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

The Tennessee Advisory Commission on Intergovernmental Relations

MINUTES OF THE TENNESSEE ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

10 June 2015

Meeting Called to Order

The Tennessee Advisory Commission on Intergovernmental Relations met in Legislative Plaza Room 29 at 1:05 p.m. Chairman Mark NORRIS presiding.

Present 21	Absent 3
Mayor Tom Bickers	Ms. Christi Gibbs
County Mayor Ernest Burgess	Representative Charles Sargent
Mr. Charles Cardwell	County Mayor Larry Waters
Representative Mike Carter	
Mayor Betsy Crossley	
Ms. Paula Davis	
County Mayor Brent Greer	
County Executive Jeff Huffman	
Representative Harold Love Jr.	
County Mayor Kenny McBride	
Mr. Iliff McMahan	
Senator Randy McNally	
Senator Mark Norris	
Representative Antonio Parkinson	
Mayor Tom Rowland	
Mayor Pro Tem Kay Senter	
Senator Jim Tracy	
Comptroller Justin Wilson[1]	
Representative Tim Wirgau	
Senator Jeff Yarbro	
Mr. Kenneth Young	

[1] Phillip Doss represented Justin Wilson

1. Call to Order and Approval of the Minutes

Chairman Mark NORRIS called the meeting to order at 1:05 p.m. and requested approval of the minutes. Mr. MCMAHAN moved adoption and Vice Chairman Tom ROWLAND seconded the motion, which passed unanimously.

2. Commission Updates

Chairman NORRIS welcomed new legislative members Representative Harold Love Jr, Representative Tim Wirgau, and Senator Jeff Yarbro. He also introduced new member Mayor Tom Bickers of Louisville, Tennessee, and a new private citizen member, Mr. Ken Young of Franklin. The other new private citizen member, Ms. Christi Gibbs of Nashville, was unable to attend.

Chairman NORRIS yielded to Executive Director ROEHRICH-PATRICK to give the TACIR staff updates. Ms. ROEHRICH-PATRICK introduced Tyler Carpenter and April Scivally. She also mentioned the departing employees Christopher Aldridge, Sharon Greenfield and Nathan Shaver.

Chairman NORRIS acknowledged Dr. Phil Doss, who represents Comptroller Justin Wilson and is retiring June 30, and thanked him for his service.

3. Legislative Update

Dr. LIPPARD reviewed legislative action during the first session of the 109th General Assembly on issues related to past studies, discussed three public acts requiring studies by the Commission, and reviewed five other studies requested by the legislature. The General Assembly took action directly related to findings and recommendations in two Commission reports, *Assessing the Value of Low-Income Housing for Property Tax Purposes: Whether and How to Consider the Value of Low-Income Housing Tax Credits* and *Municipal Boundaries in Tennessee: Annexation and Growth Planning Policies after Public Chapter 707*. Responding to a request by the Commission for additional time to develop a model workplace civility policy, as required by the Healthy Workplace Act, the Senate passed Senate Bill 1157 by Norris, extending the due date for the model policy from March 1, 2015, to September 1, 2015. The bill's companion, House Bill 588 by Parkinson, was sent to the House Calendar and Rules Committee after being amended to require TACIR to create a model policy through the promulgation of a rule pursuant to the Uniform Administrative Procedures Act.

The legislature passed three bills requiring work by the Commission pertaining to homestead exemption amounts for bankruptcy filings, hotel occupancy taxes, and the state's upcoming clean power plan. Also, committees of both chambers referred bills pertaining to county government employees serving on county legislative bodies and to property owner consent for zoning changes. And, committees of one chamber or the other requested studies pertaining to painting edges of steps into certain public buildings, giving preference to Tennessee bidders in some state contracts, deleting local funding requirements for public defenders offices, and studying court fees in Tennessee counties.

4. Work Program Amendment, New Research Plans

Dr. LIPPARD presented seven amendments to the work program for the Commission's consideration. The first amendment, adding the three studies required by public chapters enacted by the 109th General Assembly—a study of whether homestead exemption amounts in TCA Title 26, Chapter 2, should be increased to reflect the cost of living; a study of the effect of hotel occupancy taxes on the economy and on tourism and the hospitality industry; and an evaluation of the state's final plan submitted by the Department of Environment and Conservation to the EPA to establish and enforce carbon dioxide emission control measures adopted to implement the obligations of the state under federal emission guidelines—passed without objection. So did amendments two and three, adding studies of bills referred by committees of both chambers of the legislature. Those include an analyses of legislation disqualifying any county government employee from serving as a member of the county legislative body and legislation requiring that any zoning amendment affecting a parcel of private property take effect only upon written consent of the owner of that property.

Following the passage of amendment three, Chairman NORRIS asked Ms. ROEHRICH-PATRICK to discuss the staff's plan for conducting these studies and the others being considered for inclusion in the work program. Ms. ROEHRICH-PATRICK reviewed the plan, noting that including all of the studies would require completing them in a very brief period, making difficult to provide the high quality research the Commission has come to expect.

Chairman NORRIS said that the studies included in amendments four through seven do not meet the threshold to study because they were not referred by law or by committees of both chambers of the General Assembly: amendment four would have added a study of legislation requiring that edges of steps into certain public buildings be marked with yellow paint to assist persons with vision impairment; amendment five would have added a study of giving preferences to Tennessee bidders in some state contracts; amendment six would have added a study of legislation that would delete the requirement that local governments provide to attorneys representing indigent criminal defendants 75 percent of the local funding they provide to the district attorney general; and amendment seven would have added a study of court fees in Tennessee counties.

Agreeing with the Chairman, Representative CARTER moved that all four studies not be included in the work program. Chairman NORRIS reminded the Commission that he considers it appropriate for any member to propose work for study, subject to the vote of the Commission. In response, Representative PARKINSON asked to separate amendment five from Representative CARTER's motion. The Commission passed the amended motion, deciding not to add amendments four, six, or seven.

At the request of the Chairman, Dr. LIPPARD reviewed amendment five. Chairman NORRIS said that he felt it premature to conduct the study because, while it had been referred by the House

State Government Subcommittee, it is still pending in the Senate State and Local Committee and could still be sent by that chamber as well next session. In response, Representative PARKINSON moved that the amendment not be adopted. Representative WIRGAU seconded the motion, and it passed unanimously.

Representative CARTER, saying that he did not mean to exclude the study of court fees in Tennessee counties, moved for reconsideration of amendment seven. County Executive HUFFMAN seconded, and the commission concurred. Several members noted the importance of the issue, and Mayor BURGESS said that the study would be a large undertaking and suggested allowing more time for it than the January 2016 date requested by the bill sponsor. Chairman NORRIS suggested moving the amendment's due date to January 2017. Representative CARTER agreed. Chairman McMahan added that it would be helpful if both chambers were to introduce legislation so the Commission has some indication of any proposed changes and can evaluate them. In response to a question from Representative PARKINSON about the staff's capacity to complete the study, Ms. ROEHRICH-PATRICK said staff could produce a draft for Commission review and discussion by the June 2016 meeting. Chairman NORRIS called for a vote on the motion to add the study in amendment seven with a due date in 2017. The motion passed unanimously.

Chairman NORRIS made a motion to add a study of broadband development and deployment to the work program, due in 2017, to help facilitate legislation that will be discussed in committee again this coming session (Senate Bill 1134 by Bowling and House Bill 1303 by Brooks). In response to a question from Vice Chairman ROWLAND about the staff's capacity to complete the study, Ms. ROEHRICH-PATRICK said that she would reallocate staff among the adopted studies and bring a revised schedule back to the Commission. Chairman NORRIS said that what he has in mind for staff to look at the current status of broadband availability in Tennessee, assessing the status of deployment and adoption and determining where there are gaps. He also wants staff to study best practices from other states for encouraging broadband deployment and adoption, and reducing coverage gaps, and, ultimately, for the Commission to recommend ways increase broadband deployment. He said the study due date would tentatively be 2017, but could be revised based on the staff's revised schedule. County Executive HUFFMAN seconded the motion, which passed unanimously.

5. FY 2014-2015 Accomplishments

Dr. LIPPARD summarized the Commission's major accomplishments for the past fiscal year to be incorporated into the biennial report for fiscal years 2014-15 and 2015-16.

6. Hotel Motel Tax Earmark and Impact Study

The Commission heard presentations from two panels on the effect of hotel occupancy taxes on the economy and on tourism and the hospitality industry. The first panel included representatives of the hospitality and tourism industry:

- Greg Adkins, President and CEO, Tennessee Hospitality and Tourism Association

- Ken Maples, hotel owner and Chairman, Tennessee Hospitality and Tourism Association
- Aaron Gumpenberger, Director of Planning and Investments, Ryman Hospitality Properties, and advisor to Governor Haslam's Tennessee Tourism Committee
- Heetesh Patel, hotel owner and Mid-South Regional Director, Asian American Hotel Owners Association

Mr. ADKINS said hospitality and tourism is the second-largest industry in Tennessee, bringing in more than $16 billion in direct tourist spending and accounting for 10% of all workers, 300,000 jobs, and $5.7 billion in payroll. He said the hospitality industry is one of the largest taxpayers in the state paying not only the lodging tax, but also the franchise and excise taxes, property taxes, beer and liquor taxes, etc. The industry is committed to addressing unfair, single-industry-targeted taxes, and his association pushed for TACIR to study the issue after a two-year discussion with cities and counties. He said that the hotel industry has become one of the most taxed industries in Tennessee and that Tennessee's combined sales and lodging taxes are among the highest in the nation. Those high taxes drive customers away and drive hospitality development to other states—particularly border states. When a government passes a lodging tax, the industry wants the revenue to be reinvested into tourism to create more jobs and opportunities for other investments.

Mr. MAPLES owns three hotels in the Pigeon Forge–Gatlinburg area, is a commissioner with the City of Pigeon Forge, and served as an alderman in Sevierville and as an assistant to County Mayor Larry Waters. He reiterated that Tennessee's taxes on hotel rooms are among the highest in the country and that they drive away guests and developers. He expressed concern about the effect of high taxes on border cities like Chattanooga, Memphis, and the Tri-Cities that compete with lower-taxed hotels in other states. He said that reinvesting tax revenue in tourism promotion generates more revenue from new and returning visitors than investments in public safety and infrastructure improvements.

Mr. GUMPENBERGER discussed how high taxes affect group bookings. A small group of meeting planners book large events—those with 3,000 to 5,000 people—and a deciding factor for many of these planners is the lodging tax rate because it is passed on to the consumer. If Tennessee has some of the highest rates, planners may choose cities in other states that have lower rates. He also talked about smaller communities, where events like youth sports tournaments bring in many visitors for multiple nights, and how they could lose those events to other cities because the families that attend are price-sensitive. These events can have a big economic impact, generating revenue to fund essential services.

Mr. PATEL talked about Tennessee's many tourist attractions and the advantage of being a low-cost state. He too expressed concern about losing business across state lines. Mr. PATEL shared a handout with a picture of a billboard advertising lower tax rates for travelers to stay in Kentucky, noting that economy travelers will look for the lowest price. The industry believes in paying its fair share of taxes, he says, but they do not want to stand out as having the highest in the country. Mr. PATEL said he knows a hotel owner in Knoxville who chose not to build a second hotel after the city added a 5% hotel tax, saying that because the average daily rate for his hotel remained flat for three years he could not absorb the cost of the tax.

The second panel included representatives of local governments:

- David Connor, Executive Director, Tennessee County Services Association
- Chad Jenkins, Deputy Director, Tennessee Municipal League
- Ralph Cross, Finance and Accounting Consultant, Municipal Technical Advisory Service
- Kirk Bednar, City Manager, City of Brentwood
- Rick Chinn, Councilman, City of Oak Ridge

Mr. CONNOR began by saying that tourism is a critical part of the economy for counties across the state. He told the Commission about his experience booking rooms for a county services event in Nashville, and that the hotel has increased its rate 35% over last year. He said that hotel taxes have been around a long time and talked about the limitations put in place in 1988. He acknowledged that the tax is 19% in some places but that half of it is sales taxes. Most county tax rates are 5%. Counties have a limited local tax base, and many counties do reinvest some of this revenue in tourism. Mr. CONNOR shared county governments' concerns about revenue from a tax on a certain industry being earmarked for promoting that industry, and said those decisions should be left up to local officials who are responsible to their voters.

Mr. JENKINS said that only about 19% of Tennessee cities levy a hotel tax. He said that he hadn't heard complaints that Tennessee's hotel taxes were so high and looked into other places around the country. He believes Tennessee is not comparatively excessive as a whole. Knoxville, with a total tax rate of 17.25%, is one of the examples given by the hotel industry as a high-tax city, but it has only a 3% hotel tax rate. The rest is sales tax and county hotel tax stacked. Tuscaloosa, Alabama, has a lower combined tax of 15%, but 11% is city tax. Mr. JENKINS said that recent news reports have noted that Knoxville hotels are expanding and growing despite their apparent high-tax status. Regarding how cities use the tax proceeds, he said that many early acts that authorized hotel taxes did not earmark them for tourism, and some split it between tourism and general funds. The 1988 legislation did not specify use for tourism purposes either. It does not appear the intent of these laws, historically, was that the tax be used explicitly for tourism. He said that different cities use these funds for tourism, economic development, or other general fund purposes, and that local autonomy should be respected. He added that hotels will want to develop, and people will want to stay, in attractive communities.

Mr. BEDNAR said that Brentwood has a 4% city tax, 4% county tax, and twelve hotels with two more in development. But Brentwood is not a tourist destination with attractions. Their hotels attract business visitors and visitors to Nashville and Franklin. They use the tax revenue to offset the cost of services needed to support visitors and to fund infrastructure and parks and other things that make Brentwood an attractive place for businesses. He feels each city can best decide how to use its tax revenue to fit its local needs.

Mr. CHINN said that Oak Ridge is near Knoxville and has a lot of federal government employees in the area. The city has nine hotels and has levied hotel taxes since 1971, with proceeds going into the general fund. The city has suffered recently from cuts in sales tax on groceries and could suffer more from the possible elimination of the Hall income tax. The hotel tax is an important component of their budget, but they invest a significant amount in the convention and visitors bureau. Hotel owners are represented in that group. He said that the city wants to maintain flexibility to use the funds for a variety of projects that indirectly improve tourism and benefit the hotels.

Following the panels, Vice-Chairman ROWLAND asked whether hotel taxes are paid by the hotels themselves or passed on to guests and whether there are group events that the price of rooms would not affect. He also asked whether spending hotel tax money on tourism was not really a benefit to the tourism industry. Mr. ADKINS replied that the sales and occupancy taxes are passed through, and that it is the high combined rate that has the negative impact on visitors. He explained that he supports a very broad definition of tourism for which funds could be spent. He said cities can create events during off-peak seasons to draw visitors, using hotel tax revenue, and this makes hotels successful. This increases local sales tax revenue that can fund the other general needs.

Vice-Chairman ROWLAND asked for examples from Chattanooga where hotel investors have chosen not to build because of taxes. Mr. ADKINS answered that he would look for some but also that Chattanooga is a destination city where people want to be located close to the attractions. However, beyond a point, high rates will hurt group sales.

Senator YARBRO asked whether there was a problem among contiguous counties, where one is investing heavily in tourism and marketing and the others are benefitting. Mr. ADKINS said this is a concern. Some communities do a good job of investing in and promoting tourism, but others do not. Mr. ADKINS said that while he believes in local autonomy for governments, you have to draw the line somewhere and require that some money be spent on tourism. Mr. MAPLES said that Sevier County, where he is from, wants to be successful; Sevier County hotels benefit from people doing things in adjacent counties and those counties benefit from Sevier County's attractions. The Tennessee Hospitality and Tourism Association encourages all the counties to reinvest in tourism as best they can and to work together.

Senator TRACY commented on Georgia's newly adopted $5-per-room-night hotel tax dedicated to transportation funding. Several members, noting that local governments have limited sources of revenue, expressed concern about mandating how local governments spend revenue from hotel occupancy taxes. Senator McNALLY said that, just as the state governments don't like federal mandates, local governments don't like state mandates. He suggested that the hotel industry needs to work more with those local governments to put their hotel tax revenue to the best purposes for tourism. Mr. ADKINS says that they try, but some communities see raising hotel taxes as politically easier than raising other taxes.

Several commissioners expressed displeasure over how hotel room rates fluctuate so much based on demand and suggested that this is a bigger problem than small increases in hotel taxes. Mr. ADKINS explained that factoring in high rates during peak demand helps hotels be profitable during less demanding times. And, several members noted that the revenue from hotel occupancy taxes not only supports tourism directly but also economic development and services like public safety that benefit not only residents but tourists as well. Mayor BICKERS said that while hotels can determine what rate the market will bear, local governments should determine what tax rate their community can bear.

Mayor BICKERS asked staff to consider all types of fees that may be added on to a hotel bill, not only tax rates. Mr. ADKINS mentioned Nashville's $2.50 room night fee as an example.

Vice-Chairman ROWLAND asked Mr. ADKINS to provide data on how hotel room rates are rising in Tennessee. He also asked about construction dollars spent on hotel building. Mr. ADKINS answered that that information may be difficult to obtain.

Chairman NORRIS adjourned the meeting at 4:20 pm.

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11 June 2015**

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The Tennessee Advisory Commission on Intergovernmental Relations met in Legislative Plaza Room 29 at 8:35 a.m., Chairman Mark NORRIS presiding

Present 20	**Absent 4**
Mayor Tom Bickers	Ms. Christi Gibbs
County Mayor Ernest Burgess	Representative Charles Sargent
Mr. Charles Cardwell	Mayor Pro Tem Kay Senter
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Mr. Iliff McMahan	
Senator Randy McNally	
Senator Mark Norris	
Representative Antonio Parkinson	
Mayor Tom Rowland	
Senator Jim Tracy	
Comptroller Justin Wilson[1]	
Representative Tim Wirgau	
Senator Jeff Yarbro	
Mr. Kenneth Young	

[1] Phillip Doss represented Justin Wilson

Call to Order

Chairman Mark NORRIS called the meeting to order at 8:35 a.m.

1. **Sustainable Competitiveness for Tennessee's Counties: Collaboration Between TACIR and TSU)**

Tennessee State University professors Dr. Soumen GHOSH and Dr. Meg STREAMS presented their report on sustainable competitiveness among Tennessee's counties. Dr. GHOSH began by defining sustainability as meeting today's needs without compromising the ability of future generations to meet their needs. The study focused on signs of success that local Tennessee officials, in a survey developed using feedback from focus groups of local officials, indicated were most important in evaluating how a city or county is doing and how well those officials think their community is performing for each measure.

Dr. STREAMS presented the survey results, noting among other observations, that the sign of success ranked the most important was the ability to recruit and retain businesses. Strong families and low crime rates were the second and third. The lowest ranked item, growth in population, was the measure by which policy makers felt they had made the most improvement.

Dr. Streams discussed the research team's analysis of the survey results, which showed a weak relationship between funding difficulty and performance but a strong positive relationship between strength of community asset base and performance. Rural respondents were more likely to report challenges in both performance and community assets. The results also revealed that nearly two-thirds of respondents were willing to cooperate with other jurisdictions and that jurisdictions with a strong asset base were more likely to support cooperation. Relationships among elected officials were reported by policy makers as the most important measure of a successful collaboration.

Dr. STREAMS said there are three take-away points from the project. First, community asset strength is associated with higher performance on the signs of success identified by the respondents. Second, local governments must work to build community assets. Third, openness to cooperation between jurisdictions is driven not by weakness but by strength of community assets.

Following the presentation, Chairman NORRIS asked whether the methodology used in this study has been used before. Dr. STREAMS responded that the categories came out of the literature but the development of the survey and the set of items used came from focus groups and policy makers.

Senator TRACY asked whether the relationships referred to in the report were between city and county officials as well as regional governments. Dr. STREAMS replied that the relationships were between officials inside government and between governments. She added that the importance of harmony was emphasized by the focus groups. Senator TRACY said that relationships between state and local officials must be important also. Dr. STREAMS agreed but stressed that participants put a higher priority on relationships at the local level.

Chairman NORRIS asked how Dr. GHOSH and Dr. STREAMS would like the Commission to use the information from the study. Dr. STREAMS said that they would like it to be used to build recognition that relationships and social capital are as important and subject to change as the economic development factors currently focused on. She explained that relationships are helpful when issues come up in which it benefits officials to work together. Dr. GHOSH provided the example of jointly applying for a grant, and Dr. STREAMS added that granting agencies want to see collaboration.

Mr. MCMAHAN said that much of local government structure is mandated by the state and asked whether the analysis covers how well the local governments work within that structure. Dr. STREAMS explained that there were two aspects to this issue, how well the local government works with what they are given and how that mandated structure improves or impedes their ability to work efficiently. Mr. MCMAHAN asked whether the part of the report discussing getting young people to remain local was essentially speaking about brain drain. Dr. STREAMS answered yes, not just attracting young people but also retaining them.

Senator YARBRO asked what, if anything, the analysis revealed about things done at the state level that create potential disputes. Dr. STREAMS explained that getting people to talk about conflict is difficult and that they primarily asked people for examples of successful collaboration. She said that one example that came up was that funding challenges drive cooperation during hard economic times.

Dr. DOSS asked how relationships among local officials and governments affect competition among local governments to recruit and retain businesses. Dr. GHOSH explained that businesses want to locate in a place where there is harmony and if there is not harmony it makes for a bad business environment. Dr. DOSS said that one county may give a business a better deal than another county. Dr. STREAMS explained that several examples came out in the focus groups of government entities coming together to develop infrastructure collectively that would make both groups look good to businesses.

2. Education Funding and Fiscal Capacity

Michael MOUNT, Senior Research Associate, presented the annual update on TACIR's fiscal capacity index and provided background information about the index and education funding in Tennessee. Mr. MOUNT's presentation included a look at counties' 15-year fiscal capacity trends. He concluded the presentation with an update on last year's information about Union County's fiscal capacity, noting that the county's revenue per student increased since last year, in part because the Tennessee Virtual Academy stopped enrolling new students.

Mayor BURGESS asked where the state is in its plan to phase in the fiscal capacity model produced by the University of Tennessee's Center for Business and Economic Research. Mr. MOUNT said that there are no updates concerning the phase-in. Mayor BURGESS said that somehow the state has to more fully fund education, but that's not happening. At one point the amount allocated to high-growth areas was $25 million, but that has decreased to $10 million. The state legislature needs to improve our ability to fund education.

Mayor GREER asked whether Stewart County's fiscal capacity increased because of the extra TVA money that they receive. He also noted that Bledsoe County lost $100,000 in payments in lieu of taxes. Lynnisse ROEHRICH-PATRICK said that, while TVA revenue spent on schools shows up in the revenue that we're trying to predict, TVA revenue is not among the factors used to predict it, so it would be hard for a change in TVA allocations to show up in the formula. The effect we see on Stewart and Bledsoe's fiscal capacities could be a change in income or the number of students relative to the population. [Staff note: From 2001-02 to 2014-15, Stewarts sales tax base per student increased from $20,709 to $26,135. Bledsoe's decreased from $21,239 to $16,405. Stewart's per capita income and property tax per student both increased more than Bledsoe's over that same period.]

Mayor HUFFMAN asked who determines the total amount of funding needed by each school system. Mr. MOUNT said it's the Department of Education; the BEP funding formula determines the total amount of funding need for the state. Mayor HUFFMAN asked whether there are any school systems in the state that don't have more positions than indicated by the BEP. [Staff note: Only the Shelby County school system has fewer total positions than the number generated by the BEP; over 3,700 students from the system are served by the Achievement School District. The full count in Union County is unknown because the Department of Education does not have a count of actual positions there because the contracted virtual school does not report its positions.] Counties in metropolitan statistical areas are trending up while counties in rural areas are trending down. Mayor HUFFMAN asked whether payments in lieu of taxes (PILOT) are a part of the fiscal capacity index. Ms. ROEHRICH-PATRICK said that TACIR, lacking the BEP Review committee's consent to change the formula, has used outdated PILOT data for historical reasons that she described. One reason is that when fiscal capacity changes, it pushes state dollars across counties. With the disruption caused by going from the TACIR formula to 50/50 with the UT formula, another change would have caused money to shift yet again. The result is that payments in lieu of taxes are not captured in TACIR's model as they should be.

Mayor HUFFMAN said that the TACIR model includes per capita income but the fiscal capacity model produced by the University of Tennessee's Center for Business and Economic Research does not. Ms. ROEHRICH-PATRICK agreed and added that the CBER model strictly uses tax bases and an average tax rate computed from the sales and property tax revenue raised across the state. It doesn't include the ability to pay taxes, which per capita income is intended to capture. It doesn't have the service burden or a factor that considers whether your property tax base is more residential and farm or more commercial and industrial. That makes a big difference in the ability to raise money for education.

Mayor HUFFMAN asked whether counties' increases in the industrial and commercial tax base would cause a shift in the CBER model as well. Ms. ROEHRICH-PATRICK said it would, adding that fiscal capacity determines the amount to be paid by local governments. More local dollars will be asked from places with growing tax bases than from where it isn't growing or it's declining. The state literally makes up the difference as your local tax base declines relative to the others and the state gives you more dollars to bring you back up to whatever the level the formula says you are supposed to hit.

Senator McNALLY said we lack the $250 million to $300 million needed to fund BEP 2.0. He asked whether any studies show that increasing funding per pupil is positively correlated with achievement. He said to look at funding based on outcomes like graduation rates and ACT scores. If we changed the funding to outcome-based funding, we would achieve better results.

Vice Chairman ROWLAND asked whether the per pupil revenue chart took each county and averaged out the city systems that may be in that county. Mr. MOUNT said the revenue per pupil is the total for the county area. Vice Chairman ROWLAND added that one system in Bradley County funds at a higher level per pupil.

Senator TRACY asked about the state share of instructional costs. Ms. ROEHRICH-PATRICK said that BEP instructional costs are currently 70% state funded. Senator TRACY said that adding students and building new schools puts a lot of pressure on the county government to fund it. There's no perfect way to do fiscal capacity, but Tennessee is probably better than a lot of surrounding states.

Senator YARBRO said some counties have much more fiscal capacity than others; Shelby and Davidson get less state dollars as a share of the total. Mr. MOUNT said that the model is calculated on a per student basis so that we can compare counties that are vastly different in their total fiscal capacities. Ms. ROEHRICH-PATRICK said that the model uses revenue per pupil and, although Davidson County has more revenue per pupil than many other counties, it's not the extreme difference you see when you look at total fiscal capacity. Dividing by the number of students puts them on a more even plane. Then, after fiscal per student is determined, the number of students is multiplied back through.

Representative CARTER asked, after a municipality annexes a certain area, and after 15 years the sales tax is kept with the county, if 100% of the sales tax transfers after 15 years. Ms. ROEHRICH-PATRICK said that half of sales tax revenue is earmarked for education.

Mayor HUFFMAN asked whether the state funded 75% of instructional costs in the past. Ms. ROEHRICH-PATRICK said that when there were just two categories, classroom and non-classroom, classroom was funded at 75% state. The salary that went into the formula was substantially increased, and the state share was decreased, producing an overall increase in state dollars. The higher the state percentage, the less equalization there is. The Tennessee Foundation Program formula was almost 100% state funded and every school system got just about the same state revenue per student. Low-tax-base areas want the state share to be a lower percentage of a much larger total dollar amount in order to tap the variation in the local tax base across the state. A lower percentage is not a bad thing if the total dollar amount is adequate. High-tax-base areas want the state percentage to be higher.

3. Annual Report on Public Infrastructure Needs Inventory-Final Report for Approval

David KEISER, Senior Research Associate, presented the report *Building Tennessee's Tomorrow: Anticipating the State's Infrastructure Needs 2015* for approval. Mr. KEISER discussed highlights including a change in the inventory process adding $3.7 billion in bridge projects, TDOT's Expedited Project Delivery program, variations in needs across the state, how infrastructure is funded, and an overview of public school needs.

Chairman NORRIS asked how many bridges TDOT has deemed insufficient and whether they are included in the appendices of the report. Mr. KEISER answered that they are not included separately but that 37% of all the bridges in the inventory, about 7,000 bridges, are deemed insufficient and have an estimated cost and identified remedy. Senator MCNALLY asked whether the big projects TDOT canceled because of federal funding are included in the report. Mr. KEISER responded that these projects do not show up in this report but could affect next year's report. Executive Director ROEHRICH-PATRICK explained that the purpose of the inventory is not to capture what state and local governments can do, but rather the need for infrastructure, even if funding is not available. If a project is not planned or is pushed out to a later date because funding is not available but the project is still needed, it should still be in the inventory. It is important to keep these projects in the inventory so we know the need still exists and we can bring it to people's attention even if the money isn't there. TACIR staff is constantly working to improve the inventory process and the quality of the data.

Senator TRACY emphasized that the report is important and helps local and state officials and the average citizen understand our infrastructure needs. People take roads for granted, and it is important to understand what is going on in our state.

Chairman NORRIS asked for a motion to approve the report. Senator TRACY moved approval, and Mr. MCMAHAN seconded. The report was unanimously approved.

Next meetings

- **September 2-3**
- **October 21-22**
- **January 5-6**

Chairman NORRIS adjourned the meeting at 10:45 A.M.