



**TACIR**



# Annual Report on Fiscal Capacity

Michael Mount  
Senior Research Associate

May 3, 2018

[www.tn.gov/tacir](http://www.tn.gov/tacir)



# Four Steps in Determining BEP Funding

- 1. Basic Education Program Funding Formula:** Establishes total amount needed by each school system
- 2. Local Share, State Share:** Set by law to divide responsibility between the state and local governments
  - **Instructional salary and wages costs:** 30% local, 70% state
  - **Instructional benefit costs:** 30% local, 70% state
  - **Other classroom costs:** 25% local, 75% state
  - **Non-classroom costs:** 50% local, 50% state
    - School system will receive no less than a 25% state share in non-classroom components (Davidson and Sevier receive a 25% state share in non-classroom because of this provision)
- 3. Fiscal Capacity:** Used to allocate local share among counties
- 4. State makes up the difference:** Total cost of the BEP minus the local share for each school system

50-50 TACIR-CBER

TACIR



# Fiscal Capacity

## Answers the question

How much must each local government contribute to the BEP?

## 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 BEP 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 Burden):** 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 of 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 Burden 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.

- A county whose fiscal capacity grows faster than the 95-county average will increase its share and vice versa.
- Trousdale County's property tax base per student increased significantly in FY 2016. The result is that Trousdale County's share of statewide fiscal capacity has increased.





# Trousdale Turner Correctional Facility



**TACIR**

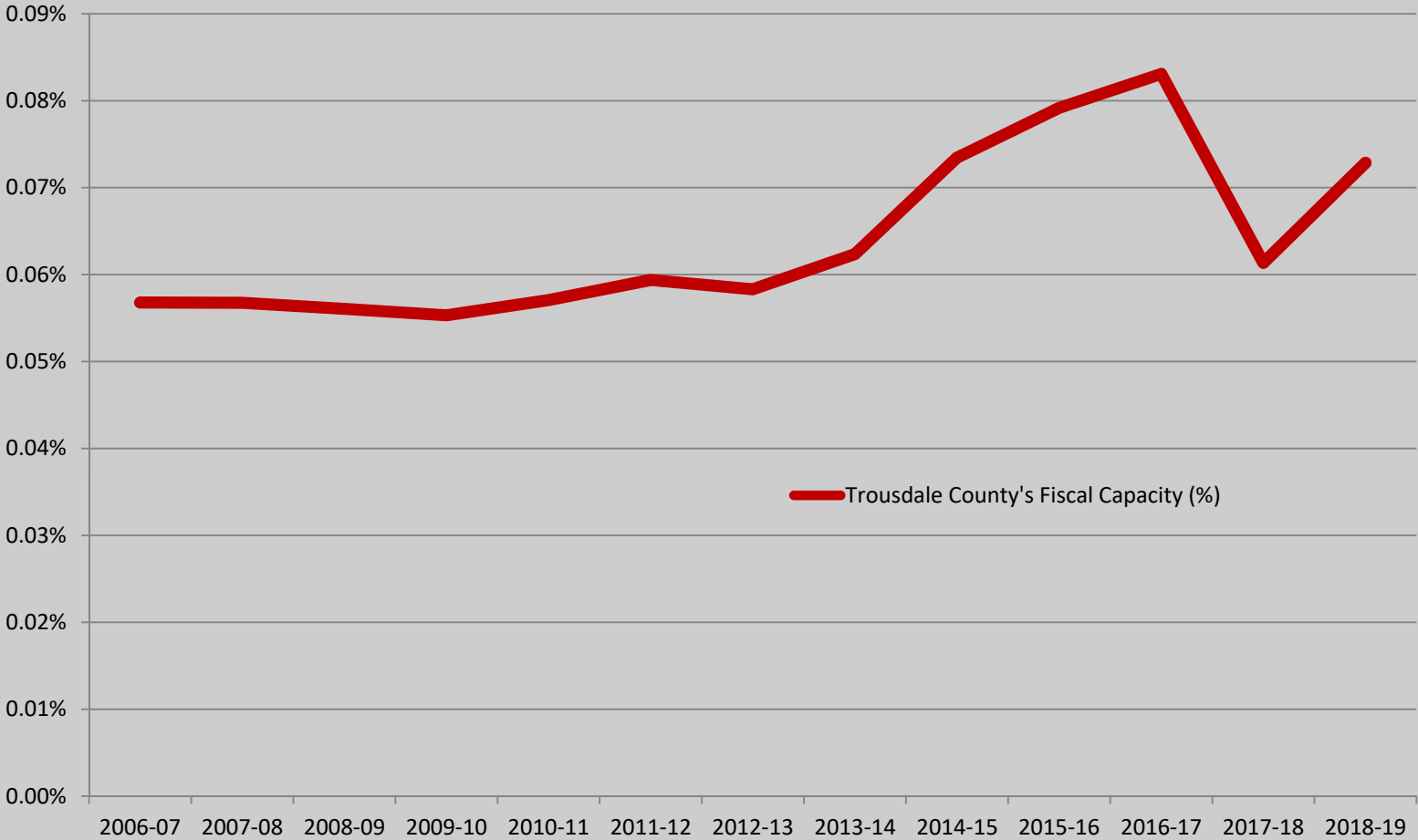


# Trousdale Turner Correctional Facility

- Assessment for Prison: \$54.1 million
- Trousdale's FY 2015 industrial/commercial assessment: \$17.3 million
- Trousdale's FY 2016 industrial/commercial assessment: \$73.7 million (\$56.4 million increase)



# Trousdale County's Fiscal Capacity (%)







# TACIR Recommendation in January 2018 report on Payment in Lieu of Tax Agreements

“TACIR’s fiscal capacity calculation should be updated to include current IDB assessment amounts rather than the 1993-1995 PILOT payments data currently used. This would require a change in state law or a recommendation by the BEP Review Committee and approval by the General Assembly.”



# TACIR Recommendation in January 2018 report on Payment in Lieu of Tax Agreements

- PILOT agreements affect state funding of education through their effect on property tax assessments, which are used to calculate each county's fiscal capacity.
- The TACIR model uses Tax Equivalent Payments, which have not been updated since 1995.
- The CBER model, the state's other fiscal capacity model, already uses IDB assessment data.



# TACIR Recommendation in January 2018 report on Payment in Lieu of Tax Agreements

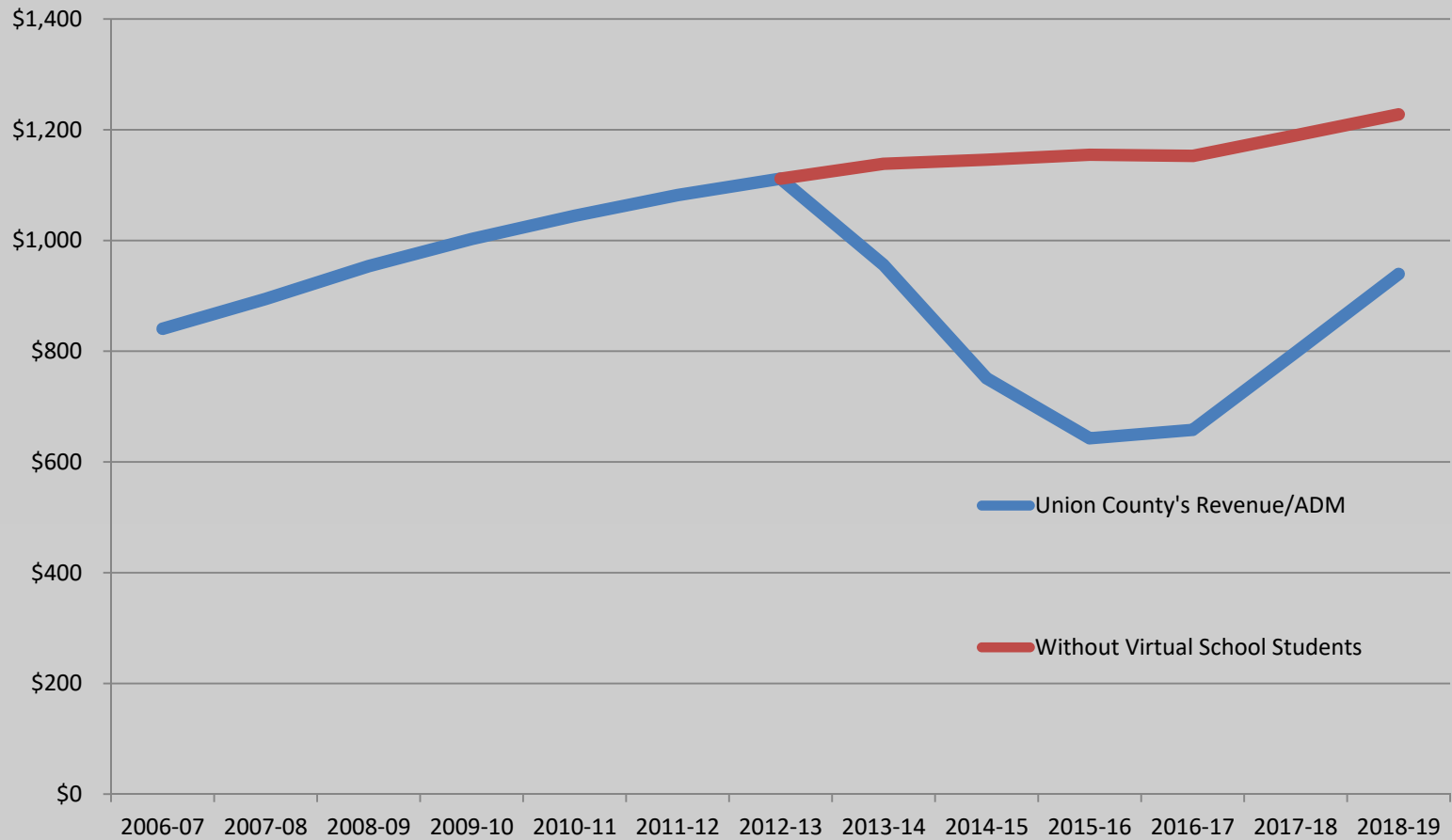
Going from using 1993-1995 tax equivalent payments data to IDB PILOTs data:

- the average percent change in counties' TACIR fiscal capacity percent would be 0.6%,
- 41 counties' fiscal capacities would increase and 54 would decrease.





## Union County's Local Revenue per Student



**As fiscal capacity for Union County decreases, the other 94 counties are responsible for a greater share of the BEP local match.**

