



TACIR



Fiscal Capacity in the BEP Formula—the TACIR Model

*A presentation to Governor Haslam's
Task Force on Education Funding*

Lynnise Roehrich-Patrick
Executive Director, TACIR

7 May 2014

www.tn.gov/tacir



Why Equalize Education Funding?

- Tennessee's Constitution requires substantially equal educational opportunity for all students.
- Different local governments cannot raise the same amount of revenue per student with the same tax rates.
- The state must make up the difference.

TACIR



*If a county has a relatively low total assessed value of property and very little business activity, that county has, in effect, **a stone wall** beyond which it cannot go in attempting to fund its educational system regardless of its needs. In those cases, **local control is truly a “cruel illusion”** for those officials and citizens who are concerned about the education of the county’s school children.*

Tennessee Supreme Court, 1993

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 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



Major Fiscal Capacity Principles

I

Fiscal capacity should be estimated from a comprehensive, balanced tax base.

II

Fiscal capacity should focus on economic bases rather than policy determined revenue bases.

III

Tax base estimates should be as current and accurate as possible.

IV

Similarly situated taxpayers should be treated similarly in terms of taxes paid and the services received.

V

Tax exportability should be measured—resident taxpayers in different jurisdictions should have similar fiscal burdens.

VI

Fiscal capacity measures should reflect service responsibilities that vary across jurisdictions.

VII

Estimates should be based on multiyear averages to mitigate data and statistical errors.

TACIR



Major Fiscal Capacity Principles

I

Fiscal capacity should be estimated from a **comprehensive, balanced tax base**.

II

Fiscal capacity should focus on economic bases rather than policy determined revenue bases.

III

Tax base estimates should be as current and accurate as possible.

IV

Similarly situated taxpayers should be treated similarly in terms of taxes paid and the services received.

V

Tax exportability should be measured—resident taxpayers in different jurisdictions should have similar fiscal burdens.

VI

Fiscal capacity measures should reflect service responsibilities that vary across jurisdictions.

VII

Estimates should be based on multiyear averages to mitigate data and statistical errors.

TACIR



Major Fiscal Capacity Principles

I

Fiscal capacity should be estimated from a **comprehensive, balanced tax base**.

II

Fiscal capacity should focus on **economic bases rather than policy determined revenue bases**.

III

Tax base estimates should be as current and accurate as possible.

IV

Similarly situated taxpayers should be treated similarly in terms of taxes paid and the services received.

V

Tax exportability should be measured—resident taxpayers in different jurisdictions should have similar fiscal burdens.

VI

Fiscal capacity measures should reflect service responsibilities that vary across jurisdictions.

VII

Estimates should be based on multiyear averages to mitigate data and statistical errors.

TACIR



Major Fiscal Capacity Principles

I

Fiscal capacity should be estimated from a **comprehensive, balanced tax base**.

II

Fiscal capacity should focus on **economic bases rather than policy determined revenue bases**.

III

Tax base estimates should be as **current and accurate** as possible.

IV

Similarly situated taxpayers should be treated similarly in terms of taxes paid and the services received.

V

Tax exportability should be measured—resident taxpayers in different jurisdictions should have similar fiscal burdens.

VI

Fiscal capacity measures should reflect service responsibilities that vary across jurisdictions.

VII

Estimates should be based on multiyear averages to mitigate data and statistical errors.

TACIR



Major Fiscal Capacity Principles

I

Fiscal capacity should be estimated from a **comprehensive, balanced tax base**.

II

Fiscal capacity should focus on **economic bases rather than policy determined revenue bases**.

III

Tax base estimates should be as **current and accurate** as possible.

IV

Similarly situated taxpayers should be treated similarly in terms of taxes paid and the services received.

V

Tax exportability should be measured—resident taxpayers in different jurisdictions should have similar fiscal burdens.

VI

Fiscal capacity measures should reflect service responsibilities that vary across jurisdictions.

VII

Estimates should be based on multiyear averages to mitigate data and statistical errors.

TACIR



Major Fiscal Capacity Principles

I

Fiscal capacity should be estimated from a **comprehensive, balanced tax base**.

II

Fiscal capacity should focus on **economic bases rather than policy determined revenue bases**.

III

Tax base estimates should be as **current and accurate** as possible.

IV

Similarly situated taxpayers should be treated similarly in terms of taxes paid and the services received.

V

Tax exportability should be measured—resident taxpayers in **different jurisdictions should have similar fiscal burdens**.

VI

Fiscal capacity measures should reflect service responsibilities that vary across jurisdictions.

VII

Estimates should be based on multiyear averages to mitigate data and statistical errors.

TACIR



Major Fiscal Capacity Principles

I

Fiscal capacity should be estimated from a **comprehensive, balanced tax base**.

II

Fiscal capacity should focus on **economic bases rather than policy determined revenue bases**.

III

Tax base estimates should be as **current and accurate** as possible.

IV

Similarly situated taxpayers should be treated similarly in terms of taxes paid and the services received.

V

Tax exportability should be measured—resident taxpayers in **different jurisdictions should have similar fiscal burdens**.

VI

Fiscal capacity measures should reflect **service responsibilities that vary across jurisdictions**.

VII

Estimates should be based on multiyear averages to mitigate data and statistical errors.

TACIR



Major Fiscal Capacity Principles

I

Fiscal capacity should be estimated from a **comprehensive, balanced tax base**.

II

Fiscal capacity should focus on **economic bases rather than policy determined revenue bases**.

III

Tax base estimates should be as **current and accurate** as possible.

IV

Similarly situated taxpayers should be treated similarly in terms of taxes paid and the services received.

V

Tax exportability should be measured—resident taxpayers in **different jurisdictions should have similar fiscal burdens**.

VI

Fiscal capacity measures should reflect **service responsibilities that vary across jurisdictions**.

VII

Estimates should be based on **multiyear averages to mitigate data and statistical errors**.

TACIR



The Starting Point

Fundamental Principles of Equalization

- *Substantially Equal Educational Opportunity for All Students*
- *Comprehensive Measure of Actual Fiscal Structure*
- *Taxpayer Equity*

TACIR



The Starting Point

Fundamental Principles of Equalization

- *Substantially Equal Educational Opportunity for All Students*
- *Comprehensive Measure of Actual Fiscal Structure*
- *Taxpayer Equity*

TACIR



Comprehensive Measure of Actual Fiscal Structure

- *Statutory authority of counties to tax*
- *Statutory authority of cities to tax*
- *Statutory authority of special school districts (SSDs) to tax*
- *Statutory requirement of sharing by counties with cities & SSDs*



Taxpayer Equity

- *Similarly situated taxpayers treated similarly—
consideration of **economic well-being***
- *Differently situated taxpayers treated differently—
consideration of **tax exportability***



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.*



Process

- **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.

TACIR



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, 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, 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

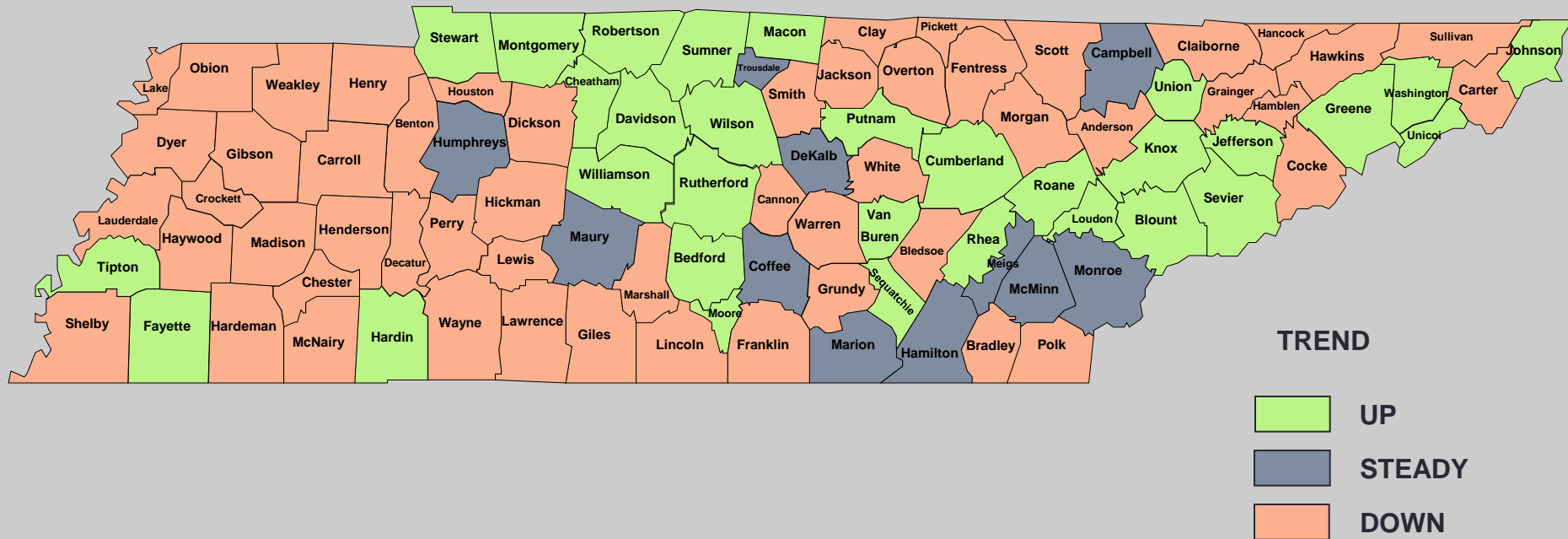
The relationship between fiscal capacity and specific variables (other things being equal)

Factor Increases . . .	Effect on Fiscal Capacity
Property Tax Base	↑Increases
Sales Tax Base	↑Increases
Per Capita Income	↑Increases
Residential & Farm Share of Property	↓Decreases
Service Burden	↓Decreases



Long Term Fiscal Capacity Trends

Fiscal Years 2000 to 2014



TACIR





TACIR



Fiscal Capacity in the BEP Formula—the TACIR Model

*A presentation to Governor Haslam's
Task Force on Education Funding*

Lynnise Roehrich-Patrick
Executive Director, TACIR

7 May 2014

www.tn.gov/tacir

