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Executive Summary

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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THE UNIVERSITY OF
MEMPHIS[®]

Executive Summary

Impact of Special School District on Memphis and Shelby County

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.

Study Background

The creation of a special school district in Shelby County may have positive and/or negative consequences for K-12 education. In December, 2007, the Shelby County School Board and the Memphis City School Board requested the Regional Economic Development Center at the University of Memphis 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.

Legislative Actions

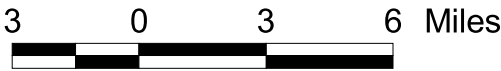
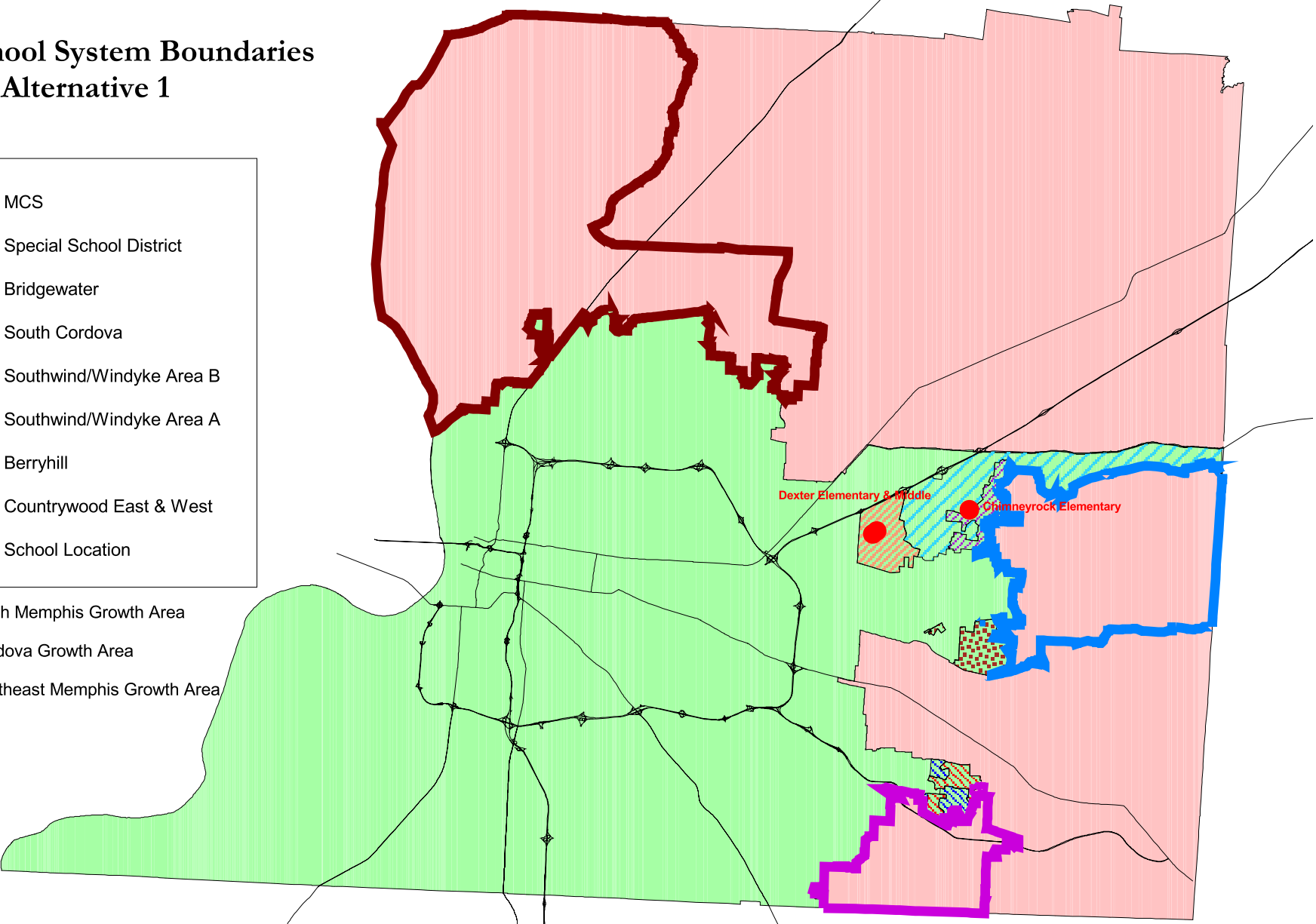
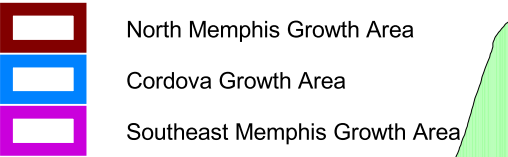
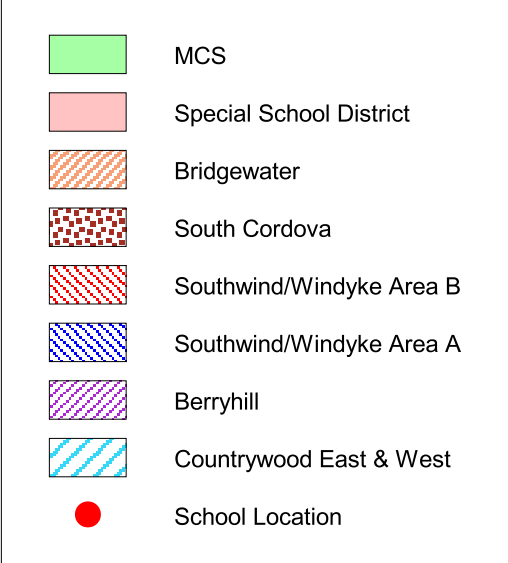
The Shelby County School Board has proposed that a “special school district” be created to replace the current Shelby County School System. This action would require two legislative actions: 1) the Tennessee General Assembly would pass general legislation authorizing local jurisdictions to create special 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.

Boundary Alternatives

For this study, 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.)

Map 1. School System Boundaries Alternative 1



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.)

Taxing Alternatives

Property tax available to the two school systems was 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.

Enrollment Conclusions

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.










2008




- Applying Alternative 1 and Alternative 2 boundaries in 2008 would increase MCS enrollment by 4,611 students and 16,834 students respectively and decrease SCSSD by that same number per Alternative. This is simply a shift in current year students based on school system boundary changes.

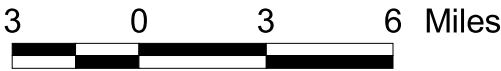
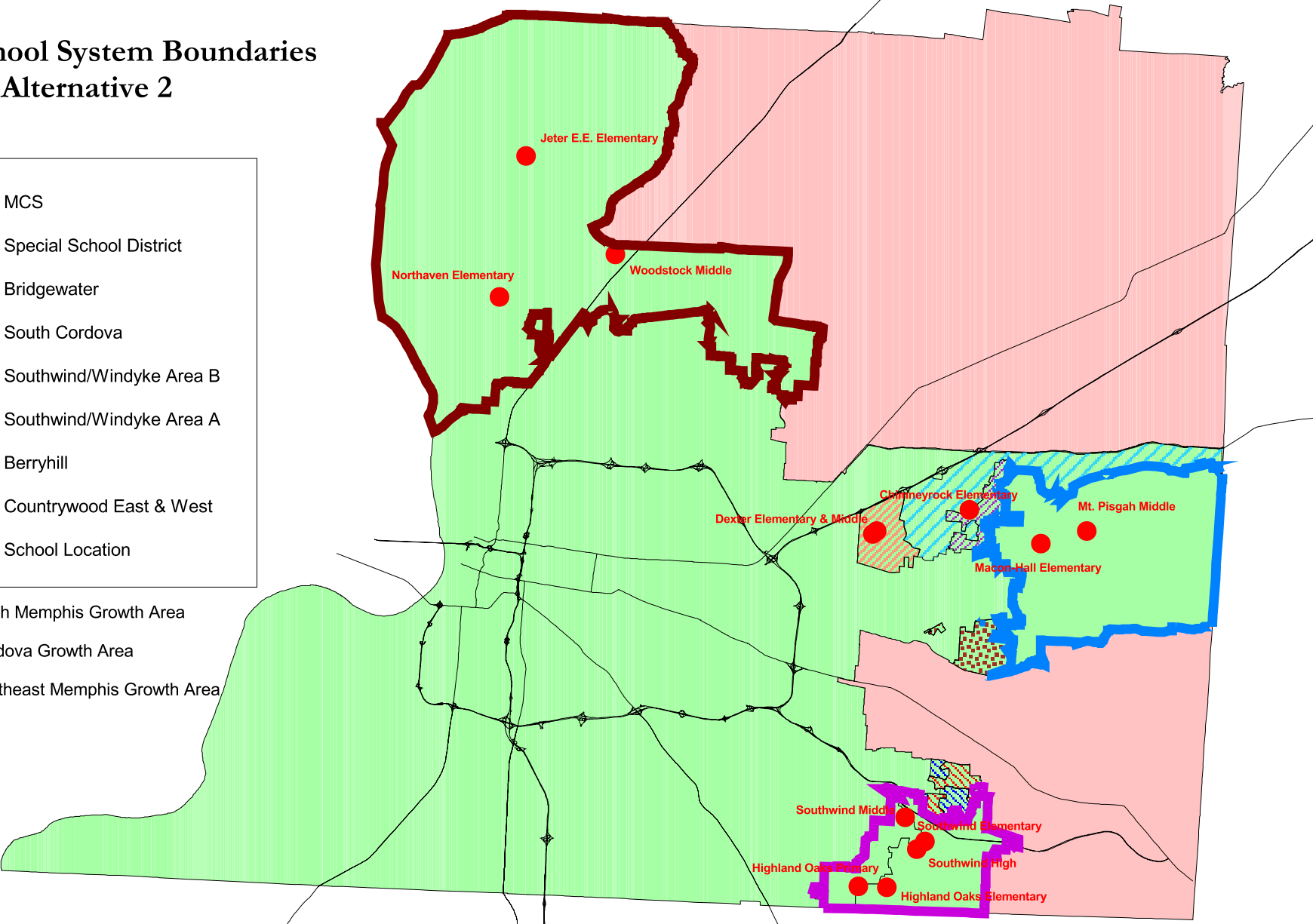
2020

- Applying the Alternative 1 boundaries, MCS is expected lose 13,489 students between the baseline year and 2020, while SCSSD gains 15,022.
- Alternative 2 projects MCS to gain 5,058 and lose 13,489 for a net loss of 8,431 students and SCSSD gaining 9,964 between 2008 and 2020.

Map 2. School System Boundaries Alternative 2

-  MCS
-  Special School District
-  Bridgewater
-  South Cordova
-  Southwind/Windyke Area B
-  Southwind/Windyke Area A
-  Berryhill
-  Countrywood East & West
-  School Location

-  North Memphis Growth Area
-  Cordova Growth Area
-  Southeast Memphis Growth Area



Expenditure Conclusions

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). 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.

2008

- Operating expenses are higher for MCS with Boundary Alternative 2
- Operating expenses are higher for SCSSD with Boundary Alternative 1

2020

- Operating expenses are higher for MCS with Boundary Alternative 2
- Operating expenses are higher for SCSSD with Boundary Alternative 1
- Capital expenditures per student are higher for MCS with Boundary Alternative 1
- Capital expenditures per student are higher for SCSSD with Boundary Alternative 2

Capital Expenditures

With Boundary Alternative 1 MCS has a relatively high capital requirement between 2008 and 2020 coupled with a stable property assessment. 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 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).

Under either Boundary Alternative 1 or 2 MCS has a much greater enrollment relative to SCSSD than assessed property value relative to SCSSD. This makes it difficult to achieve capital funding levels that yield similar property tax rates for each school system.

Revenue Conclusions

Revenue projections involved a review of the revenue budgets, current tax rates, and tax allocation procedures. Secondly, we estimated baseline year operating revenue for each school district using the various boundary/tax alternatives. Lastly, we projected 2020 operating revenue for each school district using the boundary/tax alternatives.

This produced eight boundary/tax alternatives which were analyzed:

1. 2008 Alternative 1 Boundary, Property Tax Alternative 1
2. 2008 Alternative 1 Boundary, Property Tax Alternative 2
3. 2008 Alternative 2 Boundary, Property Tax Alternative 1
4. 2008 Alternative 2 Boundary, Property Tax Alternative 2
5. 2020 Alternative 1 Boundary, Property Tax Alternative 1
6. 2020 Alternative 1 Boundary, Property Tax Alternative 2
7. 2020 Alternative 2 Boundary, Property Tax Alternative 1
8. 2020 Alternative 2 Boundary, Property Tax Alternative 2

For baseline year 2008, for both Boundary Alternatives 1 and 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.

2008

- In the table below, the MCS and SCSSD total revenues are identical within Boundary Alternatives. The difference between Boundary Alternatives 1 and 2 is a product of changing enrollment numbers between the Alternatives. However, in *Alternative 1 Boundary, Property Tax Alternative 2*, MCS would have to levy a property tax of \$3.19 and SCSSD a tax of \$1.49 to replace county and city property tax revenue. In *Alternative 2 Boundary, Property Tax Alternative 2* MCS would need a property tax of \$3.06 and SCSSD would need \$1.36. These taxes are due to Property Tax Alternative 2 having no city or county property tax funding for schools.

Total Operating Revenue Baseline Year 2008		
	MCS Total Revenue	SCSSD Total Revenue
Alternative 1 Boundary, Property Tax Alternative 1	\$823,552,755	\$276,589,170
Alternative 1 Boundary, Property Tax Alternative 2	\$823,552,755	\$276,589,170
Alternative 2 Boundary, Property Tax Alternative 1	\$901,635,787	\$197,900,804
Alternative 2 Boundary, Property Tax Alternative 2	\$901,635,787	\$197,900,804

2020

- In the table below, the MCS and SCSSD total revenues are identical within Boundary Alternatives. The difference between Boundary Alternatives 1 and 2 is a product of changing enrollment numbers between the Alternatives. However, to replace the lost county/city property tax revenue in *Alternative 1 Boundary, Property Tax Alternative 2* MCS would need a property tax rate of \$3.27 and SCSSD would need a rate of \$1.58.
- In *Alternative 2 Boundary, Property Tax Alternative 2* Memphis City School's real property value increases while SCSSD's real property decreases. As a result, the amount of property taxes collected by MCS would increase and SCSSD's would decrease. MCS would need a property tax rate of \$2.87 and SCSSD would need \$1.79 to replace lost revenue from lack of city/county property tax funding for schools.

Total Operating Revenue Year 2020		
	MCS Total Revenue	SCSSD Total Revenue
Alternative 1 Boundary, Property Tax Alternative 1	\$794,679,125	\$398,049,089
Alternative 1 Boundary, Property Tax Alternative 2	\$794,679,125	\$398,049,089
Alternative 2 Boundary, Property Tax Alternative 1	\$912,543,641	\$279,331,863
Alternative 2 Boundary, Property Tax Alternative 2	\$912,543,641	\$279,331,863

Property Tax Conclusions

In this section “additional single source property taxes” means in addition to current City and County property tax for Property Tax Alternative 1 options and in addition to projected single source property tax rates for Property Tax Alternative 2 options (no City/County taxes assumed in Property Tax Alternative 2).

The property tax requirements for 2008 and 2020 are as follows.

2008

- The lowest additional single source property tax for MCS is in Alternative 2 Boundary, Property Tax Alternative 2.
- The lowest additional single source property taxes for SCSSD are in both Alternative 1 and Alternative 2 Boundary options.
- The lowest total property tax needed to meet expenditures for MCS is in Alternative 2 Boundary, Property Tax Alternative 1.
- The lowest total property tax needed to meet expenditures for SCSSD is in Alternative 1 Boundary, Property Tax Alternative 2.

Required Property Tax 2008				
Alternative	Additional* Single Source Property Tax to Meet MCS Expenditures	Total Property Tax to Meet MCS Expenditures	Additional* Single Source Property Tax to Meet SCSSD Expenditures	Total Property Tax to Meet SCSSD Expenditures
Alternative 1 Boundary, Property Tax Alternative 1	\$0.99	\$3.87	\$0.38	\$2.40
Alternative 1 Boundary, Property Tax Alternative 2	\$0.99	\$4.17	\$0.38	\$1.88
Alternative 2 Boundary, Property Tax Alternative 1	\$0.93	\$3.81	\$0.57	\$2.59
Alternative 2 Boundary, Property Tax Alternative 2	\$0.83	\$3.89	\$0.72	\$2.08

*In addition to current City and County property tax for Property Tax Alternative 1 options; in addition to projected single source property tax rates from Chapter 3 for Property Tax Alternative 2 options.

2020

- The lowest additional single source property tax for MCS is in Alternative 2 Boundary, Property Tax Alternative 2.
- The lowest additional single source property tax for SCSSD is in Alternative 1 Boundary, Property Tax Alternative 2 (there is actually a decrease in property tax in this option).
- The lowest total property tax needed to meet expenditures for MCS is in Alternative 2 Boundary, Property Tax Alternative 1.
- The lowest total property tax needed to meet expenditures for SCSSD is in Alternative 1 Boundary, Property Tax Alternative 2.

Required Property Tax 2020				
Alternative	Additional* Single Source Property Tax to Meet MCS Expenditures	Total Property Tax to Meet MCS Expenditures	Additional* Single Source Property Tax to Meet SCSSD Expenditures	Total Property Tax to Meet SCSSD Expenditures
Alternative 1 Boundary, Property Tax Alternative 1	\$0.40	\$3.28	\$(0.22)	\$1.80
Alternative 1 Boundary, Property Tax Alternative 2	\$0.46	\$3.73	\$(0.27)	\$1.31
Alternative 2 Boundary, Property Tax Alternative 1	\$0.27	\$3.15	\$0.10	\$2.12
Alternative 2 Boundary, Property Tax Alternative 2	\$0.23	\$3.50	\$0.13	\$1.70
*In addition to current City and County property tax for Property Tax Alternative 1 options; in addition to projected single source property tax rates from Chapter 3 for Property Tax Alternative 2 options.				

General

- In terms of total property tax necessary, *Alternative 2 Boundary, Property Tax Alternative 1* is the best option for MCS.
- In terms of total property tax necessary, *Alternative 1 Boundary, Property Tax Alternative 2* is the best option for SCSSD.
- In the four alternatives examined for 2008, both systems would have to raise revenues to meet expenditures.
- In the four alternatives examined for 2020, MCS would have to raise revenues to meet expenditures, as would SCSSD in the two Boundary 2 Alternatives. However, SCSSD would have greater revenues than expenditures in the two Boundary 1 Alternatives.

- The gap between revenues and expenditures decreases for both systems (except the 2 that give SCSSD a surplus) by more than half the amount by 2020 for both school districts. Boundary 2 Alternatives give MCS the smaller difference (\$31 million) while the Boundary 1 Alternatives give SCSSD a surplus (\$15 million).

Based on the findings, the creation of a special school district in Shelby County outside the City of Memphis would result in inequity between the two systems and/or inequity for residents inside or outside the City of Memphis, under the assumptions modeled. The comparisons of revenues and expenditures 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.

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