



Executive Summary

High school dropouts adversely impact the state of Tennessee each year—financially and socially. Dropouts' lower incomes, high unemployment rates, increased need for medical care, and higher propensity for incarceration create a virtual vortex that consumes Tennesseans' tax dollars at a vicious rate. Hundreds of millions of dollars are spent on these high school dropouts every year.

This study examines those costs across three major state funding mechanisms: state tax collections, Medicaid funds, and the costs of incarceration. All three aspects compose substantial parts of Tennessee's operating budget. In 2009, for example, TennCare—the state's Medicaid program—accounted for \$1.6 billion of Tennessee's \$4.28 billion in economic stimulus funding.¹

- **There are more than 750,000 high school dropouts in Tennessee.**

According to U.S. Census data, there were 776,952 high school dropouts aged 25 or older living in Tennessee in 2007. This group represents the majority of residents who are either unemployed, in need of Medicaid assistance, or incarcerated. The data show that as the general level of education increases (from associate's degree to bachelor's degree and so forth), the use of public assistance programs declines.

- **Each dropout costs the state \$750 in lost tax revenue each year over his or her lifetime.**

State taxes make up the bulk of the funding for state-based programs. Because there is no personal income tax in Tennessee, sales and excise taxes, vice taxes, and motor vehicle taxes make up most of state revenue. By examining the earning histories of Tennesseans based on educational attainment, a solid conclusion can be reached based on average salary according to level of education. When these data are compared across historical tax collection information in the state, it stands to reason that each high school dropout costs Tennessee approximately \$750 per year. According to Tennessee Department of Education statistics, there were at least 12,000 high school dropouts in 2007; costs, therefore, in lost revenue are staggering—at least \$9 million per cohort per year.

- **Each dropout costs the state nearly \$1,100 in Medicaid services each year.**

High school dropouts are less likely than graduates to have health insurance and more likely to report that they are in ill health. This creates an increased demand within their population for Medicaid services, which nearly one in five dropouts receives in a given year. Those additional costs create a burden of nearly \$1,100 a year per dropout on the state-funded portion of Medicaid. That cost represents the overall average cost, regardless of a specific individual's personal health.



- **Every dropout costs the state an average of approximately \$950 in incarceration services each year.**

Incarceration costs are constant whether a specific dropout is incarcerated or not, and reflects the overall average of the cohort. Although the odds of any individual resident being incarcerated are low, that rate increases significantly among high school dropouts. Their presence in the Tennessee penal system is substantial, and they are key contributors to such problems as overcrowding and staffing issues. Additionally, those dropouts place a greater strain on prison education programs, which need additional staff to run them. Based on U.S. Census statistics, each dropout costs the state more than \$950 a year in incarceration costs, which includes capital outlays and staffing.

- **Tennessee has a population of more than 750,000 high school dropouts. At a cost of nearly \$3,000 per individual annually, dropouts cost the state more than \$2 billion a year.**

Tennessee taxpayers are burdened by the costs of assisting the state's undereducated residents. High school dropouts cost the state more than \$2.1 billion a year, based on conservative estimates. In a time of economic strife, preventive measures to ensure state funds can be better appropriated are undoubtedly important. Until then, this academic failure will continue to be an anchor in a sea of financial problems for Tennessee.