



# TACIR

The Tennessee Advisory Commission  
on Intergovernmental Relations



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## ***MEMORANDUM***

**TO:** Commission Members

**FROM:** Cliff Lippard   
Executive Director

**DATE:** 3 May 2018

**SUBJECT:** Fiscal Capacity for Fiscal Year 2018-19

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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 Center for Business and Economic Research to equalize the local match required to fund the Basic Education Program (BEP). Staff will present this year's results and discuss a recommendation from the Commission's *Encouraging More Cooperation and Accountability in Payments in Lieu of Tax Agreements* report, which said that TACIR's fiscal capacity calculation should be updated to include current industrial development board assessment amounts rather than the 1993-1995 payments in lieu of taxes data currently used.

There is only one item of note in this year's fiscal capacity calculation—the fiscal year 2014-15 sales tax base data, which was revised for last year's fiscal capacity calculation, was not revised this year by the Department of Revenue because of the implementation of a new computer system. The new system caused data compatibility issues for fiscal year 2014-15, though not for fiscal year 2015-16. Revisions are typically less than one percent. The Department of Revenue is going to undertake a complete review of their procedures to ensure that they can continue to provide reliable data.

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 Candice McQueen at the Tennessee Department of Education on April 3, 2018 for use in the BEP formula for fiscal year 2018-19.
- Table 2 provides a historical comparison of county fiscal capacity indexes for fiscal year 1999-00 through fiscal year 2018-19.
- 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-seven counties have fiscal capacity indexes trending up, nine are steady, and forty-nine are trending down. Because the fiscal capacity indexes used in the BEP formula are percentages that add to 100 percent, 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.