

# **Hamilton County Schools Budget Working Group Findings & Recommendations**

**May 2017**

# Executive Summary

# Executive Summary: Overview

- To improve the performance of our public schools, HCDE must address a series of fundamental challenges:
  - Ability to recruit and retain the highest quality teachers and principals
  - Growing number of students living in poverty and growing concentration of poverty in individual schools – nearly 70% of economically disadvantaged students in schools with 70% or more of students that are economically disadvantaged
  - More than \$200 million in deferred maintenance
- To meet these challenges, HCDE needs to move toward a multi-year budget plan that closely aligns spending to outcomes
  - Multi-year planning makes it easier to understand the need for Year 1 investments that produce Year 2 or 3 savings or results
  - Additional funding alone will not necessarily improve student outcomes
- Our analysis suggests that HCDE can take steps to more efficiently use its current resources, but (a) even after improving efficiency, more funding is needed to improve student performance and (b) increasing efficiency will require initial investment

# Executive Summary: Findings

- To increase efficiency and improve outcomes, HCDE needs to (a) reduce the number of schools, thereby reducing the number of teachers; (b) increase teacher and principal salaries; and (c) better align total compensation to quality.
  - Most HCDE funding goes to teacher compensation
    - $\text{Total spending on compensation} = \text{Number of teachers} \times \text{Total compensation per teacher (salary + benefits)}$
  - There are fewer students per teacher than state or national benchmarks because of the number of schools and BEP requirements
  - Teacher and principal salaries lag behind benchmarks, but benefits are higher than some benchmark jurisdictions
  - HCDE total compensation is not aligned to incentivize or reward performance and in some cases makes recruitment and retention of quality teachers harder

# Executive Summary: Findings

- HCDE can increase efficiency by reorganizing Central Office.
  - HCDE has **fewer** administrators per teacher than benchmarks
  - HCDE lacks capacity to allow it to more effectively plan (e.g. budgeting for outcomes, multi-year planning) and develop cost-saving procurement and other enterprise-wide strategies
  - HCDE lacks adequate capacity to monitor evaluate spending and performance
- HCDE is unable to meet challenges related to infrastructure
  - Consolidation to increase efficiency would require new, larger buildings. Increasing the average population per school from 554 to 600 by consolidation would allow for reduction of six school buildings
  - More than \$200 million in deferred maintenance cost, including 5 schools with more than \$10 million in projected repair cost
  - Population shifts result in need for new schools. Population shifts also are part of the reason for high concentrations of poverty in specific schools.

# Executive Summary: Findings

- IT is the fastest growing department within HCDE – more than doubling in the last six years. HCDE goal is one device per student, but in some schools not even achieving one device for every five students. New software could also be used to improve operations or processes (e.g. ongoing professional development or new teacher recruitment) and student learning.
- Compared to other states, state government in Tennessee spends significantly less per student. The State's BEP formula works to the disadvantage of Hamilton County, which is treated as a “wealthy” county. Among the largest Tennessee counties, Hamilton County has the third highest per pupil spending – trailing Davidson and Shelby. Only Davidson County, however, spends more per pupil in local funds than Hamilton County

# Executive Summary: Recommendations

- **Consolidate for Efficiency:** Over the next four years, HCDE and the County should consolidate and re-zone schools to enable the system to achieve a system-wide teacher-student ratio of 16:1.
- **Fewer Teachers + Better Compensation=> Higher Teacher Quality => Better Results for Kids:** Operating savings from reductions in the number of teachers should be dedicated to improving teacher salaries and improving teacher quality. Beyond increasing salaries, HCDE needs a new compensation strategy to recruit and retain quality teachers and principals.
- **“C” Curbs Costs.** HCDE needs to create a real “C” suite that supports the business operations of the school system – including a CIO (Chief Information Officer), COO (Chief Operating Officer) and CTO (Chief Talent Officer) to achieve additional efficiencies.

# Executive Summary: Recommendations

- **Hold HCDE Accountable:** County should use General Fund resources to support hiring two FT performance auditors to regularly report on opportunities for savings and on overall HCDE performance, thereby increasing efficiency and accountability
- **Plan Smart for Progress:** HCDE needs a multi-year capital plan that addresses all of these infrastructure and capital maintenance needs. The capital planning process – along with a review of school zoning – can also be an important mechanism for reducing the concentration of poverty in schools, thereby improving student performance.



# Executive Summary: Recommendations

- **Invest in the Future:** County should create a new tax levy dedicated to Schools Infrastructure, Technology and Innovation. Funding for the Schools ITI Fund would:
  - Fund school consolidations, freeing up savings for teacher quality, reducing concentration of poverty and improving student performance
  - Double funding for capital maintenance and building repair, eliminating deferred maintenance
  - Absorb the current cost of debt service funded through the General Fund

## Background on the Working Group

# Role of the Working Group

- HCDE needs a *multi-year plan* that aligns funding to meet specific outcomes in a way that is sustainable and equitable.
  - The plan would be informed by budget and finance expertise, best practices and research.
  - It would include a detailed analysis of current revenue and spending, identify opportunities for increased efficiencies, specify the gap between current revenue and expenditures and options for closing the gap.
- HCDE needs an *outcomes based budget* to improve HCDE student performance and that wins support from parents, teachers, the business community, the School Board and the Hamilton County Commission.
  - An outcomes based budget directly connects level of investment with performance. Balanced budgets are essential, but the real goal of any budgeting process is to maximize efficiency and effectiveness.
  - To achieve an outcomes based budget, HCDE needs to better able demonstrate the impact of specific investments.

# Role of the Working Group

- The Working Group sought to advance both of these goals. On a volunteer basis, members of the business community came together to identify a path toward better, more efficient operation of HCDE to improve student performance.
- While the Working Group has expertise in business, finance and operations, it does not have – and does not profess to have – expertise in curriculum, teaching or school operations.
- Our goal was to share our best thinking with leadership of the County and the school system to inform the FY 2018 HCDE budget.

# Members of the Working Group

- Valoria Armstrong, President, Tennessee American Water
- Dane Boyington, Co-Founder/CTO, Thinking Media
- Sheila Boyington, Co-Founder/President, Thinking Media
- Larry Buie, General Manager, Chattanooga Gas Co.
- Nick Decosimo, Managing Shareholder, Elliott Davis Decosimo
- David Eichenthal, Managing Director, The PFM Group
- James Haley, Chairman, Miller & Martin
- Tim Kelly, Owner, Kelly Auto
- Michael Lebovitz, Executive VP, CBL & Associates Properties
- Dana Perry, Shareholder, Chambliss
- Kim White, President, River City Company

\* Titles for identification only

# What the Working Group Sought to Do

- Understand Current Revenue and Expenditures
- Determine if there are likely changes in cost or revenue (e.g. enrollment growth, inflationary growth in fixed costs) over the next five years without change in policy or program
- Identify opportunities for savings in current operations
- Determine new needs to achieve improvements in student performance
- Define the gap between current funding and what is needed over the next five years
- Identify means of closing the gap

# Meeting the Challenge

**Hamilton County needs a financial plan that aligns resources with efforts necessary to meet the challenges facing our schools and our students and improve student performance.**

# Recommendations



# Increasing Efficiency

- There are two significant long term opportunities to increase efficiency in the school system:
  - Reducing the number of school buildings in the system, thereby reducing the number of teachers needed to comply with BEP requirements
  - Aligning total compensation with school system goals
- Compared to other large school systems in Tennessee, HCDE has fewer students per school building. The number of school buildings drives non-personnel cost (e.g. utilities and building maintenance)
- The number of school buildings – combined with BEP class size requirements -- also results in HCDE having more fewer students per teacher than benchmark school systems.
- School consolidation and rightsizing could reduce maintenance costs and reduce the number of teachers in the system, producing annual savings of \$15 million to \$20 million. Reductions in the number of teachers could be achieved through attrition.

# Increasing Efficiency

- Absent system-wide enrollment growth, HCDE should freeze the current number of classroom teachers. HCDE's strategies for increasing the number of ELL, literacy and other specialized teachers should be achieved within the current total FTE count of teachers.
- **Over the next four years, HCDE and the County should actively pursue consolidation and rezoning strategies that allow HCDE to achieve a system-wide teacher-student ratio of 16:1 – comparable to other large school systems in Tennessee and still lower than in other comparable school systems nationally**
- **Operating savings from reductions in the number of teachers should be dedicated to improving teacher salaries and improving teacher quality.**

# Increasing Efficiency

- **HCDE's current system of compensation is not aligned with its stated strategic goal of ensuring a great teacher in every classroom**
  - Beginning salaries are not competitive when compared to other large Tennessee school systems
  - Maximum salaries are not competitive when compared to nearby school systems in Tennessee and North Georgia
  - Current employee and retiree health benefits are high cost and not aligned with recruitment and retention strategies
  - No differentiated salaries for hard to recruit positions

# Increasing Efficiency

- **HCDE needs a new compensation strategy:**
  - A detailed compensation study to fully understand how to effectively compete with other school systems for the best talent
  - Increased salaries and bonuses for principals
  - Increased starting salaries and changes to the step system to allow for retention of more experienced, high performing teachers
  - Signing bonuses for new teachers, retention bonuses for high performers, incentive bonuses for high performing schools and high need teachers
  - Reforming its current health benefit program to provide for high risk screening (i.e. tobacco) and different rates, more consumer driven plan models and HSAs
  - Revising and reducing benefits for retirees prior to Medicare eligibility

# Increasing Efficiency

- **HCDE needs to create a real “C” suite that supports the business operations of the school system – including a CIO (Chief Information Officer), COO (Chief Operating Officer) and CTO (Chief Talent Officer).** These individuals should bring significant experience in these areas, even if they have limited direct education experience.
- Other opportunities to increase efficiency at HCDE will require greater investment in core capacity. HCDE may sometimes be inefficient because it has too few staff at Central Office, not too many:
  - Limited finance staff reduces ability to effectively plan
  - Limited procurement staff reduces ability to maximize valueHCDE needs a system-wide efficiency review of practices and processes to reduce redundancy and create operational efficiency is necessary.

# Increasing Efficiency

- HCDE Finance lacks capacity to allow it to more effectively plan (e.g. budgeting for outcomes, multi-year planning) and develop cost-saving procurement and other enterprise-wide strategies
- Multi-year planning will allow HCDE to look at investments and savings opportunities over the long term, rather than focusing primarily on year-to-year debates over the budget.
- HCDE needs capacity to clearly articulate outcomes based on investment
- **County should use General Fund resources (e.g. part of payment from HCDE for Trustee services) to support hiring two FT performance auditors to regularly report on opportunities for savings and on overall HCDE performance, thereby increasing efficiency and accountability**

# Infrastructure, IT and Innovation

- HCDE has three big challenges related to building infrastructure
  - Consolidation: To achieve the operational savings related to consolidation, HCDE will need to build new or add on to existing school buildings. This would require new capital spending and yield operating savings that could be reinvested in classroom priorities. Rezoning alone is unlikely to achieve necessary consolidation
  - Replacement and Repair: HCDE has more than \$200 million in deferred maintenance cost, including 5 schools with more than \$10 million in cost. Replacing these schools – without consolidation -- would require new capital spending and yield no savings.
  - Population Shift: Shifts within the County and within the school system have increased the need for classrooms in schools in some parts of the County even as overall enrollment remains the same. Meeting these demands will lead to new capital and new operating costs.

# Infrastructure, IT and Innovation

- **HCDE needs a multi-year capital plan that addresses all of these infrastructure and capital maintenance needs. Projects should be prioritized based on agreed upon criteria including:**
  - Availability of external funding (e.g. grants)
  - Avoidance of operational costs
  - Potential for operational savings
  - Teacher and student health and safety
- Investments in replacement and consolidation should have priority over investments in new schools. HCDE should become a part of the planning commission approval process and developers of new subdivisions that would create a need for new schools – thus increasing operating and capital costs for County taxpayers --- must be strongly encouraged to incorporate those costs into development.



# Infrastructure, IT and Innovation

- **The capital planning process – along with a review of school zoning – can also be an important mechanism for reducing the concentration of poverty in schools, thereby improving student performance. Any new investment in school infrastructure should be assessed on this basis.**
- County and School Board should appoint a joint citizens committee – based on federal base closing commission model – that would develop a single, unified plan for consideration and adoption by the Commission and the School Board. The plan would recommend priority capital investments and opportunities for rezoning.

# Funding

- **County should create a new tax levy dedicated to Schools Infrastructure, Technology and Innovation – similar to Nashville Davidson Education Debt Service Fund**
- Funding for the Schools ITI Fund would:
  - Fund school consolidations, freeing up savings for teacher quality, reducing concentration of poverty and improving student performance
  - Double funding for capital maintenance and building repair, eliminating deferred maintenance
  - Absorb the current cost of debt service funded through the General Fund

# Funding

- The new fund would provide budget relief to Hamilton County, though County should refund Trustee fees to HCDE minus cost of independent audit of HCDE
  - General Fund current funding for school related debt service (\$24 million) – Return of HCDE Trustee fees (offset by cost of auditors) = \$20 million in potential savings
- The fund would provide immediate budget relief to HCDE that could be invested in capacity, innovation and technology
  - Capital maintenance and building repair budget (\$5 million) + Return of HCDE Trustee Fee (\$3.7 million) = \$8.7 million in FY 2018 budget relief

# Funding

- Property Tax rate to support new Fund would depend on:
  - Projected annual new debt service to support new school capital plan
  - Retirement of current debt
  - Timing of debt issuance, planning, design and construction
- Alternatives include:
  - Combining a smaller property tax increase with an increase in the sales tax or imposition of a wheel tax
  - Seeking state legislation for alternative tax options
  - Voluntary negotiation of PILOTs with major tax exempt property owners

# Findings

# Challenges Facing Hamilton County Schools

- HCDE Strategic Plan outlines the following challenges:
  - Increase in number of children in poverty
  - Growing ELL population
  - Teacher recruitment and retention
  - Pockets of population growth
  - Uncertainty regarding testing climate and policies
  - Deferred maintenance

# The Challenge: Concentration of Poverty

- Student performance is closely correlated with student family income.
- Programs – e.g. Benwood Initiative – have demonstrated how great principals and great teachers can help overcome the gap. Past efforts have focused on reconstitution, data for targeted improvement, embedded professional development
- Problem may be less student income and more concentration of poverty.
  - EPI 2017: “Attending a higher poverty school had a negative influence on the math and reading achievement of students from all racial/ethnic groups in both fourth and eighth grades.”
  - Nationally, the percentage of ED (FRPL) students in schools with 75% or more ED students increased from 45.5% in 1996 to 61.6% in 2013

# The Challenge: Concentration of Poverty

District	% ED Students	% ED Students in 80% or more ED Schools	% ED students in 70% or more ED Schools
Hamilton	64.2%	54.3%	68.5%
Knox	46.4%	5.7%	19.9%
Davidson	76.3%	61.0%	82.3%
Shelby	82.3%	68.5%	82.2%



# The Challenge: Teacher Quality

- HCDE has over 3,000 teachers and hires between 300 and 350 new teachers every year.
- “Teachers matter more to student achievement than any other aspect of schooling. Many factors contribute to a student's academic performance, including individual characteristics and family and neighborhood experiences. But research suggests that, among school-related factors, teachers matter most.

When it comes to student performance on reading and math tests, a teacher is estimated to have two to three times the impact of any other school factor, including services, facilities, and even leadership.” – RAND Corporation

# Growing Consensus on School Improvement

- HCDE Strategic Plan
  - Great Teacher, Great Leaders
  - Engage Every Child. Every Day
  - Strong Foundations: Literacy and Math
  - Building Our Values: Culture, Climate and Communication
  - Prepare All Students for College and Career
  - Closing the Opportunity Gap
- Chattanooga 2.0 Ten Urgent Strategies
  - Strengthen Supports for Parents & Families
  - Create an Early Learning Network
  - Reimagine Learning for the 21st Century
  - Increase the Focus on Literacy for All Students
  - Support Great Teachers in Every School and Classroom
  - Empower School Leaders
  - Ensure High Expectations and Equity for All Students
  - Prepare All Students for College and Career
  - Increase Post-Secondary Completion
  - Connect More Residents to High Demand Jobs

# Growing Consensus on School Improvement

- UnifiEd Pact for Public Education
  - Ensuring that there is a Great Teacher in Every Classroom
  - Achieving Universal Excellence by Guaranteeing Equal Opportunity to all Students
  - Building Community Support for Public Schools by Increasing Transparency and Accountability
  - Prioritize Funding for Public Schools
- Public Education Foundation
  - All children are curious and eager to learn and will succeed at very high levels when held to the highest expectations, taught with a rigorous curriculum, and nurtured in welcoming schools, engaging classrooms, and supportive communities.
  - All schools must have visionary leaders and skillful teachers, who, in turn, must have on-going training and support.
  - High performing schools succeed on the assessments required by state government but they are not focused exclusively on test scores; high performing schools also provide skills, experiences, and relationships that help students succeed in their career, their community, and their life.
  - Creating and sustaining high performing schools demands the support of an entire community.

# Current Funding

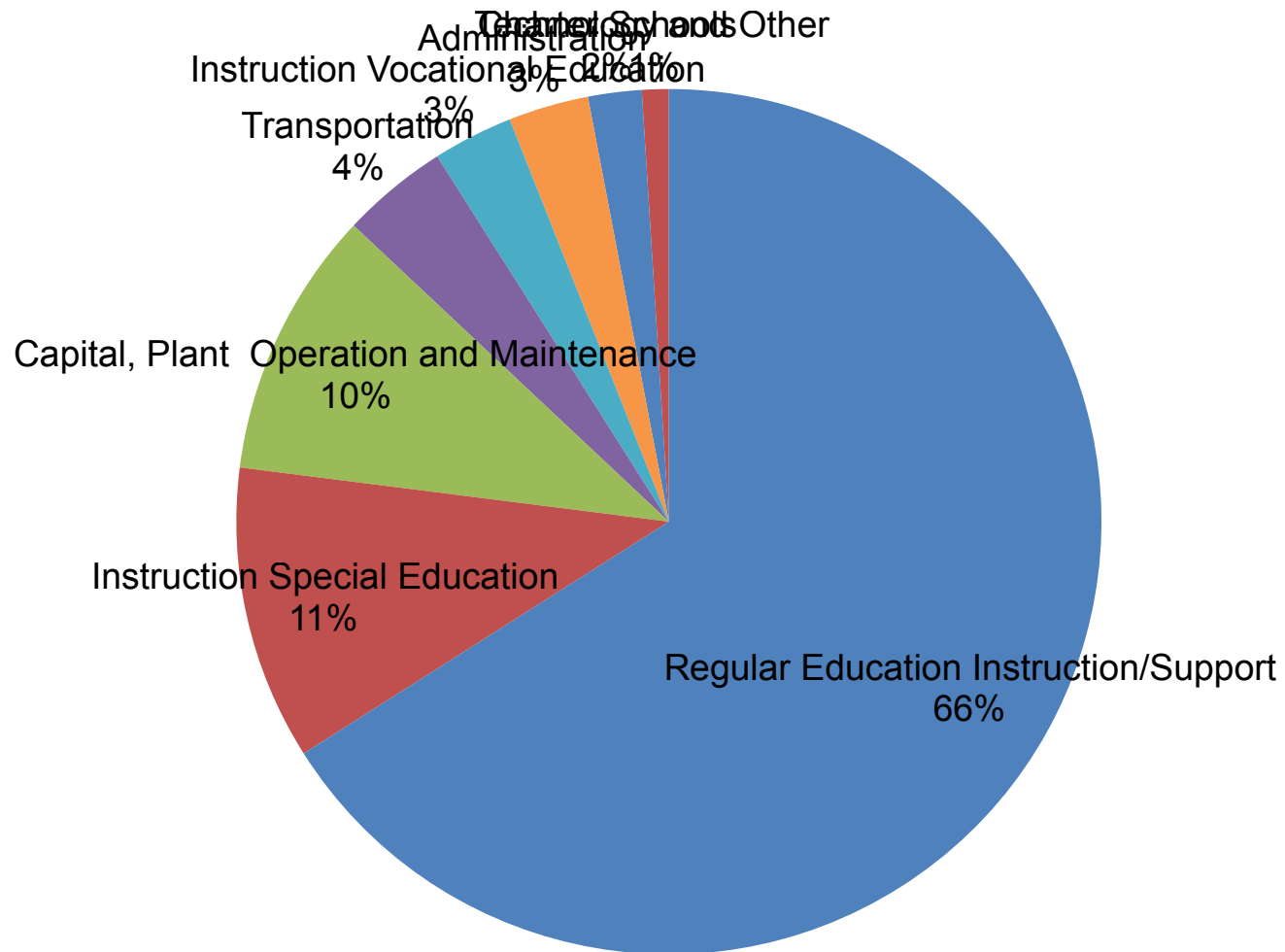
- Compared to other states, state government in Tennessee spends significantly less per student
- The State's BEP formula works to the disadvantage of Hamilton County, which is treated as a "wealthy" county
- Among the largest Tennessee counties, Hamilton County has the third highest per pupil spending – trailing Davidson and Shelby. ***Only Davidson County, however, spends more per pupil in local funds than Hamilton County***
- Current PPE data does not account for (a) cost of debt service for capital (\$24 million) or (b) transfer from HCDE to County for Trustee (\$3.9 million)
- HCDE has not benefited from an increase in property tax rate in more than ten years.

# Current Funding: FY 2017 HCDE Budget

## ■ Funds

- General Purpose School Fund: \$363.0 million
- Federal Projects (e.g. Title I): \$27.4 million
- Food Service: \$21.4 million
- Self Funded Projects: \$5.9 million
- **TOTAL = \$417.7 million**
- **NOTE:** By comparison, City of Chattanooga FY 2017 General Fund Budget was for \$230.3 million and the Hamilton County FY 2017 General Fund Budget (excluding HCDE) was \$218.8 million

# General Purpose Fund Expenditures – FY 2017



# General Purpose Fund: Source of Revenues

- State of Tennessee: \$152.4 million
- Property Tax: \$136.8 million
- Sales Tax: \$68.0 million
- Other: \$4.6 million
- **TOTAL = \$361.8 million**
- **NOTE:** To balance the FY 2017 General Purpose School Fund budget, HCDE used \$1.2 million in fund balance

# Funding for K-12 Education in Tennessee 2014

- Analysis of Total Spending per Student – FY 2014
  - National: \$11,009
  - High: New York = \$20,610
  - Low: Utah = \$6,500
  - **Tennessee is 42<sup>nd</sup> out of 50 states = \$8,630**
- Analysis of State Spending per Student – FY 2014
  - National: \$5,969
  - High: Vermont = \$16,996
  - Low: South Dakota = \$3,165
  - **Tennessee is 46<sup>th</sup> out of 50 states = \$4,144**



# Funding for K-12 Education in Tennessee 2014

- Analysis of Local Spending per Student – FY 2014
  - National: \$5,712
  - High: New York = \$12,571
  - Low: Hawaii = \$295
  - **Tennessee is 36<sup>th</sup> out of 50 states = \$3,852**

# Projected HCDE Revenue

- In his FY 2018 budget, Governor Haslam has proposed full funding of BEP and an additional \$100 million for salary increases for Tennessee teachers. Overall, BEP funding would increase from \$4.47 billion to \$4.69 billion – a 4.9% increase.
- HCDE projects modest growth in both property tax and sales tax revenue locally (without a change in rates).

# Cost of Compensation

- The vast majority of HCDE spending is for compensation for teachers and other educational personnel.
- When adjusted for cost of living, teacher salaries in Hamilton County lag behind other major Tennessee counties and statewide teacher salaries lag behind national salaries for teachers.
  - Adjusted for cost of living, starting teachers in Hamilton County earn \$3,500 less than starting teachers in Knox County, \$4,400 less than in Davidson County and \$10,000 less than in Shelby County.
  - Salaries for experienced teachers also lag behind those in peer counties and North Georgia

# Cost of Compensation

- Teacher salary is primarily based on education and years of service. HCDE provides limited differentiation based on performance, difficulty of school assignment or limited number of candidates for certain positions.
- Salaries for principals are also lower than in other major Tennessee school systems.
- HCDE medical, dental and life insurance cost totaled \$40.5 million. HCDE benefit costs per FTE (not including pensions) are lower than Davidson but more than double rate in Knox County.
- Unlike Davidson and Knox, HCDE does not have a process for screening for tobacco use and charging higher health insurance rates for tobacco users. HCDE does not have a high deductible plan option including HSAs.

# Cost of Compensation

- HCDE has undertaken a series of recent reforms that increase the employee contribution for health insurance and limit the ability of employed spouses to participate in health benefits.
- Georgia teachers are insured through a statewide plan for teachers and State employees
- High cost of benefits in Hamilton County may be in part attributable to retiree health benefits. Retirees are allowed to continue on health insurance at no increased cost between 55 and eligibility for Medicare. Retiree health cost = \$7.8 million/year. Nationally, just 12% of private sector employers provide such benefits.

# Cost of Compensation

- HCDE-wide cost of compensation is also driven by the number of teachers. HCDE teacher-student ratio is lower than in other benchmark school systems.
- The higher number of teachers is the result of having fewer students per school. The combined effect of having more schools, fewer students per school and BEP class size requirements is more teachers than provided for under State formula.

# Does teacher pay matter?

- “[There is] no evidence that teacher incentives increase student performance, attendance, or graduation, nor do I find any evidence that the incentives change student or teacher behavior. If anything, teacher incentives may decrease student achievement, especially in larger schools.” – Harvard University study of teacher incentives in New York, 2011 (<http://www.nber.org/papers/w16850.pdf>)
- “[We] found that higher salaries appeared to be associated with better average student outcomes. This lends some support to the hypothesis that higher pay attracted more effective teachers.” RAND Corporation analysis of teacher pay in Illinois, 2006 ([https://www.rand.org/content/dam/rand/pubs/working\\_papers/2006/RAND\\_WR378.pdf](https://www.rand.org/content/dam/rand/pubs/working_papers/2006/RAND_WR378.pdf))

# Does class size – the number of teachers -- matter?

- “When school finances are limited, the cost-benefit test any educational policy must pass is not “Does this policy have any positive effect?” but rather “Is this policy the most productive use of these educational dollars?”
- “Will a dollar spent on class-size reduction generate as much return as a dollar spent on: raising teacher salaries, implementing better curriculum, strengthening early childhood programs, providing more frequent assessment results to teachers to help guide instruction, investments in educational technology, etc.?”
- “There is no research from the U.S. that directly compares CSR (class size reduction) to specific alternative investments.” Brookings Institution, 2011 ([www.brookings.edu/research/class-size-what-research-says-and-what-it-means-for-state-policy/](http://www.brookings.edu/research/class-size-what-research-says-and-what-it-means-for-state-policy/))



# Facilities

- HCDE does not have a prioritized, multi-year capital plan based on agreed upon criteria. It depends on the County Commission to approve all capital investment and debt service.
- Unlike Davidson County, there is no separate millage for debt service or capital investment in Hamilton County.
- HCDE has three different types of facilities challenges:
  - New schools or new capacity is needed to allow for school consolidation that reduces personnel cost. School consolidation and zoning can also begin to address poverty concentration
  - New schools or new investment is needed to repair or replace schools that are in deteriorated condition. HCDE has a backlog of more than \$200 million in deferred maintenance and a budget of just \$5 million/year for capital repair and building maintenance/
  - HCDE is not able to keep up with population shifts within the County due to new development. There is no apparent coordination or review as part of Planning Commission process.

# Technology & Innovation

- HCDE has a 2016-2019 technology plan.
- IT is the fastest growing department within HCDE – more than doubling in the last six years. HCDE has had to take on telecommunications support – formerly provided by Hamilton County
- HCDE goal is one device per student, but in some schools not even achieving one device for every five students. No clear evidence of the effect of increased availability of technology
- HCDE would like to achieve a four year replacement schedule, but not able to fund that currently
- New software could also be used to improve operations or processes (e.g. ongoing professional development or new teacher recruitment) and student learning.

# Technology and Innovation

- HCDE has identified investment in technology as a critical, unfunded need. In 2017, more than \$6.4 million in unfunded requests were for technology investments
- HCDE Technology Investment Plan calls for:
  - Technology Access for All Students
  - Professional Development
  - Infrastructure and Technology Support
  - TNReady Preparation
  - Communication and Collaboration

# Support

- Comparative data and our interviews suggest that HCDE lacks adequate capacity in overall administration and operations, with a low number of administrators per teacher
- Opportunities exist for some savings through improvements in procurement, but they are hard to achieve given current staffing levels (e.g. Procurement Card, contracting out for certain services). There is also potential for shared services with County government
- HCDE cut supplies allotment for teachers from \$500 to \$100 per year
- HCDE needs additional support for planning (e.g. capital plan, multi-year financial plan, budgeting for outcomes) and audit and oversight (e.g. no performance audit capacity)
- HCDE needs additional support to evaluate additional opportunities for efficiency and evaluation of return on investment

# Funding Options

- Property Tax
  - Most large counties rely primarily on property tax revenue for local funding of education.
  - Among large counties, Hamilton County property tax rate dedicated to education (1.3726) lags behind Davidson, Shelby, Sumner and Williamson
  - In Knox County, the majority of local revenue for schools comes from sales tax.
  - Separate dedicated levy for debt service (Davidson) and/or transportation costs (Montgomery County)
  - Additional funding from property tax could be possible through economic growth, but property tax revenue growth is greatly limited by equalization

# Funding Options

- Local Option Sales Tax is capped at 2.75 on the first \$1,600 of a purchase, with at least half of all revenue going toward education. Only one large county (Montgomery) has a rate higher than the 2.25 rate in Hamilton County.
- HCDE currently receives half of the LOST in Hamilton County. An increase in the sales tax to 2.75, with all of the increase going to education, would yield an additional **\$28.7 million** for education
- Not all of the new revenue would come from Hamilton County businesses or residents – between 25% and 45% would likely come from commuters and tourists
- Sales tax is inherently regressive – based on IRS data, approximately 2.84% on residents earning \$20,000 or less vs. 1.35% on residents earning \$200,000 or more

# Funding Options

- Hamilton County is the only large Tennessee county without a wheel tax
- Unlike other major Tennessee counties, where there is approximately one vehicle registration per capita, there are 1.8 registrations per capita in Hamilton County
- Assuming that registrations declined to one per capita, there would be 354,000 registrations in Hamilton County. In large counties, the wheel tax ranges from \$25.75 in Williamson County to \$55 in Davidson County.
- Based on this range of rates and 354,000 registrations annually, a wheel tax could generate between **\$9.1 million and \$19.5 million** annually.

# Funding Options

- Additional new sources of revenue would require changes in state law.
  - Example: Local cigarette or tobacco taxes are relatively common in Alabama, Alaska and Virginia. There is 60 year old special state law allowing for a local cigarette tax in Memphis
  - Local parking tax
  - Tax on new housing starts or property transfer
- Other local governments are increasingly turning to large tax exempt property owners (e.g. private education and medical centers) to provide funding or services in lieu of taxes
  - Example: In FY2015, more than 35 of Boston's hospitals, higher education institutions, and cultural institutions combined to provided community benefits and cash PILOT payments totaling nearly 20% of their taxable value



# Appendix

- Benchmarking Local Per Pupil Spending 2015
- Per Pupil Spending Change
- Benchmarking Cost of Education
- National Teacher Median Wage Data
- Average Teacher and Principal Salaries
- Teacher Salary Adjusted for CPI
- Benchmarking the Cost of Benefits
- Benchmarking Local Revenue: Tax Rates
- Benchmarking Local Revenue: Wheel Tax

# Benchmarking Local Per Pupil Spending 2015

	ADM 2014-2015	Per Pupil Expenditure	Local	ED%
Davidson	80731	\$ 11,496.30	\$ 6,786.27	75.3
Hamilton	42669	\$ 9,728.80	\$ 5,146.54	60.5
Williamson	34991	\$ 8,739.70	\$ 4,850.53	9.6
Knox	57582	\$ 9,043.00	\$ 4,836.20	40.0
Shelby	110807	\$ 11,221.60	\$ 4,498.74	79.8
Sumner	28346	\$ 8,402.00	\$ 3,834.67	36.7
Montgomery	31384	\$ 8,675.50	\$ 2,906.29	49.4

# Per Pupil Spending Change – FY 2011 to FY 2015

	Total Spending	Per Pupil Expenditure
State	5.0%	3.2%
Davidson	12.3%	3.8%
Hamilton	6.6%	3.5%
Knox	12.1%	6.3%

*NOTE: Year to year comparative data for Shelby County during this period is skewed by its merger with Memphis Public Schools*

# Benchmarking Cost of Education, National

2014-2015	Hamilton County	Davidson County	Knox County	Shelby County	Riverside Unified School District (CA)	Sacrament o City Unified (CA)
Total Student Enrollment	43,797	84,070	59,750	116,059	42,587	47,031
Total Teachers	3,058	5,314	3,670	7,214	1,621	1,870
Total Administrators	184	601	385	507	119	128
Total Schools	79	154	90	221	50	87
Total Per Pupil Expenditures	\$9,728.80	\$11,496.30	\$9,043.00	\$11,211.60	\$9,200.00	\$11,035.00

# Benchmarking Cost of Education, National

2014-2015	Hamilton County	Davidson County	Knox County	Shelby County	Riverside Unified School District (CA)	Sacramento City Unified (CA)
Student/ Teacher	14.3	15.8	16.3	16.1	26.3	25.2
Teacher/ Administrat or	16.6	8.8	9.5	14.2	13.6	14.6
Students/ School	554.4	545.9	663.9	525.2	851.7	540.6

*NOTE: Riverside and Sacramento were selected because they are similar in enrollment and ED% and have achieved better student outcomes*

# Identifying National Benchmarks

## Are other school districts of similar size and economic make-up performing better than Hamilton County?

We conducted a national search for the 2014-2015 school year. Riverside Unified School District and Sacramento City Unified were chosen for comparison because they had higher levels of ED students and similar student body size yet had similar (or better) graduation rates and performed better on the ACT.

2014-2015	Hamilton County	Riverside Unified School District (CA)	Sacramento City Unified (CA)
Total Student Enrollment	43,797	42,587	47,031
Total Per Pupil Expenditures	\$9,728.80	\$9,200.00	\$11,035.00
Average ACT/SAT Score	ACT: 18.9	ACT: 21	ACT: 19.8
High School Graduation Rate	85.4%	89.4%	80.3%
% Economically Disadvantaged Students	60.5%	63.6%	64.2%

# National Teacher Median Wage Data: May 2015

	Kindergarten	Elementary	Middle	High School
United States	\$54,510.00	\$57,730.00	\$58,760.00	\$57,200.00
Tennessee	\$49,800.00	\$49,470.00	\$49,250.00	\$50,570.00
High	\$71,510.00	\$75,700.00	\$79,760.00	\$80,550.00
Low	\$40,560.00	\$41,760.00	\$41,270.00	\$42,960.00

# Average Teacher and Principal Salaries : FY 2015

	Hamilton	Davidson	Knox	Shelby	State
instructional Personnel	\$ 50,484	\$ 52,958	\$ 49,204	\$ 59,805	\$ 50,175
Classroom Teacher	\$ 48,298	\$ 50,133	\$ 46,410	\$ 57,355	\$ 47,979
Principal	\$ 89,083	\$ 101,208	\$ 86,438	\$ 101,201	\$ 82,445



# Teacher Salary Range (adjusted for CPI)

	Starting	High	CPI Starting	CPI High
	\$	\$	\$	\$
Hamilton	37,501.00	65,802.00	37,501.00	65,802.00
	\$	\$	\$	\$
Knox	37,180.00	64,360.00	41,070.93	71,095.35
	\$	\$	\$	\$
Davidson	42,100.00	73,850.00	41,923.48	73,540.36
	\$	\$	\$	\$
Shelby	42,343.00	72,870.00	47,774.17	82,216.75
	\$	\$	\$	\$
Sacramento	44,565.00	81,017.00	36,814.57	66,927.09
	\$	\$	\$	\$
Riverside County	56,035.00	100,547.00	44,509.41	79,865.93

# Benchmarking the Cost of Benefits

- School districts pay Medicare/Social Security at the federal rate and contribute to the state pension system for teachers
- Majority of remaining benefits subject to local discretion – medical insurance, dental insurance, life insurance
- Benefit data is based FY 2017 budget for Hamilton and Knox and FY 2016 budget for Davidson

	Hamilton	Knox	Davidson
Total Benefits	\$40,459,671	\$27,228,803	\$ 96,650,000
FTEs	4249.2	6245.05	9182.8
Benefits/FTE	\$ 9,521.71	\$ 4,360.06	\$10,525.11

# Benchmarking the Cost of Benefits

## Employee contributions for health insurance

- Davidson reduces cost based on assessment for tobacco
- Knox has a Consumer Driven Health Plan that also includes an Health Savings Account

	Employee Annual	Family Annual
Davidson - Health Assessment	\$ 2,089.00	\$ 5,049.40
Davidson	\$ 2,889.00	\$ 5,849.40
Knox Partnership	\$ 1,855.68	\$ 6,495.00
Knox Standard	\$ 3,285.60	\$ 8,525.40
Knox Limited	\$ 830.52	\$ 3,239.16
Knox CDHP	\$ 831.72	\$ 3,239.16

# Benchmarking Local Revenue: Tax Rates

	Property Tax - Education	Property Tax Education - Debt Education	Property Tax - Total	Local Sales Tax
Davidson	1.4200	0.18	4.5160	2.25
Hamilton	1.3726	0	2.7652	2.25
Williamson	2.2675	0	3.0875	2.25
Knox	0.8800	0	2.3200	2.25
Shelby	2.1400	0	4.3700	2.25
Sumner	1.4539	0	2.5000	2.25
Montgomery	0.9729	0	2.9747	2.50

# Local Revenue: Wheel Tax

	Rate
Davidson	\$ 55.00
Hamilton	N/A
Knox	\$ 36.00
Montgomery	\$ 30.50
Shelby	\$ 50.00
Sumner	\$ 51.00
Williamson	\$ 25.75