



# TACIR

The Tennessee Advisory Commission  
on Intergovernmental Relations



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## ***MEMORANDUM***

**TO:** Commission Members

**FROM:** Cliff Lippard *Cliff*  
Executive Director

**DATE:** 28 June 2023

**SUBJECT:** Fiscal Capacity for Fiscal Year 2023-24

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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 Boyd Center for Business and Economic Research (CBER) to equalize the local contribution required to fund the base and weighted funding of Tennessee Investment in Student Achievement (TISA).

This year's index includes increases in average daily membership that appear to be generally attributable to increases in enrollment at statewide virtual schools in Union, Johnson, and Robertson counties. Although virtual school students do not necessarily live in the county that hosts their virtual school, they are considered students of the host county. Holding other variables in the fiscal capacity model constant, fiscal capacity will decrease as the number of students increase, so the additional enrollment from virtual schools causes the fiscal capacity for counties with virtual schools to decrease, which has the effect of increasing their state funding. Because counties' fiscal capacity percentages add to 100%, as the fiscal capacity for counties with virtual schools decreases, fiscal capacity for the other counties increases, which has the effect of decreasing other counties' state funding, all else being equal. Out-of-state sales—primarily sales over the internet—continued to increase significantly, increasing both local revenue and the sales tax base for most counties.

Although the state will transition from the Basic Education Program funding formula to the TISA in fiscal year 2023-24, the TACIR and CBER fiscal capacity models will

continue to be used for equalization. The following tables 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 28, 2023 for use in the BEP formula for fiscal year 2023-24.
- Table 2 provides a historical comparison of county fiscal capacity indexes for fiscal year 2004-05 through fiscal year 2023-24.
- 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. Twenty-four counties have fiscal capacity indexes trending up, nine are steady, and sixty-two 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 must be offset by changes in the other counties. A map of the counties' trends follows the table.