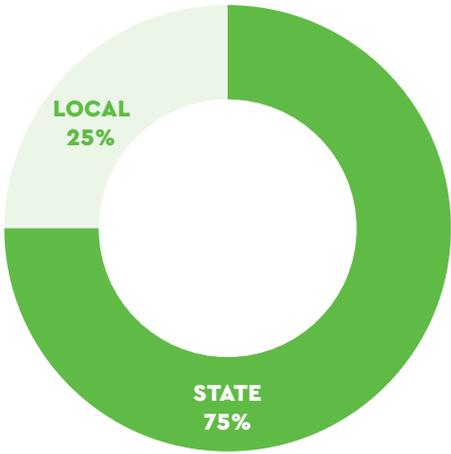
- CTE: career & technical education
- SPED: special education
- ELL: English learner
- RTI: response to intervention



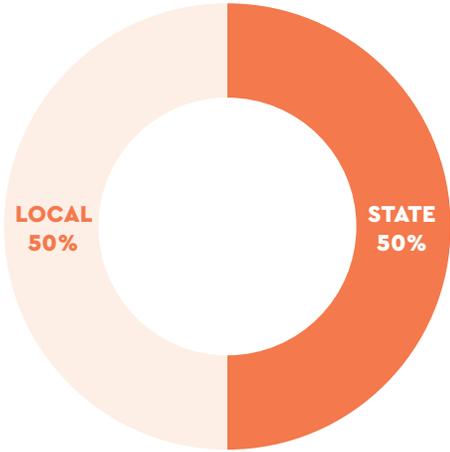
| 14 COMPONENTS IN CLASSROOM | |
|----------------------------|-------------------------|
| At-risk students | Technology |
| Duty-free lunch | Nurses |
| Textbooks | Instructional assistant |
| Materials & supplies | SPED assistant |
| Equipment | Substitute teacher |
| Classroom travel | Alternative school |
| CTE transportation | Technology |

| 9 COMPONENTS IN NON-CLASSROOM | |
|-------------------------------|----------------|
| Superintendent | Equipment |
| Secretarial support | Transportation |
| Tech coordinator | Staff benefits |
| School secretary | Capital outlay |
| Maintenance & operations | |

**STATEWIDE SHARE OF FUNDING:
CLASSROOM**



**STATEWIDE SHARE OF FUNDING:
NON-CLASSROOM**



FISCAL CAPACITY INDEX

FACTORS CONSIDERED:

1. Local revenue
2. Property tax base
3. Sales tax base
4. Per-capita income
5. Residential tax burden
6. Enrollment

FACTORS CONSIDERED:

1. Property tax base
2. Sales tax base

**50% TACIR
MODEL**



**50% CBER
MODEL**

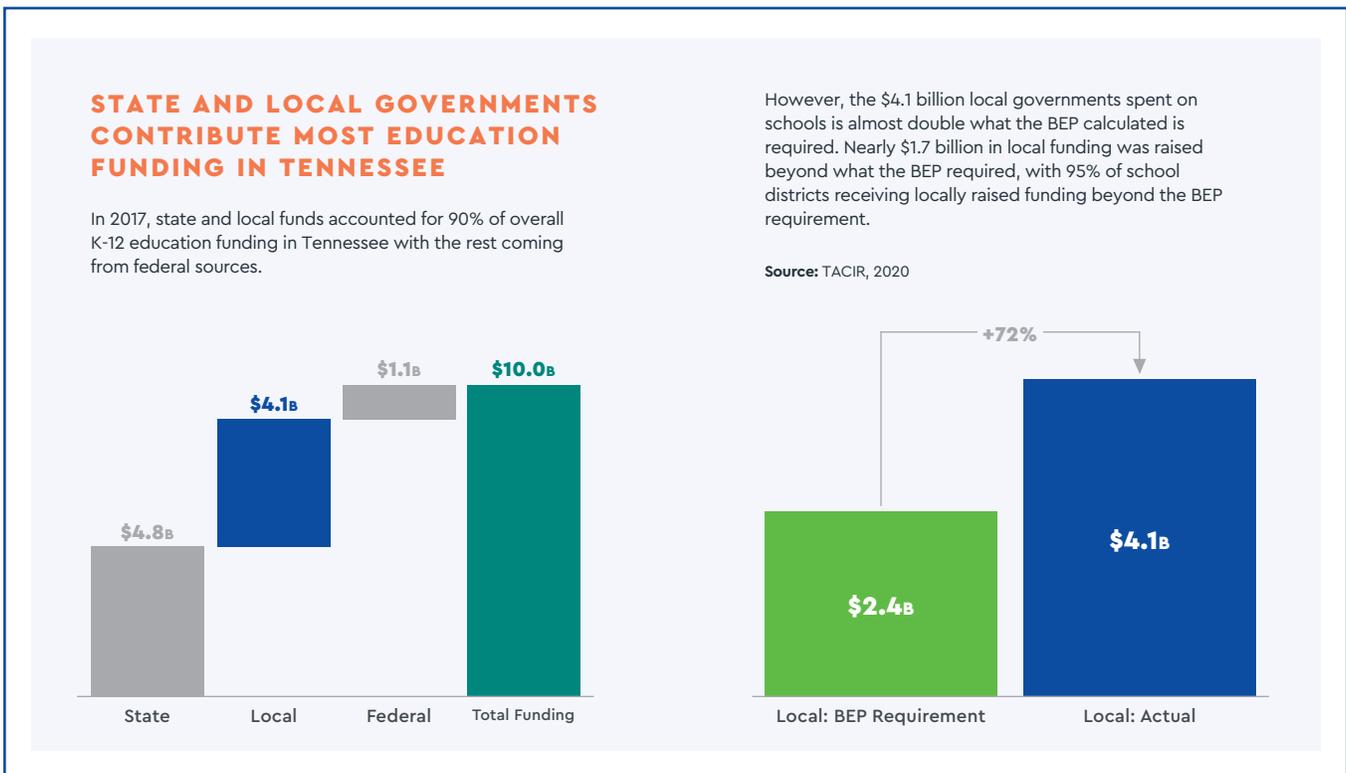
Complex accounting of local ability to pay: The BEP adjusts the state share of education funding annually based on each county's relative ability to fund education from local revenue sources – known as a county's fiscal capacity. Tennessee's method creates complexities not seen in other states.

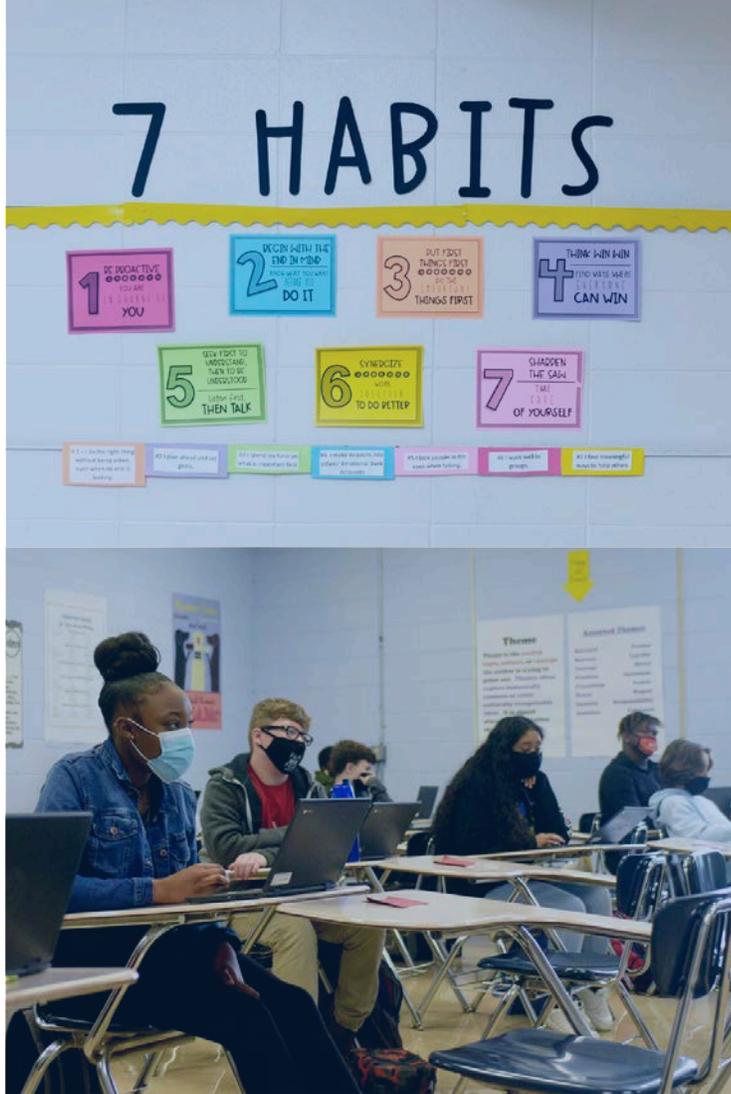
- » **Fiscal capacity formula:** A fiscal capacity index is used to determine a county's ability to fund education locally. The index does not measure what is raised, but what *could* be raised at the local level as a percentage of total local funding required across all counties. This percentage is then applied across each component category.
- » **State funding determination:** The fiscal capacity measure also determines how much funding the state provides to individual school systems. For example, the state may fund as much as 90 percent of the instructional costs to a school system with weak fiscal capacity or as little as 50 percent for wealthier counties.
- » **Two fiscal capacity models:** Tennessee uses two models to calculate each county's share of the overall local portion of BEP funds. The Tennessee Advisory Commission on Intergovernmental Relations' (TACIR) regression model considers local revenue, property

tax base, sales tax base, per capita income, residential tax burden, and student enrollment compared to total population. The University of Tennessee's Center for Business and Economic Research (CBER) model considers the property tax base and sales tax base. When comparing the two models in 2020, the TACIR model generates a lower fiscal capacity calculation for 104 school districts representing just over 500,000 students and the CBER model generates a lower fiscal capacity calculation for 37 school districts representing over 400,000 students. The use of two models is rare in the nation.

Local funding, statewide challenges: BEP is a significant, but incomplete, view of today's overall K-12 education funding landscape. Local funding behavior indicates BEP is out of step with the actual costs of educating students. Paradoxically, local spending has effectively lowered the proportion of overall education spending that comes from the state.

In 2017, the BEP generated a total of \$7.2 billion in state and local dollars for K-12 education out of approximately \$10 billion in overall K-12 funding. The state share of BEP funds – approximately \$4.8 billion – amounts to 95 percent of all state K-12 education investments. The following chart shows how those funds break down:





While Tennessee has fulfilled the state share of BEP funding obligations, there is considerable evidence that the current formula does not fully support the real costs of educating today's students:

- » **The current level of funded positions falls short of best practices.** While the state has met its BEP obligations, the hiring activity of local school districts suggest the formula's staffing assumptions are insufficient to support students. For example, BEP funds school nurses at a ratio of 1 nurse to 3,000 students while national best practices suggest a ratio of 1 nurse to 750 students.⁴² As a result, school districts often rely on local funding to meet student needs.
- » **Local funds above and beyond BEP drive inequities.** Almost all state funds for K-12 education are provided through the BEP, but 135 of 141 school districts invested additional funds over and above the BEP's requirements

in 2017, according to a TACIR report. TACIR reported that school districts received \$1.7 billion from local sources above and beyond what was required in the BEP.⁴³ Positions funded beyond BEP include more than 2,300 high school teachers and 1,200 assistant principals across the state.

In making its calculations, the BEP factors in both state and local funding and presumes that the state will cover about two-thirds of the costs in the formula. Yet when the actual revenues going to schools are factored in, the percentage of education spending covered by the state drops. When the \$1.7 billion in local funding outside of the BEP was included in total spending in 2017, the proportion of state contributions to actual education spending fell to less than half (48 percent). Because affluent districts can raise more money for schools, they also can provide wider and better education opportunities than less affluent districts can.

How We Got Here: A Review Of BEP Legislation

Over the last three decades, discussions about K-12 funding have centered on the role of the state in distributing sufficient funds to each school district, targeted or increased funding for student groups with greater needs, meaningful investments in teacher compensations, and adjustments to

consider local ability to fund education. SCORE reviewed the development and changes to the BEP from 1992 to today to better understand the legislative history of Tennessee's education finance system.

| | 1992 EDUCATION IMPROVEMENT ACT | 2007 BEP 2.0 | 2016 BEP ENHANCEMENT ACT |
|---|--|---|--|
| OVERALL | Outlines specific BEP categories and certain components, with state paying 75% for classroom category | New, simpler fiscal capacity model developed by CBER | State's largest single education investment without tax increase (\$223M) |
| SELECT COMPONENT IMPROVEMENTS | Superintendent, nurses, transportation created as part of original BEP components | Increased investments for at-risk students, English learners | Classroom technology, medical insurance, salary investment |
| TEACHER SALARIES | Teacher salaries and benefits not central to discussion | Salary component set at \$38,000 | Salary component set at \$44,430 |
| RESPONSIVENESS TO STUDENT ENROLLMENT | Enrollment growth of more than 2 percent leads to use of current year enrollment numbers | Provides 100% funding increase for increase of one student in current year | Students entering or exiting school districts impact funding |
| EQUALIZATION AND FISCAL CAPACITY | TACIR model: Greater consideration of local ability to pay | CBER model: Simpler consideration of local ability to pay | TACIR and CBER model, 50/50 split |

1992: The Basics Of The Basic Education Program Take Shape

The **Education Improvement Act (EIA) of 1992** created the BEP as part of a sweeping package of changes that addressed numerous aspects of Tennessee's education system. Two pieces of context are important to understanding the construction of the BEP. After 77 small schools prevailed in a lawsuit that challenged the constitutionality of the state's school funding scheme because it didn't account for differing fiscal capacity at the local level, legislators were up against a court-set deadline to create a new funding system by June 30, 1992. Second, an economic recession had sapped Tennessee's revenue stream, and the FY1992 budget had implemented state spending cuts of \$300 million, including \$113 million to K-12 education and \$65 million to higher education. The BEP was built in the wake of a downward trend in state financial support for Tennessee students and schools.⁴⁴

The EIA created the basic BEP architecture, still in use today, by:

- » Specifying the BEP categories and certain components
- » Setting the state share of funding at 75 percent for the classroom category and 50 percent for the non-classroom category
- » Using previous year enrollment to determine how to distribute state spending to school districts

» Recognizing the differing abilities of counties to fund education by requiring an equalization formula. This became known as the TACIR model because it was developed by the Tennessee Advisory Commission on Intergovernmental Relations.

The EIA also introduced increased accountability, including the first State Report Card, a value-added measure of teacher effectiveness, and a new selection process for school district directors.⁴⁵

Legislative debate during the 1992 General Assembly also noted the absence of action on teacher salaries. This would be addressed later in response to subsequent lawsuits from the small school systems in 1995 and 2002. These lawsuits noted the disparities created between districts when teacher salaries – which account for nearly a third of the funds generated by the BEP in 2021 – were not appropriately considered in the formula.⁴⁶

“Teachers are the most important ingredient in this whole program because they have to see that our children are taught I think they have been ... overlooked.”

**REP. RICHARD H. NUBER,
FEBRUARY 24, 1992,
ON THE HOUSE FLOOR.**



2007: Moving Beyond How Funds Are Shared Toward Addressing Student Need

In 2007, **BEP 2.0** established a new simplified method for determining local ability to fund education by factoring in both local sales taxes and property taxes. It added funding for at-risk students and students learning English and allowed for increasing current-year funding in districts with large enrollment growth. BEP 2.0 addressed teacher compensation in two ways: by raising the state's share of funding for instructional positions and updating the unit cost for salaries to \$38,000 to better account for competitive teacher pay.

"We can be proactive and thoughtful and think about what have been identified for many years as structural and funding measures that are broken No one is arguing that this education proposal is going to cure every ill in Tennessee, but in my mind, this is significant in that this gives an opportunity to have a conversation about where do we want our students to go in this economy instead of talk about what's broken. It creates an opportunity for this state to do what I think we're in the business of doing, which is preparing students for the global marketplace."

**SENATE EDUCATION COMMITTEE CHAIR
JAMIE WOODSON, MAY 23, 2007, IN
SENATE EDUCATION COMMITTEE**

A major theme of the 2007 legislation was to proactively align the state's goals for K-12 education and the funding formula that supported it. Legislative discussions emphasized the additional needs of economically disadvantaged students and English Learners and the necessity to prepare students for college and career with programs like the Tennessee Diploma Project, which raised academic standards and graduation requirements. A few years later, these conversations would accelerate during Tennessee's First to the Top reform efforts that focused on college and career ready academic standards, aligned state assessments, accountability, and improving the state's lowest-performing schools.

2016: Increasing Investment In Students

The BEP Enhancement Act of 2016 changed K-12 funding by codifying existing practices regarding the definition of economically disadvantaged students, the resource-based structure of BEP's four categories, and measuring fiscal capacity with both the TACIR and CBER models. The complexity and related opaqueness of the BEP today is partly the result of these decisions. By formalizing the use of two fiscal capacity formulas on top of a 46-component resource-based allocation formula, Tennessee ended up with one of the most complex state funding formulas in the country.



Education Finance Today

The BEP provides approximately 95 percent of all education funding from the state, making it Tennessee's primary tool to fairly fund across districts and address related gaps in student opportunity.⁴⁷ Although there is no perfect education finance system across states, recent research shows that state finance reforms have often resulted in improved outcomes for students, especially for students who come from disadvantaged backgrounds.⁴⁸

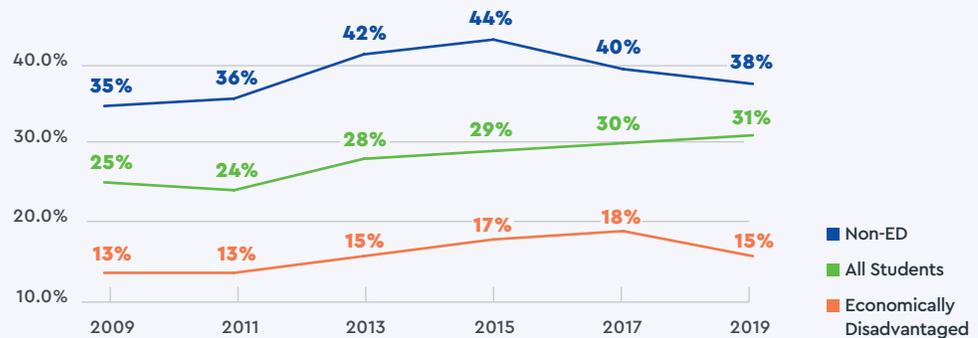
In its current form, Tennessee's cumbersome education finance system has stymied progress in delivering to all students the education they need to succeed in college, career, and life.

Tennessee academic achievement has improved overall, but disadvantaged students are behind. Tennessee has made significant education improvement in the last decade, climbing from the bottom fifth of states to reach the national average. However, the state's higher ranking has been achieved largely through gains in academic performance by higher income students. Over the past 10 years, economically disadvantaged students have seen little growth in math and concerning declines in reading scores on the National Assessment of Educational Progress (NAEP) despite an overall increase in the state averages. Tennessee cannot reach the top tier of states in education until it helps economically disadvantaged students catch up to their more affluent peers, and it will take more funding to do that.

MATH PROFICIENCY IMPROVES, BUT A WIDE ECONOMIC GAP REMAINS

Tennessee eighth-grade math scores on NAEP

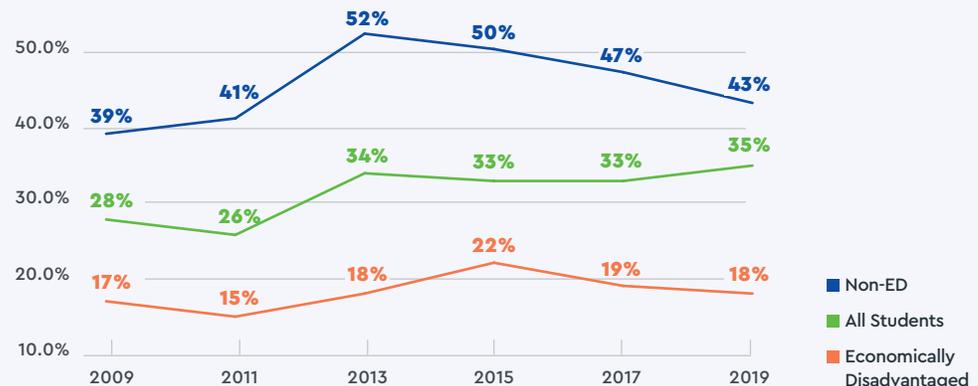
Source: NAEP, 2009-2019



EARLY READING PROFICIENCY RATES FOR LOWER INCOME STUDENTS HAVE CHANGED LITTLE IN 10 YEARS

Tennessee fourth-grade reading scores on NAEP

Source: NAEP, 2009-2019



The Tennessee education finance system is rated among worst in the nation. Tennessee's finance system has earned a ranking that sits among the lowest in the nation.⁴⁹ According to Education Week's Quality Counts analysis of state education systems, Tennessee received a D+ (69.0) in school finance against a national grade of C (76.1), ranking among the bottom 10 states nationally and third lowest in the Southeast, ahead of Florida and North Carolina.

The overall school finance grade consists of two scores:

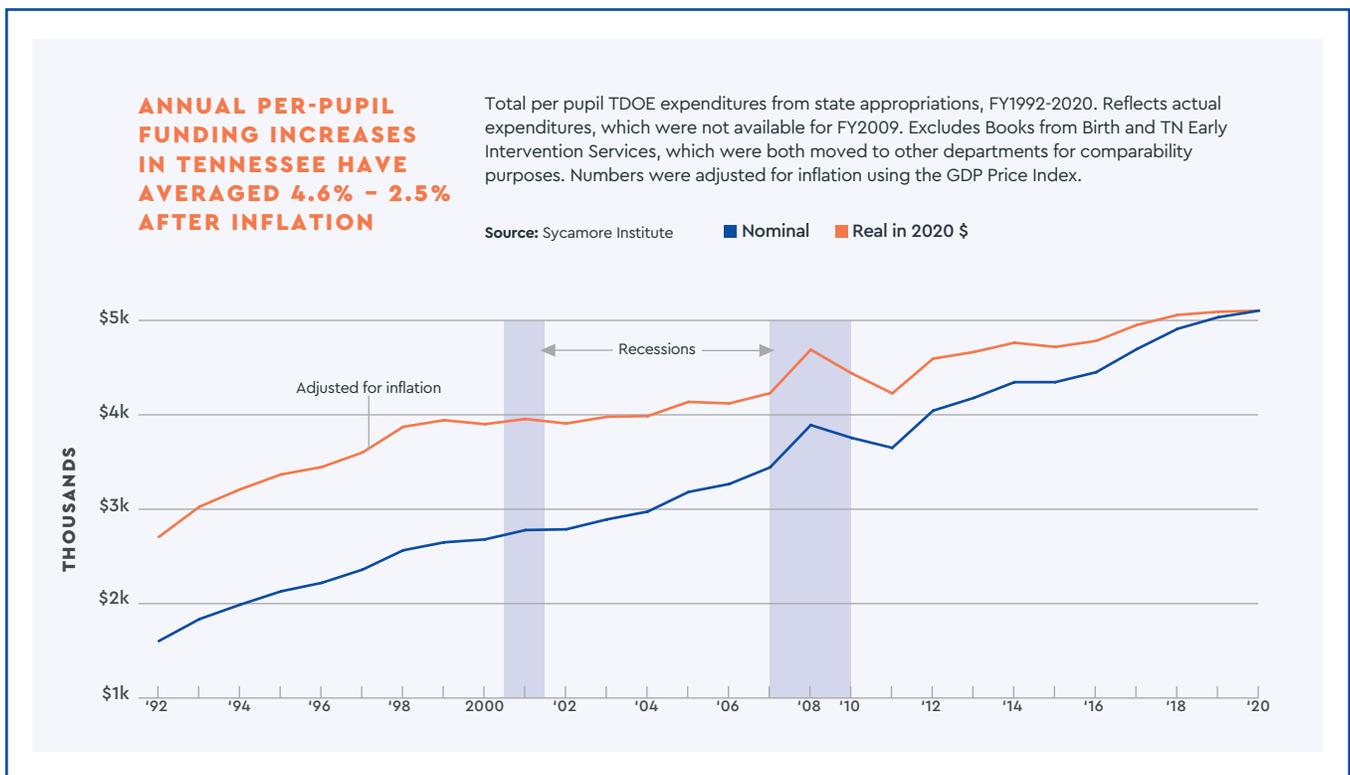
- » **Spending:** how much money was spent on education in terms of total per pupil expenditures and as a portion of taxable revenue.
- » **Allocation:** how equally are high- and low-poverty districts funded and what is the gap in average funding between such districts.

Tennessee received an F in spending, scoring almost 20 points shy of the national grade. Despite receiving an A for how equally funded high- and low-income districts are, this does not reflect a fair finance system. Districts with similar enrollments receive relatively similar amounts of total funding despite disadvantaged communities likely needing more resources to ensure equal opportunities for their students.

Research makes clear that the benefits of more resources accrue much more dramatically to students from low-income backgrounds and that education funding formulas should use weights to better target funding to these students.⁵⁰ Tennessee cannot be a national leader in education without ensuring more supports are available to the most disadvantaged students.

Tennessee has raised K-12 education spending but not enough to overcome the low base set in 1992. Tennessee has demonstrated a commitment to increasing education funding by raising contributions toward the Basic Education Program (BEP), with an average inflation-adjusted increase in funding of 3.4 percent each year over the past 30 years. The per pupil expenditure has gone up about 2.5 percent per year when adjusted for inflation.⁵¹ Despite its willingness to invest more in students, Tennessee still spends \$3,000 less per pupil than the national average because of the very low base of state investment set in 1992, \$1,500 per pupil.⁵²

The base was set amid difficult economic conditions. News articles from the time noted major economic headwinds that began in 1990, ending the longest peacetime economic expansion.⁵³ With reliance on sales tax as a major revenue source and a recession recently ended, the state had limited fiscal capacity when BEP was adopted.

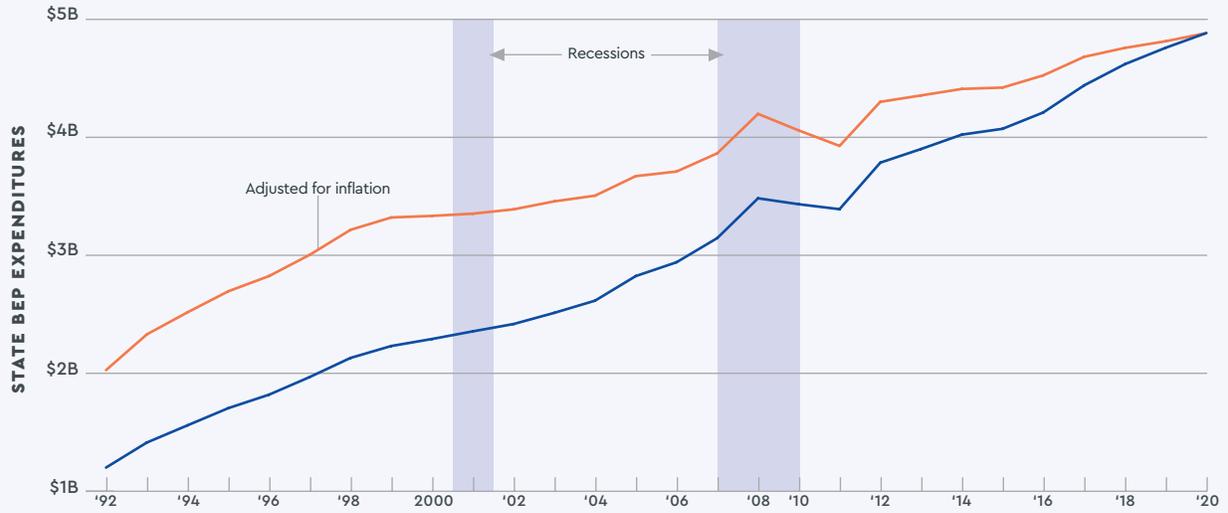


ANNUAL BEP FUNDING INCREASES HAVE AVERAGED 5.5% - 3.4% AFTER INFLATION

Total BEP expenditures from state appropriations FY1992-2020. Reflects actual expenditures, which were not available for FY2009. Numbers were adjusted for inflation using the GDP Price Index.

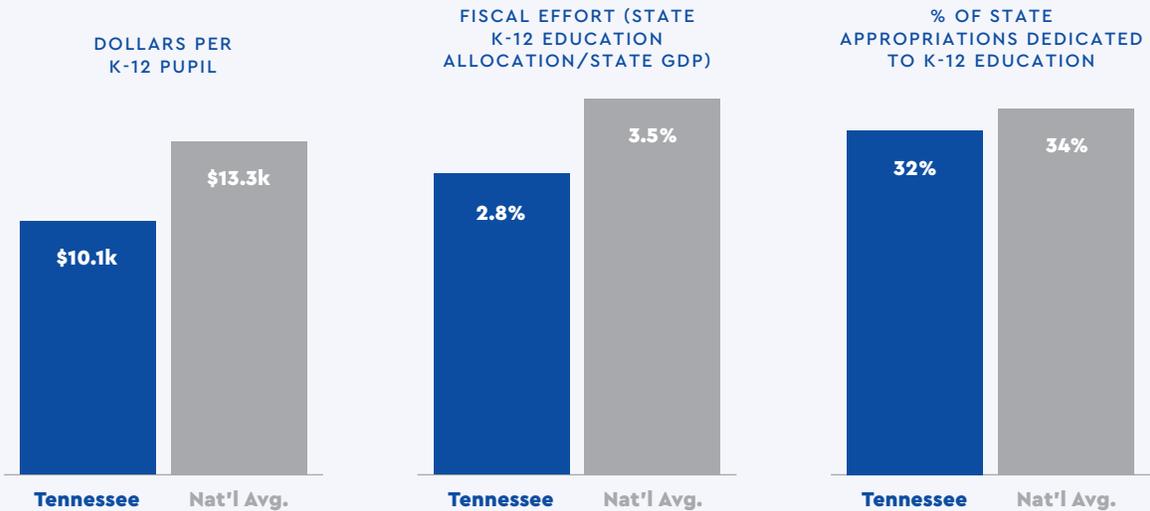
Source: Sycamore Institute

■ Nominal ■ Real in 2020 \$



MULTIPLE PERSPECTIVES SHOW TENNESSEE TRAILING NATION IN STUDENT INVESTMENT

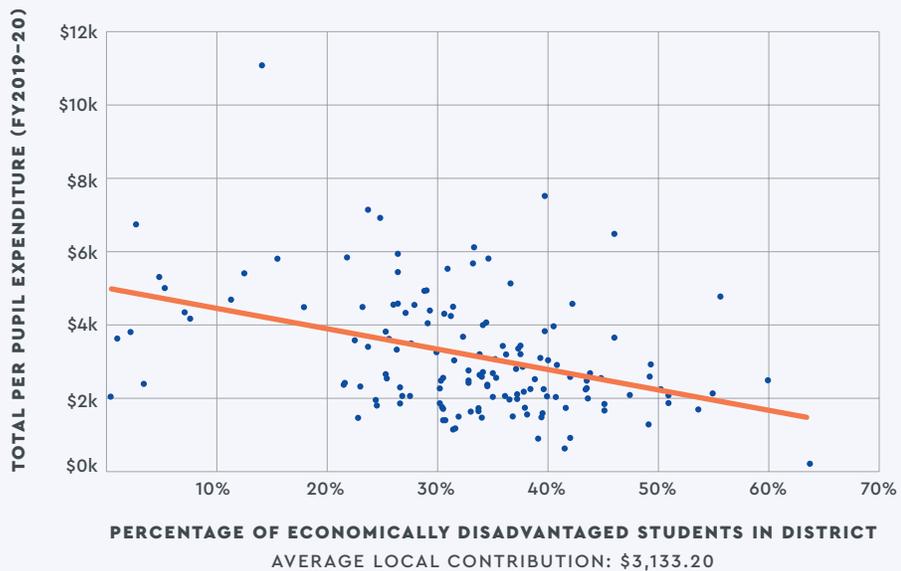
While there is no consensus about the amount that Tennessee should spend on K-12 education, current education funding levels show Tennessee trailing the nation by a variety of measures. From regionally cost-adjusted per pupil funding to state fiscal effort, Tennessee has room to grow just to arrive at the national average.⁵⁴



DISTRICTS WITH MORE HIGH-NEED STUDENTS TEND TO HAVE FEWER LOCAL RESOURCES

Expenditures from local sources vs. poverty

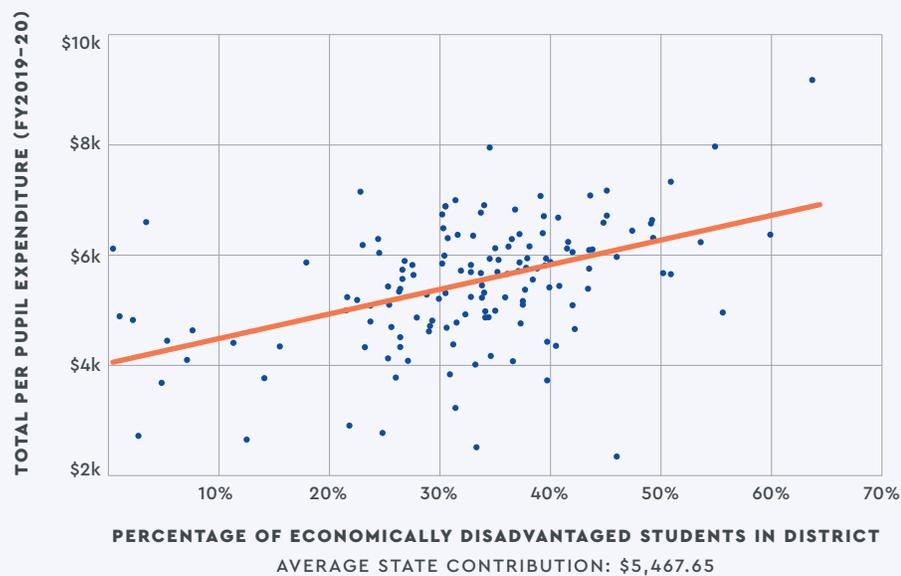
Source: TDOE, 2020



ALTHOUGH THE BEP DIRECTS MORE STATE RESOURCES TO DISTRICTS WITH HIGHER POVERTY RATES...

Expenditures from state sources vs. poverty

Source: TDOE, 2020



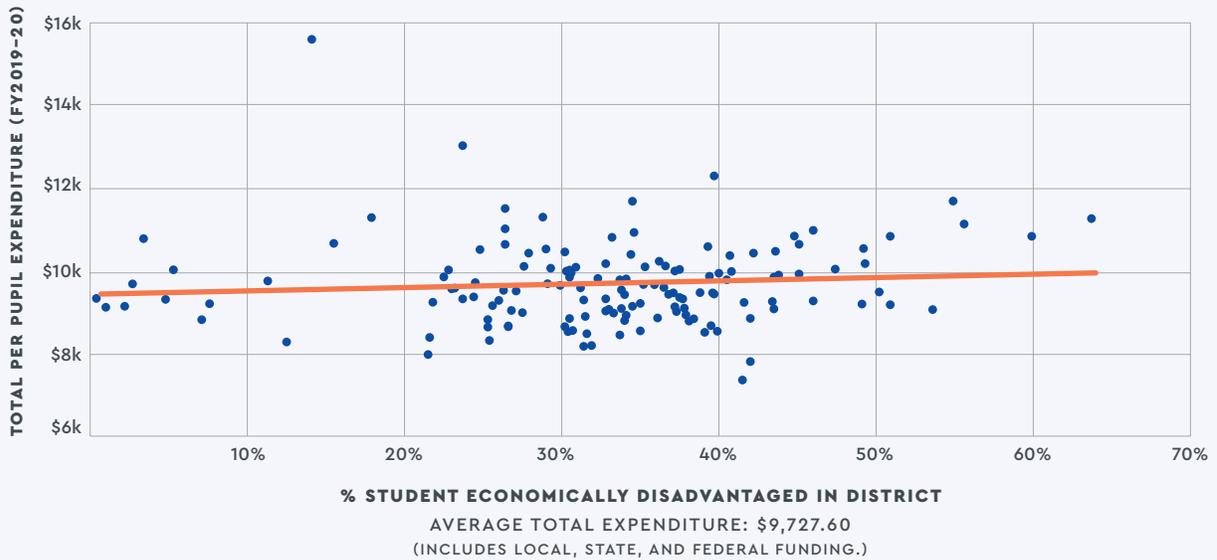
Limited local resources contribute to overall flat funding across school districts. Disparities in local funding – created by differences in ability to raise local revenue – create funding challenges for school districts serving more high-need students. While the BEP formula for state allocations is somewhat responsive to higher levels of student need

across Tennessee's districts, the overall system results in a flat distribution of per-pupil funds. Despite the addition in 2007 of an at-risk student category and good faith efforts to invest more in students, the state's overall education finance system is not generating sufficient support for higher-need students.

...DISPARITIES IN TOTAL FUNDING EXIST BECAUSE OF LIMITED LOCAL RESOURCES IN POORER DISTRICTS

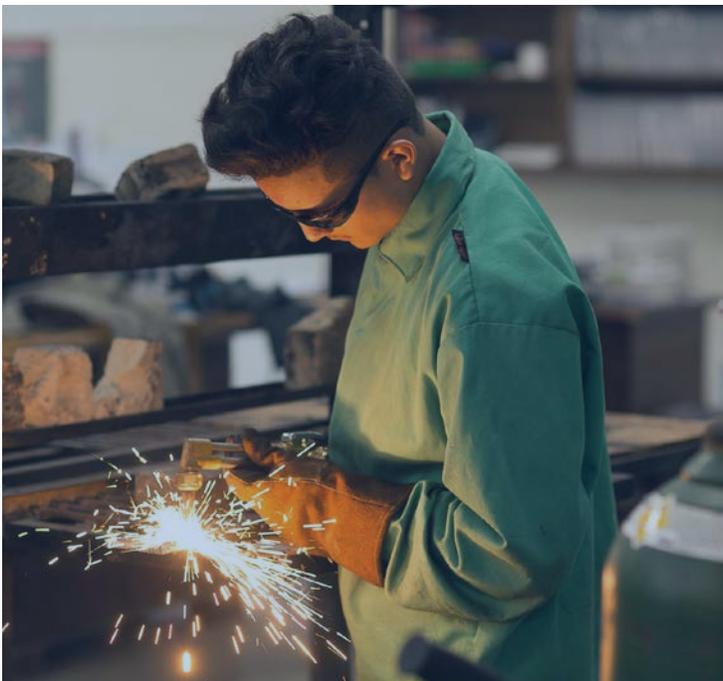
Total expenditures vs. poverty

Source: TDOE, 2020



A modernized BEP can make Tennessee a national leader in education advances. Tennessee has persistent gaps in student achievement in early literacy, college-going rates, and postsecondary credential attainment. These negative trends likely worsened during the pandemic. However, Tennessee can reverse these trends and establish itself as

an education finance leader through a modernized system that spends better and spends for specific student needs. In turn, districts will receive a better level of resources to alleviate financial pressures and offer better support to students.



Modernizing Education Finance To Meet Modern Expectations

The world has changed dramatically since 1992, and education funding in Tennessee simply has not kept pace. The underlying financial architecture supporting Tennessee students is mostly the same from 30 years ago, built in a very different context. Schools, communities, and students are not the same, nor is the economy that students graduate into.

Tennessee's education funding must be modernized so the system can respond to modern needs and challenges. As Tennessee tackles this immense challenge, the work must be guided by four principles to create a fairer and fuller system of education funding that prepares students for economic and life opportunities.

Driven By Student Need

The state's education funding formula should ensure that funding is structurally rooted in the needs of students and is distributed fairly, in accordance with both students' unique needs and the varying capacity of communities to raise local revenue.

While Tennessee has made advances on fiscal capacity and groups like the Tennessee Advisory Commission on Intergovernmental Relations have proposed new technical solutions, Tennessee has more to do to fund in ways that meet individual student needs.⁵⁷ SCORE analysis of the BEP formula finds that only 15 percent of the state and local BEP funds are calculated based on student characteristics – putting Tennessee among the poorest performing states on this metric.⁵⁸

One strategy that could improve the public's understanding of equitable opportunity is the adoption of a student-weighted funding formula. Instead of a resource-based formula like Tennessee's BEP that calculates funds based on specific education positions like teachers or resources like instructional materials, a student-weighted formula includes a foundational base funding amount per student with additional weights for students who need more resources to meet the state's academic expectations. It is a simpler expression of equitable funding through more accurate alignment of funding to student needs. Nearly 40 states around the country have adopted either student-based or student-weighted funding formulas, putting a particular emphasis on meeting the needs of students from economically disadvantaged backgrounds, English learners,

and students with disabilities.⁵⁹ Some states, including Texas, take that concept further by introducing a concentration of poverty weight to recognize the additional resources needed to serve students from communities where the majority of students are classified as economically disadvantaged.

Flexibility And Responsibility

The state's education funding formula should give districts the autonomy to respond to local student needs and empower education leaders to be stewards of resources. The funding system should be understandable and clear enough that parents, taxpayers, and voters have the information they need to assess how well education leaders are using the resources.

Districts have significant flexibility to decide how to spend their allocated resources under the BEP, with some state policy limitations in place aligned to various policy priorities.⁶¹ The release of school-level per-pupil expenditure information since 2020 has introduced an important source of transparency to assess whether districts have used this flexibility to advance equitable opportunity.⁶² New approaches to using this flexibility, such as student-based budgeting at the school level, may require districts to support school leaders in developing strategic resource management skills.⁶³

As far back as the Education Improvement Act of 1992, Tennessee adopted an education governance model that gives district leaders flexibility in using funding with accountability for results. Tennessee accelerated its work on accountability in the last decade through adoption of stronger academic standards and a multiple-measure accountability framework for schools and districts – providing nuanced insights into student outcomes that did not exist before. The state should make a parallel effort in financial data transparency that highlights resource disparities such as access to high-quality teaching and advanced coursework. States such as Illinois include detailed human capital, learning opportunity, and other data that provide better context to per-pupil-expenditure information. Improving public reporting of spending and accountability for student outcomes will give Tennesseans a clearer picture of the inputs, assumptions, activities, and results of the K-12 system.

Transparency And Predictability

The state's education funding formula should produce predictable allocations based on reproducible data that reflect student needs and empower policymakers and education leaders to make responsible resource allocation decisions.

The BEP is one of the nation's most complex funding formulas with 46 separate funding components that feed into four different categories of resources, different state and local share calculations within the four categories, and two ways to measure fiscal capacity. The complexity makes the formula opaque and hard to understand by anyone not deeply knowledgeable about the financial calculations and limits the ability of Tennessee taxpayers and voters to effectively engage in discussions about education finance.

It is also difficult to predict how state-level investments translate to the classroom. The best example of this challenge is the nearly annual discussion and confusion among policymakers and educators on how state investments into the BEP's instructional salary component will translate into actual teacher salary increases.⁶⁰ Furthermore, fiscal capacity calculations use publicly available data but are either difficult to reproduce or require adjustments based on data not publicly available.

One of the key policy advances in the original Basic Education Program was the inclusion of a fiscal capacity formula to determine local ability to pay. However, subsequent policy decisions have resulted in a funding formula with two different fiscal capacity calculations in addition to various local and state share calculations based on resource category. A new funding model should include one fiscal capacity measure that better meets the state's expectations for state and local education expenditures.

Modernization

The state's education funding should correspond to the amount of money necessary to provide an education for all students, today.

Tennessee policymakers have continued to fully fund the state's share of the current formula in recent years, but the \$1.7 billion in additional non-BEP, locally funded education spending clearly indicates that the formula does not reflect the full cost of educating today's students.⁵⁵ While specific technical methods and assumptions can influence the amounts needed to educate students, Tennessee has a clear opportunity to improve beyond previous investments. A better designed funding formula will reflect both what is happening on the

ground today and position students for success for decades to come.

One strategy is to set goals for state outcomes aligned to a multi-year education investment strategy – an approach taken in Maryland through the Kirwan Commission that developed the Blueprint for Maryland's Future.⁵⁶ In addition to benchmarking the state's student outcomes and outlining comprehensive reforms for education policy and practice, the process helped propose how additional resources would better meet the individual needs of students and improve student outcomes.

With state economic conditions producing unprecedented budget surpluses in Tennessee, there is no better time to set a new foundation for future investments and outline new goals for Tennessee to be a national leader in K-12 education. Tennessee ranks near the bottom of states on outcomes for economically disadvantaged students despite being at or near the middle of states on the Nation's Report Card for overall education outcomes. Spurred by research demonstrating the outside impact of additional resources on the outcomes for students from disadvantaged backgrounds, Tennessee can catapult to the top of the nation if it invests more resources fairly.

The Opportunity To Lead The Nation

Modernizing the state education finance system is an essential step for Tennessee to continue its journey of academic improvement. The state's decades-long climb to reach the top of the nation in student achievement cannot be finished without addressing the lingering disparities that are holding back a large proportion of the state's 1 million students. An updated K-12 education funding formula should be more responsive to individual student needs, fundamentally understandable and transparent for policymakers and leaders in developing their spending strategies, and capable of meeting modern expectations for learning. Tennessee's next chapter in K-12 education improvement will be determined by its ability to better direct resources to students.



About SCORE

The State Collaborative on Reforming Education (SCORE) is a nonpartisan nonprofit educational policy and advocacy organization based in Nashville, Tennessee. SCORE was founded in 2009 by Senator Bill Frist, MD, former US Senate majority leader, and works to transform education in Tennessee so all students can achieve success in college, career, and life.

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WHO MAKES
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FEEL LIKE A
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