



TACIR

The Tennessee Advisory Commission
on Intergovernmental Relations



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MEMORANDUM

TO: Commission Members

FROM: Cliff Lippard *Cliff*
Interim Executive Director

DATE: 30 August 2016

SUBJECT: Fiscal Capacity for Fiscal Year 2016-17

TACIR staff continue to prepare annually a fiscal capacity index for the Tennessee Department of Education, which uses it in conjunction with the 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). The staff will present this year's results with a focus on county trends and will discuss data revisions by the US Bureau of Economic Analysis and the Tennessee Department of Revenue that affect variables used to calculate the index. Staff will also provide a brief update on the effect of the statewide, virtual school in Union County on the fiscal capacity of all 95 counties—that effect, an increase in other systems' fiscal capacities, has lessened this year with the declining enrollment of virtual school students.

As with last year's update, 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 28 March 2016 for use in the BEP formula for fiscal year 2016-17.
- Table 2 provides a historical comparison of county fiscal capacity indexes for fiscal year 1997-98 through fiscal year 2016-17.
- 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-four counties have fiscal capacity indexes trending up, six are steady, and fifty-five 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.