



February 27, 2024

SUMMARY OF BILL AS AMENDED (014448): Creates a scholarship program administered by the Department of Education (DOE) for the purpose of providing eligible students in this state with a scholarship to be used toward the cost of attending a private school for the 2024-25 and subsequent school years.

Increases various weighted and direct allocations under the Tennessee Investment in Student Achievement (TISA) funding formula as well as increases the percentage of state funded basic health plan premiums for participating employees of a local board of education or public charter school.

Revises the administration of statewide standardized assessments for grades three through twelve (3-12) as required by *the Every Student Succeeds Act* (ESSA) and authorizes administration of the ACT or career readiness assessments to high school students instead of end-of-course assessments.

Revises the annual teacher and principal evaluations based on final evaluation scores to allow higher performing teachers and principals longer periods of time between re-evaluation.

Authorizes local education agencies (LEAs) and public charter schools to provide tutoring services to meet intervention requirements in Tennessee's response to instruction and intervention (RTI) framework manual.

Establishes parameters to provide more flexibility in making third and fourth grade retention decisions for high performing schools and LEAs.

Requires practitioner and professional licenses issued by the State Board of Education (SBE) to be valid for a period of at least eight years and requires the SBE to promulgate rules by providing a minimum number of instructional hours per school year for LEAs and public charter schools to meet the requirement for 180 days of classroom instruction.

Terminates the Achievement School District as of July 1, 2026 and requires various school and LEA improvement plans to only be submitted every three years. Removes chronic absenteeism from performance measures and authorizes the consideration of adopted intervention policies. Further excludes certain performance data for students who enroll or transfer to an LEA on or after December 31 of any given school year from the school's letter grade assignment.

Extends the requirements for LEAs and public charter schools to provide each high school senior the opportunity to take nationally recognized career readiness assessments.

FISCAL IMPACT OF BILL AS AMENDED:

Increase State Expenditures – Net Impact –

\$397,737,500/FY24-25

\$384,147,000/FY25-26

Exceeds \$424,814,800/FY26-27 and Subsequent Years

Increase Local Revenue – Net Impact - \$244,873,500/FY24-25

\$197,339,900/FY25-26

Exceeds \$195,935,300/FY26-27 and Subsequent Years

Other Fiscal Impact - 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 as a result of the Education Freedom Scholarship Program.

It is unknown what actions LEAs will take as a result of the proposed change to the state share of basic health plan premiums for LEA employees. Should LEAs keep the estimated LEA employee share the same, there will be a significant increase in funds available for LEAs to spend. For FY24-25, the change in LEA share would result in an additional \$160.4 million statewide.

If the COT audits the reimbursement program for teacher child care, the costs for the audit will be borne by local governments. However, due to multiple unknown variables affecting the cost of any future audit, a precise, permissive increase in local expenditures cannot be reasonably determined.

The Governor’s proposed FY24-25 proposed budget includes \$144,200,000 in recurring funds for the Education Freedom Scholarship implementation.

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 a United States citizen entitled to attend a public school and who must not be enrolled in a home school as described in Tenn. Code Ann. § 49-6-3050(a)(1).
- A student receiving a scholarship must attend a private school that has been in continuous operation for at least three years and an applicant must provide documentation of acceptance or admission to a private school.
- The scholarship amount is equal to the base funding amount, provided under the *Tennessee Investment in Student Achievement Act*, and is solely state funded.
- 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
 - \$7,535 ($\$7,301 \times 1.032$) in FY26-27.
- 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 available with the following priority:
 - Students eligible for the Education Savings Account (ESA) or Individualized Education Act (IEA) programs;
 - Students with an annual household income for the previous year that does not exceed 400 percent of the federal poverty level;
 - Students with an annual household income for the previous year that does not exceed 500 percent of the federal poverty level; and
 - Students eligible regardless of the criteria above.
- 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 2024-2025 estimated average daily membership (ADM) in Tennessee public schools is approximately 971,568. 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.
- The total number of students eligible to receive an EFS beginning in the 2024-25 school year is approximately 1,124,824 [(971,568 public students + 155,650 non-public students) - (390 IEA students + 2,004 ESA students)].
- It is assumed that all 20,000 scholarships will be awarded in the 2024-25 school year.
- Annual growth in the program is limited to 20 percent of the number of scholarships granted in the previous year. For this analysis, it is assumed the following number of scholarships will be granted:
 - 20,000 in FY24-25;
 - 24,000 in FY25-26; and
 - 28,800 in FY26-27.
- The EFS Program is projected to grow in subsequent years following the 2026-27 school year. However, the fiscal analysis is only estimating the first three years of the program.
- 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;
- \$175,224,000 (24,000 x \$7,301) in FY25-26; and
- \$217,008,000 (28,800 x \$7,535) in FY26-27.
- 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. It is assumed that such appropriation will be sufficient to cover the expenditures of contracting with a third party for collection of data regarding parental satisfaction with the program and the academic performance indicators.
- 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;
 - \$177,724,000 (\$175,224,000 + \$2,500,000) in FY25-26; and
 - \$219,508,000 (\$217,008,000 + \$2,500,000) in FY26-27.

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.
- 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:
 - 8,000 (20,000 x .40) in FY24-25;
 - 9,600 (24,000 x .40) in FY25-26; and
 - 11,520 (28,800 x .40) in FY26-27.
- For the 2024-25 school year, the average TISA payment per student that is subject to the state and local share (70/30) is \$9,041.
- The average TISA amount is estimated to increase as follows:
 - \$9,330 (\$9,041 x 1.032) in FY25-26; and
 - \$9,629 (\$9,330 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:
 - \$52,248,000 [(8,000 x \$9,330) x .70] in FY25-26; and
 - \$64,706,880 [(9,600 x \$9,629) x .70] in FY26-27.
- In addition, LEAs will lose direct funding that is funded 100 percent by the state. The average payment per student in FY24-25 is \$805 and is estimated to increase as follows:
 - \$831 (\$805 x 1.032) in FY25-26; and
 - \$858 (\$831 x 1.032) in FY26-27.
- Therefore, the local decrease in revenue is:
 - \$6,648,000 (8,000 x \$831) in FY25-26; and
 - \$8,236,800 (9,600 x \$858) in FY26-27.
- The total local decrease in revenue and decrease in state expenditures is estimated as follows:
 - \$58,896,000 (\$52,248,000 + \$6,648,000) in FY25-26; and
 - \$72,943,680 (\$64,706,880 + \$8,236,800) in FY26-27.
- 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.
- 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.

Total Impact

		FY24-25	FY25-26	FY26-27
State Expenditures	Enrollment	20,000	24,000	28,800
	TISA Base	\$ 7,075	\$ 7,301	\$ 7,535
	Administrative Costs	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000
	Total	\$ 144,000,000	\$ 177,724,000	\$ 219,508,000
	Less TISA ADM decrease	\$ -	\$ (58,896,000)	\$ (72,943,680)
	Total Net Impact	\$ 144,000,000	\$ 118,828,000	\$ 146,564,320
Local Revenue	ADM decrease	-	8,000	9,600
	TISA Funding	\$ -	\$ 9,330	\$ 9,629
	Direct State Funding	\$ -	\$ 831	\$ 858
	Total State Allocation	\$ -	\$ 7,362	\$ 7,598
	Total	\$ -	\$ (58,896,000)	\$ (72,943,680)

TISA Weights and Direct Allocations:

- The proposed legislation increases the weighted allocation for a student who resides in a small district from five percent (5%) to eight percent (8%).
- Based on the proposed FY24-25 budget, this weight applies to 14,397.80 students.
- The estimated increase in expenditures from an increase to eight percent is \$3,055,933 [14,397.80 students x (\$7,075 x (8% - 5%))].
- The chart below shows the projected future year impacts.
- The proposed legislation creates a two percent (2%) weighted allocation for LEAs with an ADM of 1,001 to 1,700.
- Based on the FY23-24 TISA disbursements, this weight will apply to approximately 1.44 percent of the total student population; therefore, it is assumed it will apply to 13,991 students (971,568 x 1.44%)
- The estimated increase in expenditures from an increase to 8 percent is \$1,979,727 [13,991 students x (\$7,075 x 2%)].
- The chart below shows the projected future year impacts.
- The proposed legislation increases the weighted allocation for a student who resides in a sparse district from five percent (5%) to six percent (6%).
- Based on the proposed FY24-25 budget, this weight applies to 339,641.51 students.
- The estimated increase in expenditures from an increase to six percent is \$24,029,637 [339,641.51 students x (\$7,075 x (6% - 5%))].
- The chart below includes the projected future year impacts.
- The weight allocations are subject to the state and local share (70/30).
- The proposed legislation creates a direct allocation of \$75 per student for infrastructure uses. Based on the projected increase of student enrollment, it is assumed the increase in

state expenditures and corresponding increase in local revenue will be \$72,867,600 in FY24-25 (971,568 students x \$75).

- The chart below shows the projected future year impacts.

		<u>FY24-25</u>	<u>FY25-26</u>	<u>FY26-27</u>
State Expenditures	Small 3% Increase	\$ 2,139,153	\$ 2,207,485	\$ 2,278,236
	Sparse 1% Increase	\$ 16,820,746	\$ 17,358,059	\$ 17,914,392
	1,001 - 1,700 ADM 2%	\$ 1,385,809	\$ 1,430,076	\$ 1,475,911
	Infrastructure \$75	\$ 72,867,600	\$ 72,631,950	\$ 72,878,100
	Total	\$ 93,213,308	\$ 93,627,570	\$ 94,546,639
Local Revenue Net Impact	Small 5% Increase	\$ 1,222,373	\$ 1,261,420	\$ 1,301,849
	Sparse 1% Increase	\$ 9,611,855	\$ 9,918,891	\$ 10,236,796
	1,001 - 1,700 ADM 2%	\$ 791,891	\$ 817,186	\$ 843,378
	Infrastructure \$75	\$ 72,867,600	\$ 72,631,950	\$ 72,878,100
	Total	\$ 84,493,719	\$ 84,629,447	\$ 85,260,123

Local Education Health Insurance Premiums:

- Currently, LEAs can participate in the state sponsored local education health plan or can provide another basic health plan for their employees as long as the coverage is equitable.
- The Division of Benefits Administration within the Department of Finance and Administration collects total premiums from the LEAs who participate in the local education health plan. Based on previously provided data, it is estimated that the state employee health plan participation accounts for approximately 56 percent of the total health plan premiums.
- Based on calendar year 2023 premiums collected, it is assumed the total premium paid for local education health plan premiums for all LEAs in calendar year 2023 was \$1,287,280,142 (\$720,876,880 / 56%).
- The increase in the local education health plan premiums from calendar year 2022 to 2023 was approximately 6.69 percent. According to the Kaiser Family Foundation, the national average health insurance premium increased by seven percent in 2023. For purposes of this analysis, it is assumed LEAs will experience an annual increase in premium costs of seven percent.
- Currently, the state pays 45 percent for instructional staff premiums and 10 percent of support staff premiums. The Division of Benefits Administration assumes approximately 75 percent of premiums paid are instructional staff and 25 percent are for support staff. For purposes of this analysis, the same proportions will be used.
- Increasing the state funded portion of instructional employee premiums to 60 percent will result in the following increase in state expenditures:
 - \$160,379,819 in FY24-25,
 - \$171,606,407 in FY25-26, and
 - \$183,618,855 in FY26-27.

		<u>FY24-25</u>	<u>FY25-26</u>	<u>FY26-27</u>
State Expenditures	Total Premiums	\$ 1,425,598,394	\$ 1,525,390,281	\$ 1,632,167,601
	Current State Share	\$ 516,779,418	\$ 552,953,977	\$ 591,660,755
	Proposed State Share	\$ 677,159,237	\$ 724,560,384	\$ 775,279,610
	Total State Increase	\$ 160,379,819	\$ 171,606,407	\$ 183,618,855

- There will be a corresponding increase in local government revenue for the state portion of the premiums resulting in an increase in local revenue as follows:

		<u>FY24-25</u>	<u>FY25-26</u>	<u>FY26-27</u>
Local Revenue	Total	\$ 160,379,819	\$ 171,606,407	\$ 183,618,855

- It is unknown the current amount of local share for LEA health insurance premiums.
- According to the U.S. Bureau of Labor Statistics, state and local government employers cover approximately 85 percent of primary, secondary, and special education school teachers nationally while the employee share of those premiums was 15 percent.
- For purposes of this analysis, it is assumed that LEA employees are covering approximately 15 percent of the share of premiums. It is unknown what LEAs will choose to do with the additional resources resulting from the state providing a greater share of premiums.
- Should the employee share remain the same, there will be a decrease in local share for LEA health insurance premiums as follows:

		<u>FY24-25</u>	<u>FY25-26</u>	<u>FY26-27</u>
Local Impact	Employee Share	\$ 213,839,759	\$ 228,808,542	\$ 244,825,140
	Current Local Share	\$ 694,979,217	\$ 743,627,762	\$ 795,681,705
	Proposed Local Share	\$ 534,599,398	\$ 572,021,355	\$ 612,062,850
	Total Local Share Decrease	\$ 160,379,819	\$ 171,606,407	\$ 183,618,855

Statewide Standardized Assessments:

- The proposed legislation revises the requirements for statewide standardized assessments by providing more flexibility and specifying the years in which certain assessments will be given.
- The proposed legislation also does away with end-of-course assessments and allows for the use of career readiness assessments.
- While there may be a decrease in the number of assessments that are required for grades 3-12, it is assumed the DOE may incur additional expenditures resulting from the increase in career readiness assessments. It is assumed the overall fiscal impact will be a net not significant.
- The proposed legislation will also extend indefinitely the requirement for LEAs and public charter schools to provide each high school senior the opportunity to take nationally recognized career readiness assessments.
- Tennessee Code Annotated § 49-6-6001(b)(4)(A)(ix) requires the DOE to competitively procure career readiness assessments.

- During the 2021-22 and 2022-23 school years, the DOE contracted with three vendors of career readiness assessments, allowing high school seniors to take the assessments at no cost.
- The expenditures to provide career readiness assessments were as follows:
 - \$22,852 for 854 students beginning in February of the 2021-22 school year; and
 - \$43,104 for 3,115 students beginning in February of the 2022-23 school year.
- The number of students who took career readiness assessments earlier in each school year outside the contract period cannot be determined.
- The DOE allocated funding for the possibility that every high school senior may take the career readiness assessment.
- In the 2022-23 school year, the allocation for the combined contracts with the vendors ACT, Inc., WIN Learning, Inc., and SkillsUSA, Inc., was \$3,143,713; of that, \$3,100,609 (\$3,143,713 - \$43,104) was unspent.
- For the 2023-24 school year, \$976,830 was allocated through the Governor's Emergency Education Relief (GEER) Fund 2 and the Elementary and Secondary School Emergency Relief (ESSER) Fund 3. Funding for GEER 2 is no longer available and all remaining ESSER 3 funds have been obligated.
- Based on the total expenditures and the number of students who took tests in prior years, it is estimated that the average cost of career readiness assessments offered to students is approximately \$17 $[(\$22,852 + \$43,104) / (854 + 3,115)]$ per assessment.
- Based on the average daily membership for students in grade 11 for the 2023-24 school year, there will be approximately 72,795 students in grade 12 eligible to take a career readiness assessment in the 2024-25 school year.
- Based on testing data from the 2021-22 and 2022-23 school years, it is estimated that an excess of 5,000 students may take a career readiness assessment during the contracted period in a given year.
- The increase in state expenditures is estimated to exceed \$85,000 $(5,000 \times \$17)$ in FY24-25 and subsequent years.

Teacher Evaluations and Response to Instruction and Intervention

- The proposed legislation terminates the teacher evaluations advisory committee.
- The State Board of Education SBE will now be responsible adopting rules and policies outlining the guidelines and criteria for the annual evaluation of all teachers and principals employed by LEAS including a local level evaluation grievance procedure.
- It is assumed the proposed legislation will not significantly increase the workload of the SBE and any expenditures previously incurred for the advisory committee will be reallocated to the SBE's work. The net impact is not significant.
- LEAs will realize some decrease in expenditures because teachers and principals will not have to be evaluated as often. Any decrease is estimated to be not significant.
- The DOE can revise the Tennessee's Response to Instruction and Intervention (RTI) framework manual within existing resources.

Third and Fourth Grade Retention

- The proposed legislation grants greater flexibility to promote students to fifth grade if the student is enrolled in one of the following:
 - A school recognized as a reward school by the department of education pursuant to Tenn. Code Ann. § 49-1-602, and the student's school principal, after consulting with the student's parent or guardian and ELA teacher, determines that retention is not in the best interest of the student;
 - A school in an LEA identified by the department as earning the highest accountability determination pursuant to Tenn. Code Ann. § 49-1-602, and the student's school principal, after consulting with the student's parent or guardian and ELA teacher, determines that retention is not in the best interest of the student; or
 - A school that was assigned an A letter grade on the most recent state report card pursuant to Tenn. Code Ann. § 49-1-228, and the student's school principal, after consulting with the student's parent or guardian and ELA teacher, determines that retention is not in the best interest of the student.
- It is assumed this will not have a significant fiscal impact on state or local expenditures.

Teacher Licensure and Instructional Hours

- The proposed legislation requires the SBE to increase the period of time a teacher license is valid to at least eight years and also establish rules providing a minimum number of instructional hours.
- The SBE will be able to accommodate these requirements within existing resources without a significant increase in expenditures.
- The DOE's Educator Management System will need to be updated to account for the extended licensure period.
- The contracted rate is \$198 per hour. It is unknown the number of workhours the change will require. At a minimum, it is assumed approximately 300 hours of work will be performed to complete the changes resulting in a one-time increase in expenditures of \$59,400 (\$198 x 300).

Achievement School District

- The proposed legislation terminates the Achievement School District (ASD) as of July 1, 2026.
- Currently, there are 11 public charter schools within the ASD and it is assumed several of those schools will transfer to the Public Charter School Commission.
- The ASD is funded through the state and local shares generated within TISA for the schools in the ASD.
- It is unclear if after termination the schools within the ASD will transfer to the Public Charter School Commission or the LEA in which the school is located.
- The overall net impact to the state and LEAs will be not significant.

Total Quantifiable Impact

	<u>FY24-25</u>	<u>FY25-26</u>	<u>FY26-27</u>
State Expenditures	\$ 397,737,527	\$ 384,146,977	\$ 424,814,814
Local Revenue (Net Impact)	\$ 244,873,538	\$ 197,339,854	\$ 195,935,298

CERTIFICATION:

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



Krista Lee Carsner, Executive Director

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