BEP Review Committee

An Alternative Consideration for
Determining Local Fiscal Capacity
for School Support

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Idealized Finance State Education System Components

Arrangements for Determining
- Objectives of the education system (Student Performance)
- Per Pupil Spending Levels sufficient to Achieve Objectives
- **Revenue Generation**
- Means to Ensure Spending Furthers Education System Objectives (Accountability)

Tennessee Inflation-Adjusted Average Per Pupil Funding, by Source (2004 Dollars)
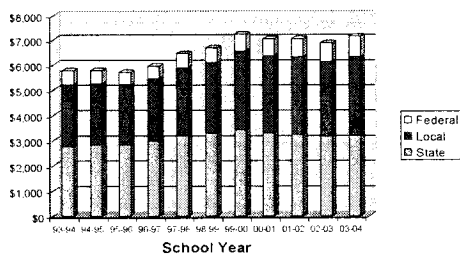
Design Desiderata

Equity
- Ensuring that the quality of a child's schooling is not a function of wealth, other than the wealth of the state as a whole
- Similarly situated taxpayers are similarly treated

Adequacy
- Furthers the purposes of education

Transparency (Simplicity and Predictability)
- A reasonable person can understand the concept, determine the interaction of components, and predict consequences

Flexibility (Elasticity of Capacity)
- Can meet present and anticipated revenue needs

Minimizes Unanticipated Consequences
- Sufficiently straightforward so as to discourage self interested "gaming"

An Alternative Local District Revenue Generation Arrangement

Features
- Reinforces and enhances local citizen engagement with schools
- Compliments state revenue contributions to school support
- Enables local school districts to generate predictable revenue amounts as specified by state per pupil spending requirements
- Empowers local school districts (fairly) to supplement state per pupil spending minima if they choose
- Facilitates local citizens' and businesses' ability to predict future tax burdens

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(Possible) Alternative Local Fiscal Capacity Arrangements

- Local School District (not county) Based
- Relies principally upon local property and local sales as a basis for taxation
- Assumes state subsidy for school districts taxing at specified (computational) rates but which are otherwise too poor in terms of property or sales to generate specified revenue levels
- Assumes five year transition period and "hold harmless" arrangements for all effected districts for both revenue and tax purposes

Formulaic Tax Calculation Components

- State Share =Total BEP Calculated Amount---Local Revenues Generated From Specified Computational Property and Sales Tax Effort
- Local Fiscal Capacity = (District property tax base x uniform property tax rate) +(sales tax base x uniform sales tax rate) + state shared revenues

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Formula Specifics

- District property tax base = total assessments/assessment ratio and may be adjusted based on district grade configuration
- Uniform property tax rate = Standard General Purpose School Fund tax rate applied by formula to all property (not a mandated tax rate)
- Sales tax base = local taxable sales (may be adjusted by local school district grade configuration)
- Uniform sales tax rate = Standard education portion of a local option sales tax rate applied by formula to all taxable sales (not a mandated tax)
- State shared revenues = revenues from state taxes shared with county and city governments (Only mixed drink tax now earmarked for education)