

Impact of Special School District on Memphis and Shelby County

Prepared by

Regional Economic Development Center

for

Memphis City School Board
and
Shelby County School Board

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Chapter 1

Introduction

Purpose and Scope

The purpose of this report is to provide officials of Memphis City Schools (MCS) and Shelby County Schools (SCS) with an evaluation of the equity in creating a “special school district” in Shelby County.

The Shelby County School Board has proposed that a “special school district” be created to replace the current Shelby County School System. This action would require two legislative actions: 1) the Tennessee General Assembly would pass general legislation authorizing local jurisdictions to create special school districts; and, 2) the general assembly, with concurrence of the Shelby County delegation, would pass a private act creating the Shelby County Special School District, which would have a fixed permanent boundary and the ability to impose a property tax to either enhance existing County revenues or fund most of its operating and capital budgets.

Since the creation of a special school district in Shelby County may have positive and/or negative consequences for K-12 education, the Shelby County School Board and the Memphis City School Board requested the Regional Economic Development Center at the University of Memphis to study the fiscal outcomes and growth issues of creating a special school district.

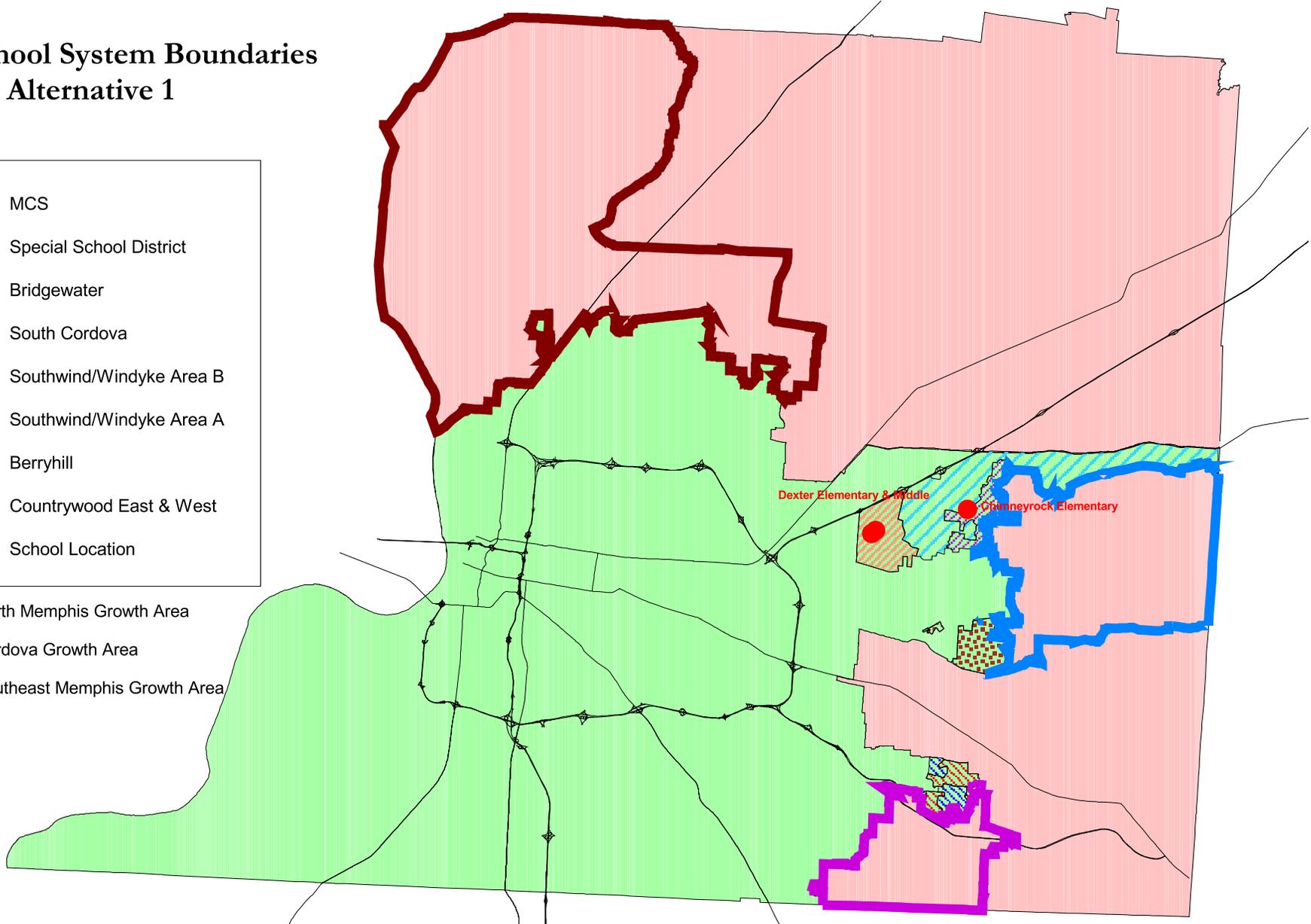
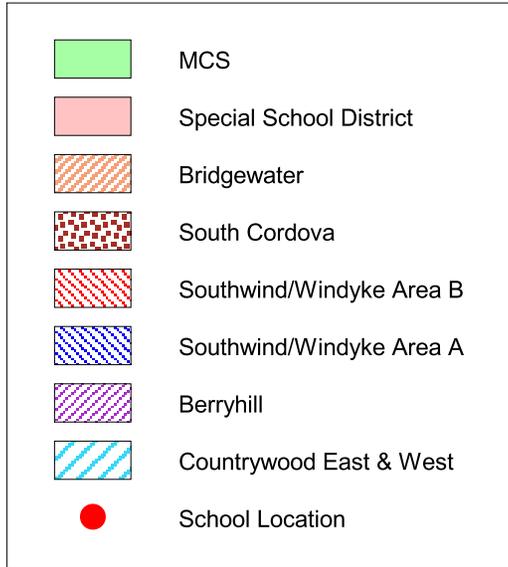
This report measures the impact of creating a special school district in Shelby County to replace the current Shelby County Board of Education and the Shelby County School System. The report presents the fiscal impact and growth policy implications for Shelby County and the City of Memphis governments, Memphis City Schools (MCS) and a new Shelby County Special School District (SCSSD). The report examines scenarios involving two different special school district boundary alternatives and two alternatives regarding the levy of property taxes. The beginning date of the special school district has been set at July 1, 2008 for all assumptions.

The two alternative boundaries for a special school district are:

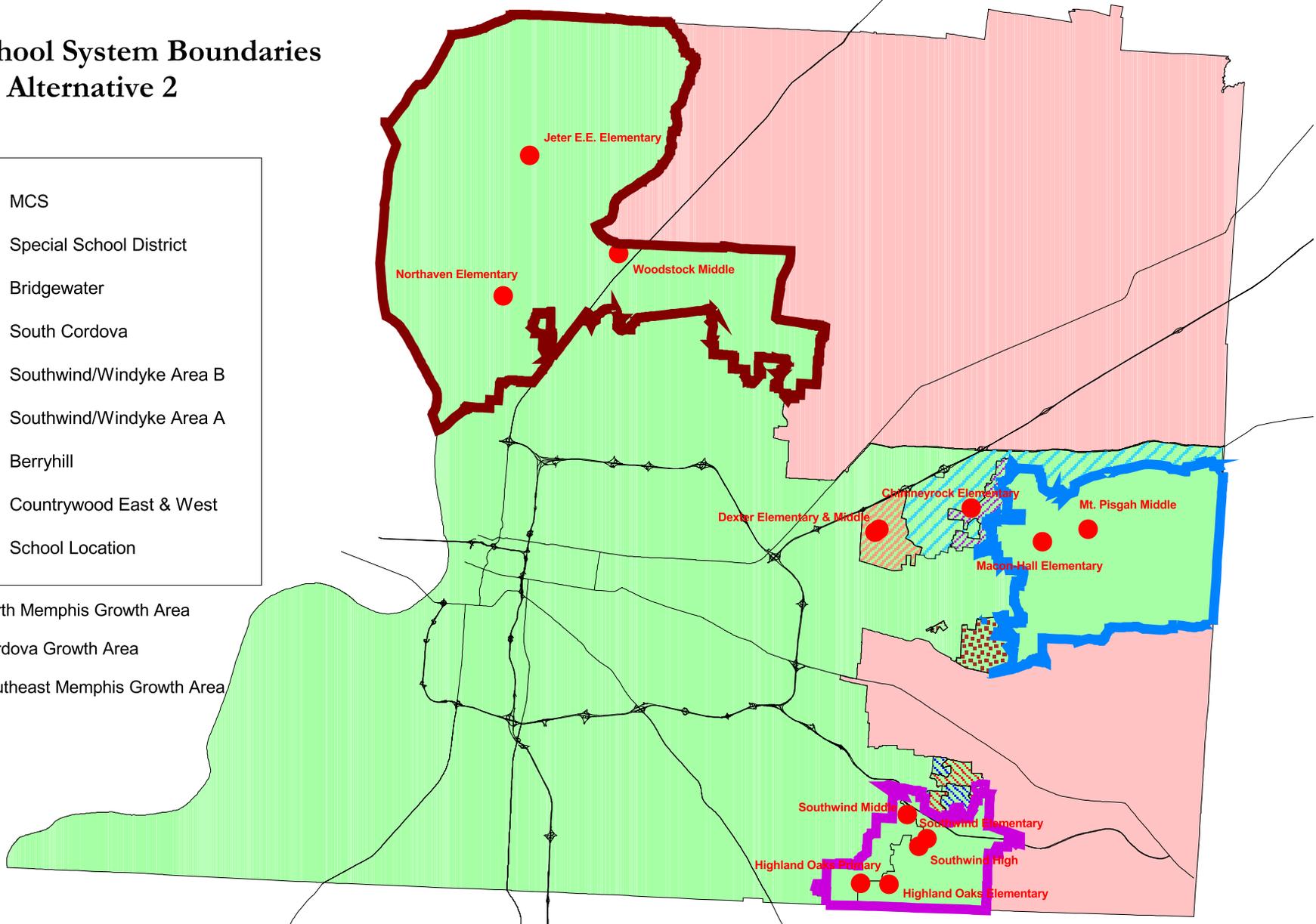
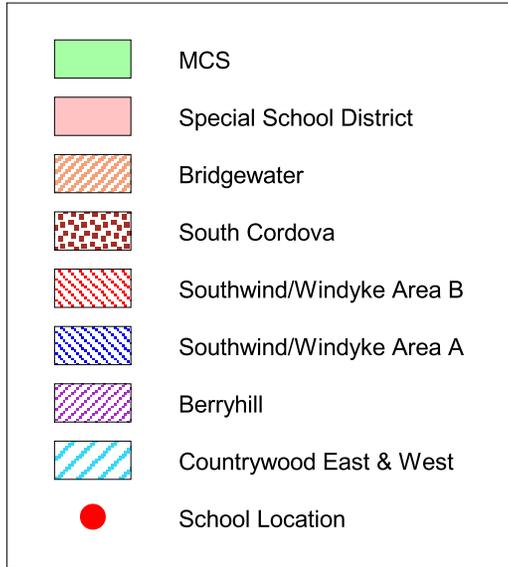
Alternative 1 Boundary. The special school district would include all territory outside the current City of Memphis corporate limits. The City of Memphis corporate limits would include the pending annexation areas of “Bridgewater,” “South Cordova” and “Southwind-Windyke”. See Map 1, which follows.

Alternative 2 Boundary. The special school district would include all territory outside both the current City of Memphis corporate limits and the Memphis annexation reserve areas. See Map 2, which follows.

Map 1. School System Boundaries Alternative 1



Map 2. School System Boundaries Alternative 2



Property tax available to the two school systems has been measured based on the following two alternatives:

Property Tax Alternative 1. Shelby County government would continue to serve as a primary funding source in each school district. Shelby County government would continue to levy a property tax that would be divided between Memphis City Schools and the special school district based on average daily attendance. Revenue collected by the special district property tax levy would serve as supplemental funding for the district. The City of Memphis would continue to use its property tax to partially fund MCS.

Property Tax Alternative 2. Each district would levy its own property tax as a primary funding source. Shelby County government would discontinue using property tax to fund the MCS and special school district; and the two school districts would utilize property tax each collects from their respective territories.

In addition to the boundary and property tax alternatives outlined above, the following assumptions have been made for purposes of this study:

- a. Under both alternatives the special school district boundaries would be permanently frozen. Memphis and the other six Shelby County municipalities would annex territory according to the Shelby County Urban Growth Plan adopted pursuant to State Chapter 1101. The special school district would be able to levy property tax within the fixed boundaries of the special district including territory annexed by municipalities.
- b. Property in areas annexed by the municipalities after creation of special school district would pay municipal and Shelby County property taxes and special school district property taxes if located in the special school district. Children residing in annexed areas located within the special school district would attend schools of the special school district.
- c. Shelby County government would distribute 50% of local option sales tax revenues collected in unincorporated areas between Memphis City Schools and the special school district in proportion to “average daily attendance” at both school districts. 50% of the local option sales tax collected within the seven municipalities would be distributed to Memphis City Schools and the special school district in proportion to the “average daily attendance” at both school districts.
- d. All other revenues would continue to be distributed to the two school systems in the same manner as present.
- e. The special school district would be able to issue bonds to finance capital expenditures and will not assume the current debt of Shelby County government for schools built for the Shelby County Board of Education.

The final element of this evaluation relates to the implications for growth policy by the governments in Shelby County. The creation of a new special purpose government with taxing power in Shelby County may alter the decision-making and growth dynamics among the general purpose governments of Shelby County (county government and seven municipal governments). This section of the study will discuss possible scenarios of decision making and growth as follows:

- a. The new special school district will have the power to borrow money and have the state legislature set a property tax rate to fund the resulting debt. This decision-making structure and process will affect all existing local governments in Shelby County. This study element discusses the dynamics of the new structure and process.
- b. Schools are important facilities for neighborhoods and their larger communities. The ability to provide quality school buildings and services to students determines, in large degree, the overall sustainability of community. This element discusses the potential for urban sustainability within the boundaries of each school district.
- c. Investments by businesses in land, labor, buildings and equipment are enhanced and stimulated by the desirability of doing business at different locations. This element will examine the role of schools in each district to help improve the desirability of investment within their respective boundaries.

Methodology

The measurement of fiscal impact has been established by calculating the demand/supply and revenue/expense ratios that will result between the two school systems at the time of creating the special school district and in 2020, which corresponds with the horizon year of the Shelby County Urban Growth Plan. All of the expenditure projections that follow are expressed in current dollars. Any inflation in school expenditures will be offset by inflation in property and sales tax base; therefore, rather than adjusting future expenditures to reflect inflation, or discounting future revenue streams, we have used current dollars.

The following analyses have been performed:

Demand. Estimates of K-12 school age population for each of the alternative boundaries are based on the projections made in the report titled Demographics Report: Memphis City Schools and Shelby County Schools prepared for the Needs Assessment Committee in May 2007 by DeJONG, Inc., an Ohio consulting firm.

Supply. The number and size of schools by type needed for each school system have been projected based on records and plans of the current Memphis City Schools and Shelby County Schools.

Expenses. Expenditures likely to be made by each school system based on need to satisfy state and federal mandates and local school standards have been projected for both operating and capital budgets. Certain fixed costs are held constant between 2008 and 2020, while variable costs increase or decrease on a per-student basis based on expected enrollment change in each system under the two boundary alternatives.

Revenues. The existing revenue streams for Memphis and Shelby County Schools have been projected for each alternative in 2008 and 2020. Tax revenues and intergovernmental transfers have been stated in 2008 values for comparison of capacity of each school system alternative to fund education. The following major revenue types are projected: sales tax, property tax,

wheel tax, privilege tax, alcoholic beverage tax, payments in lieu of taxes; and state revenues. Revenue types that are non-recurring such as discretionary grants have not been included.

For 2008, existing revenues are distributed for each boundary alternative according to each funding alternative. Projections of property tax and sales tax revenues for 2020 are based on development trends in population and retail employment as estimated by the Metropolitan Planning Organization (MPO) for Traffic Analysis Zones (TAZs). The 2020 projections for each TAZ provide the basis for increased real property assessments and sales tax collections. Other local tax revenues are projected based on anticipated changes in ADA. Map 3, which follows, shows annexation reserve areas and possible areas of annexation between 2008 and 2020 for each municipality in Shelby County. The annexation areas are used to adjust assessed value of real property since these would be the more intense growth areas.

Additional discussion of methodology is included within the following chapters.

Organization of Report

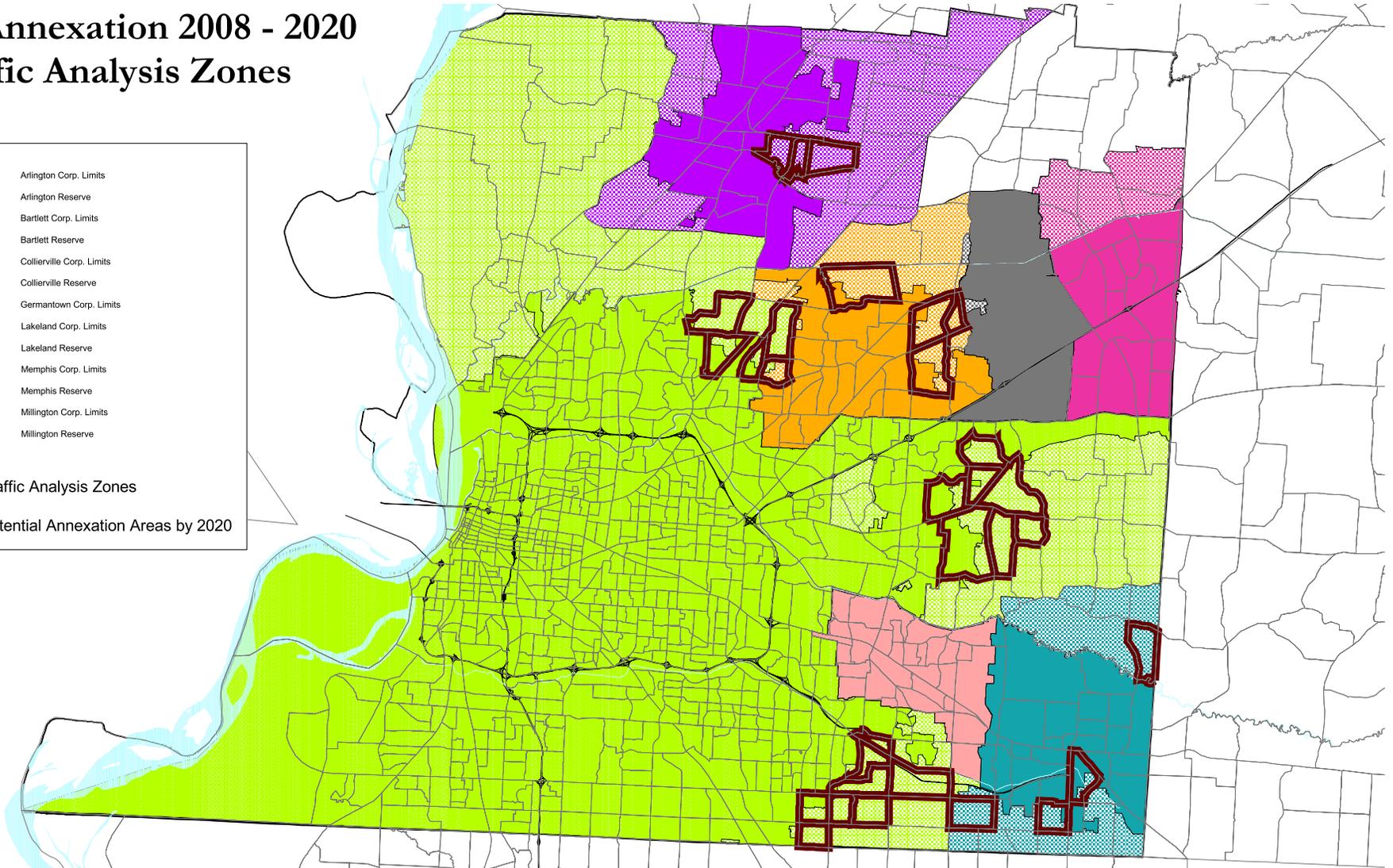
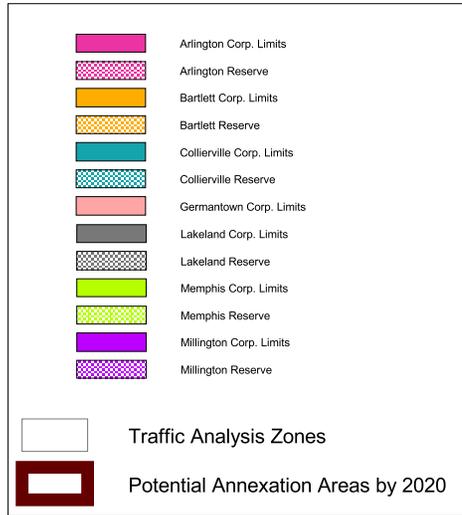
Following this Introduction the report is organized into three additional chapters.

Chapter 2 presents the expenses associated with the two alternative boundaries for the special school district. The expenses are based on per student costs when schools are shifted from the current Shelby County system to the Memphis City School system and capital expenditures are made between 2008 and 2020.

Chapter 3 presents the revenues expected to be generated for each school system from known streams of local taxes and intergovernmental transfers from the State and federal governments.

The final chapter compares revenues and expenses according to the four scenarios and discusses the growth policy implications for local government if the special school district is created.

Map 3. Annexation 2008 - 2020 Traffic Analysis Zones



Chapter 2

Expenditure Impacts

Operating Expenditures: Current

This chapter examines the potential impact of the proposed school system changes on expenditures for each system under each of the two boundary alternatives in the baseline year of 2008-2009 and in 2020. Table 2.1 provides a snapshot of current expenditure levels in both MCS and SCS, based on data included in the budgets for fiscal year 2007-2008.

Table 2.1. Expenditures: Current

	Memphis City Schools	Shelby County Schools
Enrollment		
<i>Current</i>	111,502	47,510
General Fund Expenditures		
<i>Fixed</i>	\$ 228,089,588	\$ 58,975,209
<i>Variable</i>	\$ 665,010,412	\$ 265,512,887
Total	\$ 893,100,000	\$ 324,488,096
Variable Cost / Student	\$ 5,964	\$ 5,589

Projecting Expenditures

In projecting future expenditures, we assume that as the two school systems gain or lose students due to boundary changes or over time, certain costs will remain constant (fixed costs) while others will change on a per-student basis (variable costs). For example, the number of administrative positions necessary to run an established school system is not likely to change much as the system grows, but the number of teachers or bus drivers required is. Table 2.1 shows the breakdown of total general fund expenditures into fixed and variable costs for each school system. The estimated variable cost per student is similar for each school system. The enrollment figures used to calculate variable cost per student reflect regular day enrollment, excluding special education and evening school students.

Our analyses and projections consider only expenditures and revenues contained within the general fund budgets of each school system. Expenditures and revenues associated with special revenue budgets are excluded from the analysis for several reasons. Much of the funding associated with the

special revenue budgets comes from local grants. Since these are not permanent or long-term funding sources, future revenue levels cannot be accurately projected. The majority of the funding included in the special revenue budgets comes from state and federal programs. Future revenue levels from these programs cannot be accurately projected either, because the programs are political and are likely to change or cease to exist within the time horizon of this study. Most of the funding included in the special revenue budgets can be considered pass-through or program-specific revenue, which means that revenue is provided only because a certain need exists, and such revenue is passed through directly to that need. Gaining special revenue does not have system wide benefits in the same way the gaining in property tax or sales tax base does. Finally, general fund expenditures are most relevant to county and city residents because they have most direct relationship to tax rates and personal costs.

Operating Expenditures: Baseline (2008-2009)

Applying the Alternative 1 boundaries, in which the MCS boundaries essentially mirror the City of Memphis corporate limits, MCS gains students while SCSSD loses students even in the baseline year of 2008-2009. This is because MCS would gain students from areas that have been previously annexed (but where students are not yet attending MCS schools) as well as gaining students from pending annexation areas. In addition, under the assumptions of this study the city limits also include the proposed annexation area of Bridgewater. (Map 1 in Chapter 1 illustrates the Alternative 1 boundaries, including the locations of the previous, pending and proposed annexation areas included within MCS.) Table 2.2 shows the enrollment changes that would occur with application of the Alternative 1 boundaries in the baseline year of 2008-2009.

Table 2.2. Enrollment Changes: Baseline (2008-2009) with Alternative 1 Boundaries

	Memphis City Schools	Shelby County Special School District
Annexed / Pending Annexed Areas		
<i>Countrywood East and West</i>	1,580	(1,580)
<i>Berryhill</i>	814	(814)
<i>Southwind Windyke</i>	436	(436)
<i>South Cordova</i>	687	(687)
<i>Bridgewater</i>	1,094	(1,094)
Net Change	4,611	(4,611)

Table 2.3 shows the projected expenditures in each school system under the Alternative 1 boundaries, considering the enrollment changes shown above and the fixed and variable costs identified in Table 2.1.

Table 2.3. Expenditures: Baseline (2008-2009) with Alternative 1 Boundaries

	Memphis City Schools	Shelby County Special School District
Enrollment		
<i>Current</i>	111,502	47,510
<i>Annexed/Pending Annexed Areas</i>	4,611	(4,611)
Total	116,113	42,899
General Fund Expenditures		
<i>Fixed</i>	\$ 228,089,588	\$ 58,975,209
<i>Variable</i>	\$ 692,510,932	\$ 239,743,998
Total	\$ 920,600,520	\$ 298,719,207
Variable Cost / Student	\$ 5,964	\$ 5,589

Applying the Alternative 2 boundaries, MCS would gain additional students from within the city's annexation reserve areas. (Map 2 in Chapter 1 illustrates the Alternative 2 boundaries, including the locations of the annexation areas and the reserve areas included within MCS.) These enrollment changes are illustrated in Table 2.4.

Table 2.4. Enrollment Changes: Baseline (2008-2009) with Alternative 2 Boundaries

	Memphis City Schools	Shelby County Special School District
Annexed / Pending Annexed Areas		
<i>Countwood East and West</i>	1,580	(1,580)
<i>Berryhill</i>	814	(814)
<i>Southwind Windyke</i>	436	(436)
<i>South Cordova</i>	687	(687)
<i>Bridgewater</i>	1,094	(1,094)
sub-total	4,611	(4,611)
Proposed Annexation / Reserve Areas		
<i>North Memphis Growth Area</i>	4,041	(4,041)
<i>Cordova Growth Area</i>	1,730	(1,730)
<i>Southeast Memphis Growth Area</i>	6,452	(6,452)
sub-total	12,223	(12,223)
Net Change	16,834	(16,834)

Table 2.5 shows the projected expenditures in each school system under the Alternative 2 boundaries, considering the enrollment changes shown above and the fixed and variable costs identified in Table 2.1.

Table 2.5. Expenditures: Baseline (2008-2009) with Alternative 2 Boundaries

	Memphis City Schools	Shelby County Special School District
Enrollment		
<i>Current</i>	111,502	47,510
<i>Annexed/Pending Annexed Areas</i>	4,611	(4,611)
<i>Proposed Annexation / Reserve Areas</i>	12,223	(12,223)
Total	128,336	30,676
General Fund Expenditures		
<i>Fixed</i>	\$ 228,089,588	\$ 58,975,209
<i>Variable</i>	\$ 765,410,273	\$ 171,434,926
Total	\$ 993,499,861	\$ 230,410,135
Variable Cost / Student	\$ 5,964	\$ 5,589

Operating Expenditures: 2020

Enrollment projections for 2020 are derived from figures included in the document titled Demographics Report: Memphis City Schools and Shelby County Schools prepared by DeJONG, Inc. for the Needs Assessment Committee in May 2007. DeJONG projected enrollment for MCS and SCS to 2017 using a cohort survival model. We extrapolated these projections to 2020 and allocated future students to various geographic areas to fit the boundary alternatives of this study based on the build-out analysis also contained in the DeJONG report. The build-out analysis examined the potential of seven geographic planning areas to accommodate future student growth based on current and likely future land use patterns. Three of the seven planning areas used coincide with the City of Memphis annexation reserve areas, which are part of SCSSD under the Alternative 1 boundary and part of MCS under the Alternative 2 boundary (see Map 1 and Map 2 in Chapter 1).

Applying the Alternative 1 boundaries, we expect MCS to lose 13,489 students between the baseline year and 2020, while SCSSD gains 15,022. Table 2.6 shows the projected expenditures in each school system under the Alternative 1 boundaries in 2020, considering these enrollment changes and the fixed and variable costs identified in Table 2.1.

Table 2.6. Expenditures: 2020 with Alternative 1 Boundaries

	Memphis City Schools	Shelby County Special School District
Enrollment		
<i>Baseline</i>	116,113	42,899
<i>Growth</i>	(13,489)	15,022
Total	102,624	57,921
General Fund Expenditures		
<i>Fixed</i>	\$ 228,089,588	\$ 58,975,209
<i>Variable</i>	\$ 612,061,026	\$ 323,695,473
Total	\$ 840,150,614	\$ 382,670,682
Variable Cost / Student	\$ 5,964	\$ 5,589

Applying the Alternative 2 boundaries, the enrollment growth of 15,022 shown above would be split between SCSSD (which gains 9,964) and MCS (which gains 5,058). This is illustrated in Table 2.7, which also shows the projected expenditures in each school system under the Alternative 2 boundaries in 2020, considering these enrollment changes and the fixed and variable costs identified in Table 2.1.

Table 2.7. Expenditures: 2020 with Alternative 2 Boundaries

	Memphis City Schools	Shelby County Special School District
Enrollment		
<i>Baseline</i>	128,336	30,676
<i>Growth</i>	5,058	9,964
Total	119,905	40,640
General Fund Expenditures		
<i>Fixed</i>	\$ 228,089,588	\$ 58,975,209
<i>Variable</i>	\$ 715,126,845	\$ 227,119,422
Total	\$ 943,216,433	\$ 286,094,631
Variable Cost / Student	\$ 5,964	\$ 5,589

Capital Expenditures

Capital funding needs for each school system through 2020 are based on their respective capital plans for FY2006 – FY2011 and projections of capital requirements from 2012 to 2020. These projections are based primarily on facilities needed for enrollment gains through annexation (MCS) and enrollment gains due to population growth (SCSSD). Projects and costs associated with FY20012 to FY2020 projections are based on the Shelby County Needs Assessment Committee (NAC) Report, consultation with school system staff, and REDC cost estimates when not identified elsewhere. Specific project details and cost data are provided in appendix tables 2.11 and 2.12.

Table 2.8 summarizes capital funding needs for each school system through 2020. MCS is anticipated to need \$901 million and SCSSD is anticipated to need \$332 million between the current planning period (FY2006 – FY2011) and FY2020. With each system the greater proportion of capital funding is needed in the near term (FY2006 – FY2011). The Alternative 1 boundary yields a higher average capital cost per student for MCS while the Alternative 2 boundary results in a higher cost per student for SCSSD. These differences reflect enrollment shifts between the Alternative 1 and Alternative 2 boundaries rather than significant shifts in identified capital needs.

Table 2.8 incorporates our adjustments to the MCS and SCSSD 2006 – 2011 Capital Plans to reflect the Alternative 1 boundaries. These adjustments include capital expenditures for a new Cordova elementary school and a new middle school in the southeast unincorporated area. Three SCSSD schools with projects included in the 2006 – 2011 Capital Plan (Chimney Rock, Southwind Middle, and Highland Oaks) are transferred to MCS in the Alternative 2 boundaries, as shown in Map 2 and Table 2.9. However, Table 2.8 does not reflect expenditure adjustments as these projects were slated for completion prior to FY2008.

Southwind Elementary School also shifts to MCS under the Alternative 2 boundaries, and it has a planned \$2.4 million addition for 2009. Consequently, the Alternative 2 boundaries should reflect a shift of \$2.4 million from the SCSSD capital funding to MCS.

Table 2.8. Capital Expenditures: 2020

Memphis City Schools		Shelby County Special School District	
Anticipated FY2006 - FY2011 Projects:		Anticipated FY2006 - FY2011 Projects:	
<i>Capital Plan FY2006 - FY2011</i>	\$ 529,155,100	<i>Capital Plan FY2006 - FY2011</i>	\$ 272,400,000 *
<i>New SE Middle School due to annexation</i>	15,000,000	<i>Less Planned Schools in Annexation Area</i>	30,000,000
Sub-Total FY2006 - FY2011	\$ 544,155,100	Sub-Total FY2006 - FY2011	\$ 242,400,000
Anticipated FY2012 - FY2020 Projects:		Anticipated FY2012 - FY2020 Projects:	
<i>NAC Capital Needs Report of 9/07</i>	\$ 123,143,000	<i>Identified Capital Needs due to Growth</i>	\$ 90,000,000
<i>Routine Capital Maintenance</i>	233,474,656	<i>Routine Capital Maintenance</i>	0
Sub-Total FY2012 - FY2020	\$ 356,617,656	Sub-Total FY2012 - FY2020	\$ 90,000,000
Total Capital Needs FY2006 - FY2020	\$ 900,772,756	Total Capital Needs FY2006 - FY2020	\$ 332,400,000
Average Capital Need per Year FY2006 - FY2011	\$ 90,692,517	Average Capital Need per Year FY2006 - FY2011	\$ 40,400,000
Average Capital Need per Year FY2012 - FY2020	\$ 44,577,207	Average Capital Need per Year FY2012 - FY2020	\$ 11,250,000
Average Capital Need per Student FY2006 - FY2020:		Average Capital Need per Student FY2006 - FY2020:	
Alternative 1 Median Enrollment	\$ 7,960	Alternative 1 Median Enrollment	\$ 6,579
Alternative 2 Median Enrollment	\$ 7,061	Alternative 2 Median Enrollment	\$ 9,225

* Includes \$2.4 million that shifts to MCS under Boundary Alternative 2. Average Capital Need per Student for Alternative 2 reflects this shift.

Under the Alternative 1 boundaries, MCS would gain 3 schools from SCS, because they would be located within the MCS boundaries (see Map 1 in Chapter 1). Under the Alternative 2 boundaries, MCS would gain 13 schools from SCS (see Map 2 in Chapter 1). These changes are summarized in table 2.9.

Table 2.9. Facilities Transferred to Memphis City Schools

Boundary Alternative 1	Boundary Alternative 2
Dexter Elementary	Dexter Elementary
Dexter Middle	Dexter Middle
Chimney Rock Middle	Chimney Rock Middle
	Highland Oaks Elementary
	Highland Oaks Primary
	Jeter Elementary
	Macon-Hall Elementary
	Mt. Pisgah Middle
	Northaven Elementary
	Southwind Elementary
	Southwind Middle
	Southwind High
	Woodstock Middle

Chapter 3

Revenue Impacts

This section of the report is split into several components. We begin by providing an overview of the revenues received by the Memphis City School (MCS) system and Shelby County Special School District (SCSSD) system. This includes a review of the revenue budgets, current tax rates, and tax allocation procedures. Secondly, we estimate baseline year operating revenue for each school district using the various boundary/tax alternatives. Lastly, we project 2020 operating revenue for each school district using the boundary/tax alternatives.

Operating Revenue: Current

Sources of current (FY2008 budget) General Fund revenue for Memphis City Schools and Shelby County Schools are shown in Tables 3.1 and 3.2. Each school system receives approximately one half of total revenues from the State of Tennessee, followed by county property taxes. MCS receives additional property tax funding of \$86 million (9.7% of total revenue) from the City of Memphis. Otherwise, funding allocations for the two systems are similar and reflect equity based on either average daily attendance (ADA) percentages or the Tennessee Department of Education's BEP formula.

Table 3.1. Memphis City Schools Revenue Sources, FY2008

Property Tax Funding		
<i>Funding from county property tax (@2.02)</i>	\$ 233,505,130	26.3%
<i>Funding from supplemental city property tax (@0.83)</i>	\$ 86,432,000	9.7%
Total Property Tax Funding	<u>\$ 319,937,130</u>	<u>36.0%</u>
Sales Tax Funding	\$ 96,455,360	10.9%
State Education Funding	\$ 428,627,400	48.3%
Other Local Tax Funding	\$ 16,102,160	1.8%
Other Funding	\$ 26,723,950	3.0%
TOTAL REVENUE *	<u>\$ 887,846,000</u>	<u>100.0%</u>

* Excludes \$22,154,000 in fund balance reserves.

Table 3.2. Shelby County Schools Revenue Sources, FY2008

Property Tax Funding		
<i>Funding from county property tax (@2.02)</i>	\$ 95,429,688	30.3%
<i>Funding from supplemental city property tax (@0.83)</i>	\$ -	
Total Property Tax Funding	<u>\$ 95,429,688</u>	<u>30.3%</u>
Sales Tax Funding	\$ 39,134,313	12.4%
State Education Funding	\$ 164,400,463	52.2%
Other Local Tax Funding	\$ 6,503,715	2.1%
Other Funding	\$ 9,280,312	2.9%
TOTAL REVENUE *	<u>\$ 314,748,491</u>	<u>100.0%</u>

* Excludes \$9,739,604 in fund balance reserves.

Tax Revenue Allocation Procedures

Property Taxes

Fifty percent of Shelby County property taxes (\$2.02 per \$100 of assessed value) go to education and are allocated to the two systems based on average daily attendance. In addition, the City of Memphis currently allocates approximately \$0.83 per \$100 of assessed value of city property taxes to MCS. By state law Memphis can contribute up to \$0.86 per \$100 of assessed value to schools; the following alternative funding scenarios assume this \$0.86 contribution. None of the other municipalities in Shelby County allocate taxes to schools.

Local Option Sales Taxes

In Tennessee local option sales taxes are distributed to school systems based on average daily attendance (ADA). Table 3.11 in the appendix shows the current allocation for the FY 2008 budget (71% for MCS and 29% for SCS) and projected allocations under Boundary Alternatives 1 and 2 for FY 2008 and FY 2020. This totals 50% of total local option sales taxes collected in both incorporated and unincorporated areas of Shelby County. Previously, 100% of the local option tax collected in the unincorporated areas was allocated to schools. However, beginning with FY 2008 the county will only distribute the legally mandated 50% to schools. This results in a funding decrease of approximately 3.0% to 3.5% for each system.

For both Boundary Alternatives 1 & 2 the shift in students from SCSSD to MCS results in an increase in MCS' percentage of sales tax funding and a corresponding decrease in SCS' percentage. However, due to projected enrollment gains in suburban areas over the next twelve years, Alternative 1 yields a higher allocation of funds to SCSSD (36.4% vs. 29.0%) by 2020. With Alternative 2 MCS' larger district boundary yields a higher ADA percentage for both FY 2008 & FY 2020. Table 3.12 shows allocations of other local taxes that are based on ADA (wheel tax, privilege taxes, alcoholic beverage

taxes, and payment-in-lieu taxes on properties exempted from property taxes through the Industrial Development Board). These tax allocations follow the same pattern as sales taxes.

The development of ADA percentages for each boundary alternative for FY 2008 and FY 2020 is shown in Table 3.13 in the appendix. The current ADA, as a percentage of total enrollment for each system, was applied to our enrollment projections for 2008 and 2020. It is recognized that the movement of students between school systems as a result of different boundaries may change ADA percentages. However, as attendance levels for both systems are very close, any changes in ADA percentages should be very slight and have only a trivial impact on funding. Sales tax funding for 2020 was projected based on the application of projected retail employment growth between 2008 and 2020.

State Funding

State funds are distributed to school systems based primarily on the Basic Education Program (BEP) of the Tennessee Department of Education. This program provides a minimal level of funding for classroom and non-classroom expenditures with funding determined by numerous item-specific formulae. Current state funding per student is very similar for MCS and SCS (\$3603 and \$3613 respectively). These per student amounts are used in our four alternatives (see Table 3.14 in the appendix).

Other Funding

Other Local Tax Funding is allocated on ADA in the same manner as sales taxes.

Our revenue estimations are somewhat limited however. In estimating other local taxes we did not include personal property as data was not available by traffic analysis zone. Also, we did not include earnings from investments, judgment recovery, miscellaneous, rental of facilities, stadium receipts, tuition (driver education, out of system, regular day, summer elementary, summer high, summer music, vocational adult education). These items could increase revenues by 3 to 6% over our estimates given current collection patterns.

Operating Revenue: Baseline (2008 – 2009)

Tables 3.3 and 3.4 show revenue streams for Boundary Alternatives 1 and 2. Alternative 1 and 2 boundaries are split into two sections based on the two property tax alternatives. First, Table 3.3 shows the results of the analysis for Alternative 1 boundaries with Property Tax Alternative 1. Under Boundary Alternative 1 Memphis City Schools has an enrollment in FY 09 of 116,113 students and the SCSSD has 42,899 students.

Table 3.3. Revenue Baseline (2008-2009) with Alternative 1 Boundaries, Property Tax Alternative 1

	Memphis City Schools		Shelby County Special School District
Enrollment	116,113		42,899
Assessed Value (real property)	\$	9,843,672,470	\$ 5,748,655,595
Property Tax Funding			
<i>Funding from county property tax (@2.02)</i>	\$	229,263,043	\$ 85,701,984
<i>Funding from supplemental city property tax (@0.86)</i>	\$	84,655,583	
<i>Funding from SSD property tax (rate TBD)</i>			TBD*
Total Property Tax Funding	\$	313,918,626	\$ 85,701,984
Sales Tax Funding	\$	98,709,282	\$ 36,880,391
State Education Funding	\$	394,467,770	\$ 147,857,997
Other Local Tax Funding	\$	16,457,077	\$ 6,148,798
TOTAL REVENUE	\$	823,552,755	\$ 276,589,170

* To Be Determined by new special school district.

Table 3.4 shows revenue collections for both school systems using Property Tax Alternative 2. While the amount of total amount revenue in both systems is the same as under Property Tax Alternative 1 (Table 3.3), the property tax scenario changes as a result of shifting revenue sources. Therefore, MCS would need a property tax rate of \$3.19 and the SCSSD would need a tax rate of \$1.49 in order to replace county and city property tax revenue.

Table 3.4. Revenue Baseline (2008-2009) with Alternative 1 Boundaries, Property Tax Alternative 2

	Memphis City Schools	Shelby County Special School District
Property Tax Funding	\$313,918,626	\$85,701,984
<i>Rate required to replace county (and city) property tax revenue</i>	3.18904	1.490818
Sales Tax Funding	\$98,709,282	\$36,880,391
State Education Funding	\$394,467,770	\$147,857,997
Other Local Tax Funding	\$16,457,077	\$6,148,798
Total	\$823,552,755	\$276,589,170

The data in Table 3.5 show the FY 2009 baseline with alternative 2 boundaries using Property Tax Alternative 1. The revenue streams are based on student enrollments of 128,336 in the Memphis City Schools and 30,676 in the Shelby County Special School District, representing a shift of 12,223 students from SCSSD to MCS. This shift of student population results in a corresponding revenue reallocation of approximately \$78 million from SCSSD to MCS.

Table 3.5. Revenue Baseline (2008-2009) with Alternative 2 Boundaries, Property Tax Alternative 1

	Memphis City Schools	Shelby County Special School District
Enrollment	128,336	30,676
Assessed Value (real property)	\$ 9,843,672,470	\$ 5,748,655,595
Property Tax Funding		
<i>Funding from county property tax (@2.02)</i>	\$ 253,641,336	\$ 61,323,691
<i>Funding from supplemental city property tax (@0.86)</i>	\$ 84,655,583	
<i>Funding from SSD property tax (rate TBD)</i>		TBD*
Total Property Tax Funding	\$ 338,296,919	\$ 61,323,691
Sales Tax Funding	\$ 109,149,687	\$ 26,439,986
State Education Funding	\$ 435,991,452	\$ 105,728,981
Other Local Tax Funding	\$ 18,197,729	\$ 4,408,146
TOTAL REVENUE	\$ 901,635,787	\$ 197,900,804

* To Be Determined by new special school district.

Table 3.6 shows the baseline for FY 2009 alternative 2 boundaries with Property Tax Alternative 2. First, the table shows the MCS system would need a property tax rate of \$3.06 to replace lost revenue. Similarly, the SCSSD system would need a \$1.36 tax rate to replace lost revenue. These tax rates would generate \$338 million in property taxes for the MCS system and \$61 million for the SCSSD.

Table 3.6. Revenue Baseline (2008-2009) with Alternative 2 Boundaries, Property Tax Alternative 2

	Memphis City Schools	Shelby County Special School District
Assessed Value (real property)	\$ 11,070,603,830	\$ 4,521,284,445
Property Tax Funding	\$ 338,296,919	\$ 61,323,691
<i>Rate required to replace county (and city) property tax revenue</i>	\$ 3.0558	\$ 1.3563
Sales Tax Funding	\$ 109,149,687	\$ 26,439,986
State Education Funding	\$ 435,991,452	\$ 105,728,981
Other Local Tax Funding	\$ 18,197,729	\$ 4,408,146
TOTAL REVENUE	\$ 901,635,787	\$ 197,900,804

Operating Revenue: 2020

This section provides the 2020 projection of revenues based on each of the two boundary alternatives and each of the two property tax alternatives. Using historical revenue data for FY2001 through FY2008, we estimated baseline revenue collections for 2020 by calculating the percentage change in the budget for each fiscal year and then calculated the average of that amount for each year until we reached 2020.

Table 3.7 provides the revenue projections for alternative 1 boundaries using Property Tax Alternative 1. The data show that the Memphis City School would have an enrollment of 102,624 students and an overall budget of \$795 million. Similarly, the Special School District would have a student enrollment of 57,921 and a total budget of \$398 million.

Table 3.7. Revenue: 2020 with Alternative 1 Boundaries, Property Tax Alternative 1

	Memphis City Schools	Shelby County Special School District
Enrollment	102,624	57,921
Assessed Value (real property)	\$ 11,485,837,624	\$ 6,935,824,589
Property Tax Funding		
<i>Funding from county property tax (@2.02)</i>	\$ 236,852,838	\$ 135,264,739
<i>Funding from supplemental city property tax (@0.86)</i>	\$ 98,778,204	
<i>Funding from SSD property tax (rate TBD)</i>		TBD*
Total Property Tax Funding	\$ 335,631,042	\$ 135,264,739
Sales Tax Funding	\$ 94,610,581	\$ 54,148,194
State Education Funding	\$ 348,638,970	\$ 199,633,225
Other Local Tax Funding	\$ 15,798,532	\$ 9,002,931
TOTAL REVENUE	\$ 794,679,125	\$ 398,049,089

* To Be Determined by new special school district.

The next table (3.8) shows the 2020 projections for alternative 1 boundaries with Property Tax Alternative 2. While the total amount of revenue remains the same for both school systems, the allocations for the property tax funding changes. Memphis City Schools would need a property tax rate of \$3.27 which would yield \$336 million in revenue. The Shelby County Special School District would require a tax rate of \$1.58 in order to yield the \$135 million of property tax revenue.

Table 3.8. Revenue: 2020 with Alternative 1 Boundaries, Property Tax Alternative 2

	Memphis City Schools	Shelby County Special School District
Property Tax Funding	\$ 335,631,042	\$ 135,264,739
<i>Rate required to replace county (and city) property tax revenue</i>	\$ 3.2661	\$ 1.5769
Sales Tax Funding	\$ 94,610,581	\$ 54,148,194
State Education Funding	\$ 348,638,970	\$ 199,633,225
Other Local Tax Funding	\$ 15,798,532	\$ 9,002,931
TOTAL REVENUE	\$ 794,679,125	\$ 398,049,089

The next two tables (3.9 and 3.10) show data for alternative 2 boundaries using Property Tax Alternative 1. As shown in Table 3.9, the Memphis City Schools student enrollment would increase to 119,905 while the Shelby County Special School District would decrease to 40,640. The revenue needed by the MCS system would increase to \$913 million and the SCSSD would decrease to \$279 million.

Table 3.9. Revenue: 2020 with Alternative 2 Boundaries, Property Tax Alternative 1

	Memphis City Schools	Shelby County Special School District
Enrollment	119,905	40,640
Assessed Value (real property)	\$ 11,485,837,624	\$ 6,935,824,589
Property Tax Funding		
<i>Funding from county property tax (@2.02)</i>	\$ 277,115,959	\$ 95,001,617
<i>Funding from supplemental city property tax (@0.86)</i>	\$ 98,778,204	
<i>Funding from SSD property tax (rate TBD)</i>		TBD*
Total Property Tax Funding	\$ 375,894,163	\$ 95,001,617
Sales Tax Funding	\$ 110,825,287	\$ 37,933,488
State Education Funding	\$ 407,347,101	\$ 140,072,385
Other Local Tax Funding	\$ 18,477,090	\$ 6,324,373
TOTAL REVENUE	\$ 912,543,641	\$ 279,331,863

* To Be Determined by new special school district.

The final table (3.10) in this section provides the data for alternative 2 boundaries with Property Tax Alternative 2. Although the total amount of revenue needed to fund each school systems remains the same, the property tax rate and subsequent collection amounts change as a result of a shift in assessed value of real property. In this scenario, Memphis City Schools' real property value increases while the special school district's real property value decreases. As a result, the amount of property taxes collected would increase thereby increasing the Memphis school system's share to \$376 million. Concurrently, the SCSSD property tax funding level would decrease to \$95 million.

Table 3.10. Revenue: 2020 with Alternative 2 Boundaries, Property Tax Alternative 2

	Memphis City Schools	Shelby County Special School District
Assessed Value (real property)	\$ 13,100,282,777	\$ 5,321,379,436
Property Tax Funding	\$ 375,894,163	\$ 95,001,617
<i>Rate required to replace county (and city) property tax revenue</i>	\$ 2.8694	\$ 1.7853
Sales Tax Funding	\$ 110,825,287	\$ 37,933,488
State Education Funding	\$ 407,347,101	\$ 140,072,385
Other Local Tax Funding	\$ 18,477,090	\$ 6,324,373
TOTAL REVENUE	\$ 912,543,641	\$ 279,331,863

Chapter 4

Implications for Public Policy

This chapter compares revenues, expenditures, and resulting property tax rates for each boundary and property tax alternative. Baseline (2008 – 2009) and 2020 projections for each school system are compared. These comparisons essentially reveal the tax implications for each alternative studied. Property tax rates needed to support capital requirements of each school system through 2020 are also presented. We conclude with a narrative addressing growth policy implications.

Comparison of the Alternatives

Table 4.1 shows the differences between projected revenues and expenditures for Boundary Alternative 1 with Property Tax Alternative 1. Our analysis shows that the Memphis City Schools (MCS) would have a deficit of \$97 million and the Shelby County Special School District (SCSSD) would have a deficit of \$22 million under these alternatives. In this scenario the city of Memphis would include all existing boundaries (with Bridgewater, South Cordova, and Southwind-Windyke) and the County would continue to serve as a primary funding source in each school district. The city would need to raise property taxes to \$3.87 in order to meet expenditures. Similarly, the SCSSD would need a rate of \$2.40 to fund projected expenditures.¹

¹ It should be noted in Tables 4.1 through 4.8 that the Additional Supplemental Property Tax Rate, based on our calculations of the difference between revenues and expenditures, excludes certain revenue sources (see Chapter 3). Consequently, the Additional Supplemental Property Tax Rate could be overstated. However, the relationships between MCS and SCSSD property tax rates are correctly represented. It should also be noted that our Total Property Tax Rate Required to Meet Expenditures only includes the portion allocated to schools.

Table 4.1. Baseline (2008-2009) Alternative 1 Boundaries with Property Tax Alternative 1

	Memphis City Schools	Shelby County Special School District
Revenue	\$ 823,552,755	\$ 276,589,170
Expenditures	\$ 920,600,520	\$ 298,719,207
difference	\$ (97,047,765)	\$ (22,130,037)
Property Tax Rate Implications		
<i>Current County property tax rate</i>	2.02	2.02
<i>Current City property tax rate</i>	0.86	
<i>Additional supplemental property tax rate (city or special school district) required to meet expenditures</i>	0.99	0.38
Total property tax rate required to meet expenditures	3.87	2.40

The second table (4.2) provides the baseline for Boundary Alternative 1 with Property Tax Alternative 2. Revenues and expenditures remain the same, reflecting only a shift of property tax funding from the county to the school systems. However, the data does show the results of the city losing county funding. The city would in fact need to raise the property tax rate to \$4.17 to make up for the difference in lost revenue from the county. The county on the other hand could lower its property tax rate from the previous rate (\$2.40) in scenario 4.1 to \$1.88. The city would gain 12,223 students from the county school system in this scenario.

Table 4.2. Baseline (2008-2009) Alternative 1 Boundaries with Property Tax Alternative 2

	Memphis City Schools	Shelby County Special School District
Revenue	\$ 823,552,755	\$ 276,589,170
Expenditures	\$ 920,600,520	\$ 298,719,207
difference	\$ (97,047,765)	\$ (22,130,037)

Property Tax Rate Implications

<i>Projected single source property tax rate from Chapter 3</i>	3.19	1.49
<i>Additional single source property tax rate (MCS or SCSSD) required to meet expenditures</i>	<u>0.99</u>	<u>0.38</u>
Total property tax rate required to meet expenditures	4.17	1.88

Table 4.3 shows the comparisons of revenues and expenditures in Boundary Alternative 2 with Property Tax Alternative 1 for both school districts. In this scenario, the SCSSD would include all territory outside the city of Memphis and its annexation areas. However, the county would continue to serve as the primary funding source for each school district.

Findings show that the MCS system would fall short of the required revenue by \$92 million and the SCSSD would fall short by \$33 million. The city of Memphis would need a property tax rate of \$3.81, and the county would need a property tax rate of \$2.59 in order to meet expenditures.

Table 4.4 shows the same alternative with each district levying its own property tax to cover expenditures. The data in the table shows that the MCS system would need a property tax rate of \$3.89 in order to meet expenditures and the county would need a \$2.08 property tax rate.

Table 4.3. Baseline (2008-2009) Alternative 2 with Property Tax Boundaries Alternative 1

	Memphis City Schools	Shelby County Special School District
Revenue	\$ 901,635,787	\$ 197,900,804
Expenditures	\$ 993,499,861	\$ 230,410,135
difference	\$ (91,864,074)	\$ (32,509,331)
Property Tax Rate Implications		
<i>Current County property tax rate</i>	2.02	2.02
<i>Current City property tax rate</i>	0.86	
<i>Additional supplemental property tax rate (city or special school district) required to meet expenditures</i>	0.93	0.57
Total property tax rate required to meet expenditures	3.81	2.59

Table 4.4. Baseline (2008-2009) Alternative 2 with Property Tax Boundaries Alternative 2

	Memphis City Schools	Shelby County Special School District
Revenue	\$ 901,635,787	\$ 197,900,804
Expenditures	\$ 993,499,861	\$ 230,410,135
difference	\$ (91,864,074)	\$ (32,509,331)
Current County property tax rate		
<i>Projected single source property tax rate from Chapter 3</i>	3.06	1.36
<i>Additional single source property tax rate (MCS or SCSSD) required to meet expenditures</i>	0.83	0.72
Total property tax rate required to meet expenditures	3.89	2.08

The following four tables contain comparisons of revenues to expenditures for our 2020 projections. Table 4.5 shows Boundary Alternative 1 with Property Tax Alternative 1. Again, the city of Memphis would include all existing boundaries (with Bridgewater, South Cordova, and Southwind-Windyke) and the county would continue to serve as a primary funding source in each school district. Results show that the MCS system would have a shortfall of \$45 million and the SCSSD would have a surplus of \$15 million. The city would need a tax rate of \$3.28 in order to meet the expenditures while the county would need a rate of \$1.80.

Table 4.5. 2020 with Alternative 1 Boundaries, Property Tax Alternative 1

	Memphis City Schools	Shelby County Special School District
Revenue	\$ 794,679,125	\$ 398,049,089
Expenditures	\$ 840,150,614	\$ 382,670,682
difference	\$ (45,471,489)	\$ 15,378,407
 Property Tax Rate Implications		
<i>Current County property tax rate</i>	2.02	2.02
<i>Current City property tax rate</i>	0.86	
<i>Additional supplemental property tax rate (city or special school district) required to meet expenditures</i>	0.40	(0.22)
Total property tax rate required to meet expenditures	3.28	1.80

The data in Table 4.6 show the results for Boundary Alternative 1 with Property Tax Alternative 2. The revenue and expenditures are identical to those discussed in the previous table, but the revenue allocations vary. In this scenario, the city of Memphis would need a property tax rate of \$3.73 in order to meet expenditures and the county would need a \$1.31 rate. In this scenario, student enrollment in the city would increase by 13,489 and the county student enrollment would decrease by the same amount.

Table 4.6. 2020 with Alternative 1 Boundaries, Property Tax Alternative 2

	Memphis City Schools	Shelby County Special School District
Revenue	\$ 794,679,125	\$ 398,049,089
Expenditures	\$ 840,150,614	\$ 382,670,682
difference	\$ (45,471,489)	\$ 15,378,407

Property Tax Rate Implications

<i>Projected single source property tax rate from Chapter 3</i>	3.27	1.58
<i>Additional single source property tax rate (MCS or SCSSD) required to meet expenditures</i>	0.46	(0.27)
Total property tax rate required to meet expenditures	3.73	1.31

Table 4.7 shows the analysis for Boundary Alternative 2 with Property Tax Alternative 1. The data show the MCS would fall short of required revenues by \$31 million and the SCSSD would fall short by \$7 million. The property tax rate would need to be increased to \$3.15 in the city and \$2.12 in the county in order to cover the expenditures in each school system.

Table 4.7. 2020 with Alternative 2 Boundaries, Property Tax Alternative 1

	Memphis City Schools	Shelby County Special School District
Revenue	\$ 912,543,641	\$ 279,331,863
Expenditures	\$ 943,216,433	\$ 286,094,631
difference	\$ (30,672,792)	\$ (6,762,768)
Property Tax Rate Implications		
<i>Current County property tax rate</i>	2.02	2.02
<i>Current City property tax rate</i>	0.86	
<i>Additional supplemental property tax rate (city or special school district) required to meet expenditures</i>	0.27	0.10
Total property tax rate required to meet expenditures	3.15	2.12

The final table provides the results for Boundary Alternative 2 with Property Tax Alternative 2. The revenue and expenditures are the same as the previous table, but the required property tax needed to fund the systems shifts more burden to MCS. The city would need a tax rate of \$3.50 and the county would need a tax rate of \$1.70 in order to cover the expenditures.

Table 4.8. 2020 with Alternative 2 Boundaries, Property Tax Alternative 2

	Memphis City Schools	Shelby County Special School District
Revenue	\$ 912,543,641	\$ 279,331,863
Expenditures	\$ 943,216,433	\$ 286,094,631
difference	\$ (30,672,792)	\$ (6,762,768)

Property Tax Rate Implications

<i>Projected single source property tax rate from Chapter 3</i>	3.27	1.58
<i>Additional single source property tax rate (MCS or SCSSD) required to meet expenditures</i>	0.23	0.13
Total property tax rate required to meet expenditures	3.50	1.70

Based on the analysis presented above, there are no boundary or tax alternatives in the baseline year (FY2008 – 2009) where both school systems do not show a funding deficit. The situation improves for each system by FY2020, with the Shelby County Special School District showing a funding surplus under Boundary Alternative 1.

Boundary Alternative 2 with Property Tax Alternative 1 provides the lowest property tax rate for Memphis City Schools (\$3.81 in FY2008 and \$3.15 in FY2020). Under this alternative MCS has a smaller deficit between revenues and expenditures compared with Boundary Alternative 1 and the county allocates property taxes based on ADA. In addition, Boundary Alternative 2 with Property Tax Alternative 1 is the least inequitable alternative based on the ratio of school property tax rates between MCS and SCSSD, 1.47:1.00 for FY2008 and 1.49:1.00 for FY2020.

Boundary Alternative 1 with Property Tax Alternative 2 provides the lowest total property tax rate for SCSSD (\$1.88 in FY2008 and \$1.31 in FY2020). In this alternative SCSSD has a smaller deficit compared with Boundary Alternative 2 and also has a higher property tax base. However, this alternative proves the least advantageous to MCS, yielding the highest property tax rates for both 2008 and 2020.

Property Tax Rates Needed to Support Capital Requirements

The capital requirements for each school system from Chapter 2 have been translated into property tax rates sufficient to cover annual bond payments. Table 2.10 summarizes these property tax increments for Boundary Alternatives 1 and 2 under Property Tax Alternative 2, which allows for each school district to levy property taxes.

Capital requirements from Table 2.8 were annualized for 25 year general obligation bonds with a 5% interest rate (bond rates for Shelby County school bonds have ranged from 3.5% to 5.625% over the past ten years). The resulting debt service was then applied to the median assessed real property valuation between 2008 and 2020 for each boundary alternative to derive the property tax rate necessary to pay the annual debt service. As bonded indebtedness will be staggered as projects are committed between 2008 and 2020, these tax rates represent the maximum (e.g. 2020) property tax rates required during this study’s projection period. Bond issuance costs or interest rate differentials due to any changes to bond ratings are not reflected in the above calculations.

Table 4.9.. Property Tax Rates Necessary to Support Capital Requirements, Property Tax Assumption 2

	MCS	SCSSD
Boundary Alternative 1		
Capital Requirements	\$900,772,756	\$332,400,000
Annual Debt Service	\$63,189,934	\$23,318,128
Median Assessed Property Value	\$9,843,672,470	\$7,163,322,669
Property Tax Rate	\$0.64	\$0.33
Boundary Alternative 2		
Capital Requirements	\$903,172,756	\$330,000,000
Annual Debt Service	\$63,358,296	\$23,149,766
Median Assessed Property Value	\$10,664,755,047	\$6,342,240,092
Property Tax Rate	\$0.59	\$0.37

The ratio of capital requirements to assessed property valuation determines the relative property tax burden between the two school districts. Memphis City Schools has a relatively high capital requirement between 2008 and 2020 coupled with a stable property assessment in Boundary Alternative 1. Consequently, its \$0.64 property tax rate exceeds Shelby County Special School District’s tax rate of \$0.33 which benefits from a 49% increase in assessed property value between 2008 and 2020.

Boundary Alternative 2 shifts \$821 million in median assessed property value from SCSSD to MCS, resulting in a relatively slight shift in property tax rates between Boundary Alternatives 1 and 2 (approximately \$0.05 benefit to MCS). In addition, growth in assessed property values between 2008 and 2020 are more equalized under Boundary Alternative 2 (16.7% for MCS and 20.6% for SCSSD). Nevertheless, the fundamental issue is that under either Boundary Alternative 1 or 2 MCS has much greater enrollment relative to SCSSD than assessed property value relative to SCSSD. Given this fact it might be difficult to achieve capital funding levels that yield similar property tax rates for each school system in the near future.

Growth Policy Issues

The creation of a special school district in Shelby County could alter the decision-making and growth dynamics among the general purpose governments of Shelby County (County government and seven municipal governments) and could have consequences beyond the fiscal impacts noted in this report. A number of questions cannot be answered within the scope of this report.

Government Decisions

A new special school district will have the power to borrow money and have the state legislature set a property tax rate to fund the resulting debt. This could create uncertainty and competition with existing local legislative bodies. Coordination of growth policy, while fragmented at present, could become even more clouded by school systems that do not have their budgets approved by regular legislative bodies and have boundaries that do not match municipal boundaries.

Population Shifts

Schools are important facilities for neighborhoods and their larger communities. The ability to provide quality school buildings and services to students determines, in large degree, the overall sustainability of community.

If the perception exists that schools in the new special school district are preferable to MCS schools, the freezing of school boundaries could cause a greater shift of families to the new special school district and out of the City of Memphis. We could not and did not determine the likelihood of such a shift or directly model its potential impact within this analysis. If such a shift did occur, it would affect not only the revenue/expenditure balance for the two school systems, but also the broader tax/service balance related to providing general public services within City of Memphis and Shelby County.

There is one scenario in which a combination of preference for SCSSD schools and frozen school boundaries could work to keep future annexed population in the City of Memphis, rather than causing a shift out of the city. Applying the Alternative 1 boundaries, in which MCS essentially mirrors the current City of Memphis corporate limits, families living inside *future* Memphis annexation areas would be “locked in” to the special school district. Prior to the policy of freezing of school boundaries, families in these areas with a preference for SCS schools might have been likely to move out of the city limits to avoid placement in MCS schools. With the frozen Alternative 1 boundaries in place, such families would have less motivation to move out of the city.

However, under Property Tax Alternative 1, families in that situation (living within the City of Memphis, but inside SCSSD boundaries) could be required to pay three separate property taxes that contribute to schools: City of Memphis property tax (supplemental revenue to MCS), Shelby County property tax (primary funding to MCS and SCSSD), and SCSSD property tax (supplemental funding to SCSSD).

In general, county residents might not respond favorably to the creation of a new taxing authority for schools as a supplement to existing tax-based funding sources.

Economic Development

Investments by businesses in land, labor, buildings and equipment are enhanced and stimulated by the desirability of doing business at different locations. The potential population shifts described above would result in changes to the tax base available inside and outside the City of Memphis within Shelby County. In addition, if boundary changes cause population to shift away from the City of Memphis, the loss of tax base could be exacerbated by loss of retail activity and contribute to further economic decline.

The health and quality of life of a region's central city is vital to the overall sustainability of that region and its ability to attract investment, firms, and a high quality workforce. The quality of public education has a significant impact on overall quality of life. It is imperative that both school systems be strong and competitive for the Memphis metropolitan area to be sustainable and economically vibrant.

Summary

Based on the findings presented throughout this report and summarized in this chapter, the creation of a special school district in Shelby County outside the City of Memphis would result in inequity between the two resulting systems and/or inequity for residents inside or outside the City of Memphis, under the assumptions modeled. The summary tables in this chapter show that there is no scenario in the baseline year or in 2020 in which the revenue available to MCS would cover expected MCS expenses *without increasing the tax rates* paid by city residents. Conversely, SCSSD would be able to cover its expenses while charging district residents a tax rate *lower* than what they are currently paying in every scenario in which the district uses its own taxing authority as a primary funding source (Property Tax Alternative 2).

Projected enrollment gains for MCS (due to boundary expansions) are coupled with an unchanging property tax base (under Property Tax Alternative 1) or the removal of access to county property tax contributions (under Property Tax Alternative 2). In general, the combination of boundary and financing changes assumed here lead to an imbalance of expenditures (enrollment) and revenues (tax base) for MCS and SCSSD.

Our findings reveal a funding imbalance between the two school systems based on the boundary and property tax alternatives prescribed for this study. However, there could be school funding alternatives not examined by this study that would result in an equitable distribution of capital and operating funds. If such an alternative is found, an arrangement between the two school systems could result that would satisfy the needs of both school systems.

Appendix

Appendix Table 2.11. MCS Capital Needs

	MCS Capital Plan FY2006 - FY2011		Estimated Capital Needs 2012 - 2020		Total Capital Needs
	\$	Notes	\$	Notes	
Construction/Renovation	488,142,477	from MCS Capital Plan 2006-2011			
Cost Avoidance	41,012,623	(Zones 1 - 5 Summary Totals:			
Total Planned Capital Needs	529,155,100	Section 11, p. 129)			
Add Annexation Areas:					
New Cordova Elementary School	0	per SCS staff (included in New Projects below)			
New SE Unicorporated Middle School	15,000,000	per SCS staff			
Total Annexation Area	15,000,000	moves to MCS capital needs			
Total Including Annexation Areas	544,155,100				544,155,100
Potential New Projects Beyond 2011: [projects not included in MCS Capital Plan]					
New Cordova Elementary (\$19.0MM)			19,000,000	per NAC Capital Needs Report of 9/07	
New Kate Bond Middle School			22,500,000	per NAC Capital Needs Report of 9/07	
New Cordova Area High (\$27.0 MM)			27,000,000	per NAC Capital Needs Report of 9/07	
New S. Cordova Elem. (\$20.0MM)			20,000,000	per NAC Capital Needs Report of 9/07	
New Southwind/Windyke Elem. (\$20.0MM)			20,000,000	per NAC Capital Needs Report of 9/07	
Kate Bond Addition (\$3.2MM)			3,200,000	per NAC Capital Needs Report of 9/07	
Chimney Rock Expansion (\$9.0MM)			9,000,000	per NAC Capital Needs Report of 9/07	
Cordova Middle Gym (\$2.0MM)			2,000,000	per NAC Capital Needs Report of 9/07	
Wooddale High Addition (\$3.8 million in NAC vs. \$3,356,575 in Cap. Plan)			443,000	NAC 9/07 increase over Cap. Plan	
Total New Projects Beyond 2011			123,143,000		123,143,000
Potential Renovations Beyond 2011					
Routine Capital Maintenance (based on avg budgeted expenditure from MCS Capital Plan 2006-2011)			233,474,656	\$29,184,332 @ 8 years	233,474,656
Total MCS Capital Needs 2008 - 2020	544,155,100		356,617,656		900,772,756
Avg. Capital Funding Needed Per Year	90,692,517		44,577,207		64,340,911

Appendix Table 2.12. SCSSD Capital Needs

	SCSSD Capital Plan FY2006 - FY2011		Estimated Capital Needs 2012 - 2020		Total Capital Needs
	\$	Notes	\$	Notes	
Total Planned Capital Needs	272,400,000	Includes \$2.4 million for Southwind Elementary addition that shifts to MCS under Boundary Alternative 2. per SCS staff - \$ from Cap. Plan per SCS staff - \$ from Cap. Plan moves to MCS capital needs			
Less Annexation Areas:					
New Cordova Elementary School	15,000,000				
New SE Unincorporated Middle School	<u>15,000,000</u>				
Total Annexation Area	<u>30,000,000</u>				
Total Non-Annexation Areas	242,400,000				242,400,000
Potential New Schools Beyond 2011:					
NE Area Elementary School			15,000,000	per SCS staff - \$ from Cap. Plan	
Bartlett Area Middle School			15,000,000	per SCS staff - \$ from Cap. Plan	
North Area Small High School			30,000,000	per SCS staff - \$ REDC estimate	
South Area Small High School			<u>30,000,000</u>	per SCS staff - \$ REDC estimate	
Total Potential New Schools			<u>90,000,000</u>		90,000,000
Potential New Projects Beyond 2011:					
Total Renovations Beyond 2011			<u>0</u>	all projects reflected in SCS Structural Analysis are included in 2006-2011 CIP	0
Regular Capital Outlay (included in General Fund expenditures)			0		0
Total SCS Capital Needs	<u>242,400,000</u>		<u>90,000,000</u>		<u>332,400,000</u>
Avg. Capital Funding Needed Per Year	40,400,000		11,250,000		23,742,857

Appendix Table 3.11. Sales Tax Funding Under Differing Boundary Alternatives

	MCS		SCSSD		Total	
	Funding	% of Total	Funding	% of Total	Funding	% of Total
<u>FY2008</u>						
Current w/ existing boundaries	\$96,455,360	71.1%	\$39,134,313	28.9%	\$135,589,673	100.0%
Alternative 1	\$98,709,282	72.8%	\$36,880,391	27.2%	\$135,589,673	100.0%
Alternative 2	\$109,149,687	80.5%	\$26,439,986	19.5%	\$135,589,673	100.0%
Alternative 1 vs. Current	\$2,253,922		-\$2,253,922			
Alternative 2 vs. Current	\$12,694,327		-\$12,694,327			
Alternative 1 vs. Alternative 2	-\$10,440,405		\$10,440,405			
<u>FY2020</u>						
Current w/ existing boundaries	\$105,823,555	71.1%	\$42,935,220	28.9%	\$148,758,775	100.0%
Alternative 1	\$94,610,581	63.6%	\$54,148,194	36.4%	\$148,758,775	100.0%
Alternative 2	\$110,825,287	74.5%	\$37,933,488	25.5%	\$148,758,775	100.0%
Alternative 1 vs. Current	-\$11,212,974		\$11,212,974			
Alternative 2 vs. Current	\$5,001,733		-\$5,001,733			
Alternative 1 vs. Alternative 2	-\$16,214,706		\$16,214,706			

Appendix Table 3.12. Other Local Tax Funding Under Differing Boundary Alternatives

	MCS		SCSSD		Total	
	Funding	% of Total	Funding	% of Total	Funding	% of Total
<u>FY2008</u>						
Current w/ existing boundaries	16,102,160	71.2%	6,503,715	28.8%	22,605,875	100.0%
Alternative 1	16,457,077	72.8%	6,148,798	27.2%	22,605,875	100.0%
Alternative 2	18,197,729	80.5%	4,408,146	19.5%	22,605,875	100.0%
Alternative 1 vs. Current	354,917		(354,917)			
Alternative 2 vs. Current	2,095,569		(2,095,569)			
Alternative 1 vs. Alternative 2	(1,740,652)		1,740,652			
<u>FY2020</u>						
Current w/ existing boundaries	17,666,077	71.2%	7,135,386	28.8%	24,801,463	100.0%
Alternative 1	15,773,731	63.6%	9,027,733	36.4%	24,801,463	100.0%
Alternative 2	18,477,090	74.5%	6,324,373	25.5%	24,801,463	100.0%
Alternative 1 vs. Current	(1,892,346)		1,892,346			
Alternative 2 vs. Current	811,013		(811,013)			
Alternative 1 vs. Alternative 2	(2,703,359)		2,703,359			

* County taxes allocated on ADA. Includes wheel tax, privilege tax, alcoholic beverages tax, and pay in lieu taxes on exempt properties.

Appendix Table 3.13. Student Enrollment & Average Daily Attendance-Boundary Alternatives 1 & 2

Enrollment	MCS		SCSSD		Total	
	Enrollment	%	Enrollment	%	Enrollment	%
2008 - Current	111,502	70.12%	47,510	29.88%	159,012	100.00%
2008 - Alternative 1	116,113	73.02%	42,899	26.98%	159,012	100.00%
2008 - Alternative 2	128,336	80.71%	30,676	19.29%	159,012	100.00%
2020 - Alternative 1	102,624	63.92%	57,921	36.08%	160,545	100.00%
2020 - Alternative 2	119,905	74.69%	40,640	25.31%	160,545	100.00%

Average Daily Attendance

% ADA	MCS		SCSSD		Total	
	ADA	% ADA	ADA	% ADA	ADA	% ADA
% ADA	94.30% *		95.40% *			
2008 - Current	105,146	69.88%	45,325	30.12%	150,471	100.00%
2008 - Alternative 1	109,495	72.79%	40,926	27.21%	150,420	100.00%
2008 - Alternative 2	121,021	80.53%	29,265	19.47%	150,286	100.00%
2020 - Alternative 1	96,774	63.65%	55,257	36.35%	152,031	100.00%
2020 - Alternative 2	113,070	74.47%	38,771	25.53%	151,841	100.00%

* Per TDOE 2007 Report Card

Appendix Table 3.14. State Education Funding

	Memphis City Schools	Shelby County Schools/Special School District
Current		
State Education Funding	\$ 378,800,020	\$ 163,750,763
Average Daily Attendance	105,146	45,325
State Funding/Student	\$ 3,603	\$ 3,613
Baseline (2008-2009), with Alternative 1 Boundary		
Average Daily Attendance	109,495	40,926
Projected State Funding	\$ 394,467,770	\$ 147,857,997
Baseline (2008-2009), with Alternative 2 Boundary		
Average Daily Attendance	121,021	29,265
Projected State Funding	\$ 435,991,452	\$ 105,728,981
2020, with Alternative 1 Boundary		
Average Daily Attendance	96,774	55,257
Projected State Funding	\$ 348,638,970	\$ 199,633,225
2020, with Alternative 2 Boundary		
Average Daily Attendance	113,070	38,771
Projected State Funding	\$ 407,347,101	\$ 140,072,385