

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



**CORRECTED
FISCAL NOTE**

SB 987 - HB 1109

March 24, 2017

SUMMARY OF BILL: Deletes the existing requirement for a student to meet one of the following in order to qualify for the Individualized Education Account (IEA) Program: (1) was previously enrolled in a Tennessee public school during the previous two semesters; (2) is attending a Tennessee school for the first time; or (3) received an IEA in the previous academic year.

ESTIMATED FISCAL IMPACT:

On March 7, 2017, a fiscal note was issued for this bill with the following estimated impact:

Increase State Revenue –

\$5,000/FY18-19/Department of Education

\$5,400/FY19-20/Department of Education

\$5,500/FY20-21/Department of Education

Exceeds \$5,500/FY21-22 and Subsequent Years/Department of Education

*Increase Local Expenditures – Exceeds \$37,400/FY18-19**

Other Fiscal Impact – For local education agencies (LEAs) with students that opt to participate in the IEA program, the net shift of state and required local BEP funding from these local education agencies to the participating entities, is estimated as follows: \$119,600 in FY18-19; \$129,400 in FY19-20; \$133,300 in FY20-21; and amounts exceeding \$133,300 in FY21-22 and subsequent years.

Based on updated information provided by the Department of Education (DOE) relating to the number of eligible students, the estimated fiscal impact has been corrected as follows:

(CORRECTED)

Increase State Revenue –

\$77,800/FY18-19/Department of Education

\$81,700/FY19-20/Department of Education

\$85,800/FY20-21/Department of Education

Exceeds \$85,800 /FY21-22 and Subsequent Years/Department of Education

Increase Local Expenditures – Exceeds \$583,500/FY18-19*

SB 987 - HB 1109 (CORRECTED)

Other Fiscal Impact – For local education agencies (LEAs) with students that opt to participate in the IEA program, the net shift of state and required local BEP funding from these local education agencies to the participating entities is estimated as follows: \$1,867,300 in FY18-19; \$1,961,600 in FY19-20; \$2,059,400 in FY20-21; and amounts exceeding \$2,059,400 in FY21-22 and subsequent years.

Corrected Assumptions:

- Though the exact number of additional participating students is unknown, it is reasonably estimated that a minimum of 281 additional students will participate beginning in FY18-19 as a result of the legislation. This is equivalent to at least one percent of the total eligible population of 28,135 as projected by the DOE
- The number of participating students is estimated to grow by 2.5 percent per year.
- In order to participate in the IEA program, the student must have an Individualized Education Plan (IEP).
- To receive an IEP, the student must be enrolled in school at least 60 calendar days.
- For the purposes of this fiscal note, it is assumed that the student should be weighted a maximum of 70 percent for the purposes of calculating the Average Daily Membership (ADM), which drives the BEP funding formula; therefore, in FY18-19, for students leaving an LEA and instead pursuing an IEA, a maximum of 70 percent of the funding for that student is assumed to be covered by the BEP, and a minimum of 30 percent will be covered by LEAs where the requisite students studied before entering the IEA program.
- The state and local Per Pupil Expenditures (PPE), which make up the scholarships for each student is currently \$6,922.
- The PPE is estimate to increase by 2.5 percent per year.
- In FY18-19, and given the assumption the requisite students are weighted at a maximum of 70 percent for the purpose of calculating the ADM, the mandatory one-time increase in local government expenditures is estimated to exceed \$583,525 ($\$6,922 \times 281$ students \times minimum 30.0%) in FY18-19.

Assumptions relative to BEP Transfer and State Revenue

- The number of participating students is estimated to increase by 2.5 percent per year.
- The required state and local Basic Education Program (BEP) expenditures are utilized as the funding source with an estimated PPE funding growth of 2.5 percent annually.
- Statewide Program Student Enrollment Estimates:
 - In FY18-19, an estimated 281 students will participate.
 - In FY19-20, an estimated 288 students will participate.
 - In FY20-21, an estimated 295 students will participate.
 - In FY21-22 and subsequent years, more than 295 students will participate.

- Total Statewide Program Estimates (Gross):
 - In FY18-19, an estimated \$1,945,082 (\$6,922 x 281 students) will shift from LEAs to participating schools.
 - In FY19-20, an estimated \$2,043,360 (\$7,095 x 288 students) will shift from LEAs to participating schools.
 - In FY20-21, an estimated \$2,145,240 (\$7,272 x 295 students) will shift from LEAs to participating schools.
 - In FY21-22 and subsequent years, an amount estimated to exceed \$2,145,240 will shift from LEAs to participating schools.
- Pursuant to Tenn. Code Ann. § 49-10-1405(b), the DOE will retain a four percent administrative fee from BEP funds otherwise shifting to participating schools as a result of additional students participating in the IEA program beginning in FY18-19.
- The increase in state administrative fee revenue to the DOE for IEA administration is estimated in the table below.

State Admin Fee	FY18-19	FY19-20	FY20-21
4%	\$77,803	\$81,734	\$85,810

- The increase in state revenue to the DOE is estimated to exceed \$85,810 in FY21-22 and subsequent years.
- Total Statewide Program Estimates (Net):
 - In FY18-19, an estimated \$1,867,279 (\$1,945,082 - \$77,803) will shift from LEAs to participating schools.
 - In FY19-20, an estimated \$1,961,626 (\$2,043,360 - \$81,734) will shift from LEAs to participating schools.
 - In FY20-21, an estimated \$2,059,430 (\$2,145,240 - \$85,810) will shift from LEAs to participating schools.
 - In FY21-22 and subsequent years, an amount estimated to exceed \$2,059,430 will shift from LEAs to participating schools.

Assumptions relative to LEA fund retention:

- The BEP maintenance of effort requires that local government continue to fund their LEA at the same level year-to-year unless there is a decrease in enrollment.
- Participating students will continue to be counted in LEA enrollment numbers, and LEAs will be required to continue providing funding based on the enrollment numbers that include participating students.
- A majority of LEAs are currently funding students above and beyond the BEP local match requirement. This amount varies widely by LEA, but according to DOE, the average amount that LEAs will retain in FY17-18 is \$1,279 per pupil. This amount is estimated to increase at an average growth rate of 2.5 percent annually in each subsequent year.
- LEAs adjust expenditures, teachers, facilities, and other items to meet the change in student population each year.
- LEAs will be able to use retained funding to offset any increase in local government expenditures or to use at their discretion for some other purpose.

*Article II, Section 24 of the Tennessee Constitution provides that: *no law of general application shall impose increased expenditure requirements on cities or counties unless the General Assembly shall provide that the state share in the cost.*

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in blue ink that reads "Krista M. Lee". The signature is written in a cursive, flowing style.

Krista M. Lee, Executive Director

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