

**RULES  
OF  
THE TENNESSEE DEPARTMENT OF EDUCATION  
THE STATE BOARD OF EDUCATION**

**CHAPTER 0520-01-02  
DISTRICT AND SCHOOL OPERATIONS**

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**0520-01-02-.33 FISCAL CAPACITY FORMULA REVIEW AND APPROVAL.**

- (1) The Tennessee Investment in Student Achievement ("TISA") Act passed by the Tennessee General Assembly in 2022 established a new student-based funding formula for Tennessee public schools, beginning in the 2023-24 school year.
- (2) T.C.A. § 49-3-104 requires that the fiscal capacity formula be evaluated by the comptroller of the treasury and approved by the State Board. Additionally, Department of Education TISA Rule 0520-12-05-08 provides that the comptroller of the treasury may make recommendations on any changes to the fiscal capacity formula to the State Board, and that the State Board shall establish a process and timeline for approval of the formulas.
- (3) The purpose of this rule is to set forth the process and timeline for the State Board to approve the fiscal capacity formula after receipt of an evaluation of the formula and any recommendations from the comptroller of the treasury.
- (4) Review and Approval Process.
  - (a) Prior to the implementation of TISA in the 2023-24 school year, the State Board shall review the evaluation report of the fiscal capacity formula from the Comptroller of the Treasury, along with any recommendations from the Comptroller of the Treasury and approve the formula.
  - (b) The Comptroller of the Treasury shall conduct a new evaluation of the fiscal capacity formula and provide the evaluation report and any recommendations or considerations to the State Board at least once every five (5) years from the date the formula was last approved.
  - (c) If the Comptroller of the Treasury's evaluation report includes recommendations or considerations regarding changes to the fiscal capacity formula, the evaluation report shall include:

1. A detailed description of the proposed change and the rationale for the proposed change;
  2. The expected fiscal or other impact of the proposed change on school districts and/or local governments;
  3. A detailed description of options to mitigate any negative fiscal impact to school districts and/or local governments, including, but not limited to the appropriation of additional state funding by the Tennessee General Assembly or the passage of legislation.
  4. Any methods for implementing the proposed change, and
  5. Any additional information the Comptroller of the Treasury determines will aid the State Board in evaluating the proposed change.
- (d) If the Comptroller of the Treasury's evaluation report includes recommendations or considerations regarding changes to the fiscal capacity formula, the State Board may approve the formula, with or without the change(s). The approval of any changes to the fiscal capacity formula resulting in a variance in state appropriations shall be done in consultation with the Department of Finance and Administration. The State Board may also place additional requirements on the implementation of any approved changes to the formula, including, but not limited to, delayed implementation of changes subject to certain conditions specified by the State Board or delayed implementation of changes according to a schedule specified by the State Board. If the State Board approves changes to the fiscal capacity formula contingent on additional state appropriations from the General Assembly, the approved changes shall not take effect until such funds are appropriated by the General Assembly.
- (e) The State Board may request that the Comptroller of the Treasury evaluate potential changes to the fiscal capacity formula outside of the five (5) year cycle established above if the State Board receives a request from the Tennessee Advisory Commission on Intergovernmental Relations (TACIR), the Boyd Center for Business and Economic Research at the University of Tennessee (CBER), the TISA Review Committee, the Commissioner of Finance and Administration, or the Commissioner of Education to undertake an off-cycle evaluation of changes to the fiscal capacity formula.
1. A request to undertake an off-cycle evaluation of changes to the fiscal capacity formula may be submitted by TACIR, CBER, or a state or local government agency or official to the Executive Director of the State Board. Requests shall include all information set forth in paragraph (4)(c)(1) through (4) of this rule and any additional information that would aid the State Board and the Comptroller of the Treasury in evaluating the proposed change. Requests that do not contain all of the required information will not be considered. After receipt of a request, the Executive Director shall conduct a review of the request and make a recommendation to the State Board as to whether or not the State Board should request the Comptroller of the Treasury to conduct an off-cycle evaluation of the proposed change. The Executive Director may also recommend that the request for an off-cycle review be denied, or that the request be considered by the Comptroller of the Treasury during the next scheduled five (5) year review.

2. If the Board votes to request the Comptroller of the Treasury to conduct an off-cycle evaluation of proposed changes to the fiscal capacity formula, the State Board shall work with the Comptroller of the Treasury to determine an appropriate timeframe within which the evaluation of changes to the formula shall be submitted by the Comptroller of the Treasury to the State Board for review.
3. The Comptroller of the Treasury shall submit its evaluation of the proposed changes to the fiscal capacity formula to the State Board by the deadline agreed upon by the State Board and the Comptroller of the Treasury. The evaluation report shall include:
  - (i) A detailed description of the proposed change and the rationale for the proposed change;
  - (ii) The expected fiscal or other impact of the proposed change on school districts and/or local governments;
  - (iii) A detailed description of options to mitigate any negative fiscal impact to school districts and/or local governments, including, but not limited to, the appropriation of additional state funding by the Tennessee General Assembly or the passage of legislation;
  - (iv) Any methods for implementing the proposed change, and
  - (v) Any additional information the Comptroller of the Treasury determines will aid the State Board in evaluating the proposed change.
4. Upon receipt of the Comptroller's report evaluating the proposed change, the State Board may take no action on the report or may vote to approve the changes to the fiscal capacity formula. The approval of any changes to the fiscal capacity formula resulting in a variance in state appropriations shall be done in consultation with the Department of Finance and Administration. The State Board may also place additional requirements on the implementation of any approved changes to the formula, including, but not limited to, delayed implementation of changes subject to certain conditions specified by the State Board or delayed implementation of changes according to a schedule specified by the State Board. If the State Board approves changes to the fiscal capacity formula contingent on additional state appropriations from the General Assembly, the approved changes shall not take effect until such funds are appropriated by the General Assembly.

**Authority:** T.C.A. §§ 49-3-104, 49-1-302, and 4-5-102. **Administrative History:**

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