



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 *Cliff*  
Executive Director  
**DATE:** 29 May 2019

**SUBJECT:** Fiscal Capacity for Fiscal Year 2019-20

---

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 are two items of note in this year’s fiscal capacity calculation. First, sales tax base data for fiscal years 2015-16 and 2016-17 were not revised this year by the Department of Revenue because of their transition to a new data management system. Revisions are typically small, less than 1%. Revisions are normally made when corrections are made to sales tax returns, typically after audits or revised filings. The Department of Revenue believes that it will be able to revise fiscal year 2017-18 sales tax base data next year for use in TACIR’s Fiscal Capacity Index for fiscal year 2020-21.

Second, the Bureau of Economic Analysis revised their per capita income estimates for counties; although revisions to estimates of per capita income average about 3% for Tennessee counties, some counties’ revisions were more significant. According to staff of the Bureau of Economic Analysis, upward revisions to per capita personal income in 2015 and 2016 averaging 21% in Decatur, 20% in Bledsoe, and 13% in Van Buren counties were caused by revisions to estimates of the county residence adjustment, which were updated to incorporate new commuting information from the 2011-2015 American Community Survey (ACS) 5-year estimates from the US Census Bureau. Previously, estimates of the adjustment for 2015 and 2016 were based on 5-year ACS estimates for 2006-2010.

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 18, 2019 for use in the BEP formula for fiscal year 2019-20.
- Table 2 provides a historical comparison of county fiscal capacity indexes for fiscal year 2000-01 through fiscal year 2019-20.
- 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, thirteen are steady, and forty-eight 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.