



# POLICY MATTERS

*Using Information and Ideas to Transform Public Policy*

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## School Choice Scholarship Program Saves \$8 million over next two State Budgets

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A proposed School Choice Scholarship Act under its proposed configuration would not start during the current budget cycle but would save the state budget \$8 million over the next two budgets. This is not the primary consideration in any debate over school choice or a motivating factor for most supporters. But the budgetary impact of any bill is one of the technical considerations in any current debate.

The precise savings to be realized for the state budget of any school choice scholarship program depend on the exact scholarship amounts, take up rates, tax credits, and aggregate amounts available. This analysis takes as its starting point the details put forth by Sen. Jim Forsythe and Sen. Chuck Morse in the amended version of Forsythe's proposed Senate Bill 327 in the 2012 session. The House version is quite similar but there are slight differences.

At its base, the School Choice Scholarship Act would allow businesses to make deductions to an approved scholarship organization and receive a credit against their BET or BPT obligation<sup>1</sup>. Scholarships would then be given to students in needy families (below 300% of the poverty level) to use at any approved non-public school or at another public school. Scholarships could also be used for some approved home school expenses (textbooks, for example).

The idea behind the proposal is to allow students greater opportunity by giving them more choices. Upper income students generally have multiple educational choices. This bill would extend those opportunities to lower income students.

Because the scholarship amount per student is less than the state aid cost per student, the state would save money for each student. The state budget would save more money if a student elected homeschooling because of the smaller scholarship available. The

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<sup>1</sup> Both SB 327 and HB 1607 (the similar House version) give business a credit worth 85% of their donation to the scholarship organization

exception to budget savings would be students moving from one non-public school to another – which is why that group is limited in current proposals<sup>2</sup>.

Consider three students and the budgetary impact of each: (1) a student moving from a public school to a nonpublic school, (2) a student moving from a public school to a home school, and (3) a nonpublic school student. For each of the first two categories, the state would save money previously spent on per pupil student aid. The state saves more money for the homeschool student because that scholarship is more limited. For the third category, the state wouldn't save money because it wasn't paying aid to begin with.

	<i>Public to Nonpublic</i>	<i>Public to Homeschool</i>	<b>Nonpublic to Nonpublic</b>
Avg. Scholarship <sup>3</sup>	\$2500	\$725	\$2500
Tax Credit Cost <sup>4</sup>	\$2125	\$616	\$2125
Budget reduction <sup>5</sup>	\$4312	\$4312	\$0
<b>Saving per student</b>	\$2187	\$3696	(\$2125)

With at least 70% of students mandated to be in the first two categories and no more than 30% in the third, you can easily see how the state budget saves money.

To estimate the aggregate amount saved, we have to make some assumptions. Of students who currently don't go to public school, 22% of them opt for homeschooling and 78% go to a nonpublic school. So for a statewide aggregate, I've used a more conservative 80/20 split to estimate an average scholarship of \$2145.

Finding the total cost and savings each year is a matter of doing the calculations above and applying the different caps on types of students (switching from public school v. already in private school) and size of program. In addition, I've added administrative costs both for the state and scholarship organization to the costs as well as a small secondary impact the credit structure causes on the BPT<sup>6</sup>.

<sup>2</sup> The proposal in SB327 would require 70% of recipients to be coming from a public school. Currently 89% of students attend public school, 9% nonpublic school, and 2% are homeschooled.

<sup>3</sup> Scholarships granted by approved scholarship organizations will average \$2500 across non-homeschooling students. Homeschool students are calculated separately and can receive up to \$725 for approved expenses.

<sup>4</sup> Although the scholarship is drawn from donated funds, the donor receives a credit for only 85% of the amount donated. So the cost to the state budget of each scholarship is 85% of the average amount.

<sup>5</sup> State per pupil aid for each student includes a number of categories. Because only students at 300% FPL or below are eligible, I've included the base amount of \$3450 for all students and the additional aid for free and reduced lunch eligible students of \$1725 for 50% of students but nothing else.

<sup>6</sup> Because of the format of our tax reporting, the credit will also reduce the size of taxable income for some filers paying the Business Profits Tax. In the spreadsheet analysis, I estimate these filers as about 2/3 of the total credits (in practice it will likely be a smaller number) and calculate the additional lost BPT revenue.

My calculation and its assumptions are attached for each of the four years of the next two budgets. I haven't carried out calculations beyond four years because before too long you get into esoteric arguments about whether or not someone is counted as a "switcher" once they've been in the program for five or six years. In addition, the percentages and caps are certain to be tweaked once the state has a few years' experience under its belt.

Projected Savings in Current Budget: ZERO (program not yet in effect)

Projected Savings in Budget for FY2014-FY2015: \$3.96 million

Projected Savings in Budget for FY2016-FY2017: \$4.33 million

Total Four Year Budget Savings: \$8.3 million

	<i>FY2014</i>	<i>FY2015</i>	<i>FY2016</i>	<i>FY2017</i>	
<b>Annual Tax Credits</b>	\$3,400,000	\$5,100,000	\$6,375,000	\$7,968,750	The total credits are capped and then rise by 25% only if the previous limit is reached
<b>Credit Percentage</b>	85%	85%	85%	85%	
<b>Scholarship Funds</b>	\$4,000,000	\$6,000,000	\$7,500,000	\$9,375,000	Although 10% is allowed, in most states the scholarship organization self-limits to maximize the number of scholarships it is able to give. The 6% figure is based on the experience of Pennsylvania.
<b>Administrative costs</b>	6%	6%	6%	6%	
<b>Available for Scholarships</b>	\$3,760,000	\$5,640,000	\$7,050,000	\$8,812,500	
<b>Average Scholarship size estimate</b>	\$2,145	\$2,145	\$2,145	\$2,145	
<b>Number of Scholarships Required "Switcher" Percentage</b>	1,753 70%	2,629 70%	3,287 65%	4,108 60%	This minimum is set by the bill.
<b>Switchers required</b>	1,227	1,841	2,136	2,465	After the first year, previous switchers minus graduates count as required switchers.
<b>Existing year switcher</b>	-	1,104	1,841	2,136	
<b>New switchers</b>	1,227	737	296	329	
<b>Total switchers</b>	1,227	1,841	2,136	2,465	
<b>Non-switcher</b>	526	789	1,150	1,643	
<b>Annual Tax Credits</b>	\$3,400,000	\$5,100,000	\$6,375,000	\$7,968,750	Calculated as donations times BPT rate for 2/3 of taxpayers.
<b>Estimated additional BPT cost</b>	\$227,800	\$341,700	\$427,125	\$533,906	
<b>Dept. of Education Costs</b>	\$100,000	\$100,000	\$100,000	\$100,000	Additional DOE employee Foregone revenue plus DOE costs
<b>Total Program Costs</b>	\$3,727,800	\$5,541,700	\$6,902,125	\$8,602,656	
<b>Students switching</b>	1,227	1,841	2,136	2,465	"Switchers" times per pupil aid of \$4,312
<b>Average Per Pupil Aid</b>	\$4,312	\$4,312	\$4,312	\$4,312	
<b>Reduced adequacy payments</b>	\$5,290,995	\$7,936,492	\$9,212,000	\$10,629,231	
<b>State savings (loss)</b>	<b>\$1,563,195</b>	<b>\$2,394,792</b>	<b>\$2,309,875</b>	<b>\$2,026,575</b>	<b>\$8,294,437</b>