

How Does TISA Affect School Districts' Local Funding Requirements?

April 4, 2022

Gov. Bill Lee's proposal to replace Tennessee's current K-12 education funding formula (the BEP) with a new calculation (TISA) relies in part on [prioritizing money for students with particular characteristics](#). Based on Sycamore's independent analysis, this report explains how the new formula could affect what local governments are required to spend on public schools. You can also use [our dashboard](#) to explore the state's FY 2024 funding projections – the first year TISA would take effect – for each school district as of March 31, 2022. (1) (2)

TISA Requires Less Local Formula Funding than BEP

Under TISA, Tennessee's Department of Education projects that all but five school districts would get more state funding in FY 2024 with no increase in mandatory local contributions. (1) On a statewide basis, the proposed new formula actually requires less local spending than the BEP does. However, each school district is also subject to a local maintenance of effort (MOE) rule.

Maintenance of Effort Requires More Local Funding than TISA

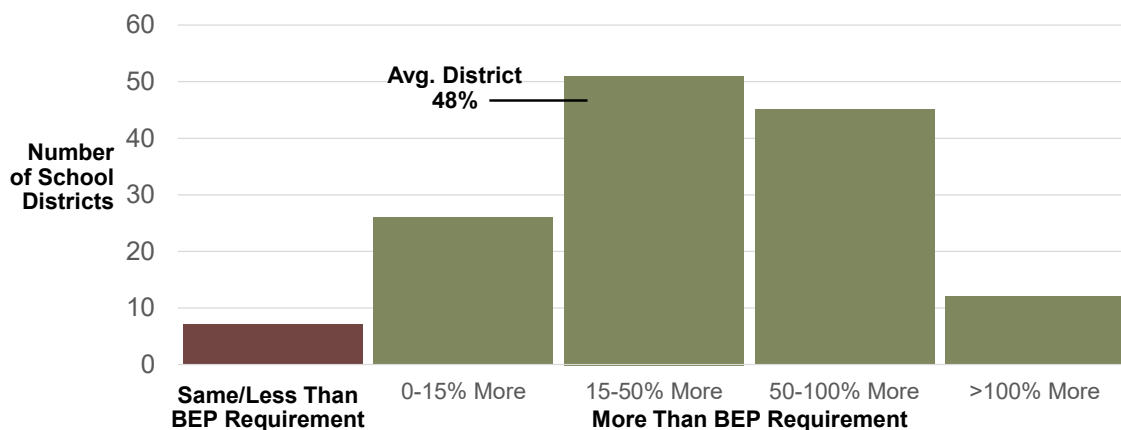
Due to existing maintenance of effort rules, every district must already spend more from local revenues in FY 2024 than the TISA formula would require. All but seven districts already spend more than the projected BEP requirement for FY 2023 due to MOE rules, which largely prevent districts from reducing local education funding from one year to the next (see **text box**). (3) Because TISA decreases most districts' formula-required local funding, the estimated FY 2023 MOE is higher for every district than their projected FY 2024 TISA requirement.

About Local Maintenance of Efforts Requirements

Each school district must meet a local maintenance of effort requirement to receive their allocation of state BEP dollars – a rule that would remain under TISA. The BEP calculates a minimum amount that each school district must contribute from local revenues. That minimum is trumped by the MOE, which largely prevents districts from reducing what they spend from one year to the next – even if they spent more than the BEP required. In fact, nearly all school districts contribute more than their BEP minimum. According to projections for FY 2023, for example, all but seven districts' MOE (i.e. roughly, their prior year's spending) will exceed their BEP requirement (Figure 1).

Figure 1. All But 7 Tennessee School Districts' Maintenance of Effort Is Expected to Exceed Their FY 2023 BEP Requirement

Distribution of School Districts by Maintenance of Effort vs. BEP Requirements (FY 2023 Proj.)



Sources: The Sycamore Institute's analysis of FY 2023 projections from the TN Department of Education (1)

The maintenance of effort rule helps ensure that increased state spending on education translates to increased total investments in K-12. On their own, the BEP rules would let districts that spend more than their BEP calculation to cut local funds when state dollars increase and still maintain overall K-12 spending. Without the MOE requirement, growth in state education funding could supplant local dollars instead of boosting overall investment. (9) For the same reason, many other federal and state programs have similar maintenance of effort requirements (e.g. state highway funds, federal education dollars, the federal substance abuse and mental health block grants). (10)

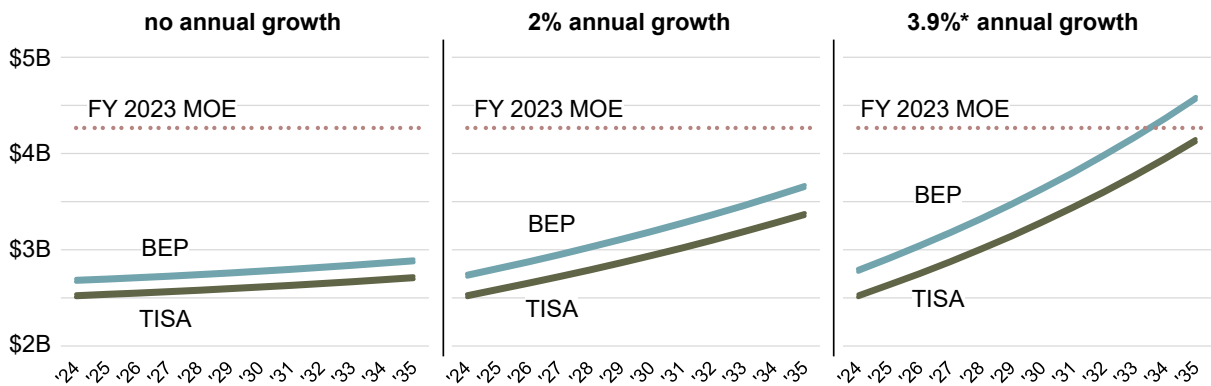
Putting It All Together

TISA is unlikely to grow the statewide total for mandatory local spending over the next decade and – compared to the BEP – could require fewer district-level increases. Sycamore used the state’s FY 2023 BEP and FY 2024 TISA estimates to project statewide and district-specific local education funding requirements under three different growth rates for per-pupil funding. See below for important limitations and assumptions associated with our projections. We found:

- Total Local Contribution Requirements:** The BEP would consistently require more from local governments than TISA would (**Figure 2**). Over the last decade, Tennessee lawmakers have increased per-pupil spending under the BEP by 3.9% per year, on average. (4) (5) Even if state legislators maintained that rate of annual increase, the statewide total for TISA-required local spending would not catch up with estimated maintenance of effort requirements until sometime after FY 2035. The BEP would cross that line several years earlier.
- Individual Districts’ Required Contributions:** TISA could require fewer school districts to increase local funding than the BEP will (**Figure 3**). Depending on if and how quickly lawmakers decide to increase state funding, most school districts would not feel any impact from TISA on their required local spending for at least a decade. The BEP would require more districts to exceed their current levels of MOE-mandated local spending more quickly.

Figure 2. Statewide Maintenance of Effort Requirements Would Likely Exceed TISA-Mandated Local Spending for at Least a Decade

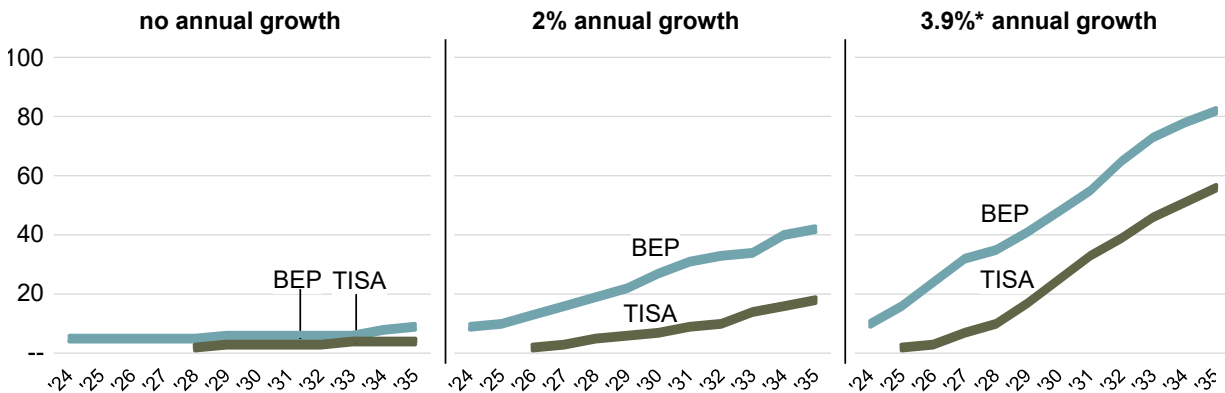
Projections of Total Local Funding Requirements (FYs 2024-2035)



Notes: The starting point for all projections are the TN Dept. of Education’s projections for FY 2023 district MOE, FY 2023 local BEP contribution, and FY 2024 local TISA contribution as of 3/31/2022. Other assumptions: 1) enrollment grows at the 5-year pre-pandemic rate, 2) no increases in local funding above the FY 2023 MOE levels. *Equals the average annual growth in actual state appropriations per pupil for the BEP between FYs 2011-2021
Sources: The Sycamore Institute’s analysis of information from the Tennessee Department of Education (4) (1) and the FYs 2013-2023 State Budgets (5)

Figure 3. TISA Could Require Fewer School Districts to Increase Local Funding than the BEP Will

of Districts with Projected Local Requirement Above FY 2023 Projected MOE (FYs 2024-2035)



Notes: The starting point for all projections are the TN Dept. of Education’s projections for FY 2023 district MOE, FY 2023 local BEP contribution, and FY 2024 local TISA contribution as of 3/31/2022. Other assumptions: 1) enrollment grows at the 5-year pre-pandemic rate, 2) no increases in local funding above the FY 2023 MOE levels, 3) no changes in districts’ mix of student needs, 4) no changes to each districts’ relative fiscal capacity. *Equals the average annual growth in actual state appropriations per pupil for the BEP between FYs 2011-2021
Sources: The Sycamore Institute’s analysis of information from the Tennessee Department of Education (4) (1) and the FYs 2013-2023 State Budgets (5)

These projections depend on several assumptions and thus involve significant uncertainty. First, we assume that districts’ 5-year pre-pandemic enrollment trends continue through 2035. We also assume no changes in 1) the mix of student needs within each district, 2) each district’s relative fiscal capacity compared to all others’, or 3) districts’ MOE requirements. Our three per-pupil growth scenarios assume, respectively: 1) no annual growth in state spending per pupil for each formula, 2) standard inflationary growth of 2% per pupil, and 3) continuation of the per-pupil rate at which state appropriations spending for the BEP grew between FYs 2011-2021. (4) (5) Our analysis does not account for direct funding outside of core formulas (e.g. tutoring, CTE programming, support for charter school facilities). See the methods section at the end for additional information.

TISA’s Changes to Tennessee School Finance Fundamentals

Like the BEP, TISA answers three central questions that each contribute to the outcomes projected above:

1. **Total Size of the Pie:** What does it cost to provide an “adequate” education to every child in Tennessee?
2. **Total State/Local Split:** How much of that total cost does the state cover, and how much do locals cover?
3. **District-Specific Split:** How much does each specific district receive from the state?

Here’s how TISA proposes answering these questions:

How TISA Changes the Total Size of the Pie

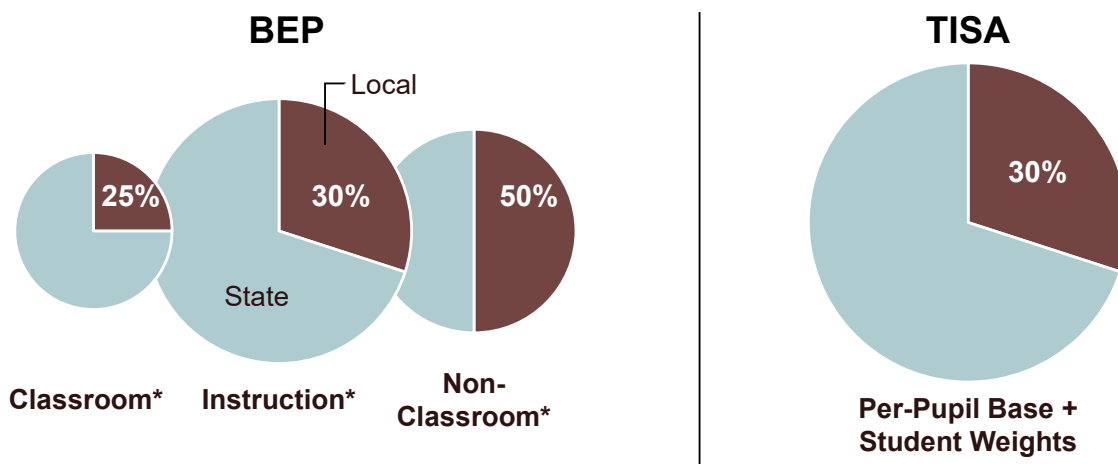
TISA would shift Tennessee’s approach to the first question from a resource-based response to a student-based answer that changes with the mix of student needs. The BEP is a resource-based formula that calculates costs largely based on total enrollment in each district. TISA would be a student-based formula that generates nearly \$1 billion more than the BEP does today. It includes base funding per pupil plus additional money for students with specific characteristics or needs. (See [this report to explore how those characteristics vary](#) by school district.) Both TISA and the BEP largely handle things like career and technical education, tutoring, early literacy, and charter school facility costs outside the core formula. (6)

How TISA Changes the Total State/Local Split

TISA proposes reducing the overall share that locals must cover – the answer to the second question. On an aggregate level, the BEP’s statutory requirements involve [the state covering roughly 66% of the BEP calculation](#) and locals the remaining 34%. Under TISA, the overall split would change to 70% state and 30% local (Figure 4).

Figure 4. TISA Would Reduce Local Governments’ Overall Share of Formula-Required Education Spending

Required Local Contribution Towards Total Education Funding Formula Calculation – BEP v. TISA



*In FY 2020, instruction made up 58% of the total BEP calculation, non-classroom 28%, and classroom 14%. The overall local share of the total was 34%. (7)

Source: Tennessee Department of Education (8) and Tennessee General Assembly (2)

How TISA Changes (or Doesn’t) the District-Specific Split

Like the BEP, TISA would use a blended fiscal capacity calculation to determine what percentage of the aggregate local share each district pays. While the original TISA legislation proposed to use one model (CBER) to determine fiscal capacity, the latest version of the bill would keep [the blended model currently in use](#) (TACIR + CBER).

TISA does not change existing maintenance of effort requirements. [Local governments have consistently invested more in education than the BEP requires](#). Under long-standing MOE requirements,

school districts are not allowed to reduce their contributions to education when state funds for education increase (See **text box**). (9)

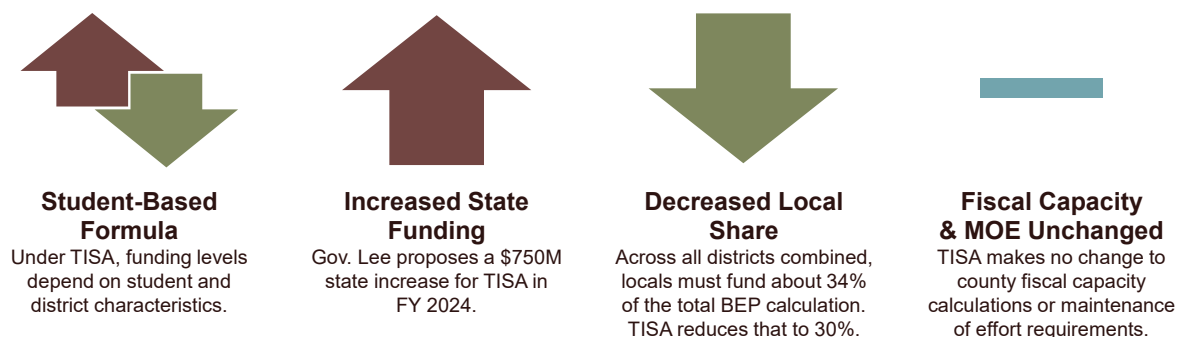
How Do TISA’s Changes Affect Local Funding Requirements?

Each of the proposed changes above affect local funding requirements (Figure 5). Ultimately, TISA’s proposed reduction to the aggregate local share more than offsets the impact of the other relevant changes. Here are those changes:

- **Decreased Local Share:** TISA proposes reducing the aggregate local share for all districts in the state combined from roughly 34% to 30%. (8) (9) (2) Absent any other changes, this would decrease school districts’ formula-required local funding levels.
- **Student-Based Formula:** TISA’s shift to a student-based funding approach means the cost of an adequate education for every child in a district will depend on the specific characteristics of that district’s students. Holding all else constant, this change would mandate higher funding for districts that have students with greater needs – pushing up local contributions towards those costs. Districts that have students with fewer needs could see the opposite effect.
- **Increased State Funding:** TISA includes an additional \$750 million in state funding than the proposed BEP levels for FY 2023. (5) If no other changes were made, this increase would drive up the amount local governments must spend because locals have to match state spending at a specific ratio.
- **Fiscal Capacity & MOE Unchanged:** Since TISA makes no change to existing fiscal capacity calculations or maintenance of effort requirements, these elements will not drive any increase or decrease in local funding requirements. (2)

Figure 5. Which TISA Provisions Affect Required Local Funding Contributions?

Impact on Local Funding Requirements of Proposed TISA Provisions



Illustrative only. The size of the arrows do not represent the actual magnitude of impact.

Our Method

We projected potential local requirements for each school district under the BEP and TISA out to FY 2035 using the following starting points and assumptions.

Starting Point

The starting point for each district's projection was based on FY 2023 and FY 2024 projections made by the Tennessee Department of Education (TDOE) and provided at our request on March 31, 2022. (1)

- For the BEP projections, we began with TDOE's FY 2023 estimated local BEP requirement for each district, which include the impact of funding increases proposed as part of the governor's FY 2023 budget. These numbers also include discretionary grants for coordinated school health, family resource centers, and school safety that have traditionally been outside of the BEP but are proposed to be folded into TISA. We were unable to back these numbers out of each district's estimate, but in total, these grants account for less than 1% of the total proposed state appropriations for the BEP.
- For the TISA projections, we began with TDOE's FY 2024 estimated local TISA requirement for each district.
- For the maintenance of effort requirement, we used TDOE's FY 2023 estimated MOE for each district.
- For projected enrollment changes, we used TDOE's calculation of the 5-year pre-pandemic enrollment trend for each district.

Calculations and Assumptions

We used three different growth scenarios to calculate projections for each school district. Any decisions about increases in funding under the formula would be at the discretion of the Tennessee General Assembly.

- Scenario 1 reflects no growth in per-pupil funding.
- Scenario 2 reflects per-pupil funding growth of 2%, a common benchmark for typical inflation.
- Scenario 3 uses 3.9% growth in per-pupil funding, which reflects the average annual growth in state BEP spending (as reflected in the budget document) per pupil between FYs 2011-2021. (4)
(5)

For each district and scenario, we applied the annual pre-pandemic enrollment trend and growth rate to the starting points listed above. For example, we took the following steps to calculate the FY 2025 local TISA requirement for a district under the 2% growth scenario. First, we adjusted the projected FY 2024 TISA local requirement based on the district's average annual pre-pandemic enrollment trend. Then, we multiplied that figure by the 2% inflationary increase (**Table 1**). For our statewide totals, we added all districts' projections together. To estimate whether districts would be subject to a higher local requirement, we compared our projections with TDOE's FY 2023 estimated MOE for each district.

Table 1. Example of How We Calculated Our Projections

Starting Point	Enrollment Changes	Funding Changes	Projection
TDOE's FY 2024 estimate	$x (1 + \text{enrollment trend})$	$x (1 + 2\%)$	= FY 2025 estimate
FY 2025 estimate	$x (1 + \text{enrollment trend})$	$x (1 + 2\%)$	= FY 2026 estimate
FY 2026 estimate	$x (1 + \text{enrollment trend})$	$x (1 + 2\%)$	= FY 2027 estimate
....			
FY 2034 estimate	$x (1 + \text{enrollment trend})$	$x (1 + 2\%)$	= FY 2035 estimate

These projections depend on several assumptions and thus involve significant uncertainty. We assume that during the entirety of our projection window, districts experience no changes in:

1. Annual enrollment trends.
2. The mix of student needs, as weighted under the TISA formula.
3. Each district's relative fiscal capacity compared to all others'.
4. MOE requirements.

THE SYCAMORE INSTITUTE

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Written By:

Mandy Pellegrin, Policy Director • Sarah Henderson, Senior Policy Analyst

Other Contributing Staff:

Eric Harkness, Executive Director • Brian Straessle, Director of External Affairs

For further information, contact Brian Straessle at Brian@SycamoreTN.org.

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