



TACIR



Annual Report on Fiscal Capacity

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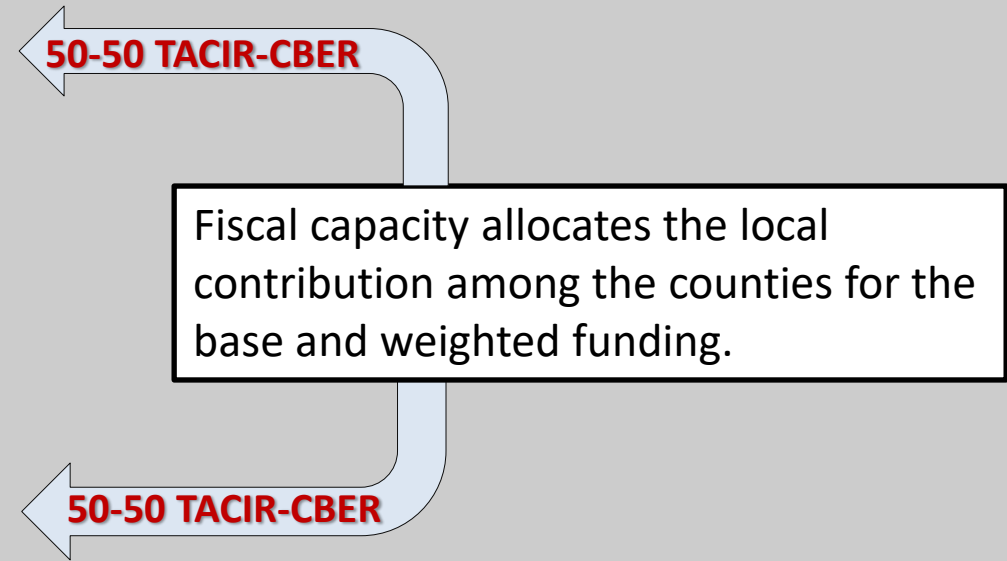
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TISA Funding Formula Overview

1. BASE FUNDING: This is a fixed dollar amount of funding per student. For fiscal year 2023-24, the amount is set to \$6,860 per student.

2. WEIGHTED FUNDING: In addition to the base funding amount, TISA provides additional dollars based on individual needs.



TISA Funding Formula Overview

- 3. DIRECT FUNDING:** In addition to the base funding and weighted funding, TISA provides direct funding allocations for students enrolled in public charter schools and certain students participating in high-impact, strategic programming.
- 4. OUTCOMES FUNDING:** TISA also provides funding based on student outcomes (e.g., 3rd and 4th grade literacy, 8th grade math, ELA TCAP scores, ACT scores, and high school industry credentials)

Direct and outcomes funding are 100% funded by the state and therefore, not equalized.



Fiscal Capacity

Answers the question

How much must each local government contribute?

Measures

The potential ability of local governments to fund education from their own taxable sources, relative to their cost of providing services.

County-level model

All systems within each county pay the same percentage of their TISA allocation.



Method

- A set of averages drawn from actual tax bases, income, etc. is compared with actual revenue.
- The amount of weight to give each factor is determined by estimating the statistical relationship between them.
- Multiple regression analysis
 - a common statistical method used to understand relationships among factors for a wide range of issues
 - simultaneously compares all variables for all counties to determine how much weight to give each factor
- Weights are multiplied by the factors for each county to estimate potential local revenue for each of the 95 counties.
- Actual revenue is used as a control.



Factors Used in TACIR's Fiscal Capacity Regression

- **Own-Source Revenue Per Student:** The actual amount of money local governments raise to fund their schools divided by enrollment (average daily membership (ADM)), the control factor that keeps the estimates within the bounds of what local governments actually do.
- **Sales Tax Base Per Student:** The locally taxable sales for the county-area divided by ADM. This is a measure of the local ability to raise revenue.
- **Equalized Property Assessment Per Student:** The total assessed property value for the county-area, equalized across counties using appraisal-to-sales ratios, and then divided by ADM. This is also a measure of the local ability to raise revenue.



Factors Used in TACIR's Fiscal Capacity Regression (cont.)

- **Equalized Residential and Farm Assessment Divided by Total Equalized Assessment (Tax Burden):** A proxy for a county's potential ability to export taxes through business activity—the higher this number, the lower the level of business activity and the higher the risk of heavy tax burdens on county residents.
- **Per Capita Income:** A proxy for county residents' ability to pay for education and for all other local revenue not accounted for by property or sales taxes.
- **ADM Divided by Population (service responsibility):** A reflection of spending needs. The larger the number of public school students per 100 residents, the greater the fiscal burden for each taxpayer.



Effect of Changes in Fiscal Capacity Factors

The relationship between fiscal capacity and specific variables (other things being equal)		
Factor Increases	Effect on Fiscal Capacity	
Property Tax Base Increases	Fiscal Capacity Increases	↑
Sales Tax Base Increases	Fiscal Capacity Increases	↑
Per Capita Income Increases	Fiscal Capacity Increases	↑
Residential/Farm Share of Property Increases	Fiscal Capacity Decreases	↓
service responsibility Increases	Fiscal Capacity Decreases	↓



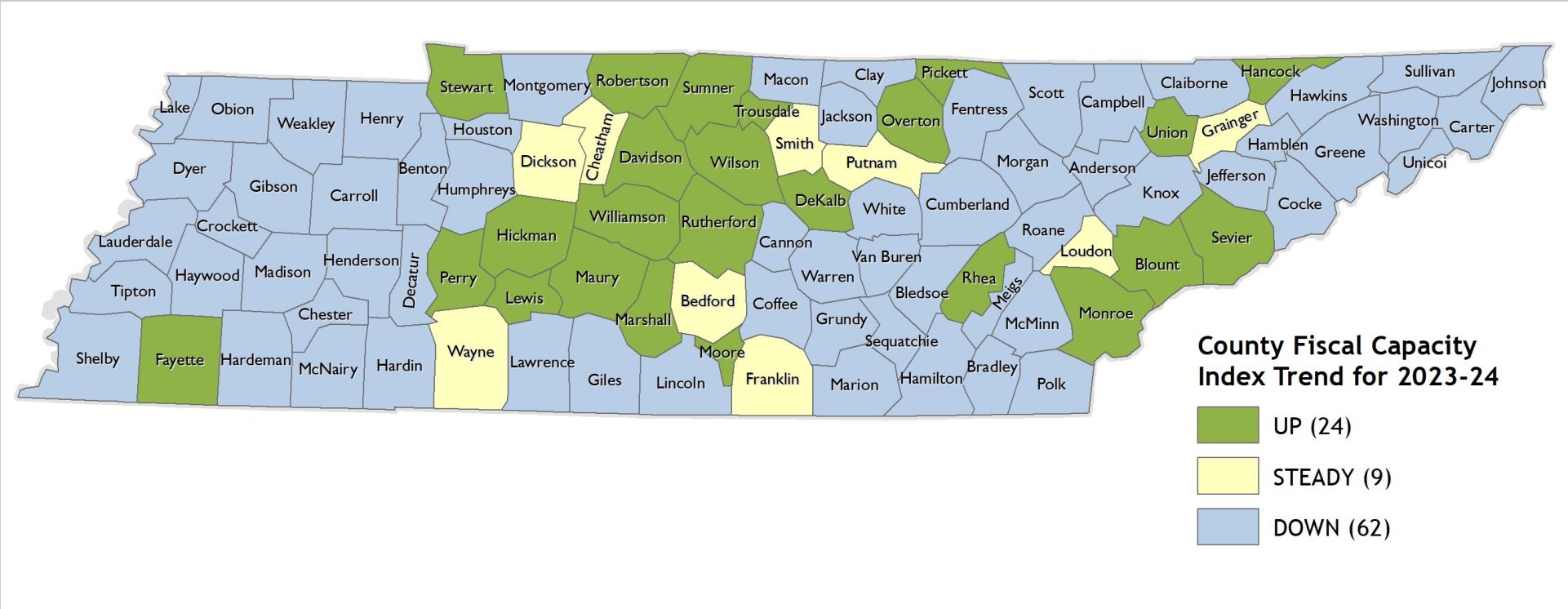
County Trends in Share of Statewide Fiscal Capacity

- The change in a county's share of statewide fiscal capacity depends on its growth in fiscal capacity relative to the 95-county average growth in fiscal capacity.
- Counties in green (*see next slide*) have fiscal capacities that grew faster than the 95-county average.
- Counties in blue grew slower.



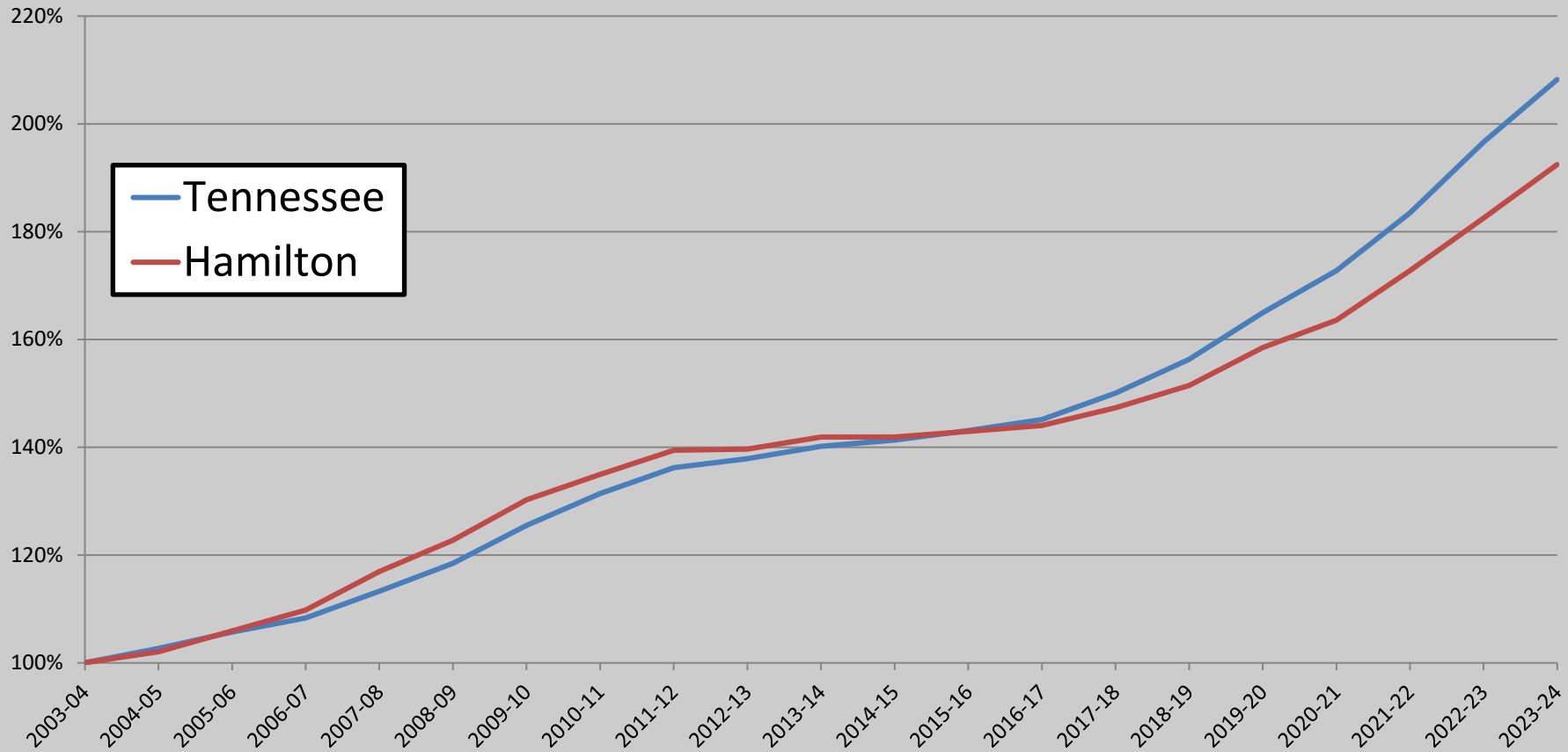
Long Term Fiscal Capacity Trends by County

5-year average compared with 15-year average

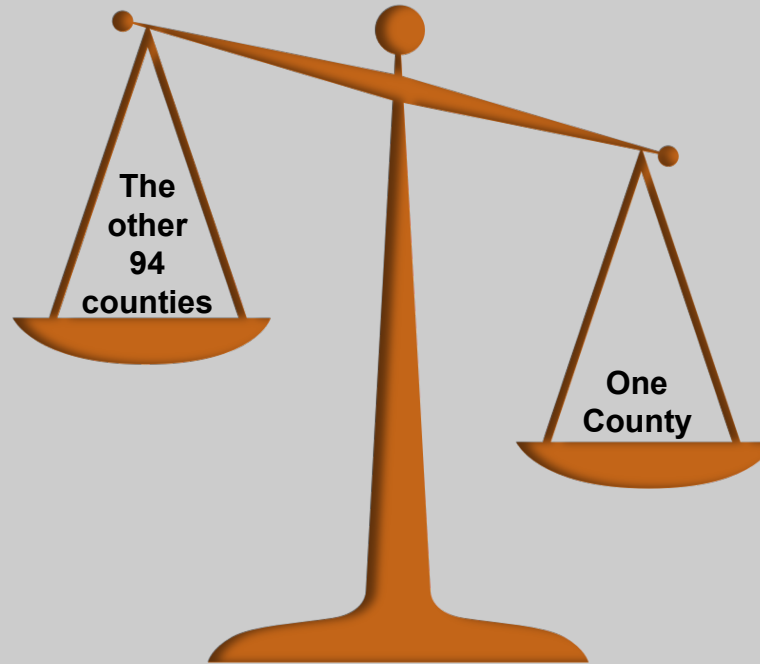


Combined Tax Base per Student (Sales and Property) as a Percentage of 2003-04 Combined Tax Base per Student

2003-04 to 2023-24 Models



As fiscal capacity for a county decreases, the other 94 counties are responsible for a greater share of the TISA local contribution.



Potential Recommendation for Fiscal Year 2024-25

- Since it was first developed, TACIR's model has included tax equivalent payments (TEPS) to capture the assessed value of property subject to PILOT agreements.
- Initially this data was available from the Comptroller's Office but has not been updated since 1995.
- TACIR recommends replacing the TEPs data in its model with the IDB assessment data. CBER already includes this data in its model.



Other Potential Changes to TACIR's Model

- Counting Virtual School Students
- Monitoring the Service Responsibility Factor
- Transitioning to a school-system-level model



Virtual School Students

- Since the COVID-19 pandemic, enrollment in virtual schools has increased, which affects fiscal capacity.
- All else being equal, as enrollment in virtual schools increases, the fiscal capacity indexes of counties that operate virtual schools decreases, increasing their state funding while decreasing state funding for counties with less enrollment in virtual schools.
- In terms of fiscal capacity, virtual school students increase service responsibility without contributing to other factors such as the sales and property tax bases.
- A “virtual school” is defined in Tennessee law as “a public school in which the school uses technology in order to deliver a significant portion of instruction to its students via the internet in a virtual or remote setting.” Tennessee Code Annotated, Section 49-16-203(2).
- For the purpose of fiscal capacity, students are counted as enrolled in the school system where the virtual school is located.
- Fiscal capacity is calculated at the county level so each school system within the same county is treated as though they have the same fiscal capacity.



Counting Virtual School Students

- For school systems operating virtual schools, virtual school students and their families that do not live in the county where their virtual school is located do not contribute to the county's local tax base.
- The more virtual school students in the county operating the virtual school, the more their fiscal capacity decreases.
- When one county's fiscal capacity decreases, the other 94 counties' combined fiscal capacity will increase, decreasing their state funding.
- Removing virtual school students from the fiscal capacity calculations would prevent this effect.

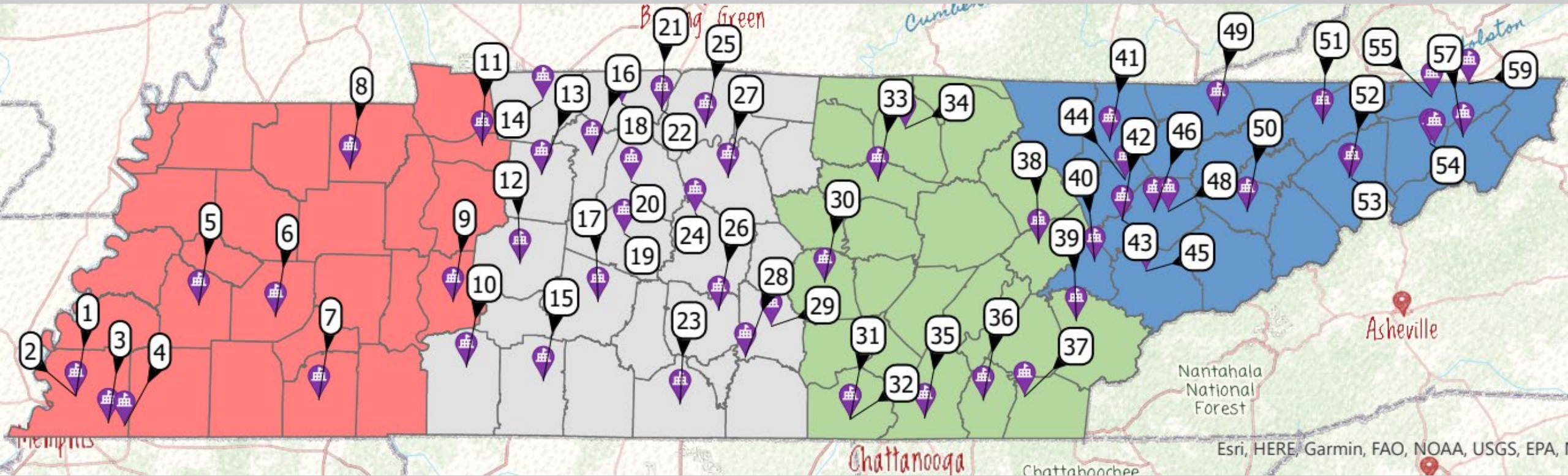


Virtual Schools in Tennessee

- Local boards of education may admit students from outside their respective local school district at any time (Tennessee Code Annotated, Section 49-6-3104) and participation in a virtual education program by a student shall be at the discretion of the school system in which the student is enrolled or zoned to attend (Tennessee Code Annotated, Section 49-16-105).
- Of the 59 virtual schools in Tennessee
 - 30 only accept students from the school system,
 - 13 accept students from surrounding areas in addition to students from the school system, and
 - 16 allow students from across the state.



Location of Virtual Schools in Tennessee



Source: Tennessee Department of Education.

Note: Virtual schools numbered 47, 56, and 58 are in Union County, Johnson City, and Bristol, respectively.



List of Virtual Schools in Tennessee

#	County	School Name	ADM	#	County	School Name	ADM	#	County	School Name	ADM
44	Anderson	Anderson County Innovation Academy	28	20	Davidson	MNPS Virtual School	290	50	Jefferson	Jefferson Virtual Academy	110
26	Bedford	Bedford County Virtual School	74	13	Dickson	Dickson County Distance Learning Academy	215		Johnson		TOTAL = 2521
45	Blount	Maryville Virtual School	no data		Greene		TOTAL = 162	22	Johnson	Tennessee Connections Academy Johnson County K-8	1,462
36	Bradley	Bradley County Virtual School	242	52	Greene	Greene Online Academy of Learning	79	21	Johnson	Tennessee Connections Academy Johnson County 9-12	1,059
41	Campbell	North Cumberland Online School	no data	53	Greene	Tennessee Online Public School at Greeneville	83				
57	Carter	Carter County Online Academy	130						Knox		TOTAL = 654
16	Cheatham	Cheatham County Virtual School	19	35	Hamilton	Hamilton County Virtual School	835	43	Knox	KCS Virtual High School	249
49	Claiborne	Claiborne Virtual Learning Academy	32	51	Hawkins	Hawkins County Virtual Academy	103	48	Knox	KCS Virtual Elementary School	218
	Coffee		TOTAL = 55	5	Haywood	Haywood County Virtual Academy	98	42	Knox	KCS Virtual Middle School	187
29	Coffee	Coffee County Virtual Academy	31	8	Henry	Henry County Virtual Academy	126				
28	Coffee	Tulahoma Virtual Academy	24	12	Hickman	Hickman County Learning Academy	18	40	Lauderdale	The iLearn Institute at Lenoir City Schools	91
				11	Houston	Houston County Virtual Academy	no data	15	Lawrence	Pioneer Virtual Academy	89

**The numbers next to each county correspond to the map*

List of Virtual Schools in Tennessee (Continued)

#	County	School Name	ADM	#	County	School Name	ADM	#	County	School Name	ADM
23	Lincoln	Lincoln Central Virtual Academy	78	9	Perry	Perry County Virtual School	35		Sullivan		TOTAL = 199
6	Madison	Jackson Academic STEAM Academy	471	37	Polk	Polk Innovative Learning Academy	83	55	Sullivan	Sullivan County Virtual Learning Academy	no data
		Marion	TOTAL = 117	33	Putnam	Putnam County VITAL	384	58	Sullivan	Tennessee Online Public School at Bristol	34
31	Marion	Marion Virtual Elementary School	33	38	Roane	Roane County Virtual Academy	132	58	Sullivan	Tennessee Online Public School	165
32	Marion	Marion Virtual High School	84	18	Robertson	Robertson Co. Virtual School	75				
				24	Rutherford	Rutherford County Virtual School	461	25	Sumner	E B Wilson	224
17	Maury	Virtual Academy of Maury County	101		Shelby		TOTAL = 1,334		Union		TOTAL = 3,036
7	McNairy	McNairy County Virtual School K-12	38	3	Shelby	Germantown Online Academy of Learning	83	47	Union	Tennessee Virtual Junior High School	no data
39	Monroe	Monroe County Virtual School	no data	1	Shelby	Memphis Virtual School	985	46	Union	Tennessee Virtual Academy	3,036
14	Montgomery	CMCSS K-12 Virtual School	1,072	4	Shelby	Collierville Virtual Academy	266				
34	Overton	Overton County Virtual School	no data	2	Shelby	Memphis Virtual Adult High School	no data	30	Warren	Warren Connect	89

*The numbers next to each county correspond to the map

List of Virtual Schools in Tennessee (Continued)

#	County	School Name	ADM
	Washington		TOTAL = 264
54	Washington	Tennessee Virtual Learning Academy	110
56	Washington	Johnson City Virtual Academy	154
10	Wayne	Wayne County Virtual School	12
19	Williamson	Vanguard Virtual High School	245
24	Wilson	Barry Tatum Virtual Learning Academy	222
		Grand TOTAL	14,564

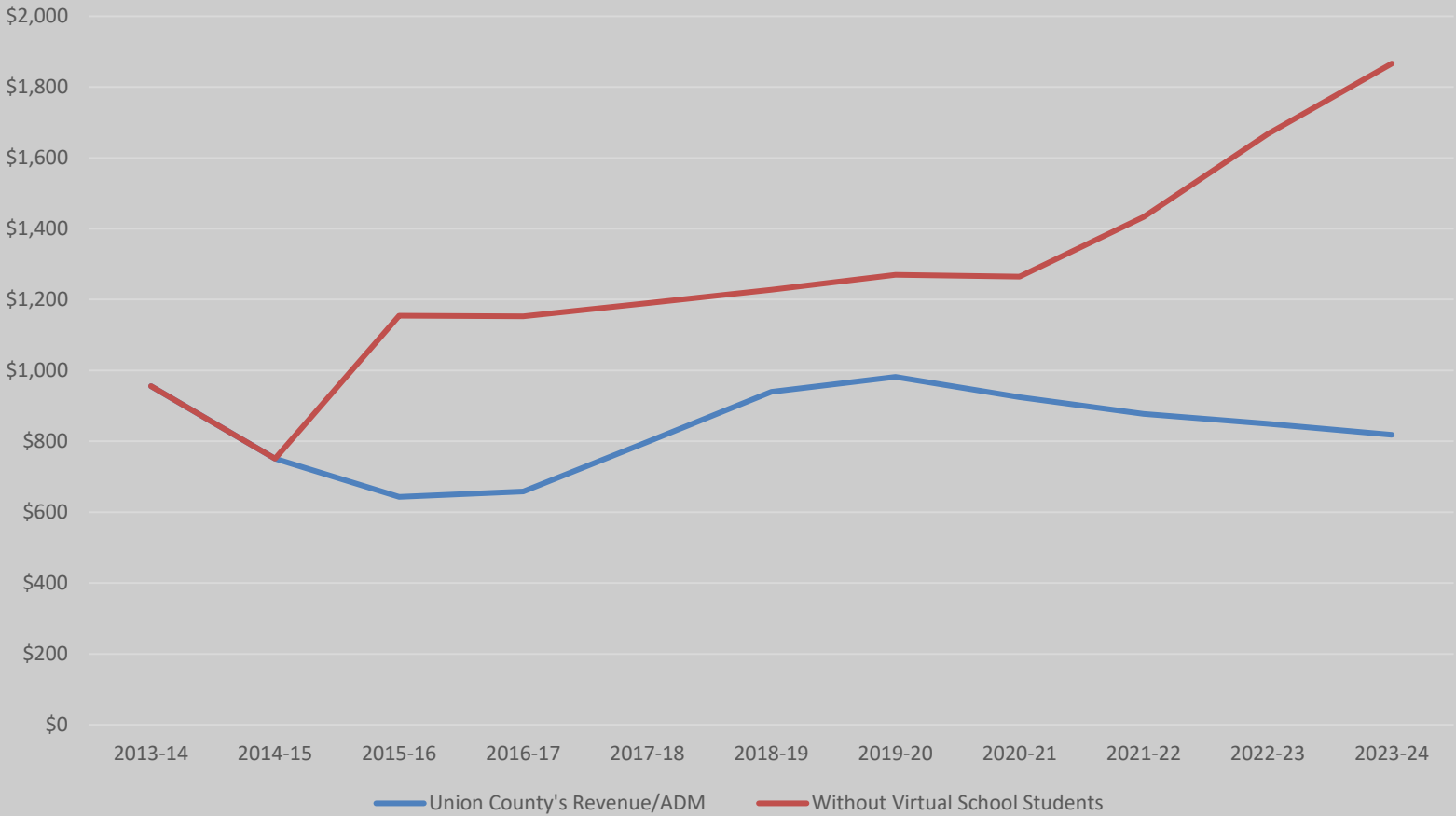
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Counties with Virtual Schools

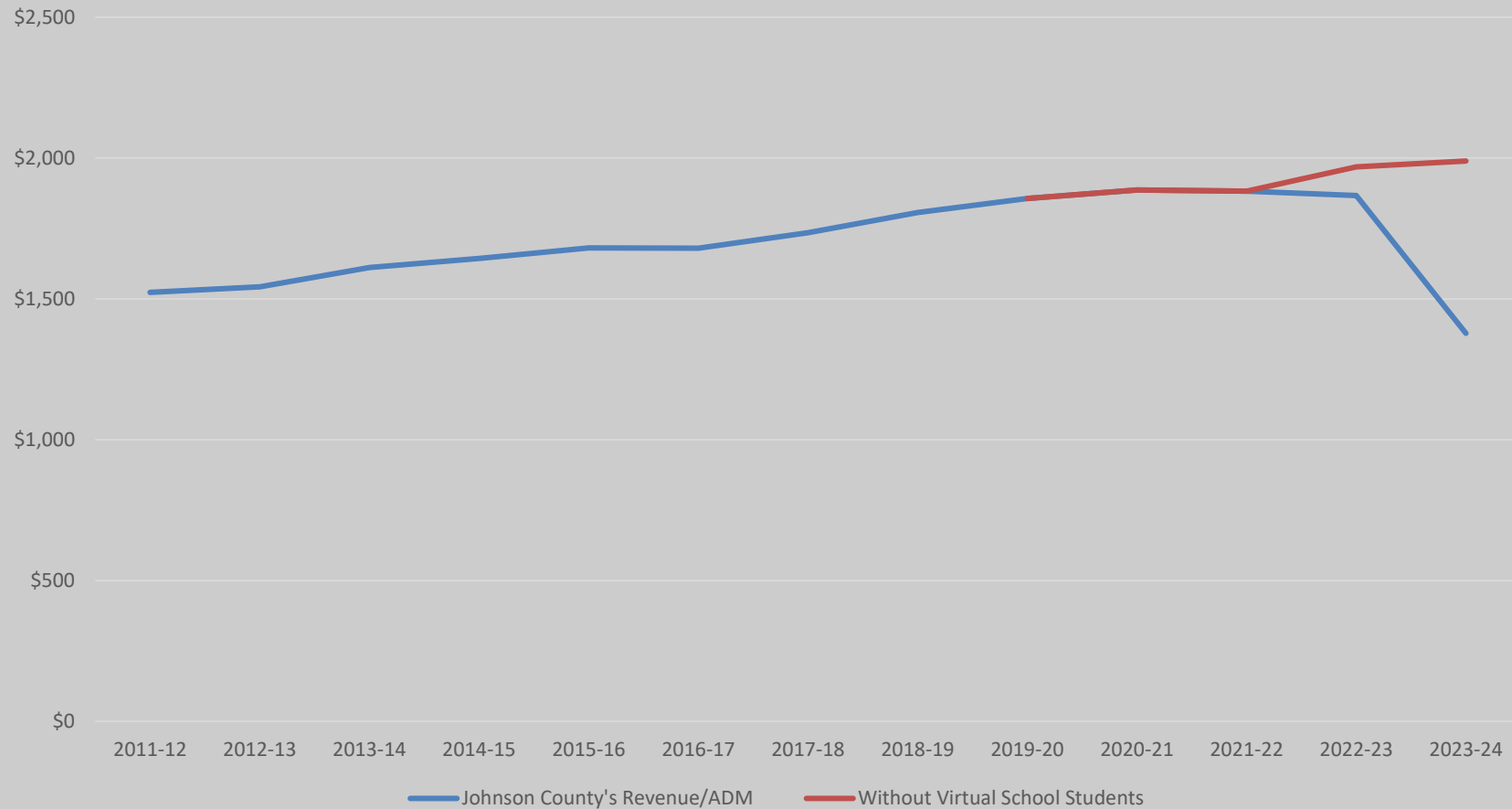
- For the 2023-24 fiscal capacity calculations, Union and Johnson Counties have the largest statewide virtual enrollment in the state.
- The effect of including their virtual school students in the fiscal capacity calculations, keeping all else the same, was a \$1.2 million increase in state funding for Union and Johnson counties and a \$1.2 million decrease in state funding for the other 93 counties.



Union County's Local Revenue Per Student



Johnson County's Local Revenue Per Student

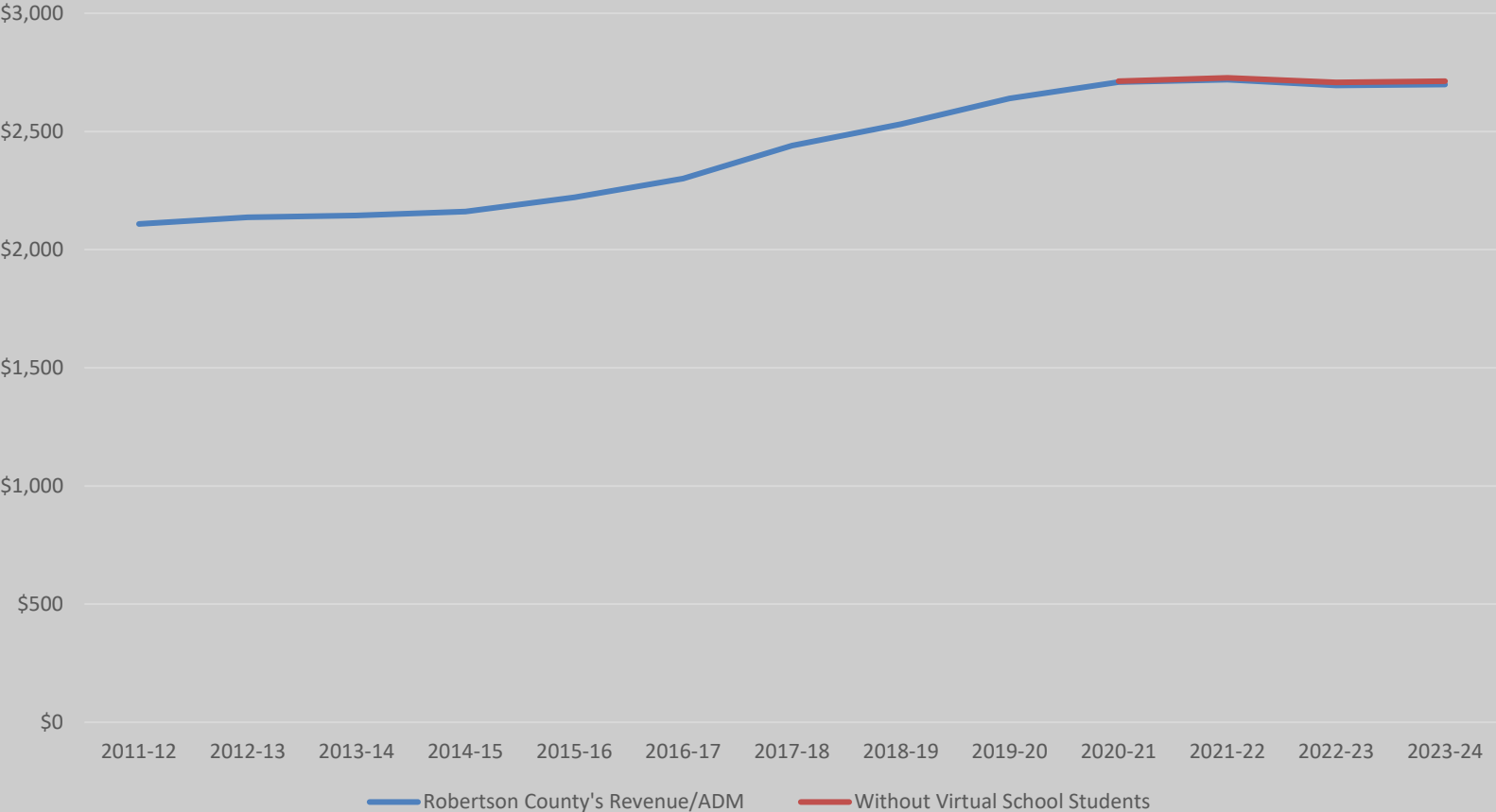


Robertson County – Virtual School

- Robertson County has both in-district and statewide virtual schools.
- The statewide virtual school has not been renewed and many of those students will be absorbed by Johnson County’s virtual school, likely decreasing Johnson County’s local revenue per student in fiscal capacity calculations for the 2024-25 school year.
- The effect of the statewide virtual school students can be seen in the county’s local revenue per student (*next slide*).



Robertson County's Local Revenue Per Student



Monitoring the Service Responsibility Factor

- The influence of the service responsibility variable (average daily membership divided by population) has decreased to the point where, in some years, it unintentionally increases fiscal capacity for counties with greater service responsibilities and decreases their state funding.



Transitioning to a School-System-Level Model

- A system level model would take into account intra-county disparities, such as counties' relative lack of access to unshared tax bases and the concentration of commercial and industrial tax bases within cities, which leaves counties with less ability to raise local revenue for county school systems when compared with city school systems and special school districts in the same county
- Calculating fiscal capacity at the school-system-level can decrease these disparities while adhering to principles of taxpayer equity.

