



STATE OF TENNESSEE
DEPARTMENT OF FINANCE AND ADMINISTRATION
STATE CAPITOL
NASHVILLE, TENNESSEE 37243-0285

DAVE GOETZ
COMMISSIONER

October 19, 2006

Dr. Gary Nixon
State Board of Education
6th Floor, Andrew Johnson Tower
710 James Robertson Parkway
Nashville, TN 37243

Dear Gary:

I regret that state business requires me to be out of town for the October 23 meeting of the BEP Review Committee. I would prefer to be able to have some discussion of these issues, and hope we can do so in the near future. I understand that House Resolution 286 charged the BEP Review Committee to make a consensus recommendation on a system-level fiscal capacity model, and that it is the Committee's intent to make a final recommendation at this meeting. While I appreciate the efforts of the committee and the intent to improve the quality of education in Tennessee, I wish to express my concern at the cost associated with the proposed models and accompanying component improvements.

Long-term revenue growth projections from the University of Tennessee's Center for Business and Economic Research indicate general tax collection growth of approximately 5% annually. BEP funding, including the basic formula, salaries, insurance, 2% growth, and increases to ELL and At-Risk components, has grown approximately 5% each of the past several years. This has meant for the last few years that the BEP receives annually somewhere in the neighborhood of \$100 million just to stay even. That is a substantial fraction of the available new revenues.

As you may also be aware, Fitch Ratings and Standard & Poor's have recently upgraded Tennessee's outstanding bond debt from AA to AA+. This improvement is based in part on the state's recent conservative spending record. Given current and projected economic conditions, we will continue to assume moderate revenue growth and plan program expenditures accordingly.

Additionally, the state must continue to address ongoing needs in health care, higher education, conservation, safety, and other critical areas. I am, therefore, asking that you be mindful of these factors in making your recommendation, and consider improvements to the formula within realistic budget constraints. In particular, while you may be able to formulate an 'ideal' proposal at this meeting, it would seem to make sense to also then come up with one that meets the fiscal realities the state faces. Consideration of how to segment and prioritize the different categories of improvements and also how to phase in changes commensurate with

revenue growth would seem in order. I would hope the Committee would consider delaying any final report until it has had a chance to make such additional recommendations.

Thank you again for all the work you and the Committee have been doing to improve education in our state. I look forward to hearing from you soon.

Sincerely,

A handwritten signature in black ink, appearing to read "Mr. Goetz". The signature is stylized and cursive.

Dave Goetz
Commissioner