TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

SB 395 - HB 460

February 20, 2017

SUMMARY OF BILL: Enacts the Empowerment Scholarship Account (ESA) Act. Authorizes eligible students to apply for and receive scholarships to attend participating non-public schools. ESA funding may also be used for eligible postsecondary institutions with certain restrictions. Defines eligible student as one who was previously enrolled in a Tennessee public school during the preceding two semesters; is eligible to enroll in a Tennessee public school for the first time; or received a scholarship in the previous academic year.

Requires parents sign an agreement that sets forth student participation requirements. These requirements include, but are not limited to, agreeing to not enroll their child in a public school; agreeing to use ESA funds for only certain enumerated expenses; and ensuring that the participating student is administered either a nationally norm-referenced test identified by the Department of Education (DOE) or the Tennessee comprehensive assessment program (TCAP) tests, or if applicable, TCAP's replacement each academic year. Requires the DOE to administer the program to perform various reporting and administrative functions including, but not limited to, setting up a standardized admissions process; making reports to the General Assembly on the cost savings of the program; and remitting the required funds to the ESA accounts of participating students. Requires the Comptroller of the Treasury to perform quarterly and random audits on ESA accounts. The DOE shall be responsible for all costs associated with the auditing of ESA accounts.

Preference in enrollment shall be given to certain children of members of the military; foster children; and students whose household incomes meet the requirements to qualify for the federal free and reduced price lunch program and who reside in an LEA with at least one school in the bottom five percent of schools in overall achievement. Students who qualify for the state's Individual Education Account program may also qualify for the ESA program; however, such students may only receive assistance from one program.

Funding for an ESA shall be the required state and local Basic Education Program (BEP) per pupil amount for the local education agency (LEA) in which a student resides. The ESA program shall begin in the 2018-2019 academic year. Authorizes the DOE to collect an administration fee up to four percent from the transferring BEP funding. Enrollment in FY18-19 shall be limited to one-half of one percent (0.5%) of the estimated statewide total enrollment in the prior academic year. Limits the total increase in new enrollment in the ESA program to an additional 0.5% of the statewide enrollment in each academic year thereafter.

ESTIMATED FISCAL IMPACT:

Increase State Revenue – $1,396,000/FY18-19
Exceeds $2,862,000/FY19-20 and Subsequent Years

Increase State Expenditures – Exceeds $1,169,800/FY17-18
Exceeds $945,800/FY18-19 and Subsequent Years

Other Fiscal Impact – For local education agencies that have participating students in the ESA program, the shift of state and required local BEP funding from these local education agencies to the non-public participating schools is estimated as follows: $34,900,800 in FY18-19; and amount estimated to exceed $71,548,800 in FY19-20 and subsequent years.

Assumptions relative to state expenditures:

- The DOE will require six new positions to administer the program beginning in FY17-18. One position will require a salary of $90,000 with benefits of $21,858; a total of $111,858. Three positions will require a salary of $60,000 with benefits of $16,881; a total of $230,643. One position will require a salary of $53,500 with benefits of $15,802; a total of $69,302. One position will require a salary of $50,000 with benefits of $15,222; a total of $65,222.
- The Comptroller's Office will require two new positions to perform at least 50 audits of ESA accounts on a quarterly basis. One position will require a salary of $69,684 with benefits of $18,487; a total of $88,171. One position will require a salary of $63,216 with benefits of $17,414; a total of $80,630.
- Each of the new eight state positions will require a minimum of $3,000 per position for set-up, computers, and other supplies; a one-time increase in state expenditures estimated to be $24,000 ($3,000 x 8).
- The total recurring increase in state expenditures for personnel is estimated to be $645,826 ($111,858 + $230,643 + $69,302 + $65,222 + $88,171 + $80,630).
- All students shall be eligible to participate in the program; therefore, the DOE will annually notify all students of parent eligibility. Based on FY16-17 student enrollment, 959,985 students will be eligible for the program.
- Based on information from the DOE, the recurring increase in state expenditures to notify eligible students and participating schools through mailings and brochures is estimated to exceed $300,000.
- Based on information from the DOE, the Department will require a new online portal system for receiving and processing student applications. The Department confirms a third-party contract vendor will be required to develop the new portal system. Though the exact cost for developing such system is unknown; the one-time increase in state expenditures for software development is estimated to exceed $100,000. Such expenses will be incurred in FY17-18.

- The DOE will also be required to expand the state's existing contract with their e-plan vendor to develop a mechanism to distribute funds from state BEP funding. The one-time increase in state expenditures is estimated to exceed $100,000. Such expenses will be incurred in FY17-18.
- The DOE and Comptroller will be required to hire all new employees in FY17-18 in order to adequately prepare for the ESA implementation in FY18-19.
- The total increase in state expenditures in FY17-18 is estimated to exceed $1,169,826 ($645,826 + $24,000 + $300,000 + $100,000 + $100,000).
- The total recurring increase in state expenditures beginning in FY18-19 is estimated to exceed $945,826 ($645,826 + $300,000).

Assumptions relative to enrollment, scholarship amounts, and program estimates:

- The scholarship program will begin in the fall of 2018.
- All students in Tennessee will be eligible to apply for the ESA program. In FY17-18, there were 959,985 public school students. It is assumed that in FY17-18, student enrollment will increase.
- The number of applications will exceed the program cap in each fiscal year beginning in FY17-18.
- Based on FY15-16 enrollment data, the program will be capped at approximately 4,800 students (959,985 x 0.5%) in FY18-19 and more than 9,600 students (959,985 x 1.0%) in FY19-20 and subsequent years.
- Though the exact number of annually participating students is unknown, it is reasonably estimated, given open enrollment, that the program will be at capacity of the cap in FY18-19 and will exceed the enrollment number from FY18-19 in each subsequent year.
- For the purposes of this fiscal note, the required state and local BEP expenditures are utilized as the scholarship amount with an estimated scholarship growth of 2.5 percent annually.
- <u>Statewide Program Student Enrollment Estimates</u>:
  - In FY18-19, an estimated 4,800 students will participate.
  - In FY19-20 and subsequent years, more than 9,600 students will participate.

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- <u>Statewide Program Scholarship Estimates:</u>
  - The estimated BEP per pupil expenditure in FY17-18 is estimated to be $7,094
  - In FY18-19, the scholarship is estimated to be $7,271 ($7,094 x 1.025) per pupil.
  - In FY19-20 and subsequent years, the scholarship is estimated to exceed $7,453 ($7,271 x 1.025) per pupil.

- <u>Total Statewide Program Estimates</u>:
  - In FY18-19, an estimated $34,900,800 ($7,271 x 4,800 students) will shift from LEAs to participating schools.
  - In FY19-20 and subsequent years, an amount estimated to exceed $71,548,800 ($7,453 x 9,600 students) will shift from LEAs to participating schools.

Assumptions Relative to DOE Administrative Revenue:

- The DOE will be eligible to receive up to four percent in administrative fees once the program is implemented in FY18-19. The increase in state revenue to the DOE in FY18-19 is estimated to be $1,396,032 ($34,900,800 x 4.0%).
- The recurring increase in state revenue to the DOE in FY19-20 and subsequent years is estimated to exceed $2,861,952 ($71,548,800 x 4.0%).

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 their 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.
- Each year, students leave and enter LEAs. As a result, LEAs adjust expenditures, teachers, facilities, and other items to meet the change in student population.
- 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.

CERTIFICATION:

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

Krista M. Lee

Krista M. Lee, Executive Director

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