

Evaluating the Fiscal and Academic Impact of the Georgia Qualified Education Expense Credit Program

Heidi Holmes Erickson and Benjamin Scafidi

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Executive Summary

With the passage of HB 1133 in 2008, the Georgia General Assembly created the Qualified Education Expense (QEE) Tax Credit Program. The QEE program allows individual and corporate taxpayers to receive a Georgia income tax credit for donating to nonprofit, tax-exempt student scholarship organizations (SSOs). SSOs use these funds to provide scholarships to pre-k through twelfth grade Georgia students to offset the cost of attending independent (private) schools.

The purpose of this brief is to analyze to what extent the fiscal impact of the QEE program and academic performance of scholarship recipients indicate that expanding the QEE program would have positive benefits for Georgia taxpayers, particularly in the context of the current fiscal crisis. We estimate the fiscal impact of this scholarship program on state and local taxpayers and consider the academic performance of students participating in the program.

We estimate that the QEE scholarship program:

- Saved state taxpayers \$17.8 million in 2018 (the most recent year with data available).
- Saved local taxpayers \$31.5 million in 2018.
- The total taxpayer savings from the QEE scholarship program for 2018 were \$49.3 million. These savings were due to the significantly lower cost (less than one-third) of educating students in private schools via scholarships relative to the taxpayer costs of educating these students in public schools.

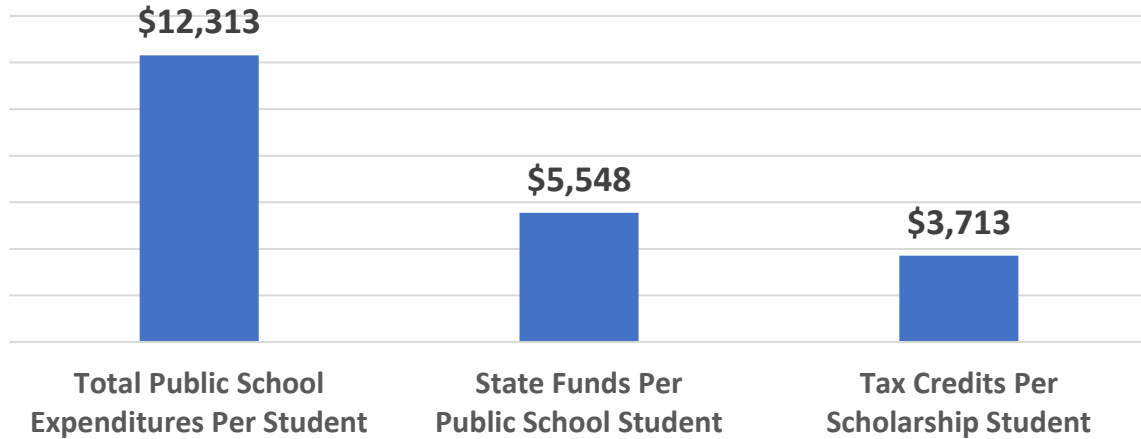
Using data on the largest SSO, the Georgia GOAL Scholarship Program, we compare the educational attainment of participating students to traditional public school students and find:

- Of students who received a GOAL scholarship to attend a private school, 99 percent graduated from high school compared to 82 percent of students in traditional public schools.
- Scholarship students who qualify for free or reduced-priced lunch (FRL) also graduated high school at a significantly higher rate than similar students in public schools: 98 percent vs. 76 percent, respectively.
- Participating scholarship students also enter college at a higher rate, 85 percent, than public school counterparts, 68 percent.

I. Fiscal Effects of the QEE Scholarship Program on the State and Local Public School Budgets

The average taxpayer cost of each scholarship awarded to student recipients in calendar year 2018¹ was \$3,713—significantly less than the state average per pupil expenditures in public schools and *less than one-third of the total expenditures per public school student*.

Figure 1 – 2018 Total Expenditures, State Funds Per Student in Georgia Public Schools, and Tax Credits Per Scholarship Student



Sources: <https://gaawards.qosa.ga.gov/analytics/K12ReportCard> and <https://dor.georgia.gov/document/publication/2018-calendar-year-qualified-education-expense-credit-report/download>

Any analysis of the fiscal impact of the QEE Program needs to consider whether, absent receipt of a scholarship, students would have enrolled in public schools, resulting in a cost to state, local, and federal treasuries. Based on student behavior documented in empirical observations² of similar program lotteries from other states, we would expect that 90 percent of the 13,895 students who received scholarships in 2018 under the QEE program would enroll in a Georgia public school if they were not able to access a scholarship. Using this 90 percent public school enrollment figure, as well as the expenditure and tax credit data from Figure 1, we calculate that, for the 2017-2018 academic year, the savings from the QEE scholarship program to state taxpayers was as follows:

Savings to State Taxpayers from the QEE Scholarship Program in 2018

State cost of educating 90% of Scholarship Students in Public Schools	—	Revenue forgone by the state treasury due to tax credits given to donors
(0.9 x 13,895 scholarship students x \$5,548)	—	(\$3,713 x 13,895 scholarship students)
=\$69,380,514	—	\$51,592,135 = \$17,788,379

¹ 2018 was the most recent data available from the Georgia Department of Revenue on the QEE program.

² Lueken (2018) reviews these empirical studies, <https://eric.ed.gov/?id=EJ1176273>.

As shown above, if the scholarship program was not available and 90 percent of participating students had instead enrolled in public schools, the cost to the state of educating those students would have been \$69,380,514. Instead, by foregoing \$51,592,135 of revenue to the state from QEE Program income tax credits to taxpayer-donors who funded the corresponding scholarships, we estimate that, in 2018, the program saved state taxpayers \$17.8 million.

Additionally, we estimate the local fiscal impact of 90 percent of scholarship recipients instead enrolling in public schools. We use a cautious estimate of \$8,065³ as the additional cost to local public school systems of educating students in Georgia public schools. If, in 2018, instead of enrolling in private schools, 90 percent of these 13,895 scholarship students had enrolled in public schools at a cost of \$100,856,858, after being offset by increased state funding of \$69,380,514, local public school expenditures would have increased by a net of \$31,476,344.

Savings to Local Taxpayers from the QEE Scholarship Program in 2018

Local cost of educating 90% of scholarship students in public schools	—	State funding for enrollment growth
(0.9 x 13,895 scholarship students x \$8,065)	—	(0.9 x 13,895 scholarship students x \$5,548)
\$100,856,858	—	\$69,380,514 = \$31,476,344

In other words, the decrease in local taxpayer costs of not having to educate 90 percent of scholarship students in the public schools is 90 percent of the 13,895 scholarship students multiplied by our cautious estimate of the average variable cost of educating these students in public schools (\$8,065), or \$100,856,858, minus the state revenues that local systems would receive to offset a portion of the cost of educating those students, \$69,380,514. The difference between these two figures, \$31.5 million, represents the savings to local taxpayers from not having to pay to educate 90 percent of scholarship students in public schools.

Thus in 2018, the total savings to Georgia taxpayers from the QEE scholarship program was \$49.3 million, consisting of the estimated \$17.8 million in savings to the state treasury plus the \$31.5 million in savings to local taxpayers.

Overall Savings to Taxpayers from the QEE Scholarship Program in 2018

\$17.8M in state savings + \$31.5M in local savings =

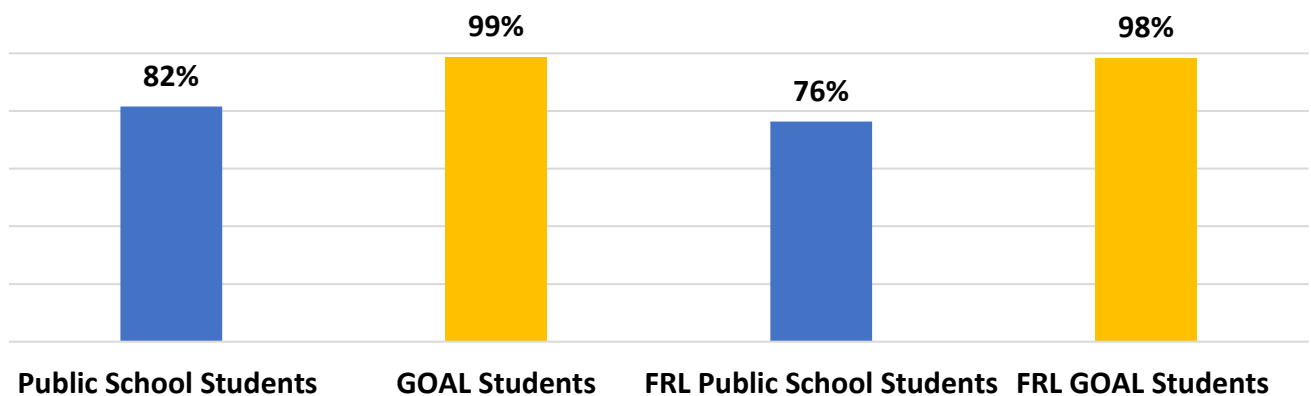
\$49.3 million in savings overall to Georgia taxpayers in 2018

³ To be cautious, we follow Scafidi (2012), <https://www.edchoice.org/wp-content/uploads/2015/07/The-Fiscal-Effects-of-School-Choice-Programs.pdf>, and use the figure of \$8,065 as our estimate of the average variable cost of educating students in public schools—well below the \$12,313 (actual) average total cost per student.

II. Educational Attainment of Participating Students

When considering the fiscal impacts of the scholarship program, it is also useful to consider the educational attainment of scholarship recipients. Higher levels of educational attainment are associated with a longer and more economically productive life. We use data provided by the Georgia GOAL Scholarship Program, the largest participating SSO in Georgia, to compare the rate at which scholarship and traditional public school students graduate from high school and enter college.⁴ GOAL students graduate high school at a higher rate than public school students by 17 percentage points, with 99 percent of GOAL students graduating compared to 82 percent of students in Georgia public schools. When looking only at students who qualify for a free or reduced price lunch (FRL), an indicator of economic disadvantage, 98 percent of GOAL students graduate compared to 76 percent of public school students.

Figure 2: Four-Year High School Graduation Rate for Public School and GOAL Scholarship Students



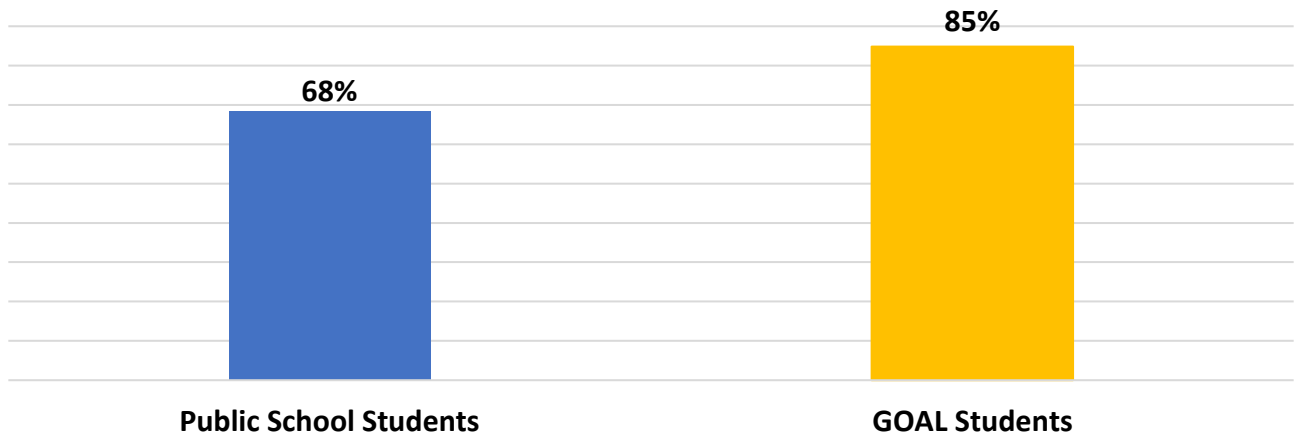
Sources: Data provided by Georgia GOAL. High School graduation rates for public school students comes from The Governor's Office of Student Achievement graduation rate report (4-Year Cohort). We use the graduation rate for school year 2017-18, 81.56 percent. The graduation rate for 2016-17 was 80.56 percent and 82.02 percent for 2018-19. <https://qosa.georgia.gov/report-card-dashboards-data/downloadable-data>.

When considering the rate at which students enter college, 85 percent of GOAL students enter college following high school graduation as compared to 68 percent of their public school peers who enter within 16 months after graduation.⁵

⁴ Georgia GOAL provided us data on three cohorts of ninth grade students from school year 2013-14 to 2015-16.

⁵ Georgia GOAL provided us data from the National Student Clearinghouse to confirm college enrollment of scholarship students. The estimated college entrance rate for GOAL students is conditional on students receiving a scholarship for all four years they were enrolled in high school. The data GOAL provided from the National Student Clearinghouse includes a sample of students who graduated high school from 2012-2019. Due to data limitations, we are not able to separate the college enrollment rates for students qualifying for the FRL program.

Figure 3: College Entrance Rates for Public School and GOAL Scholarship Students



Sources: Data provided by Georgia GOAL and the Governor’s Office of Student Achievement Post-Secondary C11 Report, <https://qosa.georgia.gov/report-card-dashboards-data/downloadable-data>.

III. Concluding Remarks

The purpose of this brief is to analyze to what extent the fiscal impact of the QEE program and academic performance of scholarship recipients indicate that expanding the QEE program would have positive benefits for Georgia taxpayers, particularly in the context of the current fiscal crisis.

We find that in 2018 this program saved state and local taxpayers about \$49.3 million, so an increase in the \$100 million statewide cap on donations to this program would save Georgia state and local taxpayers even more.⁶ Further, we find that the cost savings appear to come with an increase in educational attainment. Students receiving a scholarship from Georgia GOAL graduate from high school and enroll in college at a higher rate than students in public schools. Greater educational attainment is directly connected to more economically productive lives resulting in significant and additional financial benefits to the state.⁷

The coming recession will also make it harder for many families to afford tuition at private K-12 schools, and we know from recent history that many of them will not be able to stay. Private school enrollments in Georgia fell by over 12 percent during the Great Recession between 2007

⁶ In 2018, the statewide cap on donations was \$58 million. As stated at the start of this brief, the main source of the savings to taxpayers are that the average taxpayer cost of a scholarship to a private school under this program is less than one-third of the average taxpayer cost of educating students in public schools.

⁷ We do not estimate the magnitude of the economic impact associated with scholarship students’ higher educational attainment in this brief. We plan to release a study later this year further detailing this economic impact from the higher educational attainment of GOAL scholarship students.

and 2011.⁸ If those private school students go back to the public school system, it will further magnify the fiscal challenges facing state and local governments as a result of the Coronavirus pandemic. More than 166,000 students in Georgia are enrolled in private schools today.

Private school enrollment could drop by 10 percent, or roughly 17,000 students, which is a plausible estimate given the severity of the current economic downturn and the experience during the Great Recession. The cost to Georgia taxpayers to absorb these children back into the public system is cautiously estimated to be well over \$100 million.

If the goal is to save taxpayers money, then increasing the statewide cap on donations to the QEE scholarship program would help state and local taxpayers with the current fiscal crisis. Further, expanding scholarship eligibility to families with verifiable COVID-19 financial impact – even when their children are already enrolled in private schools – would help curtail the private school enrollment drop and provide additional help with the fiscal challenges faced by state and local taxpayers.

Research Notes and Acknowledgements

Not all state taxpayer funds spent on public schools are directly tied to changes in enrollment—but the vast majority of state funds are. The implication of this fact is that savings to state taxpayers are slightly overestimated, while savings to local taxpayers are slightly underestimated—by the exact same amounts in absolute value. Therefore, our estimate of total overall savings to Georgia taxpayers is unaffected by this fact.

In addition, the household incomes of GOAL students are verified from income tax returns. Some public school students who live in households with incomes above FRL income thresholds are classified as low income—when they are not—due to the Community Eligibility Provision of the free and reduced price lunch program in public schools. The implication of this fact is that all GOAL students classified as low income in this brief do live in low income households, but some public school students classified as low income do not actually live in low income households.

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⁸ Source: National Center for Education Statistics, U.S. Department of Education, at the https://nces.ed.gov/programs/digest/d19/tables/dt19_205.80.asp?current=yes .

About the Authors

Heidi Holmes Erickson is a visiting assistant professor and a senior fellow with the Education Economics Center at Kennesaw State University. She is also a researcher with the University of Arkansas National Endowment for the Arts Research Lab. She received a BA in Political Science from Brigham Young University and a PhD in Education Policy from the University of Arkansas.

Ben Scafidi is a professor of economics and director of the Education Economics Center at Kennesaw State University. He is also a Friedman Fellow with EdChoice (the legacy foundation of Milton and Rose Friedman) and a senior fellow with the Georgia Public Policy Foundation. Previously, he served as the first chair of the state of Georgia's Charter Schools Commission, the Education Policy Advisor to Governor Sonny Perdue, a staff member to both of Governor Roy Barnes' Education Reform Study Commissions, and as an expert witness for the state of Georgia in school funding litigation. He received a BA in Economics from the University of Notre Dame and a PhD in Economics from the University of Virginia.

EDUCATION ECONOMICS CENTER
at KENNESAW STATE UNIVERSITY

Burruss Building • 560 Parliament Garden Way • Kennesaw, GA 30144
Phone: 470.578.6101 • educationeconomics@kennesaw.edu • www.kennesaw.edu