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**MINUTES OF THE  
 TENNESSEE ADVISORY COMMISSION  
 ON INTERGOVERNMENTAL RELATIONS**

**August 28, 2025**

**Meeting Called to Order**

The Education Finance Subcommittee of the Tennessee Advisory Commission on Intergovernmental Relations met in Senate Hearing Room I at the Cordell Hull Building at 9:00 a.m., Mayor Kevin Brooks, Subcommittee Chair, presiding.

<b>Present 7</b>	<b>Absent 0</b>
Mayor Kevin Brooks	
Representative John Crawford	
Representative Gary Hicks	
Senator Richard Briggs	
Senator Jeff Yarbro	
Councilman Chase Carlisle	
Mr. Calvin Clifton	

## 1. Call to Order

Chairman Kevin BROOKS called the Tennessee Advisory on Intergovernmental Relations (TACIR) Education Finance Subcommittee meeting to order at 9:00 a.m.

## 2. Introduction

Executive Director Cliff LIPPARD said, during the June 12, 2025, commission meeting, members expressed concerns with distortions in TACIR's fiscal capacity calculation caused by virtual school student counts, the effect of Greenbelt property assessments on fiscal capacity, and the fiscal capacity of counties with large tourism industries. Dr. LIPPARD explained how TACIR's fiscal capacity model works and summarized the Tennessee Investment in Student Achievement (TISA) funding components—base funding, weighted funding, direct funding, and outcomes funding. He said only the base and weighted funding components are equalized, and that TACIR's model is only one of the two models that are used in the equalization of fiscal capacity—the other model is produced by the University of Tennessee's Center for Business and Economic Research.

Dr. LIPPARD said commission staff did not attempt to analyze the effectiveness of virtual schools, the benefits of virtual schools, or any problems associated with virtual schools—they only researched the funding ramifications of counting the virtual schools' average daily membership (ADM) at the host county. Dr. LIPPARD said the commission could recommend that virtual schools report the residency data to the Department of Education as they already report their count of virtual school students to the state.

## 3. Distortions in Fiscal Capacity Caused by Virtual Student Counts

Research Associate Ismael TONUI said that including virtual school students in TACIR's fiscal capacity calculation can increase the fiscal capacity of a county that hosts a virtual school. Keeping all else the same, this decreases the fiscal capacity of the other 94 counties. Including virtual school students can also decrease the fiscal capacity of the host county, which increases the fiscal capacity of the other 94 counties. He said whether a county's fiscal capacity increases or decreases depends on the effect of the virtual school students on that county's fiscal capacity variables. Consequently, both the state share of funding and the local contribution can either increase or decrease for all counties.

Mr. TONUI said that the Tennessee Department of Education does not have residency data for students; this data is only available locally. He described how the state share of funding for the two counties with the most virtual school ADMs—Union and Johnson—has changed under both Basic Education Program (BEP) and TISA funding formulas. He said including the service responsibility factor in TACIR's model is worsening the distortion because increasing a county's service responsibility by increasing the number of virtual school students can increase the county's fiscal capacity, not decrease it as expected.

Senator Richard BRIGGS asked whether the counties that are sending virtual students to other counties are being hurt or whether it is the counties that receive virtual students that are hurt. Dr. LIPPARD said that the effect varies from year to year, but distortions are because of the ADMs, which are in several factors of the model. In past years, this has tended to decrease the

fiscal capacity of the host counties and increase the fiscal capacity of the other counties, all else being equal. But in the school year 2025-26, it increased the fiscal capacity of the host county. For example, Johnson County's fiscal capacity increased this year, which, all else being equal, hurt them relative to other counties. He said that the commission's concern is more with the distortion caused by the way the virtual students ADMs are being reported. He said the host counties still do receive additional funding that's tied to those students. Representative John CRAWFORD asked whether it could hurt a student's home county if the student enrolls in another county's virtual school, and Dr. LIPPARD said that it could because under TISA, the money follows the student.

Councilman Chase CARLISLE said there are residency reporting requirements for determining whether college students are eligible for in-state tuition, and it could be an easy step to require similar residency reporting for K-12 students. Chairman BROOKS said it would be a good idea to require that districts report the residency of students to the state because the state needs clarity. Dr. LIPPARD said commission staff could use residency information for the virtual students to perform further analysis. For example, instead of removing virtual students from the model, they could be counted in the tax base factors but not in the local revenue factor, which might reduce distortions. Chairman BROOKS said the state might want to consider only allowing students to access virtual schools located in their county of residence. He made a motion that the subcommittee recommend that TACIR, as a whole consider, recommending that school districts be required to report the residency of their students to the state. The motion was approved unanimously.

Representative CRAWFORD asked whether there's a possibility that virtual school students who live out of state are being counted for funding purposes both in the county where they are enrolled and in the state where they reside. Dr. LIPPARD said we do not know whether the students are really out-of-state or not but will follow up.

Councilman CARLISLE said there seems to be economies of scale when it comes to virtual schools. He said it would be interesting to know the point at which the number of virtual school students starts to make a difference for funding, what each student is generating in terms of funding, and how that affects the county.

Senator Jeff YARBRO said, because the student counts are there to consider the cost of serving each student, it would make sense to know what the different costs are of serving virtual students versus in-person students. He said virtual students have a different cost basis, and the school district must be prepared to serve that virtual student in person if the student decides to leave the virtual school and go back to a traditional school. He said that the premise of virtual schools is that they cost less per student to operate. He said that it is inherently problematic to treat students with different costs as if they are the same under the state funding formula. He said that virtual schools have grown in part because counties recognized the revenue to be gained from the cost difference in educating virtual students. He said in-person students require buildings and administration, but these costs aren't incurred in the same way for virtual students, and the difference in the cost to serve virtual school students is the key to solving the problem we've identified.

#### **4. The Effect of Greenbelt Property Assessments on Fiscal Capacity**

Research Director Michael MOUNT presented the commission staff's findings on the effect of Greenbelt property assessments on fiscal capacity. He said a decrease in residential or farm assessment in a county, because of Greenbelt or for any other reason, can increase or decrease the county's fiscal capacity as calculated by TACIR. He said decreasing residential or farm property assessment, for Greenbelt purposes or for any other reason, decreases the county's property tax base and decreases residential and farm property as a percentage of total assessments. These two effects partially offset each other, and the effect on state funding varies across counties.

Mr. MOUNT said Tennessee state law establishes three classifications of Greenbelt properties—agricultural, forest, or open space—and once a property qualifies for Greenbelt status, it is assessed based on its current use rather than its market value. He said commission staff published a comprehensive report on the state's Greenbelt law in 2009, which highlighted several issues and provided recommendations, but none of the recommendations have been adopted.

Councilman CARLISLE said to consider the indirect benefits of greenbelt properties. He said changing the Greenbelt law to require that there be a public benefit would be better than restricting the eligibility for Greenbelt.

#### **5. Fiscal Capacity of Counties with Large Tourism Industries**

Research Director Michael MOUNT presented on the fiscal capacity of counties with large tourism industries and said tourism can increase a county's fiscal capacity, which can decrease its state share funding percentage under the TISA Act. He said in 2024, visitor spending in Tennessee generated \$2.0 billion in state tax revenue and \$1.3 billion in local tax revenues. Mr. MOUNT said that although other counties have significant tourism industries, tourism and tourism-related tax revenue is a larger part of the tax bases of Davidson and Sevier counties. He said that growing sales tax bases in these counties contribute to their fiscal capacities, though other variables contribute as well, and both Davidson and Sevier, over the last five years, have increased their share of statewide fiscal capacity—all else being equal, increases in fiscal capacity for a county decrease its state share of education funding. Mr. MOUNT said that unlike the BEP funding formula, for which state law established a minimum state share of non-classroom funding at 25%, TISA does not include such a minimum. He said that TISA does hold harmless districts that fall below the BEP baseline—the last year of BEP funding—with the state funding a declining percentage of the difference through school year 2026-27, though neither Davidson nor Sevier have received baseline funding. He said there is also a safety net that prevents more than a 5% decrease to a school system's total TISA allocation.

Senator YARBRO said tourism and funding has been a persistent issue for Sevier County, and it has become a growing issue for Davidson County. He said we consider residents in determining a county's wealth, but considering tourists, the county must provide services for a larger group of people. Senator YARBRO said the costs of meeting infrastructure, energy, and security needs for a tourist economy are pretty significant.

Senator YARBRO said the state has prioritized encouraging tourism. The challenge is that it can feel like communities' education systems are being penalized because of the state's investment

in tourism development. He said the current formulas aren't fair, and they don't account for the costs and needs related to tourism that counties face.

Senator YARBRO said that communities can't rely on tourism revenue like they rely on property tax revenue because it can decrease like it did during the COVID-19 pandemic. He said that tourism dollars make counties look wealthier than they are, and it would be devastating to some counties if they lost that revenue.

Dr. LIPPARD said that TACIR's fiscal capacity model includes per capita income, which helps the counties with large sales tax bases like Davidson and Sevier. Senator YARBRO said the TACIR fiscal capacity model's use of per capita income is helpful, but tourism drives up the cost of property and housing, so the amount of income available for other things is affected by tourism as well.

Councilman CARLISLE asked whether any of the components of TACIR's fiscal capacity model are weighted and whether there is a way to increase the flexibility of TACIR's fiscal capacity model or the state's education funding formula to avoid the need for statutory changes every time something needs adjustment. Dr. LIPPARD said, because TACIR uses a behavioral regression model, the model itself sets the weights, and those weights adjust every year. He said that the coefficients are used for each of the factors and are set by the interplay between the dependent and the independent variables.

## **6. Closing Remarks**

Senator YARBRO said that it would be helpful for commission staff to conduct additional research on what the cost differences are for providing education to virtual students versus in-person students, so that the state would have data it could use to consider whether it might be appropriate to fund virtual students at a different level than in-person students, for example, as a percentage of the funding for in-person students. He said it would be helpful for commission staff to research whether other states have adjusted education funding based on tourism.

Senator BRIGGS said that the allocation of tourism revenue between local governments and the state has been an ongoing struggle. He said that in the early 2000s the legislature made a change that would have given more tourism dollars to the counties where the revenue is generated, but counties that don't generate much tourism related revenue sued and blocked the change.

The commission staff was asked to report to the full commission on the recommendations at the meeting scheduled for September 18, 2025. Chairman BROOKS adjourned the meeting at 10:06 am.