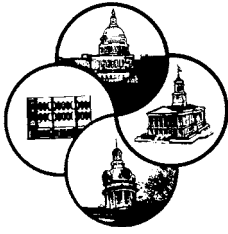


Spending Equity Generally Improved Under the Basic Education Program (BEP)



Staff Report to Members of the
Tennessee Advisory Commission on Intergovernmental Relations

www.tn.gov/tacir



TACIR Publication Policy

Reports approved by vote of the Tennessee Advisory Commission on Intergovernmental Relations are labeled as such on their covers with the following banner at the top: *Report of the Tennessee Advisory Commission on Intergovernmental Relations*. All other reports by Commission staff are prepared to inform members of the Commission and the public and do not necessarily reflect the views of the Commission. They are labeled *Staff Report to Members of the Tennessee Advisory Commission on Intergovernmental Relations* on their covers. *TACIR Fast Facts* are short publications prepared by Commission staff to inform members and the public.

Tennessee Advisory Commission on Intergovernmental Relations
226 Anne Dallas Dudley Boulevard Building · Suite 508 · Nashville, Tennessee 37243
Phone: 615.741.3012 · Fax: 615.532.2443
E-mail: tacir@tn.gov · Website: www.tn.gov/tacir

Gains in Education Spending Equity Continue 20 Years After Fully Funding the Basic Education Program (BEP)

David Lewis, MA
Research Director



Michael Mount, MA
Research Director



Madison Moffitt, PSM
Research Associate



Melissa Brown, MEd
Deputy Executive Director



Teresa Gibson
Web Development & Publications Manager

**Staff Report to Members of the
Tennessee Advisory Commission on Intergovernmental Relations**

May 2024

Recommended citation:

Lewis, David, Michael Mount, Madison Moffitt, and Melissa Brown. 2024. *Spending Equity Generally Improved Under the Basic Education Program (BEP)*. Tennessee Advisory Commission on Intergovernmental Relations.



Tennessee Advisory Commission on Intergovernmental Relations. This document was produced as an Internet publication.

Contents

Spending Equity Generally Improved Under the Basic Education Program (BEP)	1
Tennessee Supreme Court Decisions Shape the State’s Education Funding Formula	4
Improving Equity as Set Forth in the EIA and by the Court.....	5
TACIR Fiscal Capacity and Equity.....	6
A Word on Sub-County Equity	7
Education Equity in Tennessee: What has the BEP Achieved?.....	11
Progress but Room for Improvement	14
References.....	15
Appendix A	17
Appendix B.....	19



Spending Equity Generally Improved Under the Basic Education Program (BEP)

Because Tennessee has begun using the Tennessee Investment in Student Achievement (TISA) funding formula beginning with school year 2023-24, this is the final Tennessee Advisory Commission on Intergovernmental Relations (TACIR) staff update on spending equity progress under the old funding formula, the Basic Education Program (BEP). The BEP was adopted by the Tennessee General Assembly as a key part of the Education Improvement Act of 1992 (EIA). The primary purpose of the BEP, which was phased in between 1992-93 and 1997-98, was to improve equity in education spending. Spending equity correlates with better student performance, which is linked to increased high school and college graduation rates, greater employment opportunities, and improved quality of life, and ideally leads to similar outcomes for students of disparate socioeconomic backgrounds. The BEP funding formula, which was used to fund K-12 education through the 2022-23 school year, improved equity considerably as it was phased in, but improvements leveled off over time.

To measure equity improvement, staff has issued a series of reports on spending equity beginning in fiscal year 1994-95—the midpoint of the six-year phase-in of the formula. A second report described the effect of fully funding the formula in school year 1997-98. Since then, TACIR staff has produced reports on spending equity every five years. A third report looked at the 2001-02 school year when the class-size reduction mandate of the EIA went into effect; and the fourth through fifth reports examined equity for each subsequent five-year period after fully funding the BEP formula. This updated, and final, analysis examines data since the implementation of the formula and uses various statistics to measure the effect of the fully funded formula on equity in education spending through school year 2022-23—25 years after full funding.

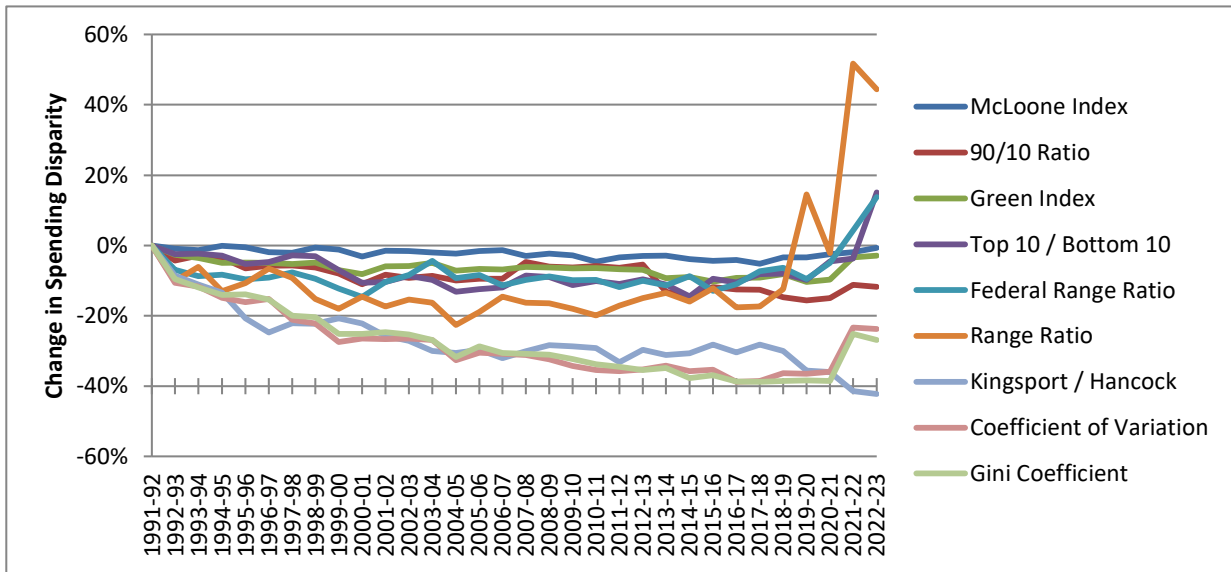
The intent of the General Assembly to provide fair and equitable funding by implementing a formula that compensates for differences in local ability to pay for education was largely met by fully funding the BEP formula. Overall, spending equity improved as the new formula was phased in (fiscal years 1992-93 to 1997-98), with the increase in state revenue making up for differences in local revenue, and continued to improve through full funding. But despite early gains in education equity, the equalizing effect of state revenue has been too small to offset differences at the local level for at least the most recent 20 years. See appendixes A and B for maps and tables comparing spending equity in 1991-92 and 2022-23.¹

Despite early gains in education equity, the equalizing effect of state revenue has been too small to offset differences at the local level for at least the last 20 years.

¹ The Education Improvement Act, as amended by Public Chapter 481, Section 5, Acts of 1993, imposed a statutory deadline on the phase-in of the Basic Education Program funding formula of July 1, 1997. That deadline was met.

Figure 1, and table 1 on page 12, shows the trend for a variety of measures of disparity or equity since the phase in of the BEP began. Some indicate more improvement than others. Most show large declines in spending disparity at least through fiscal year 2004-05. After fiscal year 2004-05, four indicate worsening disparity while three indicate slight improvement. Only two—the coefficient of variation and the Gini coefficient—clearly suggest continued improvement until 2019-20. Since then, all measures except for Kingsport/Hancock have been trending toward greater disparity. Both the McLoone and Green indexes emphasize state spending per pupil for school systems below the median state spending per pupil, the point that divides the data exactly in half.

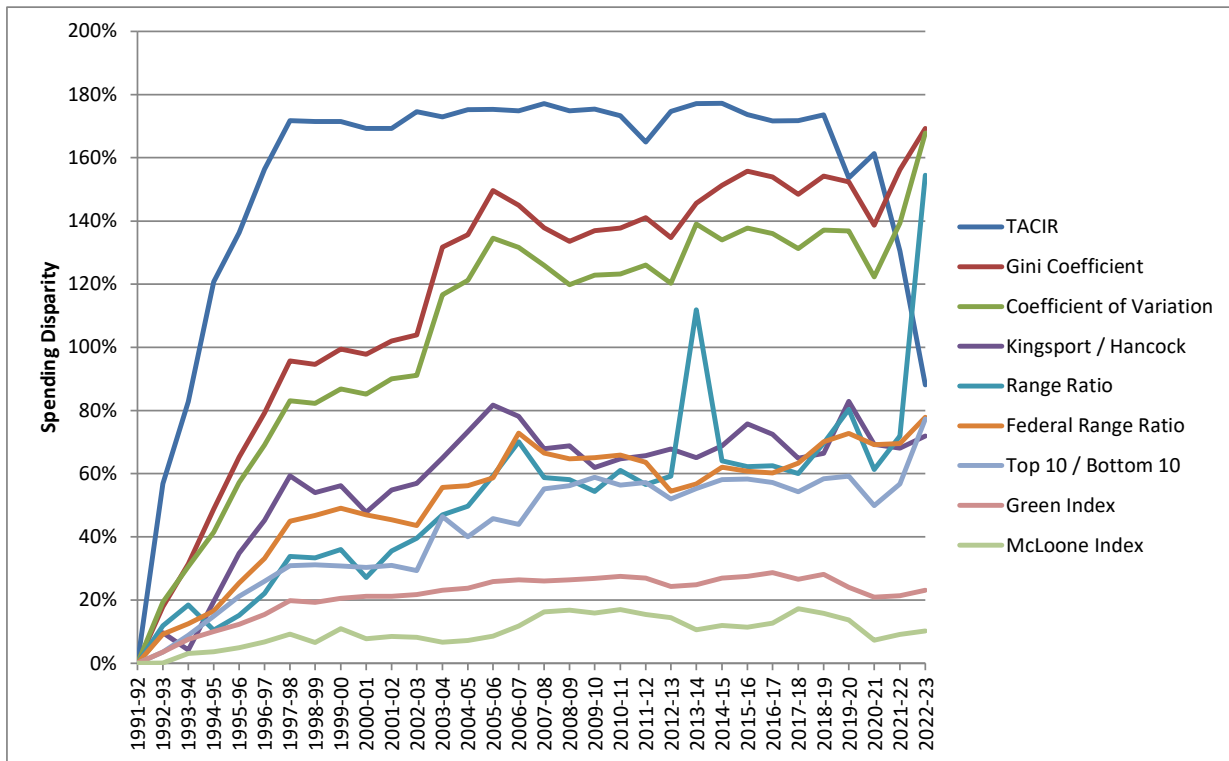
Figure 1. Change in Spending Disparity Since Fiscal Year 1991-92



Note: Shelby County Schools absorbed the Memphis City School System in fiscal year 2013-14, and six new municipal school systems were formed in fiscal year 2014-15. This affected some of the equity measures.

The same measures can be used to evaluate the extent to which the reduction in spending disparity resulted from changes in the distribution of state revenue. See table 2 on page 14. When applying these measures to state revenue, the bigger the number the better, whether positive or negative. Their trend since phase-in of the BEP began is shown in figure 2.

Figure 2. Change in State Revenue Differentiations Since Fiscal Year 1991-92



Note: Shelby County Schools absorbed the Memphis City School System in fiscal year 2013-14, and six new municipal school systems were formed in fiscal year 2014-15. This affected some of the equity measures.

State revenue equity improved as the BEP was phased in, but improvements halted in 2005-06 or shortly thereafter and most measures remained relatively flat until 2021-22. The TACIR measure decreased from 2021-22 to 2022-23, whereas the Range Ratio increased over that period. The McLoone and Green indexes grew the least, indicating less improvement in state revenue equity. It may be that some local governments have reduced their own effort to improve education spending, allowing state funds to gradually take their place, though maintenance of effort requirements would mitigate some of this effect. Over time, local governments may nonetheless have ceased increasing local spending as much as they had in the past, reducing the equalization effect of the formula. Another possible explanation is the concentration of wealth in certain systems.

Given the differences in the needs of individual students—and the fact that they vary from system to system—measures of horizontal equity should not be expected to reach statistical perfection. Indeed, as the Tennessee Supreme Court has said in its rulings on education spending equity, the issue is neither perfect equality in funding nor sameness. The pursuit of equity in spending will always be an important issue in education finance. Statistical measures, including the ones discussed in this report, will allow Tennessee researchers and policymakers to recognize and follow emerging education finance trends.

State revenue equity improved as the BEP was phased in, but improvements halted in 2005-06 or shortly thereafter and remained relatively flat until 2021-22. The TACIR measure decreased from 2021-22 to 2022-23, whereas the Range Ratio increased over that period.

The General Assembly adopted the Basic Education Program funding formula during the 1992 legislative session as part of the Education Improvement Act.

Tennessee Supreme Court Decisions Shape the State's Education Funding Formula

The BEP formula became Tennessee's primary funding mechanism for education in fiscal year 1992-93 after the General Assembly adopted the new formula during the 1992 legislative session with the passage of the Education Improvement Act (EIA). The General Assembly also increased the state sales tax from 5.5% to 6.0% to support phasing in the formula over a six-year period. The revenue generated by the sales tax increase only partially funded the phase in and the rest of the funds came from growth in the existing sales tax base. Full funding was achieved in fiscal year 1997-98 with a cumulative total of \$682 million in new funds distributed through the BEP formula. In recent years, more than 90% of all state funding for education flowed through the BEP, and the state contribution to funding public schools stayed around 45% to 48% of the total.

Legislative consideration of the BEP began in 1991, before the judicial decision in *Tennessee Small School Systems v. McWherter* (Small Schools I)² but after the initial filing of the lawsuit challenging the way the state funded education. A consortium of small, rural school systems filed suit in July 1988 asking the court to declare the old funding formula in violation of both the education and the equal protection clauses of the Tennessee Constitution and require the State to establish a new funding system that met constitutional standards. In March 1993—during the first year of the six-year phase-in period for the new funding formula—the Supreme Court of Tennessee ruled in favor of the plaintiffs on the equal protection clause, affirmed the trial court's holding allowing the General Assembly to devise a remedy, and remanded the case to the trial court for further proceedings.

The case returned to the Supreme Court in a second appeal after the trial court denied the plaintiffs' demand for immediate equalization, priority for capital improvements, and equity in teachers' salaries. The Supreme Court issued its second opinion in February 1995 (Small Schools II)³ ruling against the plaintiffs on all issues except equalization of teachers' salaries. That issue was addressed by the General Assembly in 1995 with additional state funds external to the BEP formula. That funding scheme was challenged by the plaintiffs in 1998 and rejected by the Supreme Court in a decision issued in October 2002 (Small Schools III).⁴

After the Small Schools III case, the BEP formula was revised to address teacher pay equity issues by increasing the teachers' salary component in the BEP funding formula.⁵ In 2005, the Voluntary Pre-K Act was

² *Tennessee Small School Systems v. McWherter*, 851 S.W.2d 139 (Tenn. 1993).

³ *Tennessee Small School Systems v. McWherter*, 894 S.W.2d 734 (Tenn. 1995).

⁴ *Tennessee Small School Systems v. McWherter*, 91 S.W.3d 232 (Tenn. 2002).

⁵ Tennessee Code Annotated Title 49, Chapter 3, Part 3, (Public Chapter 670, Acts of 2004).

introduced. Following that, a concerted effort between the governor’s administration and the State Board of Education’s BEP Review Committee (the entity responsible for evaluating the BEP) produced the shift to “BEP 2.0,”⁶ which passed and became effective in 2007. Starting in school year 2007-08, a new tax capacity model produced by the Center for Business and Economic Research (CBER) at the University of Tennessee has been used in combination with the county-level fiscal capacity model produced by TACIR and used since the inception of the BEP funding formula in 1992. Tennessee Code Annotated, Section 49-3- 104(13) required the results of the two models to be averaged for use with the BEP funding formula.

Improving Equity as Set Forth in the EIA and by the Court

Because the ability to generate local revenue to fund public schools varies so much across the state, the state contributes to local education agencies (LEAs) to level out their funding and spending. Local revenue per pupil (three-year average of 2020-21, 2021-22, and 2022-2319) varies widely, ranging from \$1,087 (Union) to \$15,837 (Franklin Special School District). Each county’s ability to pay determines the dollar amount that county has to contribute to the BEP, with the state making up the difference:⁷

. . . It is the intent of the general assembly to provide funding on a fair and equitable basis by recognizing the differences in the ability of local jurisdictions to raise local revenues.

The General Assembly heard extensive testimony regarding the adoption of a methodology that would meet its intent to provide funding on a fair and equitable basis. TACIR’s study of education fiscal capacity produced the methodology adopted to satisfy this requirement.

In *Small Systems II*, the Court acknowledged the new equalization method and further stated that

[i]t appears that the BEP addresses both constitutional mandates imposed upon the State—the obligation to maintain and support a system of free public schools and the obligation that that system afford substantially equal educational opportunities.⁸

Fiscal capacity was not an issue in the Court’s *Small Schools III* decision.

⁶ Tennessee Code Annotated Title 49, Chapter 3, Part 3, (Public Chapter 369, Acts of 2007).

⁷ Tennessee Code Annotated, Section 49-3-356, says “no LEA shall commence the fall term until its share of the BEP has been included in the budget approved by the local legislative body.”

⁸ Tennessee Small School Systems v. McWherter, 894 S.W.2d 738 (Tenn. 1995).

Starting in school year 2007-08, a new tax capacity model produced by the Center for Business and Economic Research (CBER) at the University of Tennessee has been used in combination with the county-level fiscal capacity model produced by TACIR and used since the inception of the BEP funding formula in 1992.

TACIR Fiscal Capacity and Equity

TACIR determines counties' fiscal capacity by analyzing each county's tax base, ability to pay, tax burden, and education service responsibility.

"The fiscal capacity index estimates county-level fiscal capacity while the BEP allocates funds at the LEA level, resulting in funding inequities among LEAs within multi-LEA counties."

Funding Public Schools: Is the BEP Adequate? Tennessee Comptroller of the Treasury, July 2003.

If counties were to levy the same taxes at the same tax rates, then the amounts collected would vary greatly across counties because their abilities to pay for education also vary greatly. Since fiscal year 1993, TACIR has determined the education fiscal capacity of each county by analyzing the

- tax base,
- ability to pay,
- tax burden, and
- education service responsibility variables.

The result of the analysis is a dollar figure per pupil representing the fiscal capacity of each county-area. That figure is multiplied by the average daily student membership (ADM) of the public schools in each county-area to produce a figure for the county-area's fiscal capacity, and a percentage of the statewide total is computed for each county-area from those dollar figures.

Until fiscal year 2006-07, Tennessee calculated fiscal capacity this way, but beginning in 2007-08 the state began using a simpler, arithmetic estimate calculated by the University of Tennessee's Center for Business and Economic Research (CBER), which is averaged with TACIR's fiscal capacity estimate. When it was introduced, the intent was to phase it in and replace TACIR's estimate, but the 2007-09 recession caused a revenue shortfall and it has remained a hybrid of the two.⁹

The CBER model takes each county's sales and property tax bases and then multiplies them by their state average tax rates. Both models produce indexes of each county's percent of the state's total fiscal capacity. Tennessee Code Annotated, Section 49-3-104(13) required the results of the two models to be averaged for use with the BEP funding formula. To implement the equity provision adopted by the legislature, the Tennessee Department of Education applies the average of TACIR's and CBER's percentages to the aggregate local share of the BEP to determine each county's required local match. For multi-school-system counties, the Department computes an overall state and local percentage for each county-area and applies those ratios to determine the local match for each system within those counties (like Gibson County, which hosts five special school districts).

⁹ During the transition from the TACIR to the CBER model, the results of both were to be used in calculating fiscal capacity. In the first year of transition, fiscal year 2007-08, each model was used to calculate 50% of each county's fiscal capacity. If the CBER calculation produced a percent of total fiscal capacity number that was more than a 30% change from the TACIR calculation, then the CBER percentage was adjusted such that the change was only 30%. The two indexes were then averaged to get the final fiscal capacity calculation. The intent was to shift the weight given the two measures toward the CBER model annually until it was the only one used, but they have remained evenly weighted.

A Word on Sub-County Equity

Ideally, fiscal capacity would be measured at the system level rather than the county level. This is uniquely difficult in Tennessee because the three types of school systems here are funded differently at the local level. The uniqueness of this local governance and funding structure is described in a 2006 TACIR staff report, *Searching for a Fiscal Capacity Model: Why No Other State is Comparable to Tennessee*; past efforts to develop methods to measure fiscal capacity at the system level are described in a 2005 TACIR staff report, *A Prototype Model for School-System-Level Fiscal Capacity in Tennessee: Why & How*. See also TACIR's 2020 report, *Effects of Sharing of Revenue among School Systems in Counties with More than One School System*.

A Framework for Measuring Equity

The BEP funding formula had been in place for 31 years and fully funded for 25. It has now been five years since its effect on fiscal equity was last measured. As noted in earlier reports, a set of questions that together comprise a framework for analyzing equity in school finance can be drawn from the education finance literature.

The questions are:

1. For whom should school finance systems be equitable?
2. What resources or services should be distributed equitably?
3. How should equity be defined?
4. How should equity be measured?

The fourth question is generally a two-part question, embodying both the measures and the results. It has been rephrased here, and the question of results is presented separately:

5. How equitable is the system?

Questions one through four describe the framework for analyzing equity; question five involves the application of that framework to suggest conclusions.

How Do Questions 1-4 Apply in Tennessee?

Who: Equity Groups

The two groups in which education equity researchers are generally interested are students and taxpayers. The concern for students was

“Equity should require that every student receives sufficient resources to have the same chance to succeed, rather than that every child gets the same level of funding.”

Marin Gjaja, J. Puckett, and Matt Ryder, *Education Week*, “Equity is the Key to Better School Funding,” February 19, 2014.

Equity objects may be measured at different levels (e.g. student, school, or school district); however, the most common level of analysis is the school district.

explicitly stated by the Tennessee Supreme Court in its unanimous opinion in *Small Schools I*:

. . . the disparities in educational opportunities available to public school students throughout the state . . . have been caused principally by the statutory funding scheme, which, therefore, violates the constitutional guarantee of equal protection.¹⁰

This report presents eight measures of equity among students and one measure designed to evaluate both student and taxpayer equity.

What: Equity Objects

The education finance literature supports analyzing three general categories of things (or objects of interest) to be distributed equitably: inputs, outputs, and outcomes. To evaluate the extent to which the legislative intent of the BEP funding formula and the court's standard have been met, this report focuses on financial inputs. The traditional objects of interest in analyses of financial inputs are operating expenditures and various compositions of revenues. These data are easily obtainable and are collected uniformly across the United States, including in Tennessee. In addition, this type of analysis is generally accepted by the courts.

The literature also describes several levels at which these objects may be measured: the individual student, the school, the educational program within the school, and the school district as a whole. While the ideal level may be the individual student, such detailed data is rare. The most common level of analysis is the district. In Tennessee, the district, or system, is the only level at which financial data is available. It is also the level at which the BEP funding formula is calculated.

Why: Defining Equity

Before equity can be measured, it must be defined. Education equity is generally described as having three dimensions:

1. Equal treatment of equals (horizontal equity): Students who are alike should receive equal shares. This principle requires equal expenditures or revenue per student. Disparities in spending or revenue among equals indicate less horizontal equity.
2. Unequal treatment of unequals (vertical equity): In some circumstances and for some reasons, it is not only acceptable but necessary to treat students differently. Examples include students with learning disabilities and students whose primary language is not English.

¹⁰ Tennessee Small School Systems v. McWherter, 851 S.W.2d .139 (Tenn. 1993).

3. **Equal opportunity:** The amount of educational resources and services provided to students should not vary based on illegitimate characteristics such as race, gender, national origin, property wealth, or household income. In some cases, equal opportunity is treated as a condition of horizontal equity.

Vertical equity was not at issue in the lawsuit brought by the small systems in Tennessee. Both the funding formula replaced by the BEP and the BEP itself addressed issues of vertical equity by including adjustments for differing student needs based on grade level and program, including academic, career and technical, and special education.¹¹

In *Small Schools I*, the court noted that neither equal funding nor sameness was the issue, but rather equal opportunity. The justices' rationale for finding Tennessee's education funding scheme unconstitutional centered on the relationship between dollars spent by a school system and the quality of education its students receive and the fact that the state's funding scheme produced great disparity in the revenues available to the school districts. Hence the focus of this report on measurements of horizontal equity.

How: Measuring Horizontal Equity

The education finance literature describes at least a dozen measures of horizontal equity. This report updates the fiscal equity measures presented in past spending equity briefs to analyze the change in the distribution of state revenue as a result of the BEP and to analyze the effect of the new formula on spending equity. Because there are no absolute standards for horizontal equity, multiple measures are used to ensure that too much emphasis is not placed on any one measure. The following is a brief general discussion of the statistics applied to Tennessee data. If all systems spent exactly the same amount per student, the four ratios and the McLoone and Green indexes would equal one; the coefficient of variation and the Gini coefficient would equal zero. The TACIR index is applied only to state revenue. If state revenue completely eliminated the disparity in local fiscal capacity, then the TACIR index would equal negative one.

Range Ratio. The range ratio is a traditional measure that compares the most extreme differences within a data set. Here it is calculated by dividing the highest value for expenditures per pupil by the lowest value. This is probably the weakest statistic of all those considered here because it includes only two school systems and gives no indication of equity among the school systems in between.

Federal Range Ratio. The federal range ratio is frequently used in school finance litigation arguments and in the distribution of some federal

In *Small Schools I*, the court found Tennessee's method for funding education was unconstitutional. The rationale for the decision centered on the relationship between dollars spent by a school system, the quality of education students receive, and the fact that the state funding formula created disparity in the revenues available to school districts.

¹¹ Tennessee Code Annotated, Section 49-3-354.

The Top 10/Bottom 10 Ratio was used by the Small Schools plaintiffs to support their arguments that Tennessee's school funding formula and salary provisions violated the Tennessee Constitution.

education funds. It avoids the extremes but, like the range ratio, includes only two school systems and gives no indication of equity among the others. It is calculated by dividing the value of the observation at the 95th percentile by the value at the 5th percentile with the values arranged in descending order.

Kingsport/Hancock County Ratio. This indicator is used here as in the past to illustrate the effect of the BEP on two systems made nationally famous by CNN. The CNN segment was shown at education conferences to illustrate a stark difference in equity. This index is computed by dividing Kingsport's expenditures per pupil by Hancock County's. It shares the same major weakness as the range ratios.

Top 10/Bottom 10 Ratio. This measure was used by the Small Schools plaintiffs to support their arguments that the previous funding formula and salary provisions violated the Tennessee Constitution. It is computed by dividing the average value of the top ten systems by the average value of the bottom ten systems. Because this measure includes more systems—and, therefore, more students—it is arguably more representative than the first three measures described; however, it still suffers from a focus on the extreme values and offers no indication of equity among the majority of school systems.

Coefficient of Variation. The coefficient of variation is a statistic that includes all values in a set of data. A commonly used statistic, it is based on the differences between each value in the data set and the mean or arithmetic average of all values. It is computed by dividing the standard deviation of the data set, which is derived from those differences, by its mean. One weakness of the coefficient of variation is that, because of its dependence on the mean, it is affected by extreme values. Although the standard deviation and coefficient of variation attempt to correct for extreme values, they do not always do so completely.¹²

Gini Coefficient. The Gini coefficient is often used to measure the equality of wealth, income, and production. In our context, it is the average difference between every combination of two school systems divided by the average of all school systems.¹³ Like the coefficient of variation, a strength of the Gini coefficient is that it takes all values into account. A weakness of the coefficient of variation and the Gini Coefficient is that each

¹² Some of the money distributed by the federal government for Title 1 Every Student Succeeds Act to school systems across the country—\$15.9 billion in school year 2020-21—is allocated according to states' coefficients of variation, measuring how much per pupil expenditures vary across systems within each state. Title 1 eligible students are given 40% more weight than other students, meaning systems with more Title 1 eligible students affect their states' coefficient of variation more. States with more equitable (smaller) coefficients of variation receive more federal money through the formula. The intent is to encourage states to make education spending more equitable across systems. Tennessee's equity factor for the 2020-21 school year is 10.6%, seventeenth best out of the 50 states, the District of Columbia, and Puerto Rico.

¹³ Divided by two to adjust for double counting.

school system is given the same weight, meaning a school system with few students has just as much influence on the Gini coefficient as a school system with many students.

McLoone Index. The McLoone index uses the median rather than the mean in order to lessen the influence of extreme values. The median is the mid-point value that divides a set of data into two equal parts. The McLoone index is the ratio between the total expenditures of all systems at or below the median expenditure per student and what their total expenditures would be if all of them spent the median amount.¹⁴

Green Index. Developed by TACIR’s former executive director, the Green index is the ratio between spending for the top 50% of students and spending for the bottom 50%. The theory of this statistic is that expenditures per pupil for the top half of students should not greatly exceed the expenditures for the bottom half.

TACIR Equity Index. This statistic differs from the other statistics in that it measures equity among the counties both in funding for students and in taxpayer burden by comparing state funding to local fiscal capacity. It is designed to measure both the extent to which the education of the students in each county in Tennessee is equitably funded and the extent to which comparable effort by taxpayers produces reasonably equal funding for education in each county.

Similar or equal taxpayer effort will produce greatly unequal amounts of local revenue from county to county because of variations in the size of local tax bases; therefore, state funds should be distributed in inverse proportion to ensure reasonably equal funding overall.

This measure involves correlation analysis, which produces values between +1 and -1. In this case, as noted earlier, if state revenue distribution compensated perfectly for differences in local fiscal capacity, then the TACIR index would equal negative one.

Education Equity in Tennessee: What has the BEP Achieved?

The application of these nine measures to the first year of full BEP funding indicates education finance equity improved substantially as the funding formula was phased in and for a few years thereafter but has since leveled out. The years chosen for the analysis represent the last year of the previous funding formula—the Tennessee Foundation Program—as a base year

¹⁴ The ratio is inverted as presented here to make it easier to compare with the other measures. Computed in the usual manner, the ratio will be less than one and the higher the ratio, the greater the equity. When inverted, the ratio will be more than one and the lower the ratio, the greater the equity, which is how the other measures presented are interpreted.

Education finance equity improved substantially as the funding formula was phased in and for a few years thereafter but has since leveled out.

Decreases in spending equity measures represent greater equity.

(fiscal year 1991-92), the first year of full funding (fiscal year 1997-98), and every five years since. All trends presented are based on comparisons to fiscal year 1997-98. No definitive standard that would indicate a minimum acceptable degree of equity has been set for any of the measures described. Given that not all systems have exactly the same complement of students in terms of their needs, it is inappropriate to expect that any of the measures would equal exactly zero or one. Nevertheless, the measures are valuable as trend indicators.

All eight of the equity indicators presented in table 1 improved between the base year and full funding (fiscal year 1997-98), and a few improved further in 2002-03 and in 2007-08, but some stalled after that point. Decreases in spending equity measures represent greater equity. If all systems spent exactly the same amount per student, the four ratios and the McLoone and Green indexes would each equal one; the coefficient of variation and the Gini coefficient would equal zero.

Table 1. Spending Equity Measurements for Tennessee
Select Fiscal Years 1991-92 to 2022-23

Equity Measure	Base Year 1991-92	Full Funding 1997-98	Change Base Year to Full Funding	After Full Funding					Change Since Full Funding
				5 Years 2002-03	10 Years 2007-08	15 Years 2012-13	20 Years 2017-18	25 Years 2022-23	
Range Ratio	2.23	2.02	-0.21	1.89	1.87	1.89	1.95	3.22	1.20
Federal Range Ratio	1.60	1.48	-0.12	1.47	1.44	1.44	1.50	1.82	0.34
Kingsport/Hancock Ratio	1.54	1.20	-0.34	1.12	1.08	1.08	1.08	0.89	-0.31
Top 10/Bottom 10 Systems	1.65	1.61	-0.05	1.51	1.51	1.49	1.52	1.90	0.29
Coefficient of Variation	0.16	0.13	-0.03	0.12	0.11	0.11	0.10	0.12	0.00
Gini Coefficient	0.09	0.07	-0.02	0.06	0.06	0.05	0.05	0.06	-0.01
McLoone Index	1.10	1.07	-0.02	1.08	1.06	1.06	1.06	1.09	0.02
Green Index	1.31	1.24	-0.07	1.23	1.23	1.22	1.20	1.27	0.03

Source: TACIR staff analysis of expenditures per pupil (average daily membership [ADM]) from the Tennessee Department of Education.

The extent to which the improvement in spending equity resulted from changes in the distribution of state revenue may be judged in part by applying the same equity measures to revenues. Table 2 shows the result. In this case, the bigger the number the better, whether positive or negative. The farther the coefficient of variation and Gini coefficient are from zero and the farther the McLoone index, the Green index, and the four ratios are from one, the greater the differentiation among school systems in the distribution of state revenue. The closer the TACIR index is to negative one (-1), the more effective the state funding formula is in compensating for differences in local fiscal capacity.

As table 2 illustrates, the degree of differentiation among school systems in the distribution of state funding increased substantially at full funding and continued to improve through fiscal year 2007-08. The coefficient of variation, the Gini coefficient, and the McLoone, Green, and TACIR indexes show most clearly how little differentiation among school systems in the distribution of state revenue existed before the BEP funding formula was implemented. The TACIR index, which is the one measure that directly incorporates local fiscal capacity, illustrates most clearly the improvement in the degree to which the new funding formula compensated for local variations. Since 2007-08, all measures except the McCloone Index have increased, at least slightly.

Increases in revenue equity measures represent greater equity.

**Table 2. Equity Measurements Applied to State Revenue in Tennessee
Select Fiscal Years 1991-92 to 2022-23**

Equity Measure	Base Year 1991-92	Full Funding 1997-98	Change Base Year to Full Funding	After Full Funding					Change Since Full Funding
				5 Years 2002-03	10 Years 2007-08	15 Years 2012-13	20 Years 2017-18	25 Years 2022-23	
Range Ratio	1.58	2.12	0.53	2.21	2.52	2.52	2.54	4.03	1.91
Federal Range Ratio	1.17	1.69	0.53	1.68	1.95	1.80	1.91	2.08	0.38
Kingsport/Hancock Ratio	1.14	1.82	0.68	1.79	1.92	1.92	1.88	1.96	0.14
Top 10/Bottom 10 Systems	1.32	1.73	0.41	1.71	2.05	2.01	2.04	2.34	0.61
Coefficient of Variation	0.07	0.14	0.06	0.14	0.17	0.16	0.17	0.20	0.06
McLoone Index	1.03	1.12	0.09	1.11	1.20	1.18	1.21	1.13	0.01
Green Index	1.08	1.29	0.21	1.31	1.36	1.34	1.37	1.33	0.03
Gini Coefficient	0.04	0.08	0.04	0.08	0.09	0.09	0.10	0.10	0.03
TACIR Index	-0.32	-0.88	-0.55	-0.89	-0.89	-0.89	-0.88	-0.61	0.27

Source: TACIR staff analysis of revenue per pupil (average daily membership [ADM]) from the Tennessee Department of Education.
*Kingsport/Hancock is inverted so that increases in the ratio mean more differentiation, which is the intent of the state funding formula.

All of the measures used in table 1 for spending equity and applied to state revenue in table 2 compare school systems to each other to evaluate equity in the state overall, not in individual systems. A simple way to evaluate equity in a single system is to compare its expenditures per pupil as a percentage of the statewide amount for two separate years. Maps 1 and 2 in appendix A show the status of spending equity in 1991-92 versus 2022-23 by school system, with more school systems moving closer to statewide expenditures per pupil (96) than moving away (38). The data for the maps are shown in appendix B for each school system.

Increased spending equity ideally leads to similar outcomes for students of disparate socioeconomic backgrounds, which was the primary intent of the General Assembly in passing the EIA.

Progress but Room for Improvement

In conclusion, spending equity improved under the now defunct BEP from when it was first phased in and through full funding, but despite early gains in education equity the equalizing effect of state revenue has been too small to offset differences at the local level for at least the last 20 years. It may be that some local governments have reduced their own education spending efforts and replaced some of their local spending with state funds, though maintenance of effort requirements would minimize this effect. Over time, local governments may nonetheless have ceased increasing local spending as much as they had in the past, reducing the equalization effect of the BEP funding formula. Another possible explanation is the concentration of wealth in certain systems.

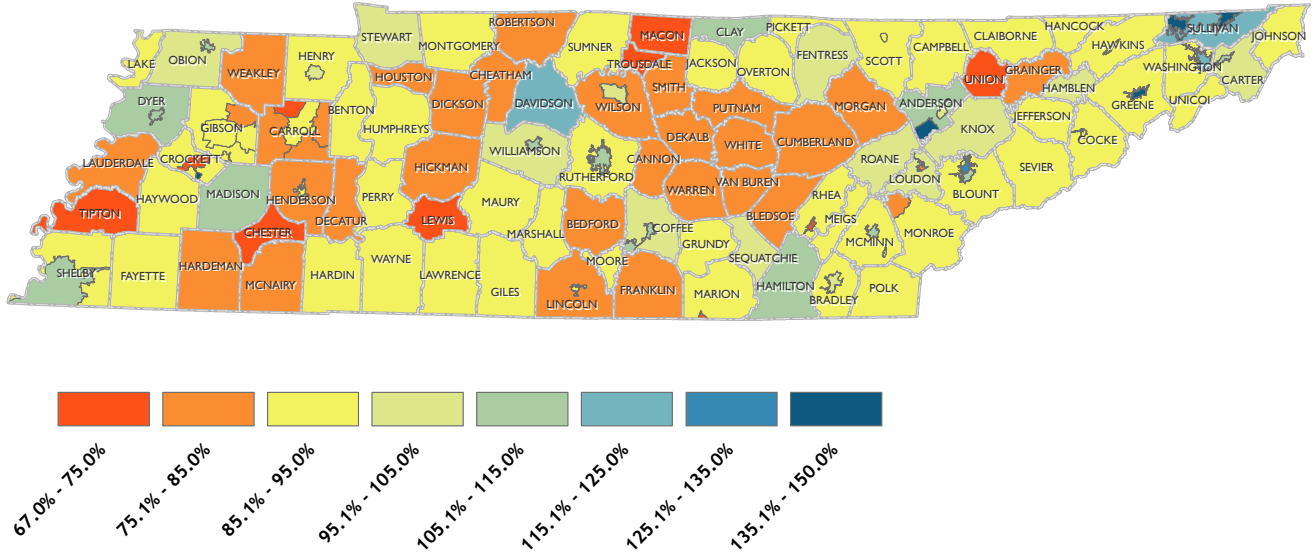
Given the differences in the needs of individual students—and the fact that they vary from system to system—equity measures should not be expected to reach statistical perfection. Indeed, as the Tennessee Supreme Court has said in its rulings on education spending equity, the issue is neither perfect equality in funding nor sameness. The pursuit of equity in spending will always be an important issue in education finance. Statistical measures, including the ones discussed in this report, will allow researchers and policymakers to recognize and follow emerging education finance trends in Tennessee. Time will tell how spending equity will change now that TISA has replaced the BEP.

References

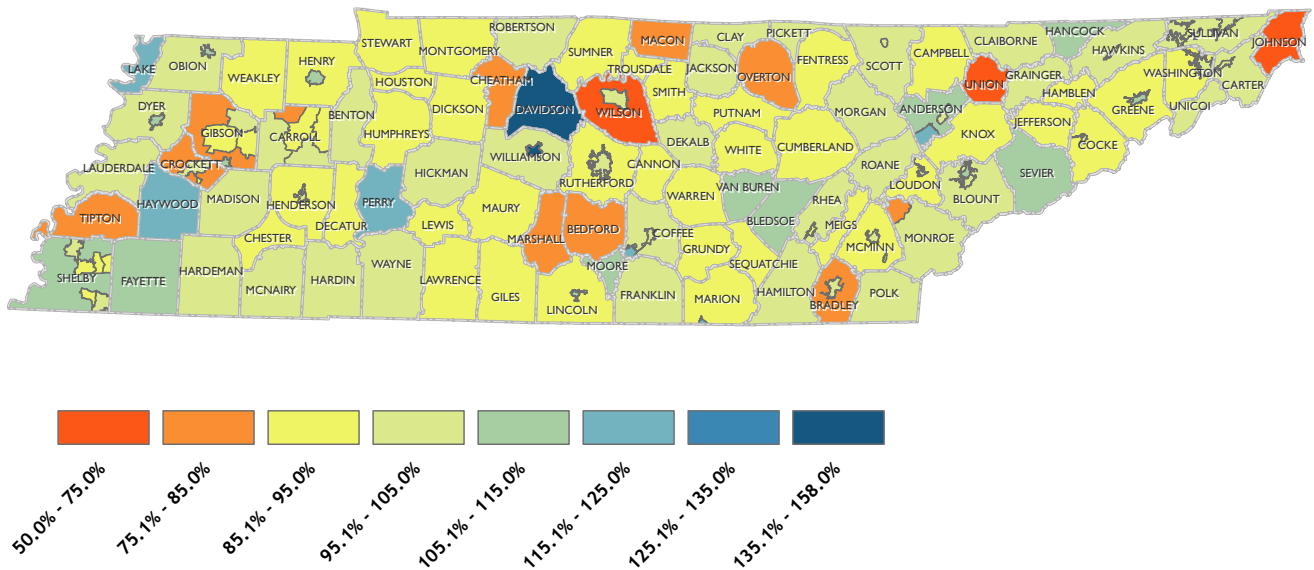
- Berne, Robert and Leanna Stiefel. 1984. *The Measurement of Equity in School Finance*. Baltimore: Johns Hopkins University.
- Green, Harry and Lynne Holliday. 1996. *Much Ado About Something: Gains in Education Spending Equity*. Tennessee Advisory Commission on Intergovernmental Relations.
- Green, Harry and Stan Chervin. 2006. *Searching for a Fiscal Capacity Model: Why No Other State is Comparable to Tennessee*. Tennessee Advisory Commission on Intergovernmental Relations.
- Green, Harry. 2008. *Fiscal Capacity and Fiscal Equity*. Tennessee Advisory Commission on Intergovernmental Relations.
- Green, Harry and Reem Abdelrazek. 2009. *Gains in Education Spending Equity: Ten Years After Fully Funding the BEP*. Tennessee Advisory Commission on Intergovernmental Relations.
- Hale, Travis. *The Theoretical Basics of Popular Inequality Measures*. University of Texas Inequality Project. <http://utip.gov.utexas.edu/tutorials.html>.
- Levin, B. 2003. *Approaches to Equity in Policy for Lifelong Learning*. Paris: Organisation for Economic Cooperation and Development.
- Mount, Michael, David Lewis, Bob Moreo, and Melissa Brown. 2021. *Gains in Education Spending Equity Continue 20 Years After Fully Funding the Basic Education Program*. Tennessee Advisory Commission on Intergovernmental Relations.
- Odden, Allan, and Larry Picus. 1992. *School Finance: A Policy Perspective*. New York: McGraw-Hill.
- Parrish, Thomas B., Christine S. Hikido, and William J. Fowler, Jr. 1998. *Inequalities in Public School District Revenues*. Washington, DC: US Department of Education National Center for Education Statistics. <https://nces.ed.gov/pubs98/inequalities/chapter4.asp>
- Roehrich-Patrick, Lynnisse and Harry Green. 2000. *Gains in Education Finance Equity: How Has the BEP Changed Things?* Tennessee Advisory Commission on Intergovernmental Relations.
- . 2003. *Gains in Education Spending Equity Continue Four Years After Fully Funding the Basic Education Program*. Tennessee Advisory Commission on Intergovernmental Relations. https://www.tn.gov/content/dam/tn/tacir/documents/Gains_in_Education_Spending.pdf.
- Roehrich-Patrick, Lynnisse, Michael Mount, Bob Moreo, and Melissa Brown. 2016. *Education Spending Equity Improvements Level Out: Fifteen Years After Fully Funding the BEP Formula*. Tennessee Advisory Commission on Intergovernmental Relations. <https://www.tn.gov/content/dam/tn/tacir/documents/2016EducationSpendingEquity.pdf>.
- Swanson, Austin and Richard King. 1997. *School Finance: Its Economics and Politics*. New York: Longman.
- Tennessee Advisory Commission on Intergovernmental Relations. 2020. *Services Provided by Local Governments and the Sources of Revenue to Fund Them*.
- US Department of Education. Grants to Local Educational Agencies (Basic, Concentration, Targeted, and Education Finance Incentive Grants). October 1, 2019. <https://www2.ed.gov/about/overview/budget/statetables/20stbyprogram.pdf>.

Appendix A

Map 1: School System Expenditures per Pupil as a Percentage of Statewide Expenditures per Pupil, 1991-92



Map 2: School System Expenditures per Pupil as a Percentage of Statewide Expenditures per Pupil, 2022-23



Appendix B

**Tennessee School System Expenditures per Pupil as a Percentage
of Statewide Expenditures per Pupil
Fiscal Years 1991-92 and 2022-23**

School System	Expenditures Per Pupil		School System	Expenditures Per Pupil	
	1991-92	2022-23		1991-92	2022-23
Anderson County	110%	107%	Dyer County	106%	99%
Clinton City	102%	101%	Dyersburg City	108%	108%
Oak Ridge City	150%	119%	Fayette County	93%	108%
Bedford County	84%	81%	Fentress County	103%	93%
Benton County	92%	97%	Franklin County	83%	99%
Bledsoe County	82%	109%	Humboldt City	89%	114%
Blount County	95%	102%	Milan SSD	92%	95%
Alcoa City	134%	112%	Trenton SSD	95%	90%
Maryville City	114%	96%	Bradford SSD	81%	102%
Bradley County	87%	82%	Gibson County SSD	89%	83%
Cleveland City	103%	97%	Giles County	92%	93%
Campbell County	92%	88%	Grainger County	79%	97%
Cannon County	80%	93%	Greene County	86%	91%
Hollow Rock-Bruceton SSD	80%	90%	Greeneville City	141%	108%
Huntingdon SSD	87%	94%	Grundy County	92%	88%
McKenzie SSD	75%	82%	Hamblen County	105%	88%
South Carroll Co SSD	78%	101%	Hamilton County	108%	104%
West Carroll Co SSD	85%	98%	Hancock County	95%	113%
Carter County	96%	99%	Hardeman County	82%	102%
Elizabethton City	114%	98%	Hardin County	87%	101%
Cheatham County	76%	84%	Hawkins County	91%	99%
Chester County	74%	86%	Rogersville City	91%	104%
Claiborne County	91%	98%	Haywood County	91%	116%
Clay County	107%	97%	Henderson County	78%	88%
Cocke County	89%	93%	Lexington City	88%	103%
Newport City	93%	99%	Henry County	89%	94%
Coffee County	98%	97%	Paris SSD	103%	107%
Manchester City	114%	100%	Hickman County	83%	102%
Tullahoma City	112%	119%	Houston County	79%	93%
Crockett County	88%	81%	Humphreys County	89%	91%
Alamo City	67%	103%	Jackson County	91%	99%
Bells City	71%	94%	Jefferson County	87%	88%
Cumberland County	85%	91%	Johnson County	92%	69%
Davidson County	123%	148%	Knox County	104%	93%
Decatur County	85%	91%	Lake County	93%	117%
DeKalb County	76%	95%	Lauderdale County	76%	102%
Dickson County	84%	94%	Lawrence County	86%	87%

**Tennessee School System Expenditures per Pupil as a Percentage
of Statewide Expenditures per Pupil
Fiscal Years 1991-92 and 2022-23**

School System	Expenditures Per Pupil		School System	Expenditures Per Pupil	
	1991-92	2022-23		1991-92	2022-23
Lewis County	71%	91%	Scott County	86%	100%
Lincoln County	83%	85%	Oneida SSD	94%	99%
Fayetteville City	91%	105%	Sequatchie County	103%	95%
Loudon County	100%	93%	Sevier County	94%	108%
Lenoir City	85%	101%	Shelby County	89%	108%
McMinn County	90%	90%	Memphis	115%	NA*
Athens City	108%	99%	Arlington	NA*	90%
Etowah City	96%	98%	Bartlett	NA*	93%
McNairy County	83%	95%	Collierville	NA*	99%
Macon County	72%	84%	Germantown	NA*	95%
Madison County	113%	99%	Lakeland	NA*	91%
Marion County	86%	85%	Millington	NA*	99%
Richard City SSD	68%	115%	Smith County	80%	85%
Marshall County	91%	83%	Stewart County	96%	93%
Maury County	88%	94%	Sullivan County	122%	95%
Meigs County	90%	93%	Bristol City	141%	103%
Monroe County	89%	100%	Kingsport City	147%	101%
Sweetwater City	83%	83%	Sumner County	90%	90%
Montgomery County	89%	87%	Tipton County	75%	81%
Moore County	95%	112%	Trousdale County	75%	90%
Morgan County	83%	101%	Unicoi County	89%	97%
Obion County	100%	100%	Union County	75%	49%
Union City	113%	108%	Van Buren County	83%	107%
Overton County	88%	83%	Warren County	84%	87%
Perry County	86%	123%	Washington County	90%	93%
Pickett County	92%	97%	Johnson City	120%	99%
Polk County	95%	103%	Wayne County	88%	101%
Putnam County	80%	88%	Weakley County	84%	93%
Rhea County	87%	96%	White County	83%	85%
Dayton City	73%	92%	Williamson County	103%	97%
Roane County	102%	102%	Franklin SSD	108%	158%
Robertson County	83%	97%	Wilson County	77%	74%
Rutherford County	95%	86%	Lebanon SSD	97%	102%
Murfreesboro City	106%	99%			

Source: Tennessee Department of Education.

* Shelby County Schools absorbed the Memphis City School System in fiscal year 2013-14, and six new municipal school systems were formed in fiscal year 2014-15.