



TACIR

The Tennessee Advisory Commission
on Intergovernmental Relations



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MEMORANDUM

TO: Commission Members

FROM: Cliff Lippard
Executive Director

DATE: 18 December 2025

SUBJECT: Factors Affecting Fiscal Capacity

During the September 18, 2025, commission meeting, members were provided with an update of the work of the ad hoc education finance subcommittee, which met in August to discuss distortions in TACIR's fiscal capacity calculation caused by virtual school student counts, the effect of Greenbelt property assessments on fiscal capacity, and the fiscal capacity of counties with large tourism industries. Subcommittee members voted unanimously to recommend to the full commission that the Tennessee Department of Education begin collecting residency information for virtual school students. Chairman Yager told the full committee that a vote on the recommendation would be held after staff concludes further analysis requested by the subcommittee.

The members of the subcommittee asked commission staff for further analysis regarding

- whether out-of-state students are enrolled in virtual schools in Tennessee,
- whether other states allow out-of-state students to enroll in their virtual schools,
- the difference in costs between serving virtual school students and brick and mortar students in Tennessee and other states, and
- whether other states account for tourism in some way in the education funding formulas.

In response to these questions, TACIR staff found that out-of-state students are not enrolled in Tennessee Virtual Academy (TNVA) or Tennessee Connections Academy, though some other states do allow out-of-state students to enroll in their virtual schools.

Because of data limitations, staff could not determine definitively whether per-student costs are greater for virtual or brick-and-mortar schools but did find differences in the types of costs that each incurs. According to TDOE's annual report card, per pupil expenditures tend to be greater for in-district virtual schools than for statewide virtual schools. Regarding whether other states account for tourism in their education funding formulas, TACIR staff found that no other state adjusts their K-12 education funding formula to account for tourism.

Does Tennessee law allow virtual schools to enroll out-of-state students?

Tennessee Code Annotated, Section 49-16-211(a), requires students enrolled in Tennessee's virtual schools to be residents of Tennessee, the same as for other students. School districts are responsible for ensuring that their virtual school students meet enrollment requirements. Tennessee Virtual Academy (TNVA) corrected a report provided to TACIR staff that included students with out-of-state addresses, confirming that the students do reside within Tennessee. They explained that the students likely transferred from virtual schools in other states to Tennessee Virtual Academy, but their prior out-of-state addresses were still reflected in the data. Tennessee Connections Academy likewise reported that they did not have any out-of-state students.

Do other states allow enrollment of out-of-state students in their virtual schools?

Some other states allow out-of-state students to enroll in their virtual schools. According to the Education Commission of the States, out-of-state students that pay tuition and applicable course fees may enroll in virtual schools in at least seven states: Florida, Georgia, Idaho, Michigan, New Hampshire, North Carolina, and Virginia. Virginia Virtual Academy even enrolls international students.

How do the costs of serving virtual school students compare with brick-and-mortar school students in Tennessee and other states?

Staff were unable to obtain complete cost data for virtual schools, making comparisons with brick-and-mortar schools difficult. Some public virtual schools are operated by private companies, which contract with a host county for much of their funding, and the Tennessee Department of Education (TDOE) does not ask the virtual schools to report how they spend their contract revenue. As a result, the data reported in TDOE's annual report card does not include all school-level expenditures for statewide virtual schools. For example, just \$109 per student in per pupil expenditures were reported for Union County's Tennessee Virtual Junior High School (see table 1), and none at all were reported for Johnson County's Tennessee Connections Academy (see table 2). Per pupil

expenditures for statewide virtual schools in Lewis County were greater than for Union and Johnson counties' virtual schools, but staff had no way to confirm whether all their school-level expenditures were included (see table 3).

Table 1. Union County Per Pupil Expenditures for Public Traditional and Public Virtual Schools in School Year 2023-24

School	School Type	Total School Level Per Pupil Expenditures	Total District Level Per Pupil Expenditures	Total School Per Pupil Expenditures
H Maynard Middle School	Public Traditional School	\$ 7,840	\$ 5,227	\$ 13,067
TN Virtual Junior High School	Public Virtual School	\$ 109	\$ 5,227	\$ 5,336
Union County High School	Public Traditional School	\$ 9,129	\$ 5,227	\$ 14,356

Source: [TN State Report Card](#)

Note: School level includes salaries and benefits for those working at least 50 percent of their time in that school, instructional supplies and materials, contracts, utilities, and school nutrition. All other expenditures are considered district-level.

Table 2. Johnson County Per Pupil Expenditures for Public Traditional and Public Virtual Schools in School Year 2023-24

School	School Type	Total School Level Per Pupil Expenditures	Total District Level Per Pupil Expenditures	Total School Per Pupil Expenditures
Johnson County High School	Public Traditional School	\$ 8,890	\$ 6,157	\$ 15,048
Tennessee Connections Academy Johnson County 9-12	Public Virtual School	\$ 0	\$ 6,157	\$ 6,157

Source: [TN State Report Card](#)

Note: School level includes salaries and benefits for those working at least 50 percent of their time in that school, instructional supplies and materials, contracts, utilities, and school nutrition. All other expenditures are considered district-level.

Table 3. Lewis County Per Pupil Expenditures for Public Traditional and Public Virtual Schools in School Year 2023-24

School	School Type	Total School Level Per Pupil Expenditures	Total District Level Per Pupil Expenditures	Total School Per Pupil Expenditures
Lewis County High School	Public Traditional School	\$ 6,770	\$ 1,547	\$ 8,318
Lewis County Middle School	Public Traditional School	\$ 7,782	\$ 1,547	\$ 9,329
Volunteer State Virtual Academy High School	Public Virtual School	\$ 2,477	\$ 1,547	\$ 4,025
Volunteer State Virtual Academy Middle School	Public Virtual School	\$ 2,931	\$ 1,547	\$ 4,479

Source: [TN State Report Card](#)

Note: School level includes salaries and benefits for those working at least 50 percent of their time in that school, instructional supplies and materials, contracts, utilities, and school nutrition. All other expenditures are considered district-level.

TDOE staff did say, however, that virtual schools can have far fewer school level expenditures because they don't have much of the expenditures of a traditional school. They typically don't have office staff, custodians, school lunch staff, teacher assistants, utilities, maintenance, operations, or physical classrooms. A 2023 review of virtual schools in the United States found that virtual schools may cost less—brick-and-mortar schools allocate significant resources to in-person services, including transportation, utilities, security, and medical services that virtual schools do not. But virtual schools have costs associated with digital delivery that brick-and-mortar schools do not.

Given the lack of conclusive data on expenditures, another point of comparison is virtual school contract revenue, which likely covers much of the expenditures of Tennessee’s privately-operated statewide virtual schools. According to staff analysis based on data from the Tennessee Comptroller of the Treasury and the TDOE, contract revenue per pupil for Union and Johnson counties’ virtual schools were \$7,593 and \$7,637, respectively, for fiscal year 2023-24.

How do the estimated costs of serving statewide virtual school students compare with in-district virtual school students in Tennessee and other states?

Some virtual schools in Tennessee offer enrollment to students statewide, while others are only available to students who live in-district (or nearby). Per pupil expenditures

reported in TDOE’s annual report card tend to be greater for in-district virtual schools than for statewide virtual schools, though, again, staff had no way to confirm whether all their school-level expenditures were included (see table 4).

Table 4. Per Pupil Expenditures for Statewide and In-district Virtual Schools

District Name	School	Enrollment Type	Total School Level Per Pupil Expenditures	Total District Level Per Pupil Expenditures	Total School Per Pupil Expenditures
Davidson	MNPS Virtual School	In-district	\$ 13,035	\$ 10,786	\$ 23,821
Hamilton	Hamilton County Virtual School	In-district	\$ 8,457	\$ 6,817	\$ 15,274
Montgomery	CMCSS K-12 Virtual School	In-district	\$ 6,425	\$ 3,902	\$ 10,328
Lawrence	Pioneer Virtual Academy	Statewide	\$ 712	\$ 2,713	\$ 3,425
Monroe	Monroe County Virtual School	Statewide	\$ 2,817	\$ 4,558	\$ 7,375
Shelby	Memphis Virtual School	Statewide	\$ 8,808	\$ 5,887	\$ 14,696

Source: [TN State Report Card](#)

Note: School level includes salaries and benefits for those working at least 50 percent of their time in that school, instructional supplies and materials, contracts, utilities, and school nutrition. All other expenditures are considered district-level.

Do other states account for tourism-related revenues in their education funding formulas?

The Education Commission of the States were not aware of a K-12 funding formula that accounts for tourism activities, and a TACIR staff review of states’ K-12 funding formula statutes found that Tennessee is the only state with a reference to tourism. Tennessee Code Annotated, Section 49-3-108(d)(1) authorizes an appropriation to a Local Education Agency (LEA) that meets the following criteria:

- The LEA is located in a county with an active tourism development zone (TDZ) agreement executed before July 1, 2023.
- The county has a population between 98,300 and 98,400, based on the 2020 federal census or any subsequent census.

Sevier County Schools is the only school district that meets these criteria. According to the Tennessee Department of Finance and Administration, the appropriation for fiscal year 2025–26 was \$8 million.

Distortions in Fiscal Capacity Caused by Virtual Student Counts

Virtual school students distort TACIR’s fiscal capacity calculation, which can result either in an increase or a decrease in the fiscal capacity of counties. To calculate an alternative fiscal capacity model that takes the residency of virtual school students into account, staff requested average daily membership (ADM) by county of residency from Union, Johnson, Lewis, and Union County schools, but the LEAs did not provide the data. Lewis and Union County schools wanted to charge for the staff time that it would take to fulfill the request, though Johnson and Union counties did provide point-in-time enrollment data.

The Effect of Greenbelt Property Assessments on Fiscal Capacity

Designating a farm or residential property as Greenbelt in a county can increase or decrease the county’s fiscal capacity in Tennessee Advisory Commission on Intergovernmental Relations’ (TACIR) model. This is because decreasing residential or farm property assessment, for Greenbelt purposes or for any other reason, decreases the county’s property tax base and decreases residential and farm property as a percentage of total assessments. These two effects partially offset each other.