EVALUATING ESAs IN THE VOLUNTEER STATE

The Fiscal Effects of the Tennessee Education Savings Account Pilot Program

INTRODUCTION

In April 2019, Tennessee lawmakers took a big step in expanding education choice. The Tennessee Education Savings Account (ESA) Act was signed by Governor Bill Lee and began paving the way for low- and moderate-income families to give their children new educational opportunities that were previously out of reach. The Tennessee ESA Act passed the General Assembly as a pilot program, with limits on the number of students who could take advantage of the program and geographic restrictions for eligible students, mainly limited to those currently attending public school in either Metro Nashville Public Schools or Shelby County Schools. It also became the second state-funded education choice program in Tennessee, following the Individualized Education Account (IEA) Program that was implemented in 2016, which provides an ESA for eligible students with disabilities.

On par with the IEA, the ESA pilot program allows a portion of total education dollars to follow the child to his or her school or educational environment of choice. In addition, the General Assembly authorized state grants equaling the amount that would follow the child to be provided to the school district that the child is leaving. Those grants, administered in the first three years of the program, would leave districts financially harmless from any costs associated with educating each child who takes part in the program.

The ESA program was created for parents like Star Brumfield, a single mother raising six school-aged children in Nashville. Her 11-year old son has been frustrated by his education, so Star took him to visit a local private school, Lighthouse Christian Academy. After touring Lighthouse, Star was convinced that the school provided a learning environment that catered more to her son than his public school had been able to do. While on the tour at Lighthouse, Star learned of the ESA program. Lighthouse was slated to participate in the program starting this fall, and the ESA value would fully cover the tuition for Star’s son. During the enrollment process, however, the ESA program was halted in court, and her son’s hopes of attending a school that fit his educational needs were temporarily lost.
Metro Nashville and Shelby County sued the state over the program, with Nashville Mayor John Cooper stating that the program would “siphon resources from public schools that educate the city’s most needy students.” 1 Just like Mayor Cooper, opponents of school choice often proclaim that these programs take funds away from public schools, especially from classrooms that need funding the most. The assumption that the ESA pilot program would remove all funding or add costs to the district is unfounded, since the ESA value is less than current per-student costs and only applies to students that have been enrolled in a public school within these two districts. This ensures no student already enrolled in a private school would be able to use funds meant for public school students. The claims also fail to acknowledge any savings that come from such programs and inaccurately assume all educational costs are fixed.

The fiscal effects of school choice programs have been extensively researched at the state level, yet district-specific studies have so far been limited. This report seeks to examine the fiscal impact of educational choice programs by:

- Presenting fiscal effects from other district-specific school choice programs across the country;
- Estimating the fiscal effects of the Tennessee ESA pilot program on Shelby County Schools (SCS) and Metro Nashville Public Schools (MNPS), should it be implemented; and
- Calculating the average estimated participation rates and costs associated with the Tennessee ESA program as currently structured.

SCHOOL CHOICE AND COST SAVINGS

Tennessee is unique because its ESA pilot program applies only to certain districts, low- to moderate-income families, and is completely funded by the state and local portion of per-student education costs associated with the program. While the program may be unique, a multitude of studies around school choice programs in the U.S. have found that they have saved taxpayer dollars. 2 Not all of these programs are designed the same, but evidence strongly suggests choice programs are cost-effective and provide fiscal benefits where they are offered.

For decades, Ohio and Wisconsin have administered parental school choice options in the form of vouchers, ESAs, and scholarships. Similar to the Tennessee ESA program, these states offer district-specific educational choice programs. The Cleveland Scholarship Program and the Milwaukee Parental Choice Program have both been around since the 1990s and offer a wealth of data on how these types of programs have affected their respective local school districts.

The Cleveland program launched in 1996 allowing children in the Cleveland Metropolitan School District to receive vouchers to attend a private school or public school that borders the student’s zoned school district. Like the Tennessee program, the Cleveland program was created for low-income families who had little to no means to provide different educational opportunities to their children. However, unlike the Tennessee program, the Cleveland program allowed previously enrolled students from private schools to take advantage of the program. Even as private school students in Cleveland could now receive public dollars, the comprehensive study, *Fiscal Effects of School Vouchers* by Martin F. Lueken, looked at the total costs and enrollment of the program since its inception. Over its 19 years, the program generated net savings to Ohio taxpayers of $4,177 in variable costs annually per publicly funded scholarship student.\(^3\)

In the same study, Lueken found a more modest savings averaging $1,202 for each student who took part in the Milwaukee Parental Choice Program. Similar to the Tennessee and Cleveland programs, the Milwaukee program was created to give low-income families more educational opportunities outside of the city’s public school district. Beginning in 1990, the nation’s oldest “modern” school choice program has grown substantially due to its popularity among lower-income families and the fiscal and social benefit it has provided to the people of Milwaukee.

The similarities between the Cleveland program and the Tennessee program end when taking into account the programs funding structure. Whereas the Cleveland program provides less than the state share of education costs for Cleveland students while sharing the program cost between the city and the state through state deductions, the Tennessee program is funded through the total state portion of a student’s education funds, with a portion of local funds covering the rest of the ESA. MNPS and SCS districts can continue to keep some local dollars while no longer being responsible for that child’s education. Therefore, the Tennessee program’s structure has the potential to greatly increase the positive fiscal effects of these two school districts.

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In 2011, Arizona passed an ESA program, which was expanded statewide in 2017. The accompanying fiscal note for the expansion found that the program would save local school districts’ money by relieving them of the variable costs associated with educating students, while allowing the districts to continue accepting local school funding. As the program was expanded, a study by the Goldwater Institute found the ESA program saved individual school districts an average of $654 per student who participated in the program. These savings increased the per-student funding in public school districts and relieved them of pressures from growing enrollment. The data from the Arizona ESA program suggests it expanded educational choice to Arizona students while simultaneously benefiting local school districts financially.

DOLLARS AND CENTS

In Tennessee, education funding is the largest expenditure of state dollars, totaling 46 percent of the general fund and totaling more than $6.5 billion for K-12 education annually. Additionally, Metro Nashville allocates 37 percent - more than $922 million dollars - of the county budget to education, its largest single expenditure. Shelby County commits 30.5 percent of its total budget to education, a close second to the county’s personnel costs that receive a 31.1 percent allocation. The school district budgets for Metro Nashville and Shelby County have been growing while their enrollments have maintained statistically flat. Data from the Tennessee Department of Education and school district budgets show the overall funding for education outpacing the rate of enrollment. The following graphs display the most recent data, at the time of this report, provided by the department for the 2018-2019 school year.

Figure 1: Total Student Population

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<thead>
<tr>
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<th>MNPS Students</th>
<th>SCS Students</th>
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</thead>
<tbody>
<tr>
<td>2016-2017</td>
<td>81,858</td>
<td>103,703</td>
</tr>
<tr>
<td>2017-2018</td>
<td>81,004</td>
<td>104,515</td>
</tr>
<tr>
<td>2018-2019</td>
<td>80,815</td>
<td>104,902</td>
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</tbody>
</table>

Source: Tennessee Department of Education - Annual Statistical Report

Figure 2: Total District Budgets (inflation-adjusted)

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<tr>
<th></th>
<th>MNPS</th>
<th>SCS</th>
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</thead>
<tbody>
<tr>
<td>2016-2017</td>
<td>$908,039,818</td>
<td>$1,337,334,151</td>
</tr>
<tr>
<td>2017-2018</td>
<td>$930,721,146</td>
<td>$1,391,405,850</td>
</tr>
<tr>
<td>2018-2019</td>
<td>$911,249,037</td>
<td>$1,479,144,262</td>
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</tbody>
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Source: MNPS.org/budgets & SCSk12.org/finance
As shown in Figure 1, enrollment for SCS has stayed statistically flat while MNPS has dipped in recent years. Figure 2 displays that the call to invest more in education has been met while enrollment has remained static. The investment of education dollars in the form of the ESA program creates a more accountable and tailored way to use education funds, with funding following the student, something that should be heralded by anyone who cares for the development and improvement of the state’s least advantaged students.

In May 2020, the Metro Nashville School Board unanimously voted to shutter four schools due to underperformance and operating well under capacity. The school board was able to conclude that continuing to fund schools that parents did not want to send their children to for a sub-par education was not the answer and those funds could be used elsewhere. The educational outcomes of the students were weighed and those schools that did not make the grade were cut. If the school board can see these signs of a failing school and make the decision to close it, an ESA program would provide even more incentive to offer a high-quality education to students, potentially benefiting both traditional public schools students along with those funded through ESAs.

Tennessee lawmakers were able to craft the ESA program to safeguard public education funding by ensuring it only is accessed by public school students. This is accomplished by the law requiring applicants to be enrolled in a public school prior to applying, ensuring that no public money is going towards an already-enrolled private school student. This check confirms public monies are following public school children, and not those who already have access to other educational options. In addition, SCS and MNPS will also enjoy continued state funding for students who take advantage of the ESA program. For the first three years of the pilot program, the Department of Education will administer annual grants, equal to the ESA value, to the school district ESA students previously attended. This comes in addition to the portion of local and federal dollars that will continue to flow to the district budgets long after the backfilling is complete.


As the ESA is funded with the entirety of state funds and a portion of local funds, the savings from the program are realized at the federal and local level. These savings and the fiscal impact felt by a district through the introduction of ESAs can be calculated by looking at per-student cost, the funding breakdown, and fixed/variable costs. In the long-run, all costs are variable, but for the short-run, some costs will be variable and others will inevitably be fixed, i.e. utilities, school buildings, etc. Dr. Benjamin Scafidi’s extensive research on education spending found that variable costs, those costs that change with fluctuations in enrollment, on average represent 64 percent of educational expenditures. These variable costs generally include textbooks, supplies, instruction services, and support services. While critics may claim that all educational costs are fixed, this would mean any enrollment increases would not require additional funding.

THE SAVINGS OF ESAs

Based on information provided in the 2019 Annual Statistical Report by the Department of Education, SCS spent $12,893.76 per student, based on their Average Daily Attendance of 99,403. This figure represents the true per-pupil expenditure (PPE). As highlighted in the Beacon Center’s 2018 report, Counting Dollars and Cents: Where Does the Money Go? reported PPE does not include “educational spending not directly related to day-to-day operations such as community services, capital outlay, debt service, capital projects, and student body education. However, these expenditures do constitute taxpayer expenditures for educational services and thus should be included to represent any true PPE.”

Under the ESA law, participating students receive, “the amount representing the per-pupil state and local funds generated and required through the basic education program (BEP) for the [local education agency or] LEA in which the participating student resides.” However, this amount, “must not exceed the combined statewide average of required state and local BEP allocations per-pupil.” Additionally, a district’s Average Daily Membership (ADM) is what is used by the state to calculate the BEP formula. The estimated average total BEP per-student for the state in 2018-2019 was $7,376.23.

Thus, $7,376.23 is the highest amount for a participating student to receive with an ESA.\textsuperscript{17} This amount must first be paid “from the state BEP funds otherwise payable to the LEA.”\textsuperscript{18} As SCS receives $5,891.25 per-student in state BEP funding according to data received from the Comptroller’s office, the remaining $1,484.98 must be covered by local BEP dollars. According to the SCS budget, its required local match of the total BEP is 30.68 percent.\textsuperscript{19} This correlates to a required local match of $273,523,000, or $2,607.41 per-pupil. After covering the remaining funds for the ESA, this leaves $1,122.43 in remaining local matching funds for SCS. Additionally, SCS retains the local option dollars (total county, city, and special district revenue receipts minus required matching funds) and federal funding. These equate to $2,026.23 and $2,130.78 per-student respectively, for a total of $5,279.44 in retained funds for SCS for each student who utilizes an ESA.\textsuperscript{20}

While the retained funds do not cover the entire PPE, this ignores the reduction in variable costs for the district when a student chooses to participate in the ESA program. Variable costs include instruction, student support, food services, instructional support, and enterprise operations. Categorizing these expenditures as variable costs is consistent with Dr. Scafidi’s 2012 study, \textit{The Fiscal Effects of School Choice Programs on Public School Districts}.\textsuperscript{21} While other costs such as transportation could be considered quasi-variable, as a drop in enrollment could remove bus routes or merge two routes into one, for this report conservative variable costs that are most likely to be affected are chosen as the focus.

While the Annual Statistical Report does not track enterprise operations, instruction, student support, food services, and instructional support represent 75.29 percent of SCS’s education costs. This leaves only 24.71 percent of PPE as fixed costs, placing SCS’s fixed costs per-student at $3,185.54. The retained funding covers the district’s fixed costs and gives the district a savings of $2,093.90 for each student who takes an ESA.


\textsuperscript{18} Tenn. Code Ann. §49-6-2605(b)(1).


\textsuperscript{20} 2019 Annual Statistical Report. Tennessee Department of Education.

Looking at MNPS in the Annual Statistical Report, the district’s true PPE is $16,094.06. Meanwhile, after using verified state BEP dollars obtained from the Comptroller’s office, MNPS received $3,678.40 in state BEP funding per-student, meaning its local share of BEP funding must cover the remaining $3,697.83 of the ESA. Metro Nashville’s required local match for 2018-2019 was $366,495,000, or $4,534.99 per-pupil. After covering the remaining funds for the ESA, this leaves $837.16 in remaining local matching funds for MNPS. Additionally, MNPS retains the local option dollars and federal funding equating to $4,034.39 and $1,577.88 per-student respectively, for a total of $6,449.43 in retained funds for MNPS for each student who utilizes an ESA.

MNPS’s variable costs of instruction, student support, food services, and instructional support come to 63.17 percent of their education costs. This leaves only 36.83 percent of PPE as fixed costs, placing MNPS’s fixed costs per-student at $5,926.76. The retained funding covers the district’s fixed costs and gives the district a savings of $522.67 for each student who takes an ESA.

The savings for MNPS are lower than SCS due in part to their high fixed costs, mainly because of their large debt service payments. In fact, MNPS is responsible for over 50 percent of all debt service payments for school districts across the state. Yet even with the higher fixed cost, MNPS will still realize savings for each student who utilizes an ESA. Additionally, the ESA law provides annual grants equal to the amount of the ESA value, to districts for each participating student for the program’s first three years. These “school improvement funds” do not require any local matching funds and hold districts harmless for students utilizing ESAs.

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23. Ibid.

FUTURE PROJECTIONS

Historically, state-funded school choice programs have experienced a low adoption rate in the initial years they are implemented. Based on data from EdChoice, in their first year of implementation, ESAs and voucher programs experience an adoption rate of less than one percent of eligible students, on average. As years go on, this rate usually grows due to an increase in public interest and knowledge of the program.

As written, in the Tennessee program 5,000 ESAs are available in the first year of the program and should the state receive applications that reach or go beyond 75 percent of the 5,000 cap (3,750 applications), the program will administer an additional 2,500 ESAs each year, up to a total of 15,000. A further check in the law to make sure those who need educational choice the most receive it: if a cap is met in any given year, priority is given to children in the lowest performing schools or families with the lowest incomes. At the fastest growth rate possible, it will take five years for the program to reach its max number of 15,000 ESAs. While the cap of 15,000 is split between two districts, there is no individual cap on either district. It is therefore safe to assume that the ESAs would be split at a rate based on the weighted size of the districts’ enrollments.

However, since the eligibility for the Tennessee ESA is determined at the application point, the exact number of eligible students is not readily quantifiable. Estimates from EdChoice place 58 percent of students in the affected districts to be eligible for the program. This estimate would give SCS an eligible student population of 60,843 and a MNPS eligible student population of 46,873 based on their 2019 ADM. At the historical one percent adoption rate, 608 students from SCS would take an ESA along with 469 from MNPS in the first year. Prior to the program being enjoined by the courts, 2,648 children had pre-enrolled and 57 schools were willing to participate, before the program even launched, much higher than the historical average. Granted, this assumes all who applied for an ESA would have qualified and received one, but pre-enrollment numbers display there is a desire for other educational choices in these districts. As the COVID pandemic has shifted the national spotlight to educational choice, the adoption rate may have been even higher. Nevertheless, for this report, estimates are made for the fiscal effects of the adoption rate for ESAs at the first year historical one percent, a moderate five percent, a robust estimate of 10 percent of eligible students, and for the 15,000-student overall program limit (a roughly 14 percent adoption rate).

As shown in Figure 3, a conservative estimate of variable costs in association with students who take an ESA could save SCS millions of dollars. If the ESA program reaches full adoption, SCS savings come to nearly $18 million annually. In addition to these savings, these numbers do not include the dollars backfilled by the state for each student who takes part in the program for the first three years.

Figure 3: SCS Savings by ESA Adoption Rate

Additionally, Figure 4 below shows savings of over $3 million annually should the full number of MNPS students participate in the ESA program. While MNPS benefits financially from the ESA program, it is not at the same level as SCS. This is due to Metro Nashville’s higher fixed costs - notably its debt services - and a lower portion of education funding coming from state sources. And just like in SCS, MNPS would also benefit from the significant additional grant funding, which is also not included in this calculation.
Both districts are set to witness massive windfalls from the program’s design, even before accounting for the additional grants they will receive for every child who leaves their district with an ESA. The savings from the ESA program alone show that over $21 million can be saved through retained funding and reduced variable costs should 15,000 students take advantage of the ESA program. These projections suggest that the program will not only benefit students who are given new educational opportunities, but allow per-student funding to increase in these districts while not requiring any tax increases.

**COVID CLASSROOM CAVEATS**

As the COVID-19 pandemic has turned the current school year on its head, school districts across the country have struggled to figure out the best and safest way to reopen schools. MNPS and SCS chose to go online for all students, with SCS delaying the start of the school year by nearly a month and MNPS planning to push in-person learning for high school students until January 2021.\(^\text{27}\) While a virtual setting can be the safest and most productive way for some students to learn, education is never a one-size-fits-all approach. As MNPS has made plans to phase in all students according to a timeline, SCS is still unsure of when school buildings will reopen and will continue with all students learning online.\(^\text{28}\)


The rollout of these education plans exposed a dire need for educational choice. Districts across the country and across Tennessee were failing to meet the needs of countless children who could not work in a virtual setting. But as the ESA program was halted by lawsuits from the local governments, these children were left without any options. In an article covering enrollment declines published October 4, 2020, up to that point the MNPS data revealed 6,902 children had left the district for the current school year. SCS did not provide exact numbers on their enrollment change, but showed a decline of around 5,000 students. These students left the districts through enrolling in another public school district, private school, homeschool, or left the education system completely.

School choice opponents have misled the public with unfounded fears that there would be a mass exodus of students if the Tennessee ESA program would be implemented, yet the program capped first year enrollment at 5,000, shared between both districts. Both MNPS and SCS, potentially due to their handling and response to the pandemic, have “lost” over twice as many students as the maximum number who could have taken an ESA in the first year. This loss of the student population has not garnered any attention from the ESA opponents. While it is impossible to know for sure, many of these families may have severely strained their budget to send a child to a private school that is holding in-person classes. The ESA program could have helped these families with the switch to a new way of learning but for the lawsuit holding up the implementation of the program.

CONCLUSION

Tennessee students in failing districts were finally given a chance to access new educational opportunities thanks to the ESA program. The program would bring an increase in educational choices, expanded opportunities for students, and substantial savings in educational spending.

The cries that the program will gut classroom funding and leave the most vulnerable students with fewer resources is antithetical to both the purpose and benefits of the ESA program. The program itself is centered around children in failing schools and giving them the opportunity to obtain a good education outside of districts that have failed them again and again. While the total revenue for MNPS and SCS will decrease by the amount of students who take ESAs, the districts’ per-student funding will actually increase because of the retained local and federal funding for students the districts no longer educate.

School districts and educators should celebrate with parents the fact that the state is providing another educational opportunity for children in their district. They should celebrate twice as much since the state is backfilling the districts for three years for any student who takes advantage of new educational choices in addition to the potential millions of dollars they will save through those students gaining an education elsewhere. As the calculations above show, the Tennessee ESA program financially benefits school districts because fixed costs are less than retained funding, meaning more resources are available to students who stay in these two districts’ schools. ESAs therefore financially benefit public school students along with those students who now have new educational opportunities.

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