



TACIR

The Tennessee Advisory Commission
on Intergovernmental Relations



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MEMORANDUM

TO: Commission Members

FROM: Cliff Lippard 
Executive Director

DATE: 28 September 2023

SUBJECT: Fiscal Capacity User Guide—Update

Following the adoption of a new K-12 education funding formula, the Tennessee Investment in Student Achievement Act (TISA), staff have updated their 2004 information report on fiscal capacity, now entitled *A User's Guide to Fiscal Capacity in the Tennessee Investment in Student Achievement Funding Formula*. Although the state's funding formula changed, TACIR's fiscal capacity model has not—TACIR continues to use the same model with the same variables as were adopted for use starting in 1992. Over the years, staff have identified potential changes or updates to the model, which are also covered in this user's guide. These potential changes were discussed during the annual presentation of the model to the Commission at its June 2023 meeting.

The purpose of this report is to provide a layman's explanation of concepts such as

- what fiscal capacity is,
- how it differs from fiscal effort,
- why fiscal capacity matters,
- what the TACIR fiscal capacity model is,
- how and why the components of the current county-level fiscal capacity are measured,
- how the factors are used to estimate county-area fiscal capacity,
- how and why the fiscal capacity index is computed, and
- how the fiscal capacity index is used in the TISA formula.