

TACIR

The Tennessee Advisory Commission
on Intergovernmental Relations



9

Suite 508
226 Capitol Blvd. Building
Nashville, TN 37243-0760
Phone: (615) 741-3012
Fax: (615) 532-2443
www.tn.gov/tacir

MEMORANDUM

TO: TACIR Commission Members

FROM: Harry A. Green *Harry*
Executive Director

DATE: July 1, 2010

SUBJECT: Fiscal Capacity—Still in Transition

TACIR produced the sole fiscal capacity element to be used in calculating Basic Education Plan (BEP) funding from the inception of the program in 1992 through fiscal year 2007. Starting with fiscal year 2008, a new tax capacity model produced by the University of Tennessee began a phased replacement of the TACIR model. The TACIR model was an early effort, and subsequent suggested improvements have not been implemented because they invariably change the distribution of BEP funds, creating both winners and losers. When advantages are so evenly balanced with disadvantages, the status quo generally wins.

As TACIR has pointed out in previous publications, there is no other state quite like Tennessee in school system organization. Even the most general statement that every county has a county system that is the default provider of public education has an exception. Gibson County has only smaller subsystems and no countywide system. In the rest of the counties, some cities and special school districts have opted out of the county system and run separate systems, though many counties have just one school system.

Tennessee school boards do not have taxing authority. Cities and counties must request that their local governing bodies pass necessary increases, and special school districts require permission from the state legislature. And counties must parcel out the funds from any taxes they levy for education based on the number of students attending school in each district. Furthermore, BEP funds are provided directly to school systems. In counties with multiple systems, all of the systems in the county are credited with having the same fiscal capacity,

though the tax-generating assets are likely not evenly distributed among those systems.

TACIR attempted to update the formula over the years to correct what staff sees as its biggest flaws:

- measuring capacity at the county level rather than the system level
- relying on outdated tax equivalent payment data
- the exclusion of state-shared tax revenue
- weaknesses in the per capita personal income measure
- questions about the usefulness of service burden

These attempts brought attention to what others feel are the model's biggest weakness: its complexity. The TACIR model makes use of five measures to figure a county's fiscal capacity:

- sales tax base,
- property tax base,
- the percent of property assessments that are based on residential and farm property,
- per capita income, and
- the number of students as a percent of the total population.

The first two measure ability to generate tax dollars and the third is a measure of the ability to export the tax burden to non-residents of the county. Per capita income is included as a measure of ability to pay, and the percentage of population that are students is the service burden, measuring how many members of the general population support each student. The weight of each measure in the calculations is determined by its average contribution across counties to local education spending in the past.

TACIR runs these measures, along with actual local education funding, through a regression, which is a statistical tool that measures the average effect of each variable on local education funding. The TACIR model then uses that average effect to calculate the fiscal capacity for each county based on the levels of each fiscal capacity input that county has. For those who have not studied statistics, it is very much a black box process, and such processes tend to generate mistrust. So there was a will to change the method to something simpler, but very little agreement on what to change it to. Once again, counties tended to back the method that benefited them most.

PC369, passed in 2007, required that fiscal capacity be figured in the future using an average tax rate model based only on the sales and property tax bases. The new model to replace the TACIR model is a tax capacity model calculated by the Center for Business and Economic Research (CBER) at the University of Tennessee. It measures the dollars a county would raise if it levied the average

Formula for Calculating CBER Fiscal Capacity Index

$$\left[\text{Property Tax Base} + \left[\text{Estimated Value of Industrial Development Board Projects} \times 38\% \right] \right] \times \text{Estimated Average Property Tax Rate Used for Education} +$$

$$\left[\text{Actual Sales Tax Revenues} \times \left[\text{Adjustment Factor to Correct for Varying Local Rates and Rate Changes During the Year} \right] \times \text{Estimated Average Sales Tax Rate Used for Education} \right]$$

Sum of Numerators for All Counties

tax rate from across the state on its sales and property tax bases. It sounds simple, but Tennessee's complex school finance system has also made this approach less straightforward.

Local Sales Tax Base

The TACIR model uses measures of the local option sales tax base provided by the Tennessee Department of Revenue. This data is based on the reported local tax base entered on sales tax returns filed with the Department over a twelve month period. The twelve month period includes the reported tax base for the months of July through June of each fiscal year. The TACIR local tax base estimate excludes sales subject to special local sales tax rates, sales that are situated outside the state, and collection data from local county officials that collect state and local sales taxes on certain transactions (casual and isolated sales within their jurisdiction).

The CBER procedure involves using actual July through June local sales tax collection data (by county) as reported by the Department of Revenue in its June monthly "Revenue Collections" report. CBER, using local option sales tax rates, then estimates the underlying tax base that produced the reported amount of collections.

Neither procedure is error free. Tax base data from the Department of Revenue can contain errors that reflect erroneous information reported by taxpayers on monthly tax returns. While such errors are eventually corrected, the corrected data may not be used in producing the reported data supplied to TACIR. CBER measures of the tax base are also subject to error as in cases where sales taxes erroneously situated to one jurisdiction are later (often months later) adjusted and resituated to another jurisdiction.

Both procedures for estimating local sales tax bases are also subject to problems that arise when sales tax law changes result in changes in the situsing of sales. This occurred several years ago when the law was amended allowing communications businesses to situs their sales to an out-of-state situs rather than to each city and county where customers were served. The result was the removal of billions in sales and millions in tax collections from reported activity in the 95 counties.

CBER estimates of local tax bases are generally higher than TACIR estimates. Most of these differences result from the exclusion of local casual and isolated sales transactions from TACIR estimates. Such transactions are subject to local (and state) sales taxes but not reported on standard sales tax returns. Local officials collect sales taxes on such transactions but report only tax amounts collected and remitted. These amounts are added to reported (on standard monthly sales tax returns) local tax collections and included in the figures used by CBER to estimate local tax bases (taxes divided by tax rate).

Despite the different procedures used in calculating the local sales tax base, the differences are generally not relatively significant. The ratios of each county's estimated TACIR sales tax base to the TACIR estimated state-wide local sales tax base were very similar to ratios generated using the CBER estimates.

Equalized County Property Assessments

CBER includes the estimated assessed total value of properties with Industrial Development Board (IDB) tax exemptions to help correct for exempted properties in the tax base. Since 2007, the Division of Property Assessments (Comptroller's office) has produced an annual report for CBER of IDB-related property valuations. These valuations are done by local officials and have been improved over the years yielding more accurate valuations of the property leased to businesses that use [property financed by industrial development bonds. These valuations differ from those reported by businesses that lease property from IDBs and file annual reports with the State Board of Equalization.

For business property, land is assessed at 40% of appraised value and personal property is assessed at 30% of appraised value. CBER and the Department of Property Assessments determined that the average distribution of land and other property for businesses suggests that 38% is the best estimate of what assessments would be on these properties if they were not exempt. CBER adds 38% of the IDB estimated property values.

Other Considerations

In order to smooth the spikes that can be caused by year-to-year changes, both models use three-year averages of each variable to determine fiscal capacity. TACIR has traditionally made its results available to the Department of Education in early March so that the department can produce BEP estimates on April 1. Because of events in the legislature the past two years, the Department has not produced those April 1 estimates. This has allowed CBER to make use of newer property tax base numbers, so that both bases used in the CBER model come from the same year. If this situation continues, TACIR may begin using the newer data in its model as well and deliver the results a month later.

Transitional Adjustments

PC369 requires that its provisions "be phased in, in accordance with funding as made available each fiscal year through the general appropriations act." During the transition from the TACIR to the CBER model, the results of both are to be used in calculating fiscal capacity. In the first year of transition, FY 2008, each model was used to calculate 50% of each county's fiscal capacity. Primarily due to the lack of necessary funds, the transition has not moved forward, and each model is still used to calculate 50% of county fiscal capacity.

PC369 additionally required that “no LEA’s measurement of ability to raise local revenue shall be adjusted more than forty percent (40%) within the BEP formula in any single year.” There was an administrative decision made within the Governor’s office and the Department of Education to lower that measure to 30% in practice. In the first year of transition (FY2008), if the CBER calculation produced a percent of total fiscal capacity number that was more than a 30% change from the TACIR calculation, then the CBER percentage was adjusted such that the change was only 30%.

The county with the largest difference can serve as an example. In FY2008, Hancock County’s percent of total state fiscal capacity as measured by the TACIR model was .0197%. The comparable measure produced by the CBER model was .0517%. Dividing the CBER number by the TACIR number and subtracting one shows the increase $[(.0517/.0197) - 1 = 1.62]$ of 162%. The CBER calculation for Hancock County was then adjusted so that this change would only be 30%. $[(.0256/.0197) - 1 = .3]$. Thus Hancock County’s CBER calculation was adjusted to .0256%. The two calculations were then averaged to produce Hancock County’s final fiscal capacity percent of .0226%.

Since each model was to supply 50% of the final fiscal capacity figure, the two indexes were simply averaged to get the final fiscal capacity calculation. The weight of each measure was to shift toward CBER annually until its calculation was the only one used. Due to lack of necessary funding, however, the transition appears to have stalled and the percentages will remain at 50/50 for the foreseeable future.

In FY2008, there were 27 counties that required a fiscal capacity adjustment because the CBER model assigned them a fiscal capacity that was at least 30% higher than the level produced by the TACIR model. These counties, and the percentage increase the CBER model represented over the TACIR model, are shown to the right.

In FY2009, the methodology used to identify counties that needed their fiscal capacities reduced to smooth the transition changed. Since the legislative requirement compared the fiscal capacity measure to that of the previous year, the average of the two models became the comparison rather than

County	Percentage increase of CBER model over TACIR model FY08
Bledsoe	48.45%
Cumberland	42.40%
DeKalb	44.21%
Fayette	42.47%
Franklin	42.17%
Grainger	48.89%
Hancock	162.76%
Haywood	42.29%
Hickman	66.10%
Jefferson	40.22%
Johnson	91.35%
Lake	36.95%
Lewis	30.25%
Loudon	34.38%
Meigs	77.30%
Monroe	34.13%
Moore	44.15%
Morgan	59.36%
Perry	31.23%
Pickett	106.67%
Polk	33.03%
Sequatchie	48.46%
Sevier	34.45%
Stewart	47.16%
Union	100.68%
Van Buren	70.68%
Wayne	65.30%

the TACIR model number alone. Continuing with the Hancock County example, the 2009 TACIR figure was .0194%. The new CBER calculation was .0522%. These numbers are both pretty similar to the year before, and the old formula would have produced a similar adjustment.

The new adjustment formula averaged the two calculations first and then compared them to the final number from the previous year. So .0194% and .0522% average to .0358%. This represents an increase of $[(.0358/.0226) - 1 = .584]$ 58.4%. This exceeds 30%, so it was adjusted to .0294%, which was exactly a 30% increase over the previous year's figure.

This calculation drastically reduced the number of counties that received a transitional adjustment to just three: Hancock, Pickett, and Union. When this methodology was repeated in FY2010 and 2011, no counties received an adjustment.

The number of counties that still have a CBER fiscal capacity percent that is at least 30% higher than that produced by TACIR has remained stable over the three year period. In FY 2009, Clay County was added to the list while Perry and Haywood Counties came off of it. In FY2010, Cocke, Grundy, Hardin and Scott Counties were added to the list, while Lake County came off of it. In 2011, Hardin came back off and Houston and White were added.

FY 2011

The fiscal capacity results calculated for FY 2011 using both models are attached, as are the final numbers that will be used in the BEP. Some counties have a higher fiscal capacity percentage under the TACIR model (as they must since the percentages for all counties must sum to 100% for each model), but the differences are smaller. The TACIR model does not produce a percentage that represents a 30% increase over the CBER model for any counties. Furthermore, only three counties have a double-digit increase when comparing the TACIR model results to the CBER results: Obion (12.07%), Montgomery (24.73%), and Shelby (25.67%). For comparison, 25 counties have a CBER fiscal capacity that is between 10% and 30% higher than the TACIR one. And 30 counties have a CBER fiscal capacity that is more than 30% higher than the TACIR one. This means that a total of 55 counties have double-digit fiscal capacity increases when figured by the CBER model vs. the TACIR model. A map showing these counties is attached.

To see what might account for this difference, staff looked at the components of TACIR's model that are not used in the CBER model to see what the causes might be. This analysis is on the FY2011 counties that have at least a 30% higher fiscal capacity using the CBER model than the TACIR model. For ease of discussion, we will call these counties the "big change" counties. There are 30 of them.

The 30 big change counties are fairly evenly distributed over the per pupil property tax base quintiles as can be seen in the attached map. It is interesting to note that all but five of the counties had above average growth in their per pupil property tax base compared to last year's figure. This suggests that these big change counties have varying levels of capacity based on the property tax base but they share the fact that the property tax base is growing. Just under half of the counties overall have above average growth (46 of 95) on this measure, while 83% of the big change counties did.

The sales tax base did not offer a similar result. Of the 30 big change counties, fully 14 are in the bottom quintile for sales tax base per pupil. The rest of this distribution can be seen in the attached map. As with the property tax base measure, the big change counties are more likely to have had above average growth in the sales tax base than the other 66 counties. 41 of 95 counties (43%) overall have above average growth, but 53% of the big change counties did. This difference is not as great as it was with the property tax base, but it still may be significant. Ten of the 14 (71%) big change counties in the bottom quintile for sales tax base per pupil had above average growth in that measure compared to the previous year.

Of the 30 big change counties, 14 are in the bottom quintile for per capita personal income while only three are in the highest. The full distribution can be seen in the attached map. Among the big change counties, 67% had above average growth in this measure over the previous year. The comparable figure for all counties is 50%.

The ratio of residential and farm property assessments to overall assessments showed a big difference for big change counties. This ratio serves as a proxy for the ability to export tax burden to non-residents. The more commercial property, in a county the more tax revenues that county may receive from outside of the county. Because it is the residential and farm portion of assessments that are included in TACIR's model, a lower number means a higher fiscal capacity. To make all of the measures comparable for analysis, staff considered the highest numbers to be in the lowest quintile.

Of the 30 big change counties, 15 were in the bottom quintile while just one was in the top quintile. The distribution is shown on the attached map. Big change counties do not differ much from all counties in growth on this measure. Forty-five percent of all counties had above average improvement in this measure in the last year, while 40% of big change counties did.

The ratio of average daily membership to the total population (or service burden) is also a negative measure; that is, the higher the proportion of students in the county's overall population, the lower the fiscal capacity of that county. For this measure also, then, the highest ratio is considered the bottom quintile. Only two

Fiscal Capacity Results for FY2009 to FY2011

	TACIR Result	CBER Result	Fiscal Capacity for BEP FY 2011	Percentage Change in Capacity from FY10 to FY11	Fiscal Capacity for BEP FY 2010	Percentage Change in Capacity from FY09 to FY10	Fiscal Capacity for BEP FY 2009
Anderson	1.12%	1.12%	1.1182%	2.10%	1.0952%	-0.34%	1.0990%
Bedford	0.53%	0.54%	0.5359%	-2.11%	0.5474%	-0.18%	0.5484%
Benton	0.14%	0.16%	0.1479%	0.69%	0.1468%	-0.39%	0.1474%
Bledsoe	0.06%	0.10%	0.0809%	-0.43%	0.0812%	-2.40%	0.0832%
Blount	1.69%	2.07%	1.8831%	0.47%	1.8744%	1.24%	1.8514%
Bradley	1.37%	1.38%	1.3764%	-0.60%	1.3847%	-0.48%	1.3914%
Campbell	0.38%	0.48%	0.4297%	1.55%	0.4231%	-0.04%	0.4233%
Cannon	0.09%	0.12%	0.1061%	-0.80%	0.1069%	-1.32%	0.1084%
Carroll	0.24%	0.26%	0.2486%	-2.92%	0.2561%	-4.26%	0.2675%
Carter	0.46%	0.53%	0.4968%	0.40%	0.4948%	0.95%	0.4902%
Cheatham	0.39%	0.42%	0.4052%	0.02%	0.4051%	-0.22%	0.4061%
Chester	0.12%	0.13%	0.1233%	-1.64%	0.1254%	-2.63%	0.1288%
Claiborne	0.25%	0.31%	0.2790%	1.65%	0.2745%	-0.50%	0.2759%
Clay	0.05%	0.07%	0.0581%	-2.29%	0.0595%	-1.04%	0.0601%
Cocke	0.31%	0.41%	0.3561%	2.49%	0.3474%	1.21%	0.3432%
Coffee	0.83%	0.77%	0.8021%	-2.64%	0.8238%	-0.59%	0.8287%
Crockett	0.10%	0.11%	0.1071%	-5.14%	0.1129%	-4.92%	0.1188%
Cumberland	0.63%	0.90%	0.7641%	1.02%	0.7564%	1.25%	0.7471%
Davidson	14.76%	14.38%	14.5682%	-0.88%	14.6980%	0.11%	14.6820%
Decatur	0.11%	0.13%	0.1155%	0.89%	0.1144%	-0.20%	0.1147%
DeKalb	0.18%	0.26%	0.2156%	1.77%	0.2119%	0.60%	0.2106%
Dickson	0.67%	0.70%	0.6833%	-0.28%	0.6852%	-0.25%	0.6869%
Dyer	0.54%	0.50%	0.5163%	-1.65%	0.5250%	-2.63%	0.5391%
Fayette	0.32%	0.47%	0.3979%	4.94%	0.3791%	2.81%	0.3688%
Fentress	0.14%	0.19%	0.1650%	2.13%	0.1615%	2.16%	0.1581%
Franklin	0.37%	0.54%	0.4560%	-0.89%	0.4601%	-0.85%	0.4641%
Gibson	0.51%	0.48%	0.4992%	-2.28%	0.5109%	-1.53%	0.5188%
Giles	0.32%	0.35%	0.3346%	-1.16%	0.3385%	-1.97%	0.3453%
Grainger	0.10%	0.17%	0.1356%	1.65%	0.1334%	0.84%	0.1323%
Greene	0.86%	0.86%	0.8619%	-1.51%	0.8752%	-0.83%	0.8825%
Grundy	0.08%	0.11%	0.0946%	0.45%	0.0942%	0.84%	0.0934%
Hamblen	0.97%	1.00%	0.9830%	-1.31%	0.9961%	-2.05%	1.0169%
Hamilton	6.15%	5.93%	6.0444%	0.31%	6.0256%	-0.68%	6.0667%
Hancock	0.02%	0.05%	0.0353%	-0.33%	0.0354%	20.30%	0.0294%
Hardeman	0.20%	0.22%	0.2107%	-0.78%	0.2124%	-1.50%	0.2156%
Hardin	0.31%	0.40%	0.3549%	2.67%	0.3456%	2.57%	0.3370%
Hawkins	0.47%	0.54%	0.5077%	-0.37%	0.5095%	-1.63%	0.5180%
Haywood	0.19%	0.22%	0.2029%	-3.64%	0.2105%	-2.63%	0.2162%
Henderson	0.28%	0.28%	0.2808%	-2.76%	0.2887%	-3.61%	0.2996%
Henry	0.38%	0.40%	0.3892%	-0.45%	0.3909%	-1.88%	0.3984%
Hickman	0.12%	0.19%	0.1533%	-0.34%	0.1538%	0.22%	0.1534%
Houston	0.05%	0.07%	0.0597%	-0.29%	0.0599%	-1.61%	0.0609%
Humphreys	0.23%	0.24%	0.2320%	-0.14%	0.2324%	-0.63%	0.2338%
Jackson	0.07%	0.09%	0.0764%	-1.69%	0.0777%	-2.70%	0.0799%
Jefferson	0.47%	0.68%	0.5735%	2.75%	0.5581%	1.17%	0.5517%
Johnson	0.10%	0.19%	0.1449%	6.48%	0.1361%	4.90%	0.1298%
Knox	8.19%	7.97%	8.0832%	0.19%	8.0682%	-0.01%	8.0693%
Lake	0.04%	0.05%	0.0414%	0.79%	0.0411%	-1.56%	0.0417%
Lauderdale	0.19%	0.21%	0.2023%	-0.10%	0.2025%	-2.13%	0.2069%
Lawrence	0.39%	0.41%	0.3987%	-2.91%	0.4106%	-4.10%	0.4282%

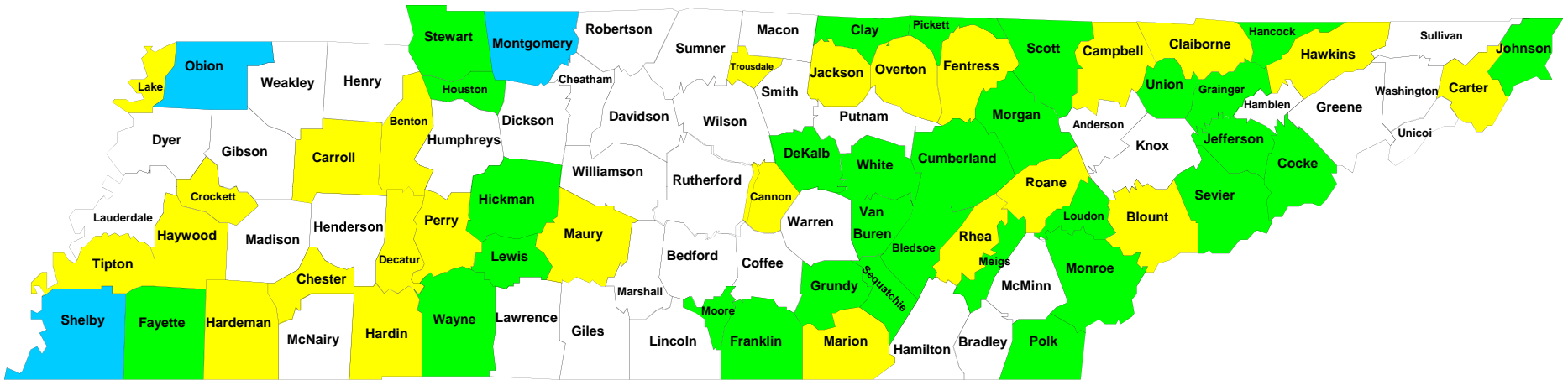
Fiscal Capacity Results for FY2009 to FY2011

	TACIR Result	CBER Result	Fiscal Capacity for BEP FY 2011	Percentage Change in Capacity from FY10 to FY11	Fiscal Capacity for BEP FY 2010	Percentage Change in Capacity from FY09 to FY10	Fiscal Capacity for BEP FY 2009
Lewis	0.08%	0.11%	0.0967%	2.24%	0.0945%	1.17%	0.0935%
<i>Lincoln</i>	0.33%	0.37%	0.3505%	0.38%	0.3492%	-0.66%	0.3515%
<i>Loudon</i>	0.63%	0.91%	0.7682%	3.38%	0.7431%	3.27%	0.7195%
<i>McMinn</i>	0.71%	0.76%	0.7337%	-0.06%	0.7342%	0.57%	0.7300%
McNairy	0.26%	0.24%	0.2494%	-1.37%	0.2528%	-1.24%	0.2560%
Macon	0.21%	0.22%	0.2128%	-1.70%	0.2165%	-0.49%	0.2176%
Madison	1.83%	1.71%	1.7689%	-1.73%	1.8000%	-1.88%	1.8346%
<i>Marion</i>	0.34%	0.40%	0.3671%	1.68%	0.3611%	0.54%	0.3591%
Marshall	0.34%	0.37%	0.3562%	-1.09%	0.3602%	-0.20%	0.3609%
Maury	1.08%	1.27%	1.1777%	0.66%	1.1699%	0.12%	1.1686%
Meigs	0.06%	0.11%	0.0871%	3.77%	0.0840%	0.75%	0.0833%
<i>Monroe</i>	0.44%	0.60%	0.5218%	1.08%	0.5162%	1.32%	0.5095%
Montgomery	2.66%	2.14%	2.4000%	2.95%	2.3313%	3.27%	2.2576%
Moore	0.07%	0.09%	0.0799%	3.83%	0.0769%	4.83%	0.0734%
Morgan	0.08%	0.14%	0.1123%	3.00%	0.1091%	3.91%	0.1050%
<i>Obion</i>	0.43%	0.39%	0.4112%	-1.03%	0.4155%	-2.92%	0.4280%
Overton	0.14%	0.19%	0.1657%	-0.88%	0.1672%	-1.89%	0.1704%
Perry	0.07%	0.08%	0.0725%	-0.28%	0.0727%	-1.58%	0.0739%
Pickett	0.03%	0.06%	0.0480%	3.01%	0.0466%	6.21%	0.0439%
Polk	0.11%	0.18%	0.1450%	1.79%	0.1424%	0.08%	0.1423%
Putnam	1.13%	1.13%	1.1317%	0.68%	1.1241%	1.24%	1.1103%
<i>Rhea</i>	0.29%	0.36%	0.3222%	1.37%	0.3178%	1.22%	0.3140%
Roane	0.67%	0.80%	0.7369%	3.61%	0.7112%	1.67%	0.6995%
Robertson	0.80%	0.85%	0.8237%	1.28%	0.8132%	1.04%	0.8049%
<i>Rutherford</i>	3.95%	3.94%	3.9458%	1.11%	3.9027%	2.73%	3.7991%
Scott	0.16%	0.22%	0.1924%	-0.57%	0.1935%	-1.80%	0.1971%
Sequatchie	0.12%	0.16%	0.1406%	5.01%	0.1339%	3.91%	0.1289%
Sevier	2.31%	3.07%	2.6886%	1.12%	2.6587%	2.68%	2.5892%
<i>Shelby</i>	18.54%	14.75%	16.6469%	-2.30%	17.0381%	-2.89%	17.5451%
Smith	0.19%	0.20%	0.1905%	1.42%	0.1878%	0.13%	0.1876%
Stewart	0.09%	0.13%	0.1123%	1.71%	0.1104%	2.70%	0.1075%
<i>Sullivan</i>	2.58%	2.56%	2.5685%	0.42%	2.5578%	-0.65%	2.5746%
Sumner	2.12%	2.31%	2.2122%	2.08%	2.1671%	2.82%	2.1076%
Tipton	0.51%	0.58%	0.5436%	2.35%	0.5311%	2.00%	0.5206%
Trousdale	0.06%	0.07%	0.0619%	1.83%	0.0608%	-1.07%	0.0614%
Unicoi	0.19%	0.20%	0.1922%	3.16%	0.1863%	2.45%	0.1818%
Union	0.08%	0.17%	0.1263%	4.12%	0.1213%	7.91%	0.1124%
Van Buren	0.03%	0.06%	0.0474%	7.60%	0.0441%	3.77%	0.0425%
Warren	0.44%	0.45%	0.4452%	-2.59%	0.4570%	-4.37%	0.4779%
<i>Washington</i>	1.92%	2.04%	1.9786%	1.51%	1.9491%	1.43%	1.9217%
Wayne	0.08%	0.13%	0.1033%	0.78%	0.1025%	-3.06%	0.1058%
Weakley	0.32%	0.30%	0.3104%	-0.42%	0.3118%	-1.42%	0.3163%
White	0.20%	0.26%	0.2283%	-0.46%	0.2294%	-1.18%	0.2321%
<i>Williamson</i>	4.96%	4.94%	4.9522%	3.25%	4.7963%	4.93%	4.5710%
<i>Wilson</i>	1.80%	1.87%	1.8370%	2.51%	1.7919%	3.50%	1.7313%

The bold number represents the higher fiscal capacity calculated between the two models.

Italicized counties have more than one school system

Comparison of TACIR and CBER Fiscal Capacity Results for FY 2011



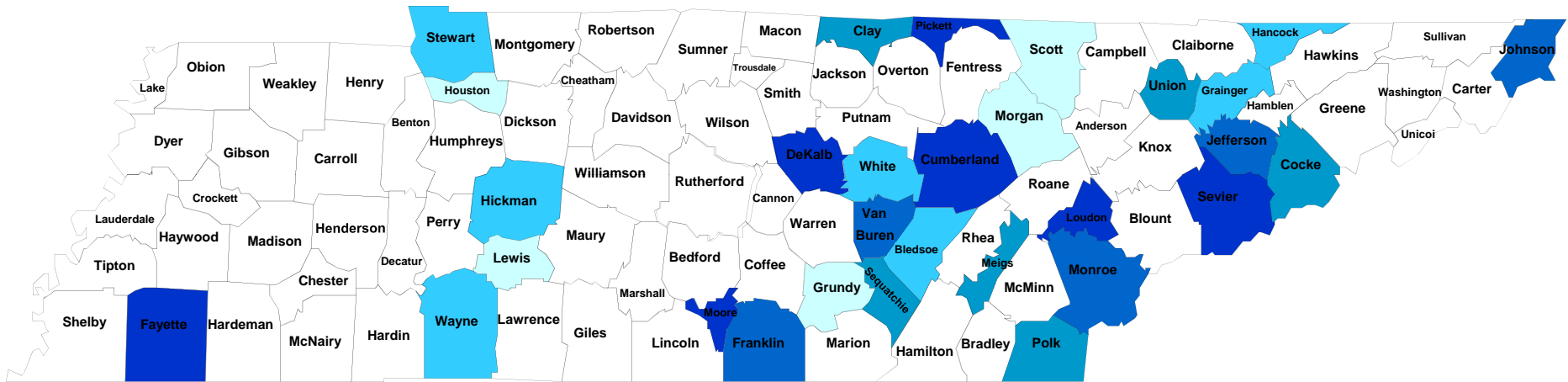
30 CBER results are more than 30% higher than TACIR results





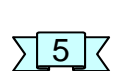
0 TACIR results are more than 30% higher than CBER results

25 CBER results are between 10% and 30% higher than TACIR results

3 TACIR results are between 10% and 30% higher than CBER results






“Big Change” Counties: Per Pupil Property Tax Base Quintiles



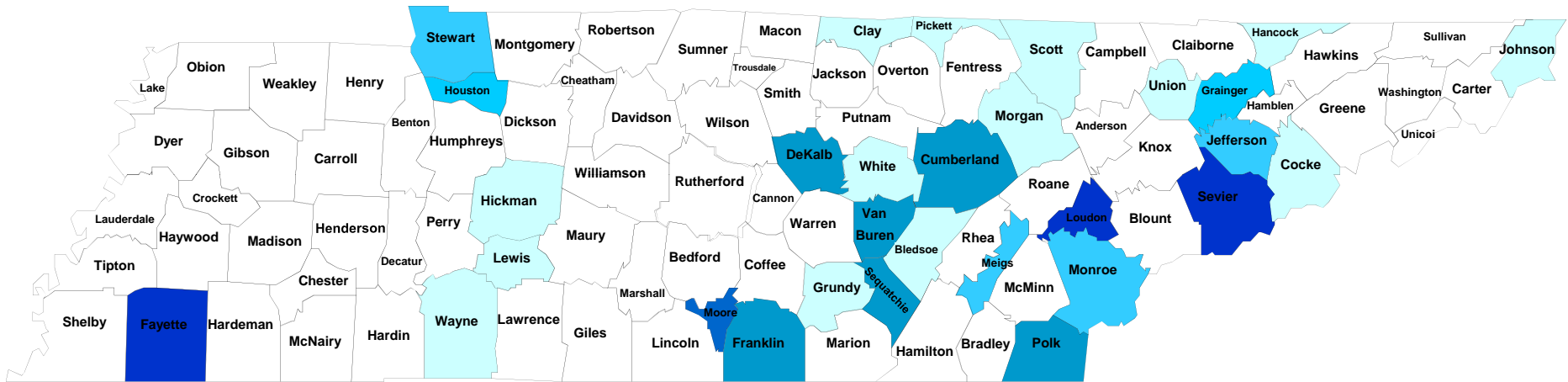
-  Are in the top quintile for per pupil property tax base
-  Are in the second quintile for per pupil property tax base
-  Are in the third quintile for per pupil property tax base
-  Are in the fourth quintile for per pupil property tax base
-  Are in the bottom quintile for per pupil property tax base

“Big Change” Counties: Per Pupil Sales Tax Base Quintiles



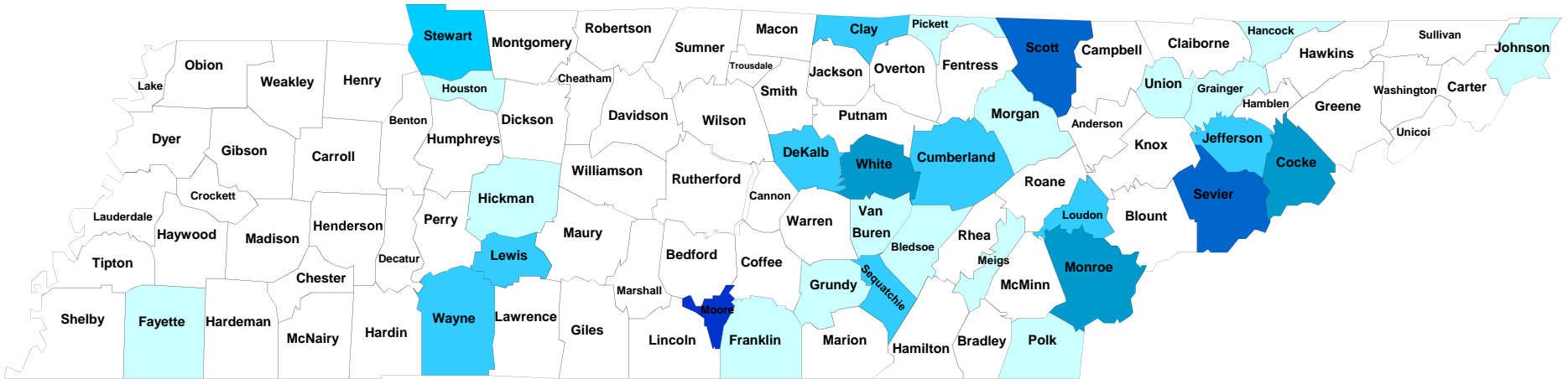
-  Are in the top quintile for per pupil sales tax base
-  Are in the second quintile for per pupil sales tax base
-  Are in the third quintile for per pupil sales tax base
-  Are in the fourth quintile for per pupil sales tax base
-  Are in the bottom quintile for per pupil sales tax base

“Big Change” Counties: Per Capita Income Quintiles



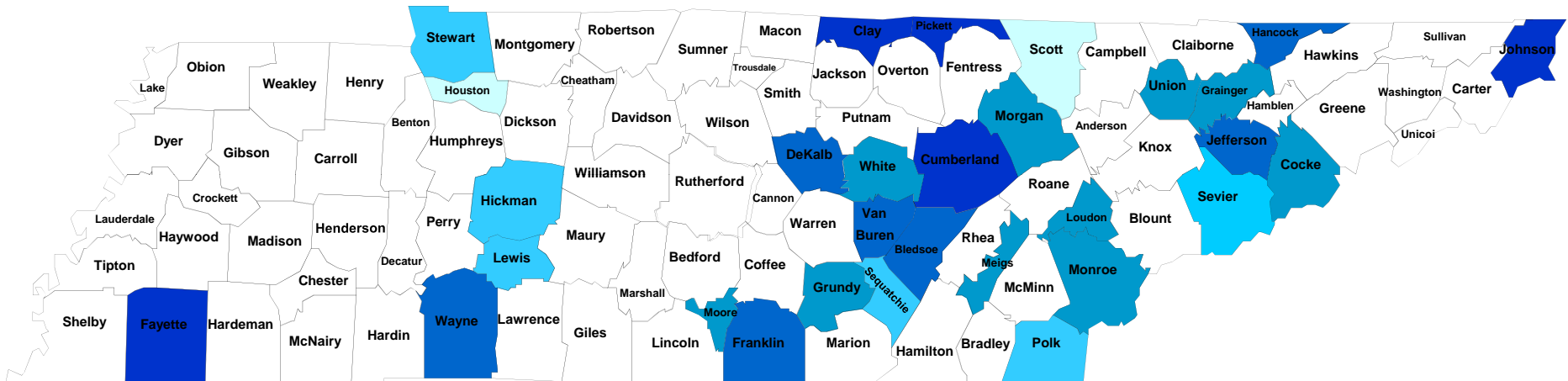
- 3** Are in the top quintile for per capita income
- 1** Are in the second quintile for per capita income
- 6** Are in the third quintile for per capita income
- 6** Are in the fourth quintile for per capita income
- 14** Are in the bottom quintile for per capita income

“Big Change” Counties: Percent of Total Appraisals that are Residential and Farm Quintiles (lowest is top quintile)



- 1** Are in the top quintile for residential and farm percent
- 2** Are in the second quintile for residential and farm percent
- 3** Are in the third quintile for residential and farm percent
- 9** Are in the fourth quintile for residential and farm percent
- 15** Are in the bottom quintile for residential and farm percent

“Big Change” Counties: Ratio of Average Daily Membership to Population Quintiles (lowest is top quintile)



- 5** Are in the top quintile for ADM to population ratio
- 7** Are in the second quintile for ADM to population ratio
- 10** Are in the third quintile for ADM to population ratio
- 6** Are in the fourth quintile for ADM to population ratio
- 2** Are in the bottom quintile for ADM to population ratio

counties fell in that bottom quintile while five were in the top quintile. Overall the big change counties were fairly evenly distributed across quintiles for service burden. Slightly more big change counties had above average growth in service burden (60%, versus 52% for all counties). The distribution is shown on the attached map. The fairly even distribution of counties in quintiles and the fact that the percentage of counties with above average improvement rates was about the same for big change counties and for all counties suggests that this measure was not behind the big difference between TACIR and CBER fiscal capacity calculations for these counties.

Averaging the quintile ranks show that some counties (those highlighted in red on the attached quintile rank table) are in the lowest quintiles on every measure. Additionally, several of these counties are experiencing an above average rate of growth in on some or all of the measures. Since the service burden measure seemed little different for this group than for counties overall, staff also averaged the quintile ranks for the four other measures. This shows that a significant number of these counties are at the low end of all four of these measures, and that the CBER model is increasing the estimated fiscal capacity on counties that are disproportionately low in per capita personal income and tax exportability, somewhat low in per pupil sales tax base, and a little on the low end of per pupil property tax base.

Disproportionate Effects

In East Tennessee, fully 15 of the 33 counties (45%) are big change counties. In Middle Tennessee it is 14 of 41 (34%). West Tennessee has just one of its 21 counties (5%) that rate as “big change” counties. Furthermore, if the group is divided a bit further, East Tennessee fares even worse. Twelve counties have a CBER-generated fiscal capacity measure that is more than 50% higher than the TACIR measure. Of those 12, 8 are in East Tennessee (Beldsoe, Grainger, Hancock, Johnson, Meigs, Morgan, Polk, and Union) and four are in Middle Tennessee (Pickett, Hickman, Van Buren, and Wayne).

No fiscal capacity model is perfect, and the quirks of Tennessee’s school system and funding structures make system fiscal capacities in this state particularly difficult to measure. The idea that the calculation had become too complex was a large part of the recent change. Simplicity is always an advantage in matters that can create controversy, such as the distribution of state education funds. But it is important to be aware of the effects these changes have, especially when they disproportionately affect one of the state’s Grand Divisions.

Quintile Rankings for Big Change Counties

Big Change Counties	Percentage Change CBER Index Represents Compared to TACIR Index	Per Pupil Property Tax Base Quintile (1 is High)	Per Pupil Sales Tax Base Quintile (1 is High)	Per Capita Personal Income Quintile (1 is High)	Ratio of Residential and Farm Property Assessments to Total Assessments Quintile (1 is High)	Ratio of Average Daily Membership to Population Quintile (1 is High)	Average of Quintile Ranks	Average of Quintile Ranks without Service Burden
Bledsoe	59.11%	4	5	5	5	2	4.2	4.75
Clay	31.87%	3	4	5	4	1	3.4	4
Cocke	33.21%	3	2	5	3	3	3.2	3.25
Cumberland	42.84%	1	1	3	4	1	2	2.25
DeKalb	44.91%	1	3	3	4	2	2.6	2.75
Fayette	47.48%	1	3	1	5	1	2.2	2.5
Franklin	43.28%	2	3	3	5	2	3	3.25
Grainger	74.51%	4	5	4	5	3	4.2	4.5
Grundy	41.10%	5	5	5	5	3	4.6	5
Hancock	192.19%	4	5	5	5	2	4.2	4.75
Hickman	56.68%	4	5	5	5	4	4.6	4.75
Houston	32.22%	5	5	4	5	5	4.8	4.75
Jefferson	44.47%	2	3	4	4	2	3	3.25
Johnson	79.16%	2	4	5	5	1	3.4	4
Lewis	31.19%	5	3	5	4	4	4.2	4.25
<i>Loudon</i>	44.37%	1	2	1	4	3	2.2	2
Meigs	91.23%	3	5	4	5	3	4	4.25
<i>Monroe</i>	36.82%	2	2	4	3	3	2.8	2.75
Moore	40.85%	1	5	2	1	3	2.4	2.25
Morgan	81.58%	5	5	5	5	3	4.6	5
Pickett	102.20%	1	4	5	5	1	3.2	3.75
Polk	53.69%	3	5	3	5	4	4	4
Scott	33.90%	5	4	5	2	5	4.2	4
Sequatchie	37.11%	3	4	3	4	4	3.6	3.5
Sevier	32.74%	1	1	1	2	4	1.8	1.25
Stewart	37.78%	4	5	4	4	4	4.2	4.25
Union	110.04%	3	5	5	5	3	4.2	4.5
Van Buren	113.20%	2	5	3	5	2	3.4	3.75
Wayne	60.69%	4	5	5	4	2	4	4.5
White	30.77%	4	3	5	3	3	3.6	3.75

Averages in red fall between 4 and 5.

Averages in purple fall between 3 and 4.

Averages in blue fall between 2 and 3.

Averages in white fall between 1 and 2.

Counties in italics have more than one school system