



February 26, 2024

SUMMARY OF BILL AS AMENDED (014256): Creates the “Education Freedom Scholarship Act”. Requires the Department of Education (DOE) to administer a scholarship program to provide a scholarship to an eligible student, who applies in the 2024-25 school year or subsequent years, to be applied toward: 1) private school tuition, fees, and uniforms; 2) textbooks and instructional materials; 3) tutoring services; 4) fees for transportation to and from the private school in which the student is enrolled; 5) computers and related technological devices and fees; 6) tuition, fees, textbooks, and instructional materials for summer academic programs; 7) fees for early postsecondary opportunity courses or examinations; and 8) education therapy services.

FISCAL IMPACT OF BILL AS AMENDED:

Increase State Expenditures –

\$144,000,000/FY24-25/Education Freedom Scholarship Program
\$345,647,000/FY25-26/Education Freedom Scholarship Program
Exceeds \$345,647,000/FY26-27 and Subsequent Years/
Education Freedom Scholarship Program

Decrease State Expenditures – \$101,525,200/FY25-26/TISA

Exceeds \$140,710,500/FY26-27 and Subsequent Years/TISA

Decrease Local Revenue – \$101,525,200/FY25-26

Exceeds \$140,710,500/FY26-27 and Subsequent Years

Other Fiscal Impact – Annual growth estimates for the program are conservative due to the lack of sufficient data to determine participation trends in other states with similar programs. Without limiting the annual number of participants, the liability to the state could grow significantly. Should all private school students receive a scholarship, the additional increase in state expenditures would be \$572,506,000 in FY25-26.

If students enrolling in the program are part of a Title I local education agency and attend a private school that participates in federal grants, recurring local expenditures could increase by unknown amounts.

Assumptions for the bill as amended:

Education Freedom Scholarships:

- The proposed legislation creates the *Education Freedom Scholarship (EFS) Act*.
- An “eligible student” is defined as a resident of this state who is entitled to attend a public school and is not enrolled in a home school as described in Tenn. Code Ann. § 49-6-3050(b).
- The scholarship amount is equal to the base funding amount, or the dollar amount that each student generates towards the student's funding allocation in a given year, provided under the *Tennessee Investment in Student Achievement Act (TISA)*.
- Based on the Governor’s 2024-25 proposed budget, the TISA base funding amount is \$7,075 for the 2024-25 school year.
- Based on historical education funding data for Tennessee, it is estimated that the TISA base funding amount and the average TISA payment will increase each year by an average of 3.2 percent.
- The TISA base funding amount is estimated to increase as follows:
 - \$7,301 ($\$7,075 \times 1.032$) in FY25-26; and
 - Exceeds \$7,301 in FY26-27 and subsequent years.
- According to Private School Review, the average private school tuition in Tennessee for the 2023-24 school year is \$11,344. Therefore, the scholarship is estimated to cover approximately 62 percent ($\$7,075 / \$11,344$) of the cost of attending a private school on average.
- For the 2024-25 school year, 20,000 scholarships will be awarded as follows:
 - 10,000 scholarships for eligible students whose household income does not exceed 300 percent of the federal poverty level or who meet the definition of eligible student to participate in the Tennessee Education Savings Account (ESA) Pilot Program or the Individualized Education Account (IEA) Program; and
 - 10,000 additional scholarships for eligible students regardless of whether the students meet the above income eligibility requirements.
- No student may receive a scholarship for the same school year in which the student is participating in the ESA Pilot Program or the IEA Program.
- For the 2023-24 school year, 390 students participate in the IEA Program while 2,004 students are enrolled in the ESA Program. It is assumed that students participating in these programs will not seek participation in the EFS Program as benefits received through the programs, including, but not limited to, higher per-pupil funding amounts in the ESA Program, outweigh the benefits of the EFS Program.
- The 2022-23 average daily membership (ADM) in Tennessee public schools was approximately 967,475. There are also approximately 155,650 students in non-public Tennessee schools; 105,503 of those students are estimated to attend private schools. The ADM varies significantly from year to year, in part due to recent pandemic distortions. Therefore, no adjustments in subsequent years are made for the total student population.
- The total number of students eligible to receive an EFS beginning in the 2024-25 school year is approximately 1,120,731 [(967,475 public students + 155,650 non-public students) - (390 IEA students + 2,004 ESA students)].

- According to Census Bureau data, approximately 46.1 percent of children below the age of 18 lived in a household whose income did not exceed 300 percent of the federal poverty level in 2022.
- It is estimated that 516,657 students (46.1% x 1,120,731) may be eligible to receive one of the 10,000 scholarships subject to income restrictions during the 2024-25 school year.
- Based on the statewide application of the proposed EFS Program, the income threshold, and the number of eligible students, it is assumed that all 20,000 scholarships will be awarded in the 2024-25 school year.
- Beginning in the 2025-26 school year, if the number of eligible students who apply for a scholarship exceeds the number of scholarships available for the respective school year, the DOE will be required to prioritize students who received a scholarship in the prior year, then low income students, public school students or upcoming kindergarten students in public schools, and finally all other eligible students.
- The proposed legislation establishes that the number of scholarships will be determined by the amount of funding appropriated for such purpose, including any scholarship funds returned to the State Treasurer, beginning in the FY25-26 school year and subsequent years.
- Due to the universal nature of the program, it is assumed that students already attending private school will seek the additional funding through the EFS Program.
- Based on school voucher program data from other states and the large pool of private school students that would be eligible for the EFS, it is estimated that 47,000 scholarships will be awarded in the 2025-26 school year.
- The EFS Program is projected to grow in subsequent years following the 2025-26 school year. However, due to the lack of multi-year data from other school voucher programs across the country and different factors amongst those programs, a precise growth estimate cannot reasonably be determined.
- The total amount of scholarships awarded will result in an increase in state expenditures estimated to be:
 - \$141,500,000 (20,000 x \$7,075) in FY24-25;
 - \$343,147,000 (47,000 x \$7,301) in FY25-26; and
 - Exceeding \$343,147,000 in FY26-27 and subsequent years.
- The estimated annual growth in the program is conservative due to a limited amount of data from other states with similar programs and the inability to establish participation trends in those programs.
- Without a limitation on the number of participants beyond year one of the program, the fiscal liability to the state created by the proposed legislation is significant.
- Should all 105,503 private school students receive a scholarship in FY25-26 (year two of the program), the fiscal impact for FY25-26 would be an additional increase in state expenditures of \$572,506,018 [(105,503 x \$7,406) - (47,000 x .60 x \$7,406)].

TISA and LEA Impacts:

- The proposed legislation does not contain a hold-harmless provision for LEAs that experience a decrease in local revenue due to students leaving the LEA to attend private schools.

- The TISA funding formula relies on the prior year’s data to drive subsequent year allocations. Therefore, data from the 2024-25 school year will generate the funding to be allocated for the 2025-26 school year.
- If a student does leave the LEA, then the LEA would not receive the TISA funding attached to that student, which would decrease the local revenue for the impacted LEA.
- In year one (2024-25 school year) of the EFS Program, the state will contribute 70 percent toward the average TISA amount based on the ADM from the prior year. Therefore, LEAs will receive TISA funding for students who may have accepted an EFS and are no longer enrolled in public school.
- In year two (2025-26 school year) of the EFS Program, the state contribution to the TISA base will be lower due to fewer students enrolled in public schools.
- For the 2024-25 school year, it is assumed that 100 percent of the 10,000 scholarships available to students who are subject to household income restrictions will be awarded to public school students.
- Based on school voucher data from other states, the scholarships available to students who are not subject to household income restrictions will be awarded to 60 percent of students from private schools and to 40 percent of students from public schools.
- The number of scholarships awarded to public school students are estimated to be as follows:
 - 14,000 [(10,000 x 1.00) + (10,000 x .40)] to public school students in FY24-25;
 - 18,800 (47,000 x .40) to public school students in FY25-26; and
 - Exceeding 18,800 in FY26-27 and subsequent years.
- For the 2023-24 school year, the average TISA payment per student that is subject to the state and local share (70/30) is \$8,614.
- The average TISA amount is estimated to increase as follows:
 - \$8,890 (\$8,614 x 1.032) in FY24-25;
 - \$9,174 (\$8,890 x 1.032) in FY25-26; and
 - \$9,468 (\$9,174 x 1.032) in FY26-27.
- There will be a decrease in state expenditures and corresponding decrease in local revenue to LEAs estimated to be:
 - \$89,905,200 [(14,000 x \$9,174) x .70] in FY25-26; and
 - Exceeding \$124,598,880 [(18,800 x \$9,468) x .70] in FY26-27 and subsequent years.
- In addition, LEAs will lose direct funding that is funded 100 percent by the state. The average payment per student in FY23-24 is \$779 and is estimated to increase as follows:
 - \$804 (\$779 x 1.032) in FY24-25;
 - \$830 (\$804 x 1.032) in FY25-26; and
 - \$857 (\$830 x 1.032) in FY26-27.
- Therefore, the local decrease in revenue is:
 - \$11,620,000 (14,000 x \$830) in FY25-26; and
 - Exceeding \$16,111,600 (18,800 x \$857) in FY26-27.
- The total local decrease in revenue and decrease in state expenditures is estimated as follows:
 - \$101,525,200 (\$89,905,200 + \$11,620,000) in FY25-26; and

- Exceeding \$140,710,480 (\$124,598,880+ \$16,111,600) in FY26-27 and subsequent years.
- A loss in TISA funding would not necessarily be offset by avoiding the cost of educating the student. Any offset or decrease in local expenditures would depend upon whether certain cost-savings could be realized through staff reductions or service and resource reductions.
- However, it is assumed that LEAs will maintain spending levels despite a decrease in student enrollment.
- On May 26, 2023, the DOE entered into a contract with the vendor Student First Technologies to create and administer an online platform for the ESA and IEA programs. The contract is effective until May 25, 2028.
- The contract includes an annual subscription and license fee of \$695,000 for the platform, which is required to accommodate a minimum of 20,000 users. In addition, according to DOE, the current ESA Program team has 22 employees dedicated exclusively to the ESA Program.
- The extent to which the current contract, infrastructure and resources, including utilization of ESA Program staff, can be modified to accommodate the needs of implementing and administering the EFS Program is currently unknown. However, it is assumed that economies of scale are available that will decrease the expenditures that would have been incurred in the absence of the ESA Program.
- The Fiscal Review Committee staff researched expenditures incurred or anticipated by other states in implementation of universal school choice programs. Such information is highly limited due to the lack of states with current programs in place or uncertainty regarding the future costs of implementation.
- However, in 2023, Arizona enacted a law that, similar to this proposed legislation, extended eligibility for the state’s ESA program to residents that are eligible to enroll in a public school and do not otherwise qualify for an ESA. The legislation appropriated \$2,200,000 and 26 full-time equivalent positions for administration of the program. The size of the Arizona’s universal ESA program is comparable to the estimated size of the program in Tennessee.
- While the cost of implementing and administering the proposed legislation is dependent on multiple unknown variables, it is assumed that a recurring appropriation in the amount of \$2,500,000 would be appropriate and sufficient to fund the full additional cost of the EFS Program.
- The total increase in state expenditures for the EFS Program is estimated as follows:
 - \$144,000,000(\$141,500,000 + \$2,500,000) in FY24-25;
 - \$345,647,000(\$343,147,000 + \$2,500,000) in FY25-26; and
 - Exceeding \$345,647,000 in FY26-27 and subsequent years.
- If a student enrolling in the EFS Program is in a Title I LEA and attends a private school that participates in federal grants, the LEA's equitable services cost would increase for that student because the equitable services funds that LEAs have to pass along is based on the number of students in private schools.
- An LEA's federal funding will not increase, so they will have to pay out more funding, but not receive any additional funding. However, the amount of additional funding that will be passed along to private schools cannot be reasonably determined.

CERTIFICATION:

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

Handwritten signature of Krista Lee Carsner in black ink.

Krista Lee Carsner, Executive Director

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