



SNAPSHOT

Comptroller Evaluation of Fiscal Capacity Formula

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Public Chapter 966 (2022), the Tennessee Investment in Student Achievement (TISA) Act, requires the Comptroller of the Treasury to evaluate the fiscal capacity calculation, which is used to determine the percentage of total local funding each county must contribute to K-12 education. The fiscal capacity calculation is intended to estimate the ability of counties to raise local revenues. Each county's estimated ability is then used to fairly and equitably distribute state funding, and thus equalize education opportunities for Tennessee students, regardless of where they live.

The act requires the fiscal capacity of each county to be determined from the average of the fiscal capacity estimates generated by the formula established by the Boyd Center for Business and Economic Research at the University of Tennessee and the formula established by the Tennessee Advisory Commission on Intergovernmental Relations (TACIR). *The Comptroller's 2023 evaluation found that both formulas appear to be reasonable methods for estimating fiscal capacity.* The evaluation does not include any recommended changes.

The combined fiscal capacity calculation of 50 percent TACIR and 50 percent Boyd Center has remained unchanged since it was first implemented in 2007, largely because any change – such as reverting to a 100 percent TACIR-based estimate or shifting to a 100 percent Boyd Center estimate – would impact counties' fiscal capacities and could result in significant increases and decreases in state funding amounts for some school districts.

The Comptroller's 2023 evaluation includes three policy considerations, which suggest that:

- the State Board of Education consider requiring, as part of a process for any future proposals to change the fiscal capacity models, the inclusion of a rationale for the proposed change, the expected impact of the proposed change, and methods for implementing the proposed change, among other factors;
- TACIR consider proposing an update to the data source used in its model for the assessment value of tax-exempt property under Industrial Development Board (IDB) agreements; and
- the State Board and the Department of Education determine on which of their websites fiscal capacity data should be posted, as required by law.

To read the report, visit the Comptroller's OREA website at tncot.cc/orea.