Fiscal Analysis of Popular School Choice Program Underestimates Savings to Georgia Taxpayers and Needs to Be Fixed

By Benjamin Scafidi

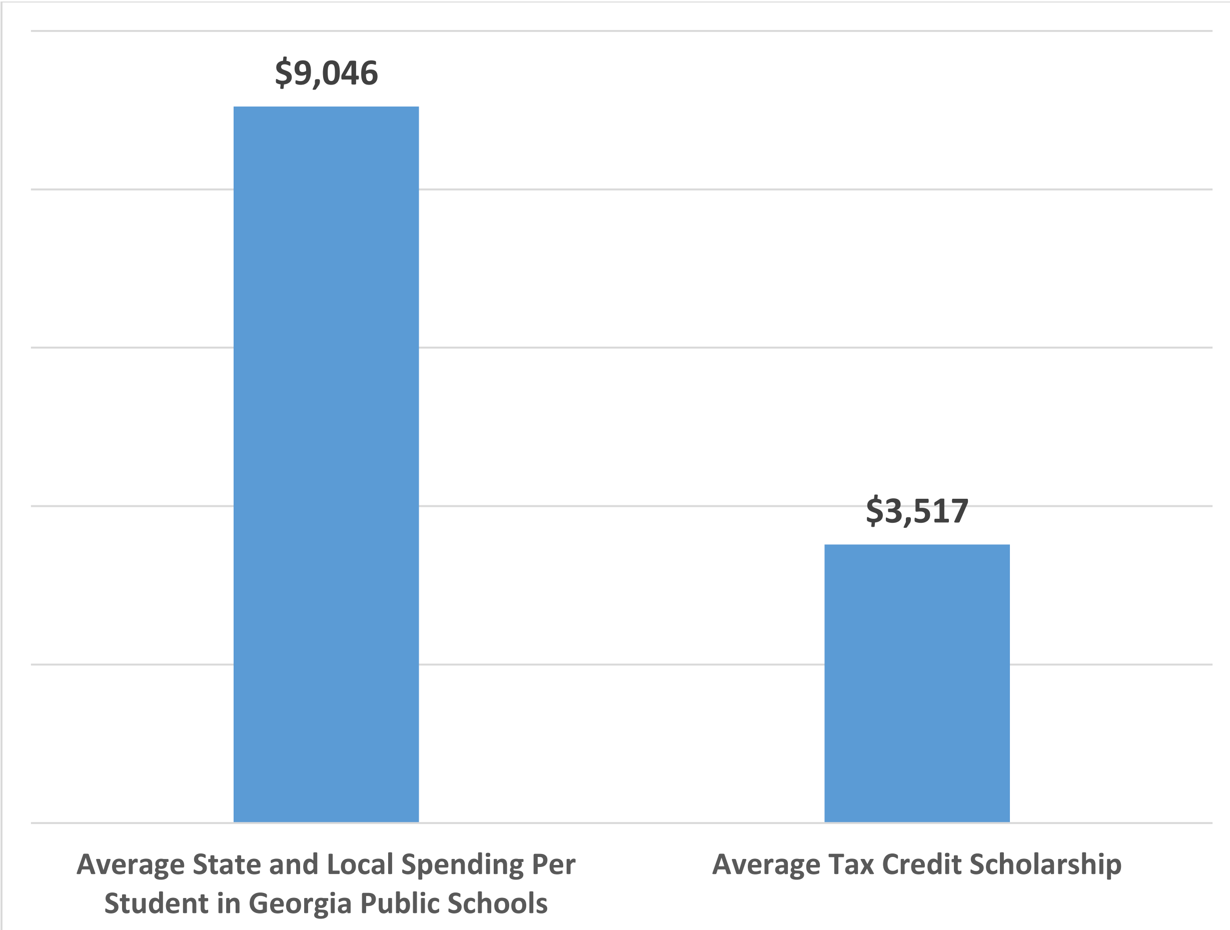
The Georgia K-12 tuition tax credit scholarship program is extremely popular. This program allows taxpayers to donate to student scholarship organizations that give scholarships to allow children to attend private schools their parents—and donors—deem best. Taxpayers receive a dollar-for dollar tax credit for their donation.

Donations to the program are currently capped at $58 million per year, about three-tenths of one percent of the approximately $18,000,000,000 that federal, state, and local, taxpayers spend annually on Georgia public schools. The program is so popular with donors that the $58 million cap was met in three weeks in 2014. Thus, many Georgia taxpayers were excluded from the program. In January 2015 the cap is likely to be met in a couple of days, or less.

The program is also extremely popular with families who receive scholarships. According to a survey of GOAL Scholarship recipients, relative to their child's former public school, 84 percent of parents indicated they were "very satisfied" with the private school they were able to choose for their child. An additional 14.6 percent were "satisfied" with their new private school. Thus, 98.6 percent of parents were either "very satisfied" or "satisfied" with their decision to send their children to a private school using a GOAL scholarship—as compared to the public school they previously attended.

The Fiscal Research Center (FRC) at Georgia State University has produced a report that contains a fiscal analysis of Georgia's K-12 tuition tax credit scholarship program. Below, I show that this fiscal analysis contains outright errors, implausible assumptions and a lack of balance about the likely effects of this program and a potential new program.

In the chart below are two basic facts—which I independently verified:



The FRC report says that state and local spending per student averaged $4,066 (Table 4 on page 14) and $3,477 per student (Table 6 on page 18), respectively. These figures sum to $7,543. The report relies on this $7,543 figure to produce its estimates of fiscal savings of Georgia's tuition tax scholarship program. However, on page 4, **the FRC report states that, according to the Georgia Department of Education, average state and local spending per public school student was $9,046 in FY 2013.** By making $1,503 per student in taxpayer spending on public schools disappear, the report dramatically understates the fiscal benefits of the scholarship program to state and local taxpayers. Next, I explain other reasons why the FRC's analysis significantly understates savings to taxpayers.

More "switchers" from public to private school makes the scholarship program more of a fiscal benefit to taxpayers, as taxpayers avoid the higher subsidy for public schools. According to data I obtained from Georgia GOAL, 93.5 percent of its scholarship dollars were awarded to students who were previously enrolled in a public school before receiving a scholarship or began at the private school in Pre-K4 or kindergarten. I agree with the report that some students who were previously enrolled in a public school (or started in Pre-K4 or kindergarten) may have moved to a private school their parents deem better—even without a scholarship.

However, the report fails to mention that some students who were not former public school students would not be able to remain at the private school without a scholarship—for financial reasons.

The report relies on a study of Arizona's tax credit scholarship program to suggest that the percent of scholarship dollars awarded to switchers may be a lot lower than 93 percent. However, Arizona's law does not have a requirement that scholarship students be enrolled in a public school prior to receiving a scholarship. Georgia's law is very different. Specifically, in Georgia, scholarships can only be given to existing private school students in very limited cases after grade 1. This major difference surely has a large impact on the percent of scholarship students who are "switchers" from the public to the private sector in Arizona relative to Georgia. To be specific, the percentage of switchers is surely much higher in Georgia relative to Arizona. More "switchers" makes the program more of a fiscal benefit to the state. This material difference in the laws between the two states was not acknowledged in the report.

The FRC report should also note that over time donations to scholarship organizations minus administrative costs will be equal to scholarships awarded. In some years, scholarships awarded will be greater than donations and in other years the opposite will be true. But, over time, donations minus administrative costs will equal scholarships. A fiscal analysis of the program should smooth out these year-to-year minor fluctuations.

The FRC report correctly notes that estimates of fiscal savings to state taxpayers are related to where scholarship students reside. The report relies on a conjecture by a critic of the program that lots of scholarship students *may* reside in four metro Atlanta counties that receive low state grants per student. The GOAL Scholarship website shows that GOAL—the largest student scholarship organization in Georgia—gives 64.3 percent of its scholarships outside the 10-county metro Atlanta region.

The FRC report also ignores the evidence on school choice as "beyond the scope" of the report—evidence that suggests school choice leads to higher educational attainment, which would have potentially massive fiscal benefits, through higher taxes paid and lower use of jails and government transfer programs in the future. While it is difficult to quantify those benefits to students and the corresponding fiscal benefits, they should at least be acknowledged as potentially very large.

The evidence on school choice is voluminous and the findings point in one direction. Most studies find that students who transfer to schools their parents deem better experience academic and non-academic benefits. Also, students who remain in public schools under school choice programs also seem to benefit. Some studies, however, find no benefits—albeit at a lower cost to taxpayers.

I have never seen an empirical study that finds that school choice harms student outcomes. Harvard law professor Cass Sunstein—a former regulator in the Obama administration—and his coauthor recently wrote, "Milton Friedman was right: at least in the abstract, school choice is an excellent idea, because it increases freedom and offers real promise for improving education.... Fortunately, existing evidence suggests that school choice has considerable promise." My read of the evidence is the same as theirs. Further, all existing school choice programs in Georgia provide significantly lower taxpayer subsidies to students who transfer to private schools relative to the per student taxpayer subsidies they would receive if they attended a public school.

At least two private schools in Georgia have closed in recent years as a direct result of competition from high quality public schools—high quality start-up charter public schools, that is. Surely, at least some of the students from Randolph Southern in Shellman, GA and Redeemer Episcopal Academy in Eatonton, GA moved to a public school when their private schools closed—and imposed a new fiscal burden on taxpayers. I am a strong proponent of competition and choice in education, as the evidence suggests that it leads to better outcomes for students and lower costs for taxpayers. However, if there was more school choice allowed in Georgia—and there was fair competition between public and private schools—these two schools may have remained open. [It is surprising that many private schools exist at all given that parents of almost all private school students must pay full tuition, while taxpayers provide public schools at a zero price to families. Under a fair competition, the taxpayer subsidy rate would be equal across sectors.] The FRC report does not acknowledge that the continued increase in high quality public charter schools in Georgia may cause an adverse fiscal impact as students in private schools who do not have access to scholarships may move to public charter schools. As the first chair of the Georgia Charter Schools Commission, I am not suggesting that the state limit the growth of charter schools. However, I am suggesting that the growth of high quality charter schools will create a fiscal paradox if private school choice programs are not allowed to expand at the same time.

Given the future fiscal benefits that would accrue from students having better academic and non-academic outcomes and from minimizing the charter school paradox by keeping some private schools open, the report understates the fiscal benefits of Georgia's tax credit scholarship program.

Curiously, the report suggests that a corporate-only scholarship program would save taxpayers even more money than the current program because its scholarship dollars would be more targeted to lower income students. I agree with the report that students from lower income families would be less likely to enroll in private schools without receiving a scholarship. Thus, low income students are more likely to be "switchers" from a public to a private school and save state taxpayers money. The report fails to note that the program is already well-targeted. According to data made public by the Georgia Department of Revenue, 76.6 percent of scholarship students come from families with annual incomes less than $61,953. And, 97.2 percent of GOAL Scholarship dollars go to families below this income. Further, among Georgia adults, supporters of the program overwhelmingly do not want it means-tested.

Importantly, corporate dollars are mostly located in metro Atlanta. If these scholarships were more likely to go to Atlanta-area students, the program would have less of a fiscal benefit to state taxpayers than the current program. This possibility was not acknowledged in the report.

In addition, a few corporations would be able to restrict the choices of Georgia parents, and tens of thousands of individual contributors—spread throughout the state—would be denied the opportunity to earmark their contributions for use at the schools they deem best. A corporate-only scholarship program would eliminate an important accountability feature—the preferences of donors. Under the current program, individual donors ensure their hard-earned dollars do not go to private schools they deem inadequate.

One virtue of Georgia's tuition tax credit scholarship program is that no one's money is spent where they do not want it to be spent. If one does not want their money given to students whose families want a private school they deem better than their alternatives, then he or she is not forced to donate to a student scholarship organization. If a school choice supporter does not think a given private school is good enough, the donor may specify that the donation go only students who wish to attend a private school he or she designates. A corporate-only program removes this accountability tool and freedom of choice from individual Georgians.

Another virtue of Georgia's tuition tax scholarship program is community-building. Georgia now has 18,000 individual contributors and 200 corporate contributors who donate to nonprofit organizations that give scholarships. These donations bind the donors to the schools where they earmark their donations to promote better educational opportunities for students who likely have no other way to attend the private schools. Private schools have a strong financial incentive to recommend students to student scholarship organizations when the students would not otherwise be able to afford the tuition at the school without a scholarship.

The FRC report highlights policy issues the authors apparently believe favor a corporate-only program, but the report does not mention fiscal and policy issues that go against such a program.

The report finds that Georgia's tax credit scholarship program provides large fiscal benefits to local taxpayers. However, the report likely underestimates these benefits as well. Using an approach based on actual losses in school district enrollments for reasons not related to school choice programs, I estimated that the variable cost per student in Georgia public schools averaged $7,507—about $1,200 per student higher than the figure used in the FRP report. A subsequent study by Robert Bifulco and Randall Rebeck published in the journal *Education Finance and Policy* produced estimates of variable costs per student strikingly similar to mine. Using one of these two approaches would lead to much higher fiscal benefits of the Georgia tax credit scholarship program for local taxpayers. Both my study and the Bifulco/Reback study consider many costs as fixed, when they are in fact variable as shown in these two studies—thus both studies may produce serious underestimates of true variable costs.

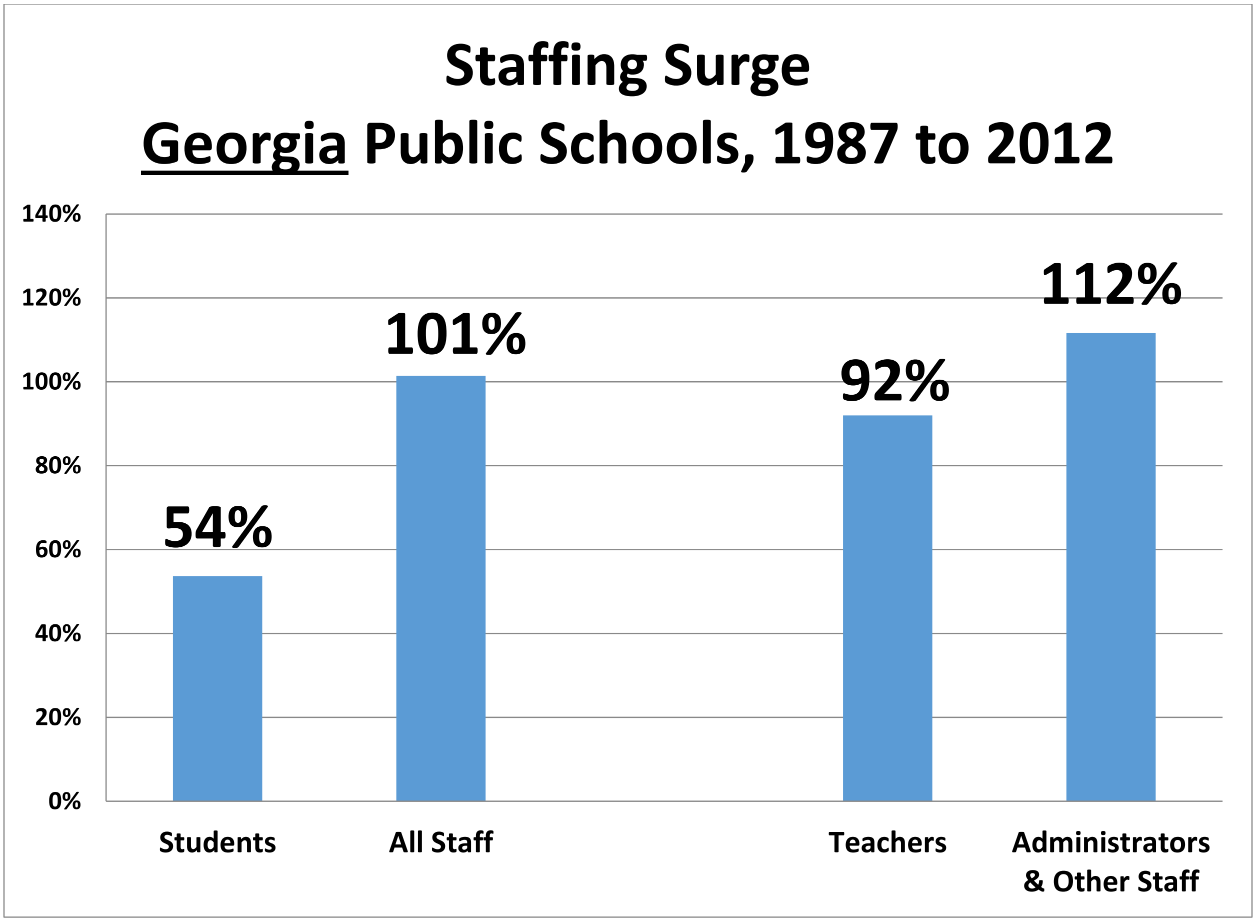
A smaller point is that federal education spending has complicated hold harmless provisions, so school districts may not lose federal funding commensurate with their loss in enrollments. While the report ignores savings to federal taxpayers, estimating these savings is a complicated undertaking given these hold harmless provisions. That said, retaining federal funds for students no longer served is a financial boon to school districts.

For context, local public school districts retain all locally generated funds when they lose a student to another public school district, a private school or to a homeschool situation. I am not aware of any other enterprise in America that gets to retain some funds for customers it no longer serves—even pre-k programs and colleges and universities in Georgia lose full formula funds and tuition when students move to other pre-k programs or other colleges. Only in K-12 public education do schools get to retain funds when students leave.

If public school leaders wish to argue that they cannot cut costs when they lose students who move out of district or move to charter, private, or home schools, then they are suggesting that all of their costs are fixed costs. If all of their costs are fixed costs, then the state can save the tens of millions of dollars they give to public school systems each year for enrollment growth—because their costs are fixed and therefore do not increase when they add students. It cannot be the case that all public school costs are variable in the education appropriations committee, but those same costs are all fixed when considering expanding parental choice programs.

Georgia State University needs to correct its data, use plausible assumptions based on existing information and add balance to its report.

Further, Georgia policymakers have a choice. They can continue to increase funding for an educational system that has had increases in full-time equivalent (FTE) employment that are almost double the FTE increases in students or provide more opportunities for families to secure the best possible education for their children.



Source: Author calculations from the Digest of Education Statistics, which contains data reported by state departments of education to the National Center for Education Statistics at the U.S. Department of Education.

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Disclosures: Years ago, I was paid research affiliate with the research center that produced the fiscal report analyzed here. I am currently paid to provide policy advice to the Georgia GOAL Scholarship Program. The views expressed here are my own and not necessarily the views of any current or former employer.