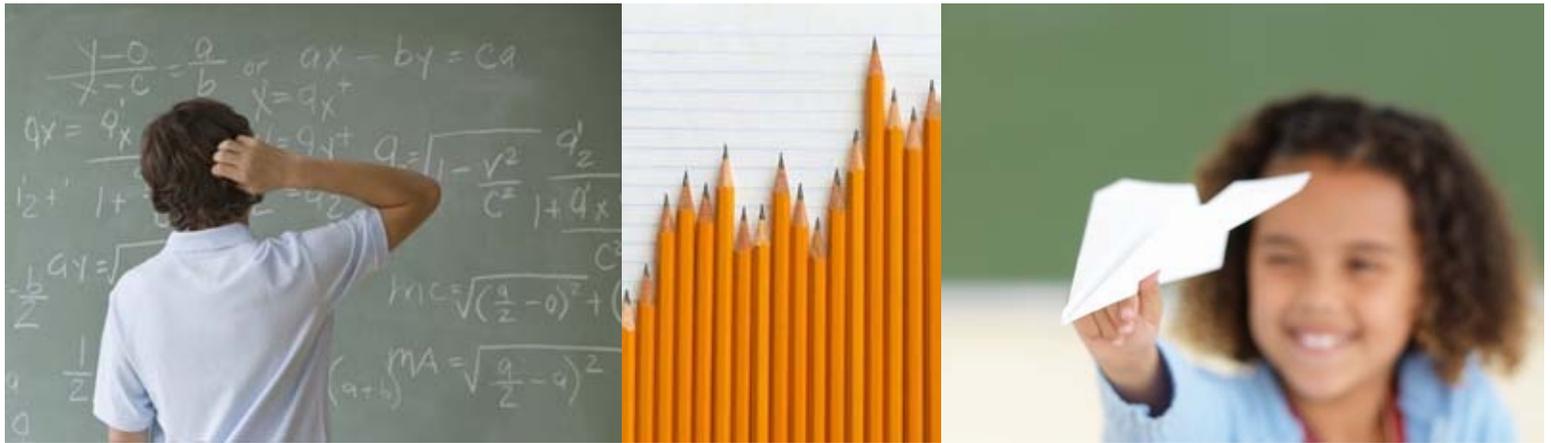


IMPACT OF A SPECIAL SCHOOL DISTRICT ON MEMPHIS AND SHELBY COUNTY



May 2008

REGIONAL ECONOMIC DEVELOPMENT CENTER
THE UNIVERSITY OF
MEMPHIS[®]

Prepared for:
Memphis City School Board
&
Shelby County School Board

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This study was conducted under a contract with Memphis City Schools and Shelby County Schools.

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Memphis City School Board
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Shelby County School Board

May 2008

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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 fiscal impacts and growth implications of 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. (Appendix Table 1.1 provides summary information about other special school districts in Tennessee.)

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.

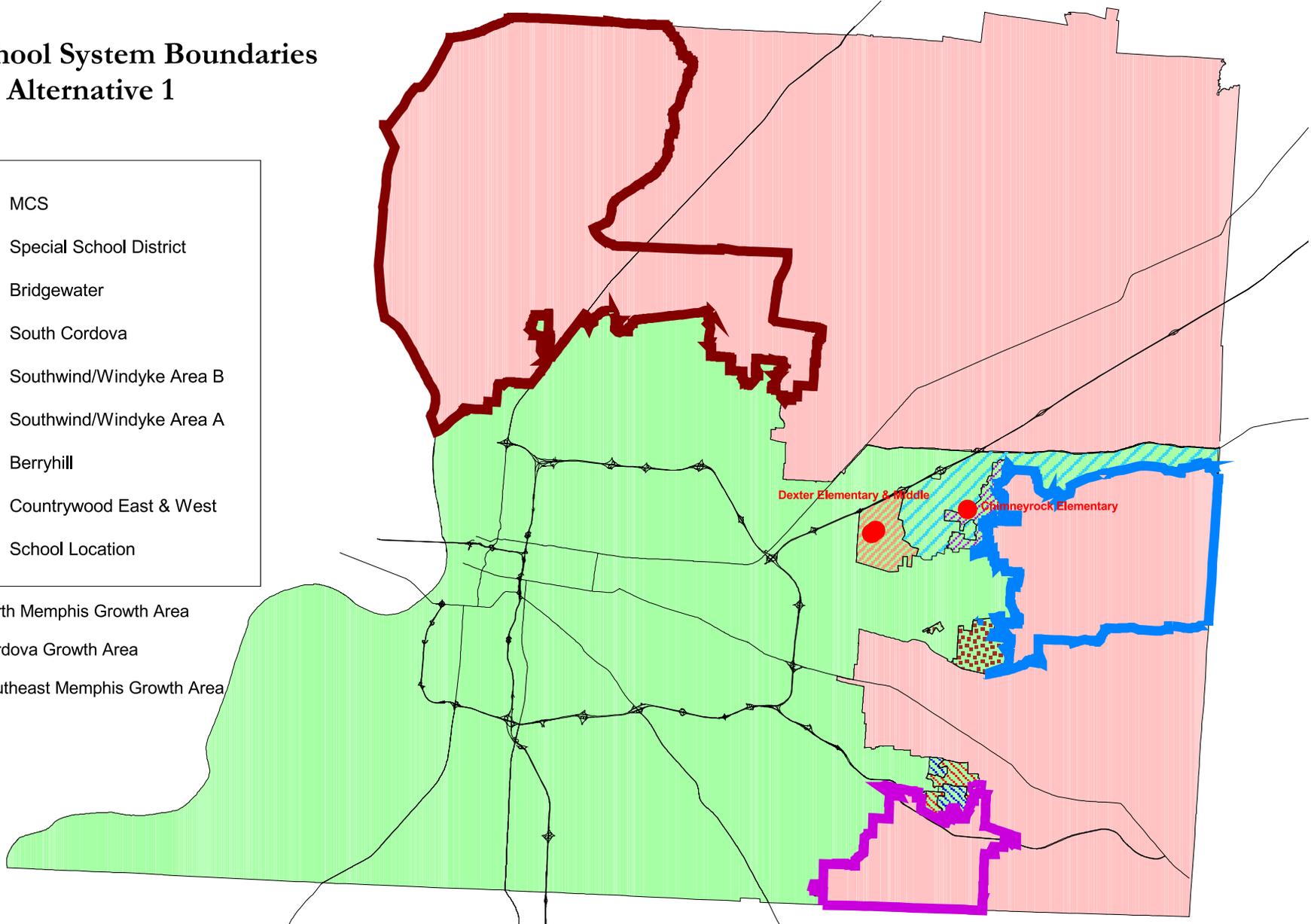
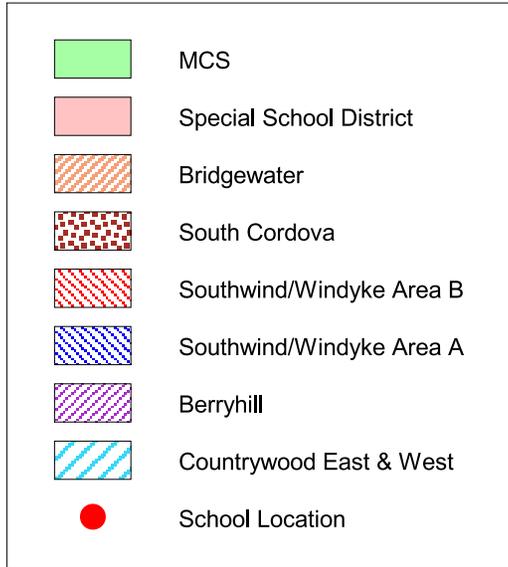
This report measures the impact of creating a special school district in Shelby County to replace the current Shelby County Board of Education and the Shelby County School System. The report presents the fiscal impact and growth policy implications for Shelby County and the City of Memphis governments, 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:

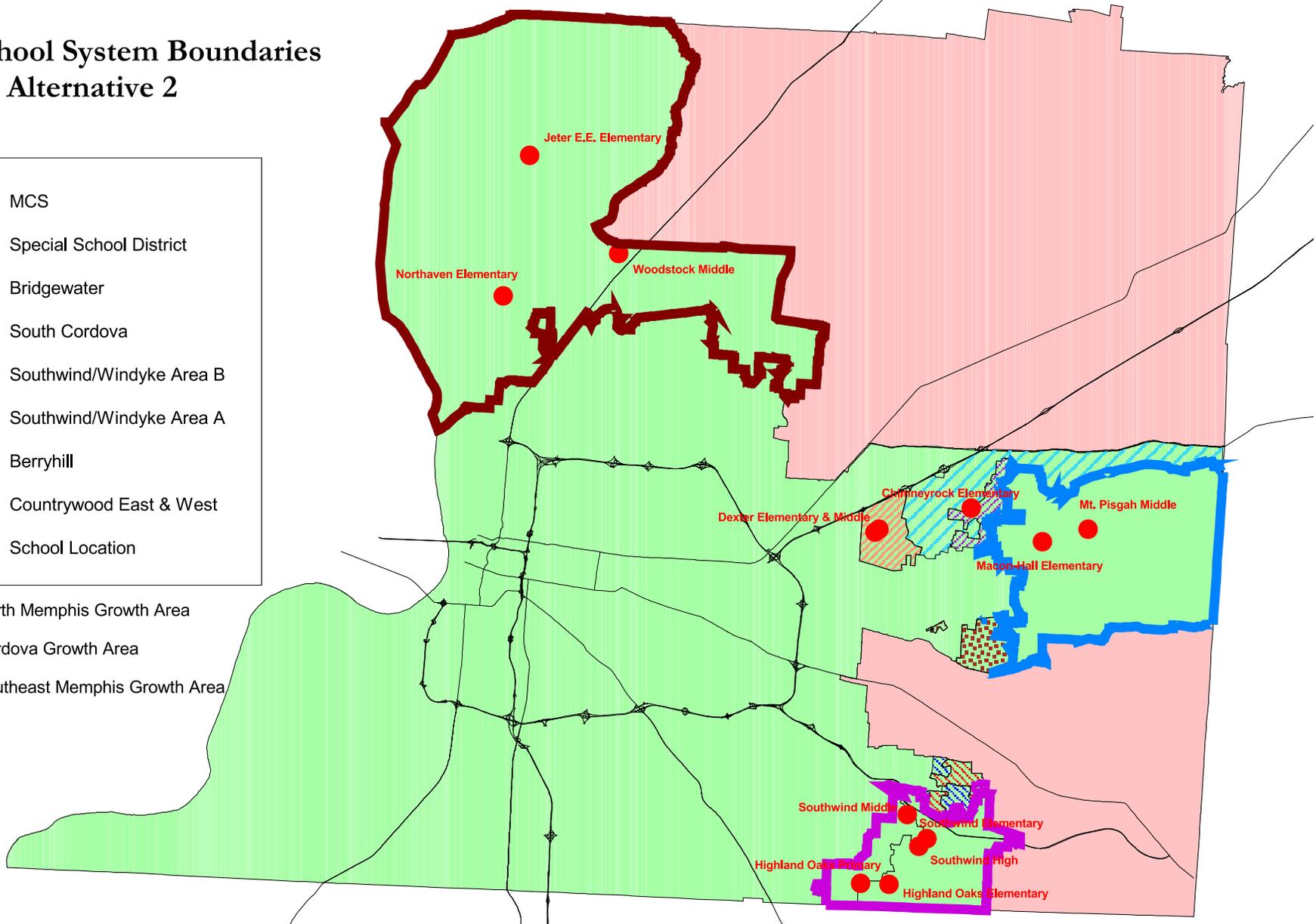
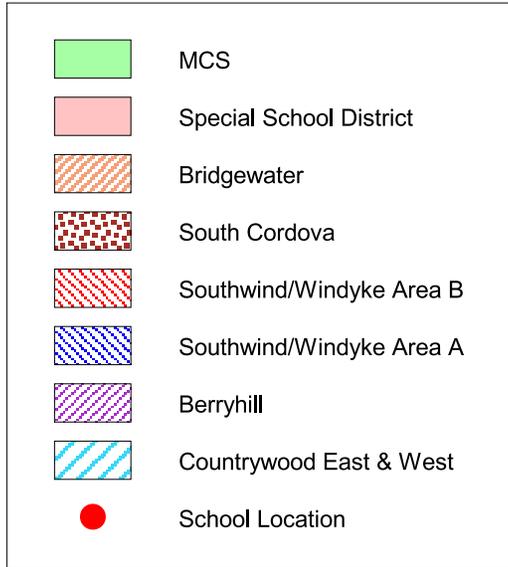
Alternative 1 Boundary. The special school district would include all territory outside the current City of Memphis corporate limits. The City of Memphis corporate limits would include the pending annexation areas of “Bridgewater,” “South Cordova” and “Southwind-Windyke”. See Map 1, which follows.

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).

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 revenue and expenditure projections that follow are expressed in current dollars. Any inflation in property and sales tax base will be offset by inflation in school expenditures; therefore, rather than discounting future revenue streams or adjusting future expenditures to reflect inflation, 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 geographic enrollment information data provided by SCS staff and 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.

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.

Expenses. Expenditures likely to be made by each school system have been projected for both operating and capital budgets. Certain fixed operating 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.

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 four additional chapters.

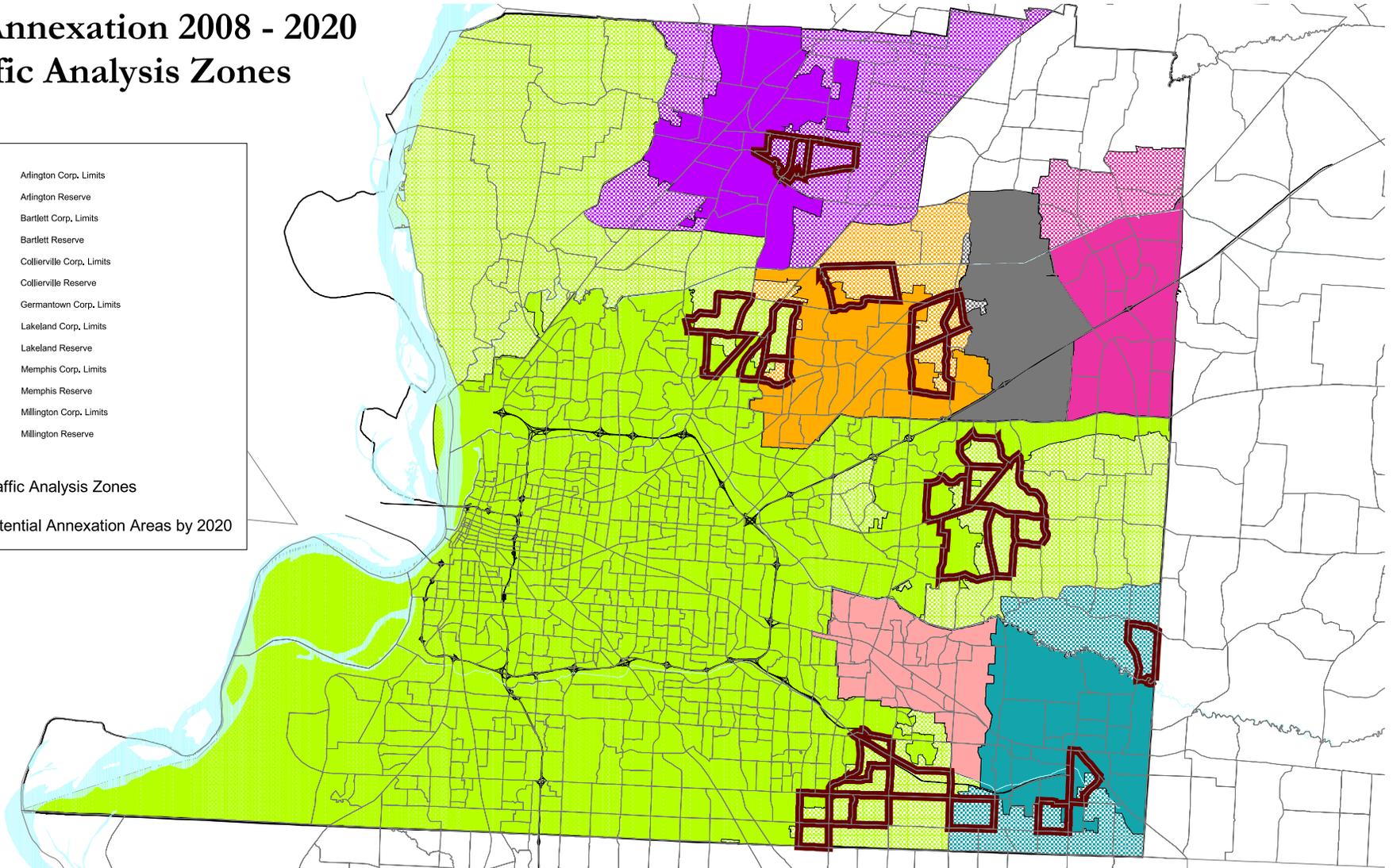
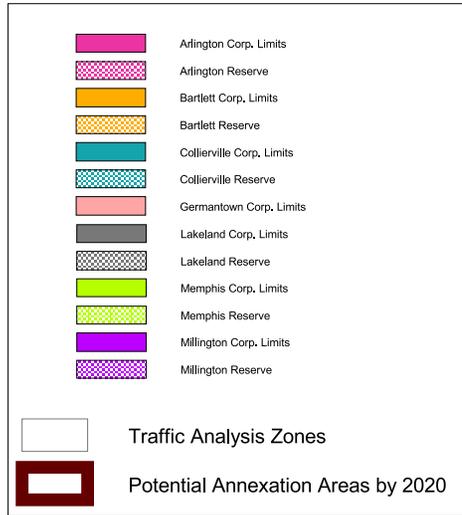
Chapter 2 examines the potential impact of each of the proposed school system boundary changes on enrollment for each system in the baseline year of 2008-2009 and in 2020.

Chapter 3 reviews the major revenue sources available to each school system and examines the potential impact of the proposed changes on revenues for each system in the baseline year and in 2020. The discussion in this chapter focuses on implications related to local property tax revenue available to each school system.

Chapter 4 examines the potential impact of the proposed changes on expenditures for each system.

The final chapter compares projected revenues and expenditures for each school system under each of the proposed boundary alternatives in the baseline year and in 2020. The chapter concludes with discussion of related growth policy issues and questions for further consideration.

Map 3. Annexation 2008 - 2020 Traffic Analysis Zones



Chapter 2

Enrollment Impacts

This chapter examines the potential impact of each of the proposed boundary changes on enrollment for each school system in the baseline year of 2008-2009 and in 2020.

Enrollment Changes: Baseline (2008-2009)

Applying the Alternative 1 boundaries, in which the MCS boundaries essentially mirror the City of Memphis corporate limits, MCS would gain students while SCSSD would lose 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 2.1 shows the enrollment changes that would occur with application of the Alternative 1 boundaries in the baseline year of 2008-2009.

Table 2.1. Enrollment Changes: Baseline (2008-2009) with Alternative 1 Boundaries

	Memphis City Schools	Shelby County Special School District
Current Enrollment	111,502	47,510
Enrollment in 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)
Total Projected Enrollment	116,113	42,899

Sources: MCS General Fund Budget 2007-2008, SCS General Fund Budget 2007-2008, and data provided by SCS staff (table titled "SCS Students Residing in Annexation, Proposed Annexation, and Reserve Areas of the City of Memphis")

Applying the Alternative 2 boundaries, in which MCS would expand to include all of the City of Memphis annexation reserve areas, MCS would gain additional students. (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 2.2.

Table 2.2. Enrollment Changes: Baseline (2008-2009) with Alternative 2 Boundaries

	Memphis City Schools	Shelby County Special School District
Current Enrollment	111,502	47,510
Enrollment in Annexed / Pending Annexed Areas		
sub-total	4,611	(4,611)
Enrollment in 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)
Total Projected Enrollment	128,336	30,676

Sources: MCS General Fund Budget 2007-2008, SCS General Fund Budget 2007-2008, and data provided by SCS staff (table titled "SCS Students Residing in Annexation, Proposed Annexation, and Reserve Areas of the City of Memphis")

Enrollment Changes: 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 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, in which the MCS boundaries essentially mirror the current City of Memphis corporate limits, we expect MCS to lose 13,489 students between the baseline year and 2020. During this period we expect SCSSD to gain 15,022 students. These changes are summarized in Table 2.3.

Table 2.3. Enrollment Changes: 2020 with Alternative 1 Boundaries

	Memphis City Schools	Shelby County Special School District
Baseline Enrollment (2008-2009)	116,113	42,899
Growth/Decline	(13,489)	15,022
Total Projected Enrollment	102,624	57,921

Sources: DeJong Inc (2007) Demographics Report: Memphis City Schools and Shelby County Schools, and REDC calculations.

Applying the Alternative 2 boundaries, in which MCS expands to include the City of Memphis annexation reserves, the enrollment growth of 15,022 shown above would be split between SCSSD and MCS, as illustrated in Table 2.4.

Table 2.4. Enrollment Changes: 2020 with Alternative 2 Boundaries

	Memphis City Schools	Shelby County Special School District
Baseline Enrollment (2008-2009)	128,336	30,676
Growth/Decline	5,058 (13,489)	9,964
Total	119,905	40,640

Sources: DeJong Inc (2007) Demographics Report: Memphis City Schools and Shelby County Schools, and REDC calculations.

Facilities Transferred

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 2.5. The additional capital facilities required due to enrollment changes over time are considered in the discussion of capital costs included in Chapter 4: Expenditure Impacts.

Table 2.5. 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

Source: Data provided by SCS staff

Chapter 3

Revenue Impacts

This chapter reviews the major general fund revenue sources available to each school system and examines the potential impact of the proposed changes on revenues for each system under each of the two boundary alternatives in the baseline year of 2008-2009 and in 2020. Projections are made for each of the major general funds revenue sources; however most of the discussion in this chapter focuses on implications related to local property tax revenue available to each school system.

General Fund Revenue: Current

Tables 3.1 and 3.2 provide a snapshot of current general fund revenue sources for MCS and SCS, based on data included in the budgets for fiscal year 2007-2008.

Our analyses and projections consider only revenues and expenditures contained within the general fund budgets of each school system. Revenues and expenditures 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 the most direct relationship to tax rates and personal costs.

Table 3.1. Memphis City Schools General Fund Revenue Sources: 2007-2008

Local Property Tax Funding		
<i>Funding from county property tax (@2.02) split on ADA</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.

Source: MCS General Fund Budget 2007-2008

Table 3.2. Shelby County Schools General Fund Revenue Sources: 2007-2008

Local Property Tax Funding		
<i>Funding from county property tax (@2.02) split on ADA</i>	\$ 95,429,688	30.3%
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.

Source: SCS General Fund Budget 2007-2008

General Fund Revenue Sources and Allocation Procedures

Allocation of Local Property Tax Revenue

Fifty percent of Shelby County property taxes (\$2.02 per \$100 of assessed value) are used to fund education and are allocated to the two current school systems based on average daily attendance (ADA). (Currently, approximately 70 percent of all public school students in Shelby County attend Memphis City Schools, therefore about 70 percent of the revenue generated by the education portion of the county property tax is allocated to MCS). In addition, the City of Memphis currently allocates a portion of its property tax revenue (at a rate of approximately \$0.83 per \$100 of assessed value) to MCS as supplemental revenue. (The education share of the City of Memphis property tax has not been constant, and has fluctuated between \$0.83 and \$0.86 in recent years. Our revenue projections assume that the city resumes using the higher education share of \$0.86. None of the other municipalities in Shelby County allocate taxes to schools.)

Allocation of Other General Fund Revenue

Local Option Sales Tax Funding

Fifty percent of local option sales taxes collected in both incorporated and unincorporated areas of Shelby County are used to fund education and are allocated to the two current school systems based on ADA. Previously, 100 percent of the local option tax collected in the unincorporated areas was allocated to schools; however, beginning with fiscal year 2008 the county only distributes the state-mandated 50 percent to schools.

State Education Funding

State funds are distributed to public 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. Student enrollment is the primary driver of BEP funding.¹ The level of state education funding allocated to MCS and SCS increased in fiscal year 2008 following new state legislation to raise additional funding for education through a cigarette tax.

Other Local Tax Funding

Other local tax funding sources include wheel tax, privilege tax, and alcoholic beverage tax revenue, and payments in lieu of taxes on exempt properties. These revenues are allocated to the two current school systems based on ADA.

Other Funding

A portion of the general fund revenue for each school system comes from other sources not accounted for above, such as interest earned, court fines, and traffic violations. These sources make up about 3 percent of total revenue for each school system and are often non-recurring.

¹ "General Overview of the BEP." <http://www.state.tn.us/sbe/bep.html#General%20Overview>

Projecting General Fund Revenues

Tables 3.3 through 3.10 summarize the projections of general fund revenues available to each system under each of the proposed boundary and property tax alternatives. The following section describes how each of the available revenue sources were projected.

Projecting Local Property Tax Revenue

The relationship between the proposed school system changes and available property tax revenue provides critical information for decision-making. It is the revenue source over which local officials have the most control, and it is the one with the greatest direct impact on Memphis and Shelby County residents.

In order to project local property tax revenue available for each school system under each scenario modeled, we had to project how the property tax base (assessed values) would *shift* with the proposed changes in system boundaries and financing mechanisms, as well as how the tax base would *change* over time by 2020.

To determine the property tax base for the near-term baseline scenarios, we used geographic information systems software to analyze the latest Shelby County Assessor's tax roll on a parcel-by-parcel basis to determine the total assessed value of real property within the county as well as the assessed value contained within the proposed boundaries of each school system. (These calculations exclude parcels exempt from property tax, including those that are part of the Payment in Lieu of Taxes program.)

Currently the total assessed value of real property in Shelby County is approximately \$15.6 billion. This figure is used as the total assessed value for the baseline year scenarios. Under the Alternative 1 boundaries, in which the MCS boundaries essentially mirror the current City of Memphis corporate limits, approximately \$9.8 billion (63 percent) of the total assessed value is within the MCS boundaries and approximately \$5.8 billion is outside the MCS boundaries.

Under the Alternative 2 boundaries, in which MCS expands to include all of the City of Memphis annexation reserve areas, the property tax base shifts so that approximately \$11.1 billion (71 percent) of the total assessed value is within the MCS boundaries and approximately \$4.5 billion is outside the MCS boundaries. (This shift in property tax base is only relevant under Property Tax Alternative 2, in which each school system would levy its own property tax as its primary funding source.)

To determine the property tax base for the long-term 2020 scenarios, we had to project 2020 figures for countywide assessed value and calculate assessed value within the proposed boundaries of each school system. For this analysis, the only property value growth of measurable consequence is that which will occur in areas where population densities will increase and new development will occur. This is likely to occur in the annexation reserve areas of the Shelby County municipalities, and not in incorporated areas, which are already built out. (While appreciation and redevelopment will cause some property value growth to occur within the current municipal boundaries between the baseline

year and 2020, this value growth will likely only keep pace with inflation, as has been the case in recent years. Because expenditure projections in the analysis are expressed in current dollars, rather than adjusted upward for inflation, the appreciation of property values in built out areas is ignored and the 2020 value of properties within municipalities is calculated to be the same as the current value of such properties.)

To identify areas where measurable growth is likely to occur, we analyzed the Metropolitan Planning Organization's 2020 projections of population by Traffic Analysis Zone (TAZ) using GIS software.² (TAZs are geographic areas that are smaller in size than census tracts.) For each municipality's annexation reserve areas, we identified the TAZs that were projected to reach a population density (population per acre) similar to that of areas that had been annexed by the municipality since 1999. Those TAZs were identified as areas that would be annexed by 2020, and as areas of measurable property growth. (Map 3 shows the TAZ areas projected to be annexed by 2020.) To project the future value of properties in those areas to be annexed, for each municipality we multiplied the number of acres to be annexed by a per-acre value based on the current per-acre value of properties that had annexed by that municipality since 1999.

There are some geographic areas within the annexation reserves that are not projected to reach annexation density by 2020. We recognize that some smaller amount of measurable property value growth will also occur in these areas by 2020 as they increase in density. To account for this, we multiplied the number of acres of remaining annexation reserves (excluding areas identified as rural) by the current per-acre value of properties in the expected annexation areas.

Using this methodology, the total assessed value of real property in Shelby County is projected to grow to approximately \$18.4 billion by 2020. Under the Alternative 1 boundaries, in which the MCS boundaries essentially mirror the current City of Memphis corporate limits, approximately \$11.5 billion (62 percent) of the total assessed value is available to MCS and approximately \$6.9 billion is outside the MCS boundaries.

Under the Alternative 2 boundaries, in which MCS expands to include all of the City of Memphis annexation reserve areas, the property tax base shifts with the boundaries so that approximately \$13.1 billion (71 percent) of the total assessed value is within the MCS boundaries and approximately \$5.3 billion is outside the MCS boundaries.

Projecting Other General Fund Revenue

Local Option Sales Taxes

The local option sales tax revenues designated for schools are allocated to the two systems based on the ADA ratio. Currently, approximately 70 percent of sales tax revenue is allocated to MCS, while 30 percent is allocated to SCS. Our projections of sales tax funding available for each system are based on projected enrollment changes (see Tables 2.1 – 2.4) and how those enrollment changes affect the ADA ratio. (Appendix Table 3.11 summarizes the impact of expected enrollment changes on the ADA ratio.) Sales tax revenues for 2020 were projected based on the application of projected retail

² Memphis Urban Area Metropolitan Planning Organization (MPO), forecasted data by Traffic Analysis Zone (TAZ) for long range transportation planning (prepared 1/14/08)

employment growth by TAZ between 2008 and 2020. Appendix Table 3.12 shows the projected allocations of local option sales tax revenue under each boundary alternative for the baseline year of 2008-2009 and for 2020.

State Funding

Student enrollment is the primary driver of state BEP funding. The current level of state funding per student is \$3,844 for MCS and \$3,460 for SCS, based on data included in the MCS and SCS budgets for 2007-2008. Projections of state funding available for each system are made by applying these per-student funding amounts to projected enrollment in each scenario. Appendix Table 3.13 shows the projected allocations of state funding under each boundary alternative for the baseline year of 2008-2009 and for 2020.

Other Local Tax Funding

Revenues in this category are allocated based on the ADA ratio. Our projections of such revenue available for each system are based on projected enrollment changes (see Tables 2.1 – 2.4) and how those enrollment changes affect the ADA ratio. Appendix Table 3.14 shows the projected allocations of other local tax funding under each boundary alternative for the baseline year of 2008-2009 and for 2020.

Our revenue estimations are limited by the following factors: In projecting local tax revenue we did not include personal property as data were not available by specific geographic area and could not be matched to the proposed system boundaries. Also, we did not project revenue from the “other funding” category, which includes of a variety of small revenue sources that are often nonrecurring. These items could increase revenues by 3 to 6 percent over our estimates given current collection patterns.

General Fund Revenue: Baseline (2008 – 2009)

Alternative 1 Boundaries

Table 3.3 and 3.4 show the general fund revenues available to each district in the near-term under the Alternative 1 boundaries, in which the MCS boundaries essentially mirror the current City of Memphis corporate limits. The two tables allow for a comparison between Property Tax Alternative 1 and Property Tax Alternative 2, in terms of how the different proposed financing mechanisms would affect local funding for each system. Recall that under Property Tax Alternative 1, local property tax revenue would continue to be generated and allocated as it currently is, with the bulk of property tax revenue for each system coming from the countywide property tax split between the two districts based on the ADA ratio. (SCSSD would also be able to levy an additional property tax as supplemental revenue source.) Under Property Tax Alternative 2, each school system would levy its own property tax as its primary funding source, which would replace any other local property tax revenue source.

Table 3.3 summarizes revenue available to each system under Property Tax Alternative 1, which is similar to the current financing mechanism. Since, in this case, property tax revenues collected countywide are distributed based upon ADA ratios, the county property tax base per student is an

equal amount for MCS and SCSSD students. Since MCS receives supplemental funding from City of Memphis property taxes, the *total* property tax revenue per student for MCS students is \$729 dollars greater than that for SCSSD students. (SCSSD could collect supplemental funding in this scenario by levying an additional property tax within the special district.)

Under Property Tax Alternative 2, the local property tax revenue coming to each system from countywide taxes (and supplemental sources), would be replaced with revenue from property taxes levied *directly* by the districts on their individual tax bases. Table 3.4 shows the tax rate that each district would need to levy in order to generate the same total local property tax revenue as would be generated by the current property tax revenue mechanisms. In this scenario, MCS would have a larger property tax base (assessed value) than SCSSD; however MCS would also have 2.7 times as many students as SCSSD. As a result, the district property tax base per student would be lower for MCS than for SCSSD. MCS would need to levy a tax rate of \$3.19 per \$100 of assessed value to replace the revenue previously generated by their share of the countywide property tax revenue and supplemental revenue provided by the City of Memphis property tax. SCSSD would need to levy a tax rate of \$1.49 per \$100 assessed value to replace the revenue previously generated by their share of the countywide property tax revenue.

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
Local Property Tax Revenue		
<i>Funding from county property tax (@2.02) split based on ADA</i>	\$ 229,263,043	\$ 85,701,984
<i>Funding from supplemental city property tax (@0.86)</i>	\$ 84,655,583	
<i>Funding from supplemental SSD property tax (rate TBD)</i>		TBD*
Total Property Tax Funding	\$ 313,918,626	\$ 85,701,984
County Property Tax Base (Assessed Value)/Student	\$ 98,058	\$ 98,058
County Property Tax Revenue/Student	\$ 1,981	\$ 1,981
Supplemental Local Property Tax (inc. supplemental) Revenue/Student	\$ 729	TBD*
Total Local Property Tax Revenue/Student	\$ 2,710	TBD*
Other General Fund Revenue		
<i>Sales Tax Funding</i>	\$ 98,709,282	\$ 36,880,391
<i>State Education Funding</i>	\$ 446,352,651	\$ 148,444,863
<i>Other Local Tax Funding</i>	\$ 16,457,077	\$ 6,148,798
TOTAL REVENUE	\$ 875,437,636	\$ 277,176,036

*To be determined by Special School District

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

	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
Local Property Tax Revenue		
<i>Rate required to replace county (and city) property tax revenue</i>	\$ 3.1890	\$ 1.4908
District Property Tax Base (Assessed Value)/Student	\$ 84,777	\$ 134,004
Local Property Tax Revenue/Student	\$ 2,710	\$ 1,981
Other General Fund Revenue		
<i>Sales Tax Funding</i>	\$ 98,709,282	\$ 36,880,391
<i>State Education Funding</i>	\$ 446,352,651	\$ 148,444,863
<i>Other Local Tax Funding</i>	\$ 16,457,077	\$ 6,148,798
TOTAL REVENUE	\$ 875,437,636	\$ 277,176,036

Alternative 2 Boundaries

Table 3.5 and 3.6 show the general fund revenues available to each district in the near-term under the Alternative 2 boundaries, in which the MCS boundaries would expand to include all of the City of Memphis annexation reserve areas. With the expanded boundaries, 12,223 students would shift to MCS from SCSSD. Again, the two tables allow for a comparison between Property Tax Alternative 1 and Property Tax Alternative 2, in terms of how the different proposed financing mechanisms would affect local funding for each system with the proposed boundaries.

Table 3.5 summarizes revenue available to each system under Property Tax Alternative 1, which is similar to the current financing mechanism. Property tax revenues for schools would continue to be collected countywide and distributed to the two systems based on ADA. With the increase in MCS enrollment, the ADA formula would shift some county property tax revenue to MCS, but the formula would maintain that the county property tax base *per student* and county property tax revenue *per student* remain equal for MCS and SCSSD. The supplemental funding MCS receives from City of Memphis property taxes would *not* increase despite increased enrollment at MCS because the tax base for that revenue source is property within the Memphis City limits, and that base would not expand with the expanded MCS boundaries. SCSSD could collect supplemental funding in this scenario by levying an additional property tax within the special district.

Under Property Tax Alternative 2, the local property tax revenue coming to each system from countywide taxes (and supplemental sources), would be replaced with revenue from property taxes levied *directly* by the districts on their individual tax bases. Table 3.6 shows the tax rate that each district would need to levy in order to generate the same total local property tax revenue as would be generated by the current property tax revenue mechanisms.

With its expanded boundaries, MCS would have a larger tax base and greater assessed value per student than with the smaller Alternative 1 boundaries; however, the tax base per student would not be as large as the countywide base split on ADA available under Financing Alternative 1.

Again, MCS would have a larger property tax base (assessed value) than SCSSD; however MCS would also have 4.8 times as many students as SCSSD. As a result, the district property tax base per student would be lower for MCS than for SCSSD. MCS would need to levy a tax rate of \$3.06 to replace the revenue previously generated by their share of the countywide property tax revenue and supplemental revenue provided by the City of Memphis property tax. SCSSD would need levy a tax rate of \$1.35 to replace the revenue previously generated by their share of the countywide property tax revenue.

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
Local Property Tax Revenue		
<i>Funding from county property tax (@2.02) split based on ADA</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
County Property Tax Base (Assessed Value)/Student	\$ 98,058	\$ 98,058
County Property Tax Revenue/Student	\$ 1,981	\$ 1,981
Supplemental Local Property Tax Revenue/Student	\$ 660	TBD*
Total Local Property Tax Revenue/Student	\$ 2,641	TBD*
Other General Fund Revenue		
<i>Sales Tax Funding</i>	\$ 109,149,687	\$ 26,439,986
<i>State Education Funding</i>	\$ 493,339,366	\$ 106,149,202
<i>Other Local Tax Funding</i>	\$ 18,197,729	\$ 4,408,146
TOTAL REVENUE	\$ 958,983,701	\$ 198,321,025

*To be determined by Special School District

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

	Memphis City Schools	Shelby County Special School District
Enrollment	128,336	30,676
Assessed Value (real property)	\$ 11,070,603,830	\$ 4,521,284,445
Local Property Tax Revenue		
<i>Rate required to replace county (and city) property tax revenue</i>	\$ 3.0558	\$ 1.3563
District Property Tax Base (Assessed Value)/Student	\$ 86,263	\$ 147,388
Local Property Tax Revenue/Student	\$ 2,641	\$ 1,981
Other General Fund Revenue		
<i>Sales Tax Funding</i>	\$ 109,149,687	\$ 26,439,986
<i>State Education Funding</i>	\$ 493,339,366	\$ 106,149,202
<i>Other Local Tax Funding</i>	\$ 18,197,729	\$ 4,408,146
TOTAL REVENUE	\$ 958,983,701	\$ 198,321,025

General Fund Revenue: 2020

Alternative 1 Boundaries

Table 3.7 and 3.8 show the general fund revenues available to each district in the long-term (2020) under the Alternative 1 boundaries, in which the MCS boundaries essentially mirror the current City of Memphis corporate limits. Under those boundaries, MCS is projected to lose 13,489 students between the baseline year and 2020, while SCSSD is projected to gain 15,022. The two tables allow for a comparison between Property Tax Alternative 1 and Property Tax Alternative 2, in terms of how the different proposed financing mechanisms would affect local funding for each system.

Table 3.7 summarizes revenue available to each system under Property Tax Alternative 1, which is similar to the current financing mechanism. Property tax revenues for schools would continue to be collected countywide and distributed to the two systems based on ADA. With the increase in SCSSD enrollment over time, the ADA formula would shift some county property tax revenue to SCSSD, but the formula would maintain that the county property tax base *per student* and county property tax revenue *per student* remain equal for MCS and SCSSD. Since MCS receives supplemental funding from City of Memphis property taxes, the *total* property tax revenue per student for MCS students is greater than that for SCSSD students. (SCSSD could collect supplemental funding in this scenario by levying an additional property tax within the special district.)

Under Property Tax Alternative 2, the local property tax revenue coming to each system from countywide taxes (and supplemental sources), would be replaced with revenue from property taxes levied *directly* by the districts on their individual tax bases. Table 3.8 shows the tax rate that each district would need to levy in order to generate the same total local property tax revenue as would be generated by the current property tax revenue mechanisms. MCS would have a larger property tax base (assessed value) than SCSSD; however MCS would also have 1.8 times as many students as SCSSD. Again, the district property tax base per student would be lower for MCS than for SCSSD; however the difference between the two systems would be smaller than in the baseline year scenarios. MCS would need to levy a tax rate of \$3.26 to replace the revenue previously generated by their share of the countywide property tax revenue and supplemental revenue provided by the City of Memphis property tax. SCSSD would need to levy a tax rate of \$1.57 to replace the revenue previously generated by their share of the countywide property tax revenue.

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
Local Property Tax Revenue		
<i>Funding from county property tax (@2.02) split based on ADA</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
County Property Tax Base (Assessed Value)/Student	\$ 114,745	\$ 114,745
County Property Tax Revenue/Student	\$ 2,318	\$ 2,318
Supplemental Local Property Tax Revenue/Student	\$ 963	TBD*
Total Local Property Tax Revenue/Student	\$ 3,281	TBD*
Other General Fund Revenue		
<i>Sales Tax Funding</i>	\$ 94,610,581	\$ 54,148,194
<i>State Education Funding</i>	\$ 394,499,276	\$ 200,425,999
<i>Other Local Tax Funding</i>	\$ 15,798,532	\$ 9,002,931
TOTAL REVENUE	\$ 840,539,431	\$ 398,841,863

*To be determined by Special School District

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

	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
Local Property Tax Revenue		
<i>Rate required to replace county (and city) property tax revenue</i>	\$ 2.9221	\$ 1.9502
District Property Tax Base (Assessed Value)/Student	\$ 111,922	\$ 119,746
Local Property Tax Revenue/Student	\$ 3,270	\$ 2,335
Other General Fund Revenue		
<i>Sales Tax Funding</i>	\$ 94,610,581	\$ 54,148,194
<i>State Education Funding</i>	\$ 394,499,276	\$ 200,425,999
<i>Other Local Tax Funding</i>	\$ 15,798,532	\$ 9,002,931
TOTAL REVENUE	\$ 840,539,431	\$ 398,841,863

Alternative 2 Boundaries

Table 3.9 and 3.10 show the general fund revenues available to each district in the long-term (2020) under the Alternative 2 boundaries, in which the MCS boundaries expand to include all of the City of Memphis annexation reserve areas. With the expanded MCS boundaries, 17,281 students would shift to MCS from SCSSD. The two tables allow for a comparison between Property Tax Alternative 1 and Property Tax Alternative 2, in terms of how the different proposed financing mechanisms would affect local funding for each system with the proposed boundaries.

Table 3.9 summarizes revenue available to each system under Property Tax Alternative 1, which is similar to the current financing mechanism. With the increase in MCS enrollment, the ADA formula would shift some county property tax revenue to MCS, but the formula would maintain that the county property tax base *per student* and county property tax revenue *per student* remain equal for MCS and SCSSD.

The supplemental funding MCS receives from City of Memphis property taxes would increase due to likely annexation by the city; however, we do not expect the city to annex all of its reserve areas by 2020. Therefore, the tax base for supplemental funding from the City of Memphis will not be as large as the MCS district. SCSSD could collect supplemental funding in this scenario by levying an additional property tax within the special district.

Under Property Tax Alternative 2, the local property tax revenue coming to each system from countywide taxes (and supplemental sources), would be replaced with revenue from property taxes levied *directly* by the districts on their individual tax bases. Table 3.10 shows the tax rate that each district would need to levy in order to generate the same total local property tax revenue as would be generated by the current property tax revenue mechanisms.

With its expanded boundaries, MCS would have a larger tax base than with the smaller Alternative 1 boundaries; however, because of the increase in enrollment with the larger boundaries, the tax base *per student* would not be as large. In addition the tax base per student available to MCS would not be as large as the countywide base split on ADA available under Property Tax Alternative 1.

Again, MCS would have a larger property tax base (assessed value) than SCSSD; however MCS would also have 2.9 times as many students as SCSSD. As a result, the district property tax base per student would be lower for MCS than for SCSSD. MCS would need to levy a tax rate of \$2.86 to replace the revenue previously generated by their share of the countywide property tax revenue and supplemental revenue provided by the City of Memphis property tax. SCSSD would need to levy a tax rate of \$1.78 to replace the revenue previously generated by their share of the countywide property tax revenue.

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
Local Property Tax Revenue		
<i>Funding from county property tax (@2.02) split based on ADA</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
County Property Tax Base (Assessed Value)/Student	\$ 114,745	\$ 114,745
County Property Tax Revenue/Student	\$ 2,318	\$ 2,318
Supplemental Local Property Tax Revenue/Student	\$ 824	TBD*
Total Local Property Tax Revenue/Student	\$ 3,142	TBD*
Other General Fund Revenue		
<i>Sales Tax Funding</i>	\$ 110,825,287	\$ 37,933,488
<i>State Education Funding</i>	\$ 460,929,565	\$ 140,627,969
<i>Other Local Tax Funding</i>	\$ 18,477,090	\$ 6,324,373
TOTAL REVENUE	\$ 966,126,105	\$ 279,887,447

*To be determined by Special School District

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

	Memphis City Schools	Shelby County Special School District
Enrollment	119,905	40,640
Assessed Value (real property)	\$ 13,100,282,777	\$ 5,321,379,436
Local Property Tax Revenue		
<i>Rate required to replace county (and city) property tax revenue</i>	\$ 2.8694	\$ 1.7853
District Property Tax Base (Assessed Value)/Student	\$ 109,256	\$ 130,939
Local Property Tax Revenue/Student	\$ 3,142	\$ 2,318
Other General Fund Revenue		
<i>Sales Tax Funding</i>	\$ 110,825,287	\$ 37,933,488
<i>State Education Funding</i>	\$ 460,929,565	\$ 140,627,969
<i>Other Local Tax Funding</i>	\$ 18,477,090	\$ 6,324,373
TOTAL REVENUE	\$ 966,126,105	\$ 279,887,447

Chapter 4

Expenditure Impacts

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 4.1 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 4.1. 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

Sources: MCS General Fund Budget 2007-2008, SCS General Fund Budget 2007-2008, and REDC Calculations

We recognize that the level of future expenditures for each school system is difficult to predict and that, in large part, future expenditures will be determined simply by future revenues. However, we also know that the biggest driver of expenditures is enrollment, and that the proposed boundary changes would cause significant shifts in enrollment between the two systems, and that enrollment will change significantly between the baseline year and 2020. For the purposes of comparing the two proposed boundary alternatives it is important to consider the likely impact that each would have on expenditures for each system.

In projecting future operating 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 likely to increase proportionately. Table 4.1 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.

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, as described in chapter 2. Table 4.2 shows the projected expenditures in each school system under the Alternative 1 boundaries, considering these enrollment changes and the fixed and variable costs identified in Table 4.1.

Table 4.2. 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

Sources: MCS General Fund Budget 2007-2008, SCS General Fund Budget 2007-2008, data provided by SCS staff (table titled "SCS Students Residing in Annexation, Proposed Annexation, and Reserve Areas of the City of Memphis") and REDC Calculations

Applying the Alternative 2 boundaries, MCS would gain additional students from within the city's annexation reserve areas. Table 4.3 shows the projected expenditures in each school system under the Alternative 2 boundaries, considering these enrollment changes and the fixed and variable costs identified in Table 4.1.

Table 4.3. 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

Sources: MCS General Fund Budget 2007-2008, SCS General Fund Budget 2007-2008, data provided by SCS staff (table titled "SCS Students Residing in Annexation, Proposed Annexation, and Reserve Areas of the City of Memphis") and REDC Calculations

Operating Expenditures: 2020

Applying the Alternative 1 boundaries, we expect MCS to lose 13,489 students between the baseline year and 2020, while SCSSD gains 15,022. (Enrollment projections for 2020 are described in chapter 2.) Table 4.4 shows the projected expenditures in each school system under the Alternative 1 boundaries in 2020, considering enrollment changes and the fixed and variable costs identified in Table 4.1.

Table 4.4. 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). Table 4.5 shows the projected expenditures in each school system under the Alternative 2 boundaries in 2020, considering enrollment changes and the fixed and variable costs identified in Table 4.1.

Table 4.5. 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
	(13,489)	
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 fiscal years 2006 – 2011 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 fiscal year 2012 to 2020 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 4.7 and 4.8.

Table 4.6, which follows, 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 (fiscal year 2006 – 2011) and 2020. With each system the greater proportion of capital funding is needed in the near term (fiscal year 2006 – 2011).

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 4.6 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) would be transferred to MCS under the Alternative 2 boundaries, as shown in Map 2 and Table 2.5. However, Table 4.6 does not reflect expenditure adjustments as these projects were slated for completion prior to fiscal year 2008. Southwind Elementary School would also shift to MCS under the Alternative 2 boundaries, and it has a planned \$2.4 million addition for 2009. Consequently, \$2.4 million in required capital funding would shift from SCSSD to MCS under the Alternative 2 boundaries.

Table 4.6. Capital Expenditures: 2020

<u>Memphis City Schools</u>		<u>Shelby County Special School District</u>	
Anticipated FY2006 - FY2011 Projects:		Anticipated FY2006 - FY2011 Projects:	
Capital Plan FY2006 - FY2011	\$ 529,155,100	Capital Plan FY2006 - FY2011	\$ 272,400,000 *
New SE Middle School due to annexation	15,000,000	Less Planned Schools in Annexation Area	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:	
NAC Capital Needs Report of 9/07	\$ 123,143,000	Identified Capital Needs due to Growth	\$ 90,000,000
Routine Capital Maintenance	233,474,656	Routine Capital Maintenance	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 Boundary Enrollment	\$ 7,960	Alternative 1 Boundary Enrollment	\$ 6,579
Alternative 2 Boundary Enrollment	\$ 7,061	Alternative 2 Boundary Enrollment	\$ 9,225

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

Sources: MCS Five Year Academic Master Plan: 2006 – 2011, MCS Presentation to NAC: Immediate Capital Needs Due to Annexation (September 6, 2007), SCS 2006 – FY2011 Capital Improvement Program, SCS Structural Analysis (n.d.), data provided by SCS and MCS staff, and REDC calculations.

Chapter 5

Summary of Findings

This chapter compares projected revenues and expenditures for each school system under each of the proposed boundary alternatives for the baseline year of 2008-2009 and 2020. The chapter concludes with discussion of related growth policy issues and questions for further consideration.

Revenue and Expenditure Summary: Baseline (2008-2009)

As summarized in Tables 5.1 and 5.2, our projections indicate that both systems would face expenditures that exceed revenue under either of the two proposed boundaries in the short-term. It is important to recall that, as described in chapter 3, our revenue projections did not include several small sources and could be understated by 3 to 6 percent. In addition, as described in chapter 4, we recognize that future expenditures are determined in large part by available revenues. The deficits shown here might therefore be overstated; however this analysis provides a useful comparison of the relative impacts of the proposed changes to system boundary and financing mechanisms that might accompany the creation of a special school district.

Table 5.1. Baseline (2008-2009) Summary with Alternative 1 Boundaries

	Memphis City Schools	Shelby County Special School District
Enrollment	116,113	42,899
Revenue	\$ 875,437,636	\$ 277,176,036
Expenditures	\$ 920,600,520	\$ 298,719,207
difference*	\$ (45,162,884)	\$ (21,543,171)

* As described above, deficits might not occur or might be overstated.

Table 5.2. Baseline (2008-2009) Summary with Alternative 2 Boundaries

	Memphis City Schools	Shelby County Special School District
Enrollment	128,336	30,676
Revenue	\$ 958,983,701	\$ 198,321,025
Expenditures	\$ 993,499,861	\$ 230,410,135
difference*	\$ (34,516,160)	\$ (32,089,110)

* As described above, deficits might not occur or might be overstated.

The impact of making up potential funding deficits would depend on the mechanism in place for collecting and distributing local property tax funding for education. Under Property Tax Alternative 1, which is similar to the current financing mechanism, the difference could be made up by increasing the countywide property tax rate. In addition, the City of Memphis could increase the property tax rate used to generate supplemental revenue for MCS; SCSSD could levy a district specific tax rate to generate supplemental revenue.

Under Property Tax Alternative 2, in which district-levied property taxes replace the countywide tax rate as the main revenue source, each district would have to make up the difference through its own tax rate. The revenues shown in Tables 5.1 and 5.2 assume district-levied tax rates that would be large enough to generate the same amount of revenue as would be generated by continued application of the current property tax revenue mechanism (i.e., countywide property tax split based on ADA, and supplemental revenue to MCS from city property tax.) For MCS, the rates needed to generate the revenue shown in Tables 5.1 and 5.2 are \$3.19 under the Alternative 1 boundaries and \$3.06 under the Alternative 2 boundaries. For SCSSD the rates are \$1.49 and \$1.35. Those rates are calculated and shown in Chapter 3. To make up a funding deficit, each district would need to levy a tax rate higher than those.

Revenue and Expenditure Summary: 2020

Tables 5.3 and 5.4 compare projected revenues and expenditures in 2020 for both school systems under the two boundary alternatives.

With either boundary MCS would have access to revenue that exceeds expenditures. However, it is important to recall from chapter 3 that under Property Tax Alternative 2, in which district-levied property taxes replace the countywide tax rate as the main revenue source, MCS would have to levy a tax rate of \$2.92 to generate the revenue shown in Table 5.3.

Table 5.4 shows that SCSSD would have a small deficit under the Alternative 2 boundaries. However, as shown in chapter 3, under Property Tax Alternative 2 SCSSD would only have to levy a tax rate of \$1.78 to generate the revenue shown in Table 5.4.

Table 5.3. 2020 Summary with Alternative 1 Boundaries

	Memphis City Schools	Shelby County Special School District
Enrollment	102,624	57,921
Revenue	\$ 840,539,431	\$ 398,841,863
Expenditures	\$ 840,150,614	\$ 382,670,682
difference	\$ 388,817	\$ 16,171,181

Table 5.4. 2020 Summary with Alternative 2 Boundaries

	Memphis City Schools	Shelby County Special School District
Enrollment	119,905	40,640
Revenue	\$ 966,126,105	\$ 279,887,447
Expenditures	\$ 943,216,433	\$ 286,094,631
difference*	\$ 22,909,672	\$ (6,207,184)

* As described above, deficits might not occur or might be overstated.

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.

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. However, some might be more supportive of decisions to raise funds when revenue goes directly to education.

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.

Impact of Special School District
on Memphis and Shelby County

Appendix

Appendix Table 1.1. Property Tax Summary of Special School Districts in Tennessee

SSD	County	Average Daily Membership (1)	2007 Assessed Property Value (2)	Assessed Property Value/Student (SSD only) (3)	SSD Tax Rate (4)	County School Fund Tax Rate (5)	Combined Tax Rate (6)	2007 Total Reported Property Taxes (7)	Total Property Taxes Per ADM (8)
Bruceston/Hollow Rock	Carroll	718	40,206,639	55,998	1.66		1.66	626,912	873
Huntingdon	Carroll	1,253	93,148,489	74,340	1.46		1.46	1,418,568	1,132
McKenzie	Carroll	1,390	90,745,234	65,284	1.36		1.36	1,276,378	918
South Carroll	Carroll	399	26,430,188	66,241	1.41		1.41	323,108	810
West Carroll	Carroll	1,024	70,356,724	68,708	1.56		1.56	1,135,501	1,109
Bradford	Gibson	609	34,763,707	57,083	1.95		1.95	673,049	1,105
Gibson County	Gibson	2,910	200,337,927	68,845	1.61		1.61	2,932,227	1,008
Milan	Gibson	2,058	152,075,084	73,895	2.01		2.01	3,269,692	1,589
Trenton	Gibson	1,432	91,880,323	64,162	2.04		2.04	2,005,373	1,400
Paris	Henry	1,539	154,213,283	100,204	0.63	1.355	1.99	2,817,603	1,831
Richard City	Marion	327	10,602,260	32,423	0.21	0.98	1.19	385,668	1,179
Oneida	Scott	1,318	42,320,979	32,110	0.47	1.00	1.47	1,103,927	838
Franklin	Williamson	3,781	961,047,970	254,178	1.04	1.55	2.59	23,227,921	6,143
Lebanon	Wilson	3,053	704,400,366	230,724	0.39	1.219	1.61	7,395,382	2,422
Averages		1,558		88,871	1.27		1.71		1,597

Notes

- (1) Source: Table 7-A, Annual Statistical Report of the Tennessee Department of Education, Scholastic Year 2007
- (2) Assessed property value in SSD. Source: 2007 Assessment Summary from the Tennessee Comptroller of the Treasury
- (3) Assessed property value divided by ADM
- (4) Source: 2007 Tennessee Property Tax Rates, Tennessee Comptroller of the Treasury
- (5) County property tax rate allocated to SSD. Tax rates provided by MCS
- (6) SSD tax rate plus county school fund tax rate
- (7) Source: Table 16, Annual Statistical Report of the Tennessee Department of Education, Scholastic Year 2007
- (8) Total reported property taxes (SSD and county) divided by ADM

Appendix Table 3.11. Projected Average Daily Attendance

Enrollment	MCS		SCSSD		Total	
	Enrollment	%	Enrollment	%	Enrollment	%
Current	111,502	70.12%	47,510	29.88%	159,012	100.00%
Baseline (2008-2009)						
Alternative 1 Boundaries	116,113	73.02%	42,899	26.98%	159,012	100.00%
Alternative 2 Boundaries	128,336	80.71%	30,676	19.29%	159,012	100.00%
2020						
Alternative 1 Boundaries	102,624	63.92%	57,921	36.08%	160,545	100.00%
Alternative 2 Boundaries	119,905	74.69%	40,640	25.31%	160,545	100.00%
Average Daily Attendance						
% ADA	MCS		SCSSD			
	94.30% *		95.40% *			
	MCS		SCSSD		Total	
	ADA	% ADA	ADA	% ADA	ADA	% ADA
Current	105,146	69.88%	45,325	30.12%	150,471	100.00%
Baseline (2008-2009)						
Alternative 1 Boundaries	109,495	72.79%	40,926	27.21%	150,420	100.00%
Alternative 2 Boundaries	121,021	80.53%	29,265	19.47%	150,286	100.00%
2020						
Alternative 1 Boundaries	96,774	63.65%	55,257	36.35%	152,031	100.00%
Alternative 2 Boundaries	113,070	74.47%	38,771	25.53%	151,841	100.00%

* Per TDOE 2007 Report Card

Table 3.11 shows projected ADA percentages for each boundary alternative for the baseline year of 2008-2009 and for 2020. The current ADA, as a percentage of total enrollment for each system, was applied to our enrollment projections for 2008 and 2020. The shifting of students between school systems could 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.

Appendix Table 3.12. Projected Sales Tax Funding

	MCS		SCSSD		Total	
	Funding	% of Total	Funding	% of Total	Funding	% of Total
Current w/ existing boundaries	96,455,360	71.1%	39,134,313	28.9%	135,589,673	100.0%
Baseline (2008-2009)						
Alternative 1 Boudaries	98,709,282	72.8%	36,880,391	27.2%	135,589,673	100.0%
Alternative 2 Boundaries	109,149,687	80.5%	26,439,986	19.5%	135,589,673	100.0%
2020						
Alternative 1 Boundaries	94,610,581	63.6%	54,148,194	36.4%	148,758,775	100.0%
Alternative 2 Boundaries	110,825,287	74.5%	37,933,488	25.5%	148,758,775	100.0%

Sources: MCS General Fund Budget 2007-2008; SCS General Fund Budget 2007-2008; Memphis Urban Area Metropolitan Planning Organization (MPO), forecasted data by Traffic Analysis Zone (TAZ) for long range transportation planning (prepared 1/14/08); and REDC calculations.

Table 3.12 shows the projected allocations of local option sales tax revenue under each boundary alternative for the baseline year of 2008-2009 and for 2020. For both boundary alternatives, the shift in students from SCSSD to MCS results in an increase in the MCS percentage of sales tax funding and a corresponding decrease in the SCSSD percentage in the baseline year. However, due to projected enrollment gains in suburban areas over the next twelve years, Alternative 1 yields a higher allocation of funds to SCSSD by 2020. With Alternative 2 boundaries, MCS' larger district boundary yields a higher ADA percentage for both the baseline year and 2020.

Appendix Table 3.13. Projected State Education Funding

	Memphis City Schools		Shelby County Schools/Special School District	
Current				
State Education Funding	\$	428,627,400	\$	164,400,463
Enrollment		111,502		47,510
State Funding/Student	\$	3,844	\$	3,460
Baseline (2008-2009) with Alternative 1 Boundary				
Projected Enrollment		116,113		42,899
Projected State Education Funding	\$	446,352,651	\$	148,444,863
Baseline (2008-2009) with Alternative 2 Boundary				
Projected Enrollment		128,336		30,676
Projected State Education Funding	\$	493,339,366	\$	106,149,202
2020 with Alternative 1 Boundary				
Projected Enrollment		102,624		57,921
Projected State Education Funding	\$	394,499,276	\$	200,425,999
2020 with Alternative 2 Boundary				
Projected Enrollment		119,905		40,640
Projected State Education Funding	\$	460,929,565	\$	140,627,969

Sources: MCS General Fund Budget 2007-2008, SCS General Fund Budget 2007-2007, and REDC calculations.

Appendix Table 3.14. Projected Other Local Tax Funding

	MCS		SCSSD		Total	
	Funding	% of Total	Funding	% of Total	Funding	% of Total
Current w/ existing boundaries	16,102,160	71.2%	6,503,715	28.8%	22,605,875	100.0%
Baseline (2008-2009)						
Alternative 1 Boudaries	16,457,077	72.8%	6,148,798	27.2%	22,605,875	100.0%
Alternative 2 Boundaries	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			
2020						
Alternative 1 Boundaries	15,773,731	63.6%	9,027,733	36.4%	24,801,463	100.0%
Alternative 2 Boundaries	18,477,090	74.5%	6,324,373	25.5%	24,801,463	100.0%

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

Sources: MCS General Fund Budget 2007-2008, SCS General Fund Budget 2007-2007, and REDC calculations.

Table 3.14 shows the projected allocations of other local taxes that are based on ADA (wheel tax, privilege taxes, alcoholic beverage taxes, and payments in lieu of taxes on exempt properties). These tax allocations follow the same pattern as sales taxes.

Appendix Table 4.7. 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

Sources: MCS Five Year Academic Master Plan: 2006 – 2011, MCS Presentation to NAC: Immediate Capital Needs Due to Annexation (September 6, 2007), data provided by SCS and MCS staff, and REDC calculations.

Appendix Table 4.8. 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 Unicorporated Middle School	15,000,000				
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	
NE Area Middle School School			15,000,000	per SCS staff - \$ from Cap. Plan	
Bartlett II Area Small High School			30,000,000	per SCS staff - \$ REDC estimate	
Bartlett II 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 relected 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

Sources: SCS 2006 – FY2011 Capital Improvement Program, SCS Structural Analysis (n.d.), data provided by SCS staff, and REDC calculations.