

TACIR

The Tennessee Advisory Commission
on Intergovernmental Relations



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August 26, 2004

Gary Nixon
Executive Director
State Board of Education
Andrew Johnson Tower, 9th Floor
710 James Robertson Pkwy.
Nashville, TN 37243-1050

Dear Mr. Nixon:

Enclosed is an explanation of the prototype system-level fiscal capacity model developed by TACIR staff. This particular model is only slightly different from the one provided to the Governor's office last October. The differences are two:

- First, the child poverty data used to estimate ability to pay at the system level was updated in November; therefore, the three-year averages used for that particular factor in the model was updated.
- Second, after much research, review and consideration, we have determined that to be consistent both across school systems and with the truly unique fiscal status of the Memphis Special School District, that particular system must be treated as a city school system in the model.

Both issues are fully explained in the attached document.

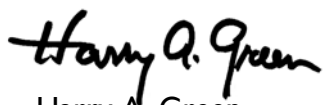
This model is the result of much research and refinement and was produced in close consultation with staff of the Comptroller of the Treasury. It is our consensus position that this prototype is the best possible system-level model that can be produced given current data constraints and the widely varying fiscal structure of Tennessee's 136 school systems. These issues are also fully explained in the attached document.

I feel obligated to point out as you review this prototype that changes will be proposed in the current county model, should it be retained, that have been in discussion for some time. They include the following:

- The current model includes tax equivalency payments that are grossly out of date. The most current data is for 1995. If this data cannot be made more current, we believe it should be removed from the model as it cannot possibly represent the true tax base of counties.
- The current model uses per capita personal income (PCPI) figures from the U.S. Bureau of Economic Analysis (BEA) that are significantly understated in some of the state's smaller counties because residents in group quarters, primarily dormitory residents and prison inmates, are included in the denominator. The BEA itself has stated that with substantial numbers of these residents in the PCPI, it is not an accurate measure of the well being of resident taxpayers. Removing them from the denominator and recalculating PCPI would correct this problem; however, current estimates are not available. TACIR staff will continue to review this problem to arrive at a solution.
- As you know, many cities use general fund transfers to supplement state and county funds to support their schools. With general fund transfers, it is impossible to determine the source of revenue, but it can reasonably be assumed that a significant source for some cities is state-shared tax revenue. To ensure consistency across systems and counties, it is therefore necessary to include state-shared tax revenue for all systems to the extent it is actually used to support schools. This information is readily available from the Department of Education. To ensure consistency within the model between the actual revenue component and the tax base component, it is likewise necessary to include all available state-shared tax revenue (i.e., excluded that which is otherwise earmarked) as a factor to measure that component.
- Since the inception of the BEP, TACIR's fiscal capacity model has included a service responsibility component. This component has been measured by dividing the number of students in public schools by the population for each county. Clearly, the BEP formula itself has become a much more comprehensive measure of the education service responsibility in each county such that we now believe inclusion of this factor in the fiscal capacity model effectively creates a double counting of the burden. To ensure against this double counting, the factor should be revised to account for only that burden not addressed by the BEP formula, or it should be removed entirely if appropriate.

I look forward to discussing all of these matters with you at the meeting in September, and I welcome your comments there or at any time. Please call if you have questions.

Sincerely,



Harry A. Green
Executive Director