

# ANNUAL REPORT ON FISCAL CAPACITY

TENNESSEE ADVISORY COMMISSION ON  
INTERGOVERNMENTAL RELATIONS

June 11, 2015

# 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 costs:*** 30% local, 70% state (phasing up to 75% state via appropriations bill)
  - ***Other classroom costs:*** 25% local, 75% state
  - ***Non-classroom costs:*** 50% local, 50% state
- 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

# 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 to Determine Fiscal Capacity

- **Own-Source Revenue Per Pupil:** 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.
- **Taxable Sales Per Pupil:** 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 Pupil:** 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.
- **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.

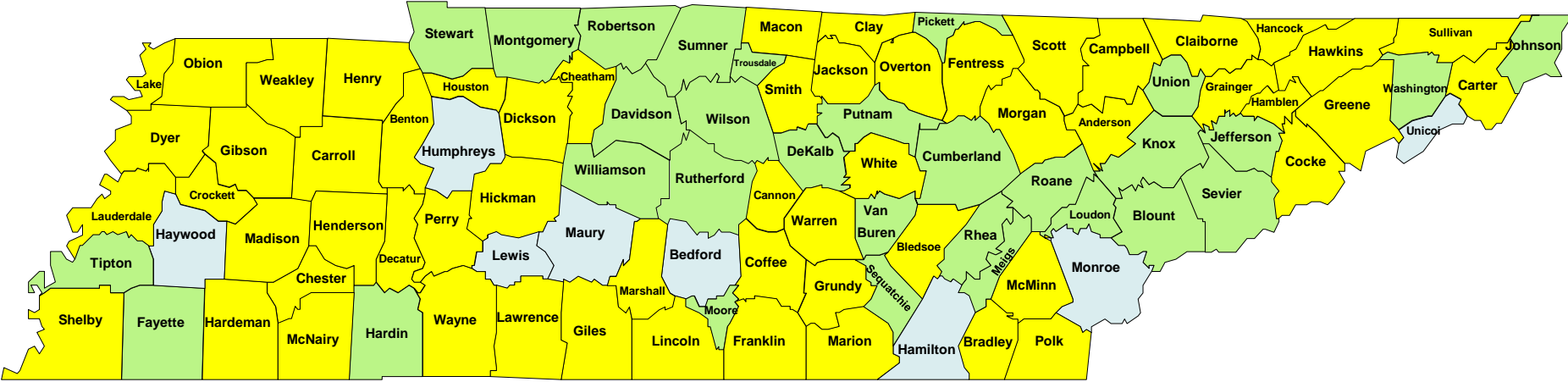
# Effect of Changes in Fiscal Capacity Factors

**The relationship between fiscal capacity and specific variables (other things being equal)**

<b>Factor Increases...</b>	<b>Effect of Fiscal Capacity</b>	
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	↓

# Long Term Fiscal Capacity Trends by County

*5-year average compared with 15-year average*

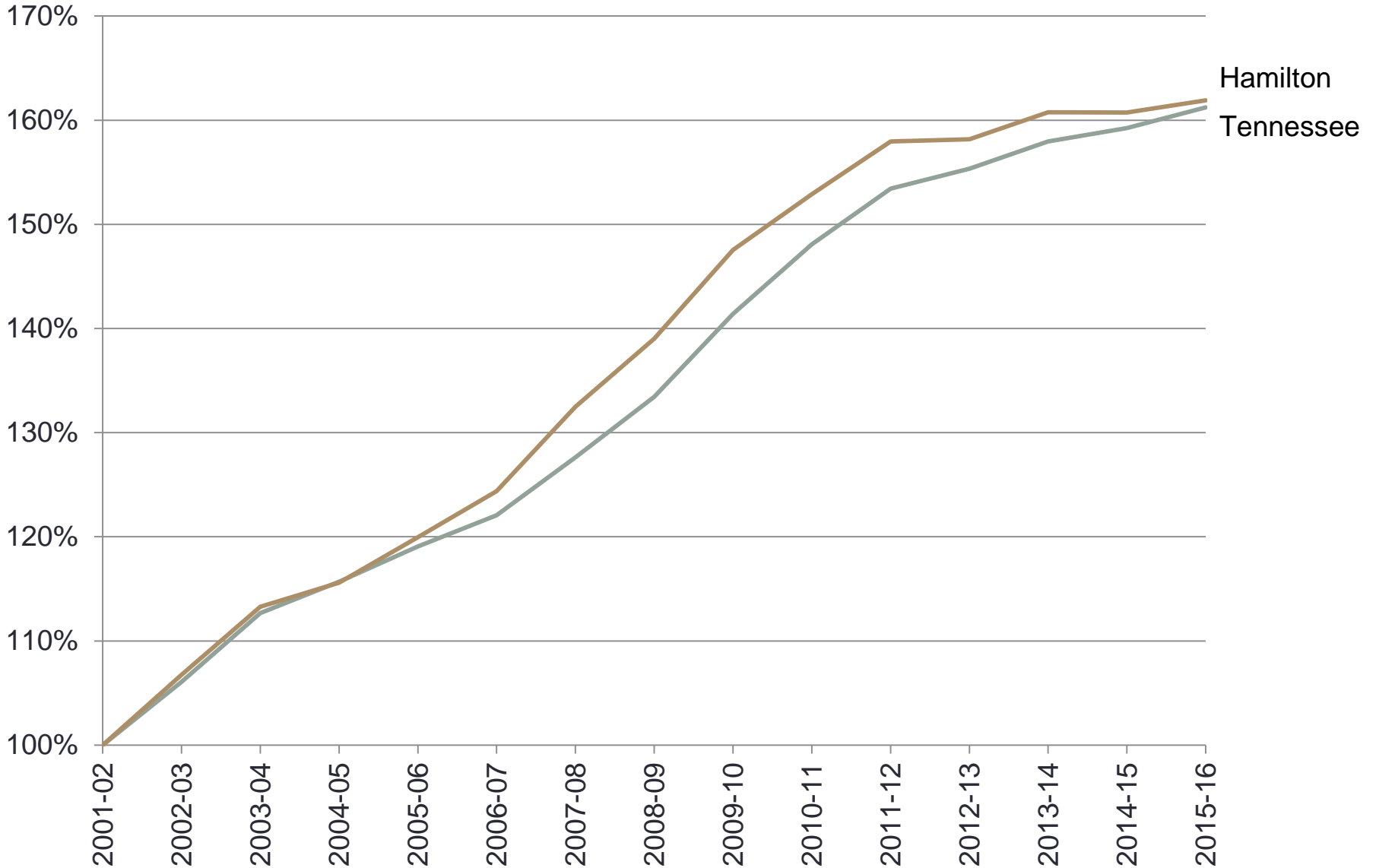


### TREND

- UP
- STEADY
- DOWN

# Combined Tax Base per Student (Sales and Property) as a Percentage of 2001-02 Combined Tax Base per Student

*2001-02 to 2015-16 Models\**



\*Fiscal capacity models use three-year average tax bases.

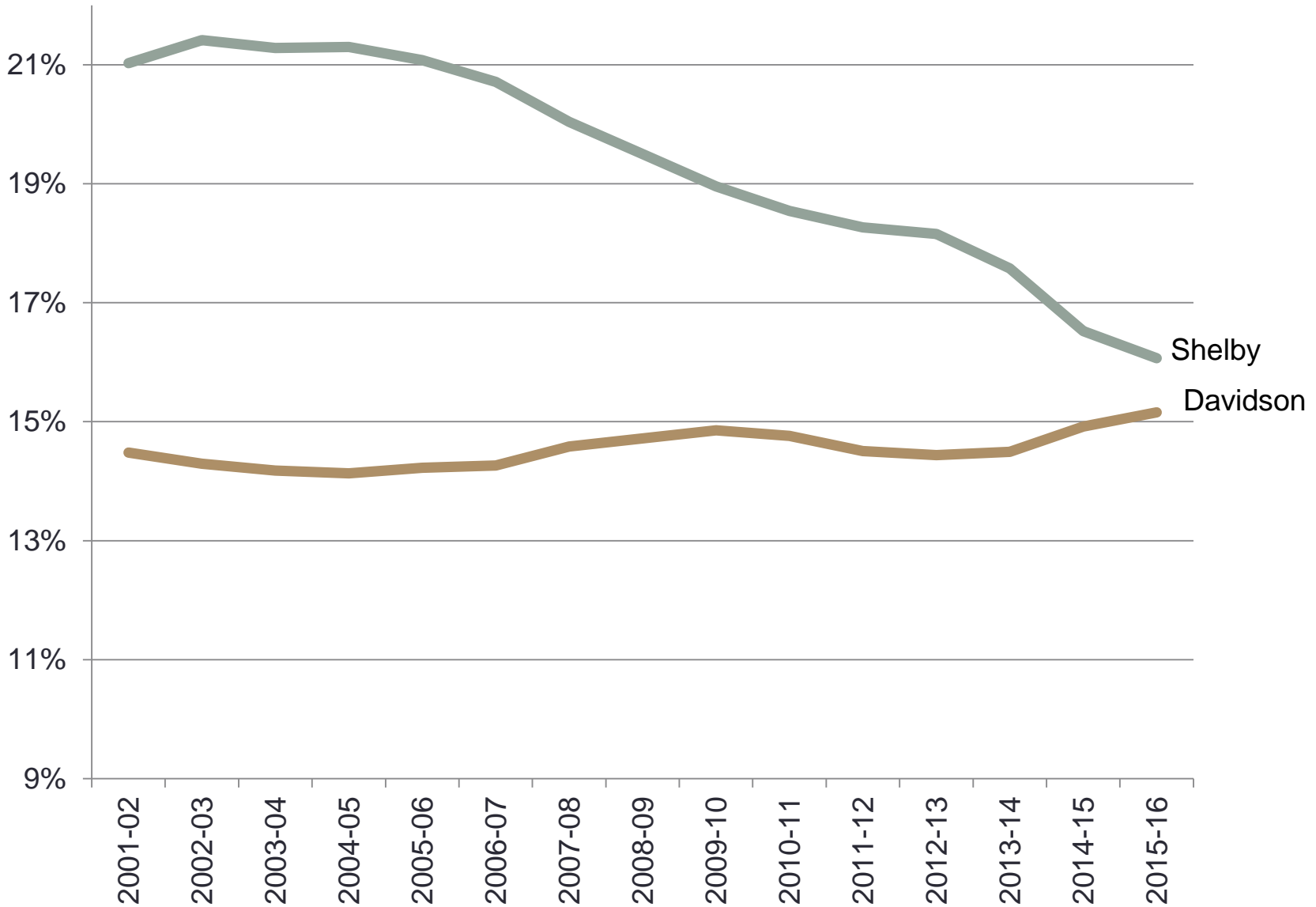


"Now, here, you see, it takes all the running you can do, to keep in the same place."  
-Lewis Carroll



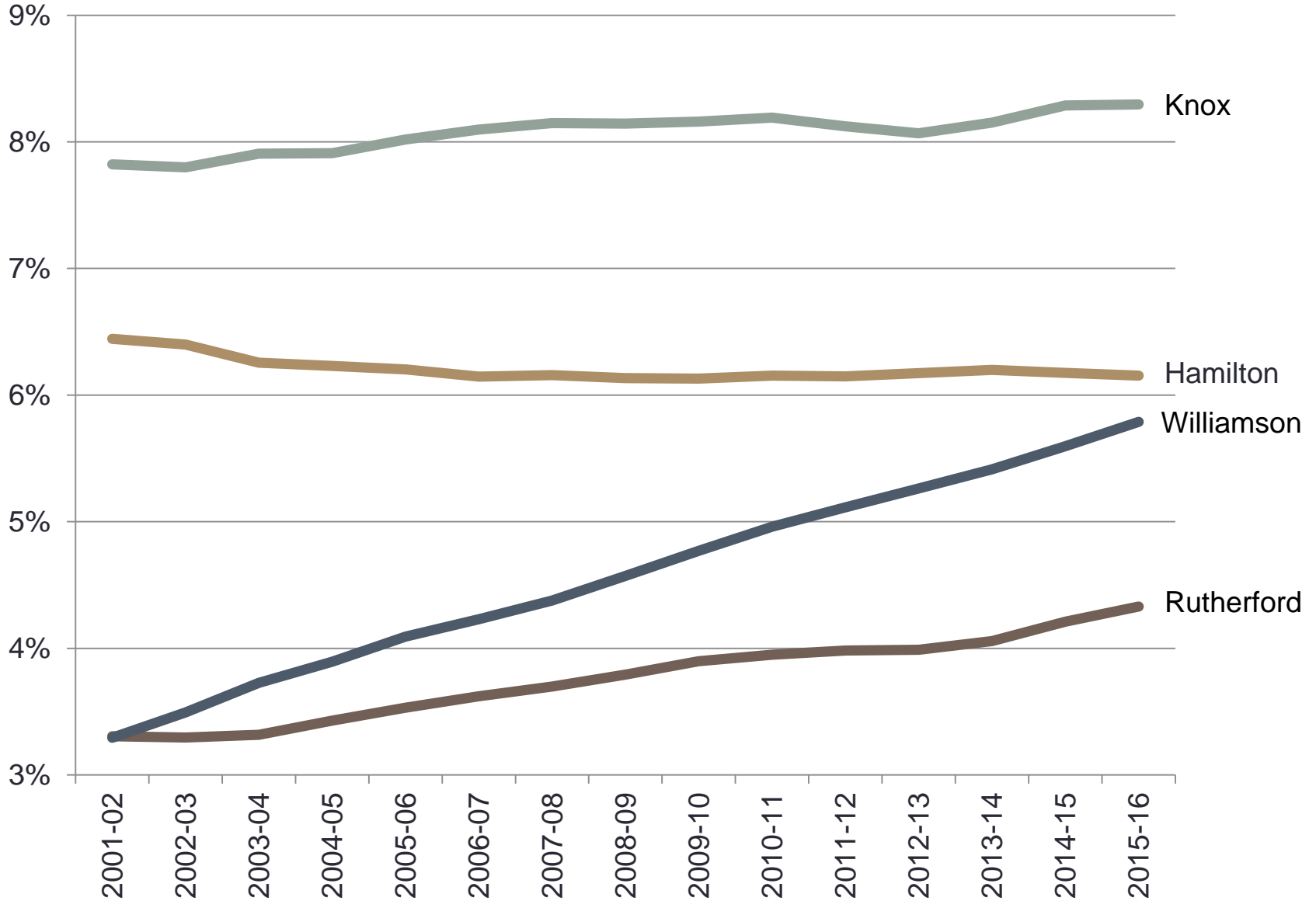
# Percentage of Total Fiscal Capacity

2001-02 to 2015-16



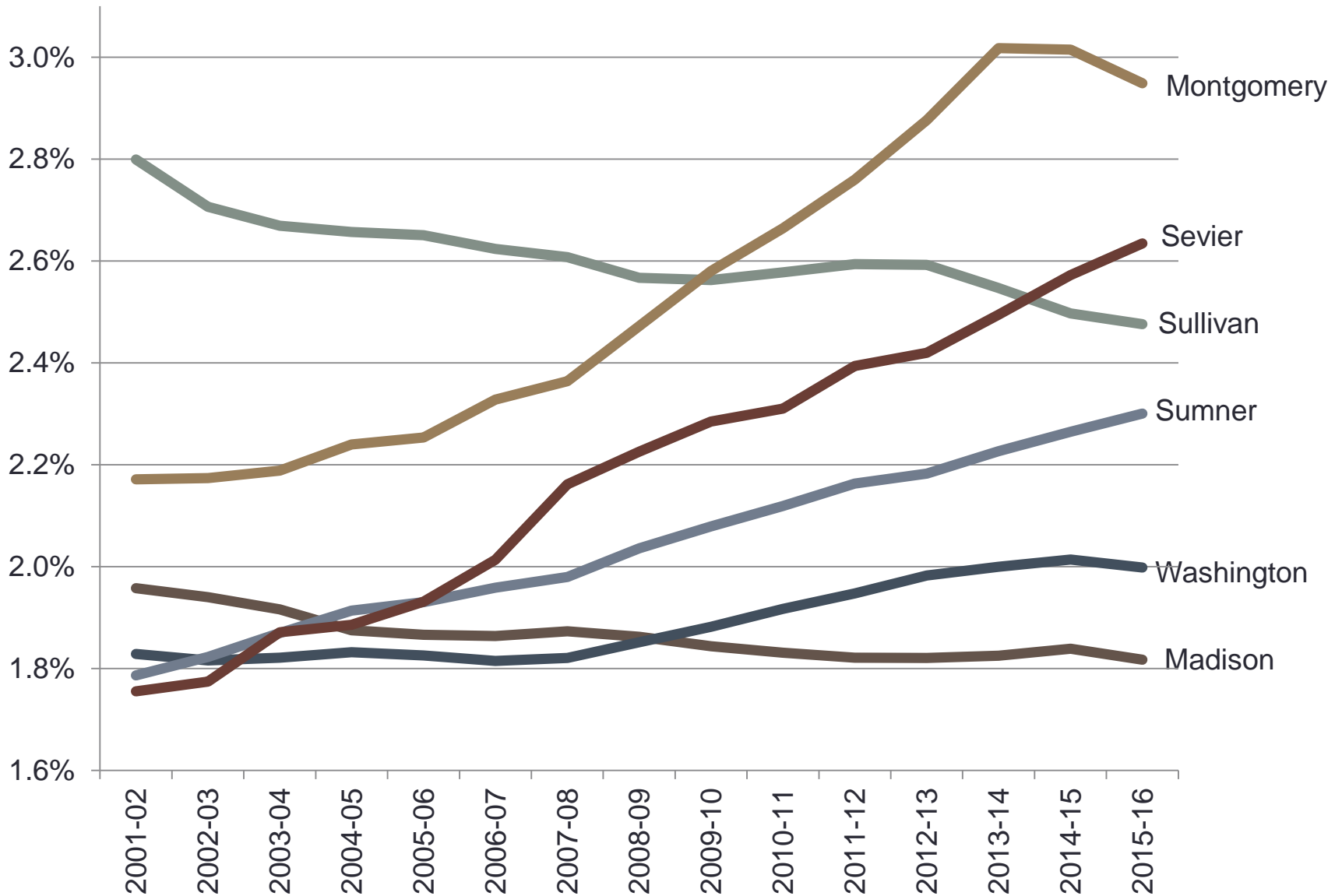
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2001-02 to 2015-16



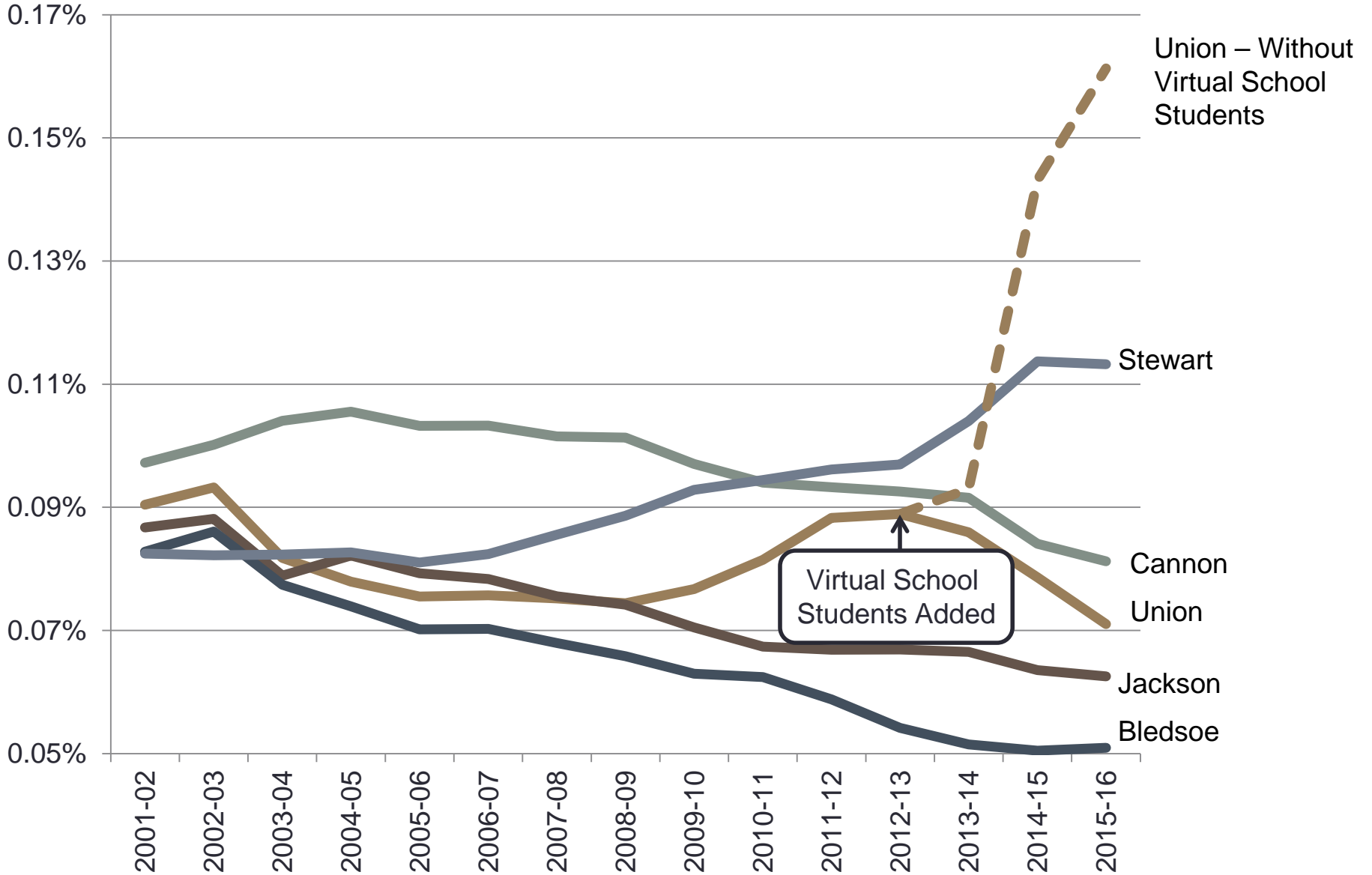
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2001-02 to 2015-16



# Percentage of Total Fiscal Capacity

2001-02 to 2015-16



# Union County's Local Revenue per Student

