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MEMORANDUM

TO: Dr. Sara Heyburn Morrison, Executive Director
Tennessee State Board of Education

Dr. Candice McQueen, Commissioner
Tennessee Department of Education

FROM: Cliff Lippard
Executive Director

DATE: 23 May 2018

SUBJECT: Recommended change to fiscal capacity model

Consistent with earlier recommendations by TACIR staff to the BEP Review Committee,¹ the commission, in its January 2018 report, *Encouraging More Cooperation and Accountability in Payment in Lieu of Tax Agreements*, recommended that TACIR's fiscal capacity calculation should be updated to include current IDB assessment amounts rather than the 1993-1995 PILOT payments data currently used.² The commission noted in its report that the recommendation would require a change in state law or a recommendation by the BEP Review Committee and approval by the General Assembly. We respectfully request that the BEP Review committee consider this recommendation and at their earliest convenience provide a response.

When the Tennessee Advisory Commission on Intergovernmental Relations (TACIR) first calculated fiscal capacity for the 1992-93 school year, payments in lieu of taxes (PILOT) were converted into assessments and then added to property tax assessments for properties generating payments in lieu of taxes. This PILOT payment data was produced by the Comptroller of the Treasury's Division of Local Finance as part of its County and Municipal Finances report, which was discontinued in 1995. The result is that changes in assessments based on PILOTs are not reflected in TACIR's model.

Beginning in 2007, the Comptroller began collecting industrial development board (IDB) assessment data, which is used by the University of Tennessee Center for Business and Economic Research (CBER) for its fiscal capacity model. If the General Assembly approved using current IDB assessment amounts in TACIR's model rather than the 1993-1995 PILOT payments data currently used, the TACIR fiscal capacity model would use the most current data available, and it would be consistent with the data used in the CBER fiscal capacity model.

As with any change to fiscal capacity calculations, some counties would see an increase in their percentage of state funding, and others would see a decrease. Using IDB assessment data instead of 1993-1995 PILOT payments data in TACIR's 2017-18 fiscal capacity model, the average percent change in fiscal capacity across counties would be 0.6%, with 42 counties' fiscal capacities increasing, and 53 decreasing. The Department of Education has provided an analysis of how this change would affect each school system's BEP funding (see attachment). In this analysis, changes in equalized state share funding (not adjusted for stability payments) range from a \$433,000 decrease (Montgomery County) to a \$583,000 increase (Knox County).

C: Senator Mark Norris

Nathan James, Director of Legislative and External Affairs, Tennessee State Board of Education

¹ In a 2005 presentation to the BEP Review Committee, TACIR recommended removing outdated tax equivalency data from the property tax calculation used in the model (see https://www.tn.gov/content/dam/tn/tacir/documents/BEPRC_Presentation_July_15_2005.pdf). No action was taken. The issue was raised again as part of the discussions during Governor Haslam's 2014 Task Force on Education Funding, with TACIR staff recommending that more current payment in lieu of tax data be substituted for the outdated tax equivalency payment data. Again, no action was taken.

² See https://www.tn.gov/content/dam/tn/tacir/2018-publications/2018_PILOT%20Agreements.pdf, p. 9.