

A SCHOOL CHOICE CERTIFICATE PROGRAM COULD SAVE THE STATE BUDGET \$32 MILLION OVER EIGHT YEARS

by Brian J. Gottlob

“The basic financial calculus of a school choice certificate proposal is that if the per student cost of each child receiving a school choice certificate is less than the per student state aid cost associated with these children if they attend public schools, then the program will save the State of New Hampshire money.”

In this study, economist Brian Gottlob determines that a means tested school choice certificate program could save the state budget \$32 million over eight years. For this study, Mr. Gottlob examined a program like the ones introduced in the legislature the last two years that would cap the total number of vouchers, direct a full voucher to children at the lowest income levels and award partial vouchers on a sliding scale to more moderate income families.¹

According to this analysis, a School Choice Certificate Program like the ones introduced in the New Hampshire legislature each of the last two years would save the state budget \$2 million in the first biennium and \$32 million over the first eight years. The basic financial calculus of a school choice certificate proposal is that if the per student cost of each child receiving a school choice certificate is less than the per student state aid cost associated with these children if they attend public schools, then the program will save the State of New Hampshire money.

In the first year of the program, only 1,200 certificates would be awarded. Table 1 analyzes the cost of a school choice certificate program for that introductory year. Savings are greater with a larger number of students but the methodology is the same.

The analysis uses census data to calculate the number of students by income distribution and uses the current FY 2006 state adequacy aid figure of \$3,580. A student below 200 percent of the federal poverty level would receive a certificate equal to 80 percent of state adequacy aid with the remainder sent to the student’s home district. For higher income levels (between 200 and 300 percent of federal poverty guidelines), the student would receive progressively smaller amounts but the district’s portion would remain the same. For each of those students, the state saves money.

Some percentage of students using a certificate would have gone to private school even in the absence of a certificate program. This analysis uses the most conservative estimate of that “deadweight effect” by using the actual percentage of private school students in each of the poverty categories. For example, since 7.3 percent of children who have incomes below 200 percent of poverty attend private schools today, we assume that they would have attended private school without a certificate program. Therefore, the costs of providing certificates to these children are included in the cost of a certificate program but are subtracted from the costs without a certificate program, reducing the net savings of the program.

¹ While based on the specifics of a current proposal, the analytical model developed can be applied to other means-tested school choice proposals. The 2005 bill is Senate Bill 131. The text is available online at <http://www.gencourt.state.nh.us/legislation/2005/SB0131.html>.

TABLE 1
FIRST YEAR COSTS OF SB 131

State Adequacy Aid Per Pupil: \$3,580

Number of Certificates: 1,200

| Income Level % Poverty | % Students Grade 1-8* | Pct. of Certificates | # of Certificates | Dollar Value of Certificates | Per Pupil \$'s Retained by District | Total Cost of Certificates | Cost if Student Enters/Stays Public School* | "Dead-weight Loss"*** | Avg. Value Per Certificate |
|----------------------------------|-----------------------|----------------------|-------------------|------------------------------|-------------------------------------|----------------------------|---|-----------------------|----------------------------|
| 301% + | 54.6% | Not Eligible | Not Eligible | N/A | N/A | N/A | N/A | N/A | N/A |
| 276-300% | 5.9% | 13.0% | 156 | \$111,631 | \$111,631 | \$223,263 | \$516,853 | 12.0% | \$716 |
| 251-275% | 6.5% | 14.3% | 171 | \$245,515 | \$122,758 | \$368,273 | \$547,499 | 10.2% | \$1,432 |
| 201-250% | 11.6% | 25.6% | 307 | \$659,143 | \$219,714 | \$878,857 | \$1,035,953 | 4.8% | \$2,148 |
| Up to 200% | 21.5% | 47.3% | 567 | \$1,624,147 | \$406,037 | \$2,030,184 | \$1,881,981 | 7.3% | \$2,864 |
| Total Cost To Trust Fund: | | | | \$2,640,437 | \$860,140 | \$3,500,577 | \$3,982,286 | | \$2,200 |
| Average Cost Per Pupil: | | | | \$2,200 | \$717 | \$2,917 | \$3,319 | | |

** Equals the percent of students who would have gone to private school even without certificates. These costs are subtracted from the preceding column.

Table 1 shows that school choice certificates will save the Education Trust Fund approximately \$481,000 in the first year of the program. In addition, several important characteristics of the proposed school choice certificate program are presented in Table 1:

- A majority of New Hampshire's school population in grades 1-8 will not be eligible because they reside in families above 300 percent of federal poverty guidelines.
- Nearly half of the certificates will go to children from families with incomes below 200 percent of federal poverty guidelines. These children will receive certificates with a value of about \$2,864 or almost 75 percent of the average tuition at independent elementary and middle schools.
- School districts retain \$717 for each student from their district that receives a school choice certificate.
- On average, the total cost of each school choice certificate (the certificate plus the 20 percent payment to districts) will be about \$2,917, compared to an average cost of \$3,319 per pupil (net of "deadweight loss") in the absence of school choice certificates.

As the number of school choice certificates increases with each year, the savings to the Trust Fund become much larger (Table 2) and the beneficial impact on school districts becomes greater (Table 3).

Table 2 shows that as school choice certificates increase in number, based on the current distribution of children by income level in New Hampshire, the cumulative savings to New Hampshire's Education Trust Fund will reach \$32 million.

| Year | Total # of Certificates | Cost of Certificates | Cost Without Certificates | Cost of Certificates vs. No Certificates | Cumulative Savings to Trust Fund |
|---------------|--------------------------------|-----------------------------|----------------------------------|---|---|
| 1 | 1,200 | \$3,500,577 | \$3,982,286 | -\$481,709 | \$481,709 |
| 2 | 4,000 | \$11,668,590 | \$13,274,286 | -\$1,605,696 | \$2,087,405 |
| 3 | 6,000 | \$18,483,047 | \$21,026,469 | -\$2,543,423 | \$4,630,827 |
| 4 | 8,000 | \$24,644,062 | \$28,035,292 | -\$3,391,230 | \$8,022,057 |
| 5 | 10,000 | \$32,438,680 | \$36,902,515 | -\$4,463,835 | \$12,485,892 |
| 6 | 12,000 | \$38,926,416 | \$44,283,018 | -\$5,356,602 | \$17,842,495 |
| 7 | 14,000 | \$47,701,196 | \$54,265,282 | -\$6,564,085 | \$24,406,580 |
| 8 | 16,000 | \$54,515,653 | \$62,017,465 | -\$7,501,812 | \$31,908,392 |
| Totals | | \$231,878,222 | \$263,786,614 | -\$31,908,392 | |

Assumes that per pupil state adequacy figures are adjusted every two years to account for inflation, as is required in current law.

I have noted in prior research² that in any school choice program where the dollar value of the certificate is less than the cost of education a child, a school district will not be financially harmed by a loss of students. The actions of school districts and communities bear this out. Despite increases in state aid since 1999, communities still recognize that adding students is costly while limiting the growth in enrollments or reducing them is fiscally wise. I know of no school district that believes that the secret to healthier finances is to add students, regardless of the amount of per pupil state aid they receive. The only districts that look to expand enrollments are those that can charge tuition to a “sending town” that more closely reflects per pupil costs in their district.

School districts across the state regularly see decreases in annual enrollments and thus reductions in state aid without retaining 20 percent of the per pupil adequacy aid proposed in a certificate program. As a recent publication by the NH Center for Public Policy Studies notes: “In smaller towns, however, changes in [enrollment] of plus-or-minus 5 to 10 percent are not uncommon.”³ No district will experience enrollment changes of 10 percent under SB 131, and thus it will cause no more disruption in district financial planning than occurs in a normal year.

Finally, it is crucial to note that when a student leaves the public schools because of a school choice program, he or she subsidizes the students remaining in the public schools. Table 3 illustrates this point using Manchester as an example.⁴ The table shows that by the end of the eighth year of the program Manchester will be eligible for school choice certificates that reduce its elementary and middle school population by about 8 percent, with a decline in state adequacy aid of less than 3 percent of expenditures. Table 3 also shows that when the value of a choice certificate is less than the cost of educating a child, the loss of students to a choice program subsidizes the remaining students in a school district. Per pupil expenditures increase as more students participate in the school choice certificate program.

² Brian J. Gottlob, “The Fiscal Impacts of School Choice,” The Josiah Bartlett Center for Public Policy, February 2004. Available electronically at <http://www.jbartlett.org>.

³ Richard Minard, “Understanding State Aid FY 05 & FY 06”, NH Center for Public Policy Studies, December 2004.

⁴ Financial data are based on detailed reports submitted by the school district for the 2002-2003 school year and adjusted by 5 percent annually to reflect inflation adjusted increases in expenditures.

TABLE 3
THE IMPACT OF SCHOOL CHOICE CERTIFICATES ON THE MANCHESTER SCHOOL DISTRICT

| Year | # of Certificates | % of Grade 1-12 Students | Impact on Education Aid | % of District's Expenditures | Per Pupil Expenditures W/O Certificates | Per Pupil Expenditures With Certificates |
|------|-------------------|--------------------------|-------------------------|------------------------------|---|--|
| 1 | 102 | 0.6% | -\$292,535 | -0.24% | \$7,332 | \$7,395 |
| 2 | 340 | 2.0% | -\$975,116 | -0.77% | \$7,625 | \$7,844 |
| 3 | 511 | 3.1% | -\$1,544,584 | -1.16% | \$7,930 | \$8,275 |
| 4 | 681 | 4.0% | -\$2,059,445 | -1.48% | \$8,247 | \$8,723 |
| 5 | 851 | 5.0% | -\$2,710,823 | -1.87% | \$8,577 | \$9,201 |
| 6 | 1,021 | 6.0% | -\$3,252,988 | -2.15% | \$8,920 | \$9,694 |
| 7 | 1,192 | 7.0% | -\$3,986,275 | -2.52% | \$9,277 | \$10,224 |
| 8 | 1,362 | 7.9% | -\$4,555,743 | -2.75% | \$9,648 | \$10,768 |

Table 3 uses data from the Manchester school district but illustrates the impact that school choice certificates will have on any school district in New Hampshire. It shows that the percentage decline in students as a result of school choice certificates will be greater than the percentage decline in state education aid as long as the value of certificates are less than the actual cost of education a child. The calculations in Table 3 assume certificates are allocated to districts according to the percentage of NH's students the district educates, that the number of students will increase at a rate of .5 percent (one-half of one percent) annually, and that district expenditures will increase by five percent annually.

***Brian Gottlob** is the Principal of PolEcon Research in Dover, New Hampshire. You can contact him at bgottlob@poleconresearch.com.*

February 2005