Attachment 1
Fiscal Capacity Calculation Summary

The fiscal capacity calculation is the average of the estimates (percentages) generated by the formula established by the Boyd Center for Business and Economic Research at the University of Tennessee (CBER) and by the formula established by the Tennessee Advisory Commission on Intergovernmental Relations (TACIR). In March 2023, the Office of Research and Education Accountability produced a comprehensive report that is available to members which provides detailed information about the fiscal capacity formula.

Boyd Center CBER Model

The CBER model calculates a statewide average property tax rate for education by dividing the total local property tax revenues plus payments in lieu of property taxes that are reported as revenues by local school districts by the statewide local property tax base. The statewide local property tax base is the sum of all counties' equalized, assessed values of real property, personal property, and public utilities plus estimates of assessed value for county properties under industrial development board or other local tax-exempt agreements.

The model also calculates a statewide average sales tax rate for education by dividing local option sales tax revenues reported as revenues by local school districts by a proxy measure for the statewide local sales tax base. The proxy measure is calculated from each county's sales tax collections, divided by the county's sales tax rate and adjusted to remove additional sales taxes levied by cities and tourism development zones, then added together to provide an estimate for the statewide local sales tax base.

The statewide average property and average sales tax rates for education are multiplied by each county's property tax base and sales tax base, respectively, and summed, producing the hypothetical revenues a county could produce for education – its fiscal capacity dollar amount -- if the statewide effective tax rates were applied to its bases.

Each county's fiscal capacity in dollars is divided by the statewide fiscal capacity for all counties, producing each county's percent of total fiscal capacity.

TACIR Model

TACIR's fiscal capacity model uses a linear regression with six variables to estimate the fiscal capacity per pupil for the 95 counties in Tennessee. The regression coefficients are calculated for six variables: 1) local revenue per pupil; 2) sales tax base per pupil; 3) property tax base; 4) per capita income; 5) residential and farm assessment ratio; and 6) county percent ADM. Once the coefficients are calculated, they are multiplied by their corresponding variables and added together. This creates the fiscal capacity dollar value per pupil for each county.

To determine the total fiscal capacity of a county, the fiscal capacity dollar value per pupil is multiplied by the county average daily membership (ADM). These figures are then summed to produce a statewide fiscal capacity. This sets the statewide fiscal capacity to 100 percent. Each county's fiscal capacity is then divided by the statewide fiscal capacity to create the county percent of total fiscal capacity.