



TACIR

The Tennessee Advisory Commission
on Intergovernmental Relations



5a

226 Anne Dallas Dudley Blvd., Suite 508
Nashville, Tennessee 37243-0760
Phone: (615) 741-3012
Fax: (615) 532-2443
www.tn.gov/tacir

MEMORANDUM

TO: Commission Members

FROM: Cliff Lippard
Executive Director

DATE: 29 September 2020

SUBJECT: Fiscal Capacity for Fiscal Year 2020-21

TACIR staff continue to prepare annually a fiscal capacity index for the Tennessee Department of Education, which uses it in conjunction with the fiscal capacity model produced by the University of Tennessee's Center for Business and Economic Research to equalize the local match required to fund the Basic Education Program (BEP).

There is one item of note about this year's fiscal capacity calculation. In 2017, the Department of Revenue transitioned to a new data management system that estimated returns for taxpayers who did not file a return. In addition to making its regular annual revisions to previous fiscal years sales tax base data, in 2019, the department realized that the fiscal years' 2016-17 and 2017-18 sales tax base data they had provided to TACIR included estimated returns. The department excluded estimated returns from the sales tax base data provided to TACIR for calculating the Fiscal Capacity Index for 2020-21 and will do so for subsequent years.

As with previous years' updates, an excerpt from the 2004 staff report *A Users' Guide to Fiscal Capacity in the Basic Education Program* describing the concept of fiscal capacity and TACIR's model is attached. The excerpt includes information about how TACIR's fiscal capacity index is computed and how fiscal capacity is used in the BEP formula. The tables following the excerpt from the User's Guide provide information about the latest index plus historical comparisons.

- Table 1 includes the variables used to calculate fiscal capacity per pupil and the fiscal capacity index for each county area. This information was transmitted to

Commissioner Penny Schwinn at the Tennessee Department of Education on March 27, 2020 for use in the BEP formula for fiscal year 2020-21.

- Table 2 provides a historical comparison of county fiscal capacity indexes for fiscal year 2001-02 through fiscal year 2020-21.
- Table 3 provides 5- and 15-year averages of the indexes for each county area.
- Table 4 compares the 5- and 15-year averages and indicates whether the trend based on a ratio between the two is up, stable, or down. Upward trends indicate growing capacities; downward trends indicate declines in capacity. Thirty-six counties have fiscal capacity indexes trending up, 12 are steady, and 47 are trending down. Because the fiscal capacity indexes used in the BEP formula are percentages that add to 100%, there is a zero-sum effect; changes up or down in any one county have to be offset by changes in the other counties. A map of the counties' trends follows the table.