



# THE FISCAL SENSE OF SCHOOL CHOICE

The Evidence of Taxpayer Savings from Voucher and  
Scholarship Tax Credit Programs



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**W**ith America's economy facing epic challenges, families across the country are becoming increasingly wary of education plans with steep price tags. According to the National Council of State Legislators, 40 states have projected budget shortfalls for fiscal year 2009, totaling \$47.4 billion. For fiscal year 2010, 34 states are projected to have shortfalls totaling \$84.3 billion.<sup>1</sup>

What can be done to fulfill our responsibility of providing an excellent education for every child while also respecting the wallets of taxpayers? Well designed school choice programs can do both.

**Two state-sponsored studies released in 2008 revealed that school choice programs in Wisconsin and Florida are saving taxpayer dollars.**

### **Florida – Corporate Tax Credit Scholarship Program**

A legislatively required fiscal analysis of the Corporate Tax Credit Scholarship Program by the non-partisan Office of Program Policy Analysis & Government Accountability, found that in fiscal year 2007-08, \$1.49 in state education spending was saved for every dollar of tax credits awarded to businesses that donated funds to Scholarship Funding Organizations.<sup>2</sup> This amounted to a total of \$38.9 million in savings that year. In the words of the report:

The scholarship program produces a net savings to the state. While the program reduces the amount of corporate tax revenues received by the state, it produces a net fiscal benefit. This occurs because state education spending for students who receive scholarships is reduced by more than the amount of revenue lost.<sup>3</sup>

Additionally, the study concluded that future expansions of the program's tax credit cap to meet scholarship demands would save even more money:

Expanding the cap on tax credits would produce additional savings if there is sufficient demand for the scholarships. The Legislature may wish to consider expanding the program when the level of tax credits awarded approaches the cap and there is a sufficient waiting list of students who could use the scholarships.<sup>4</sup>

This latest analysis of the program is the third showing that it saves money. Two previous studies by independent organizations—Florida Tax Watch, and the Collins Center for Public Policy—in the state also concluded that the Corporate Tax Credit Scholarship Program has saved money.<sup>5</sup>

### **Wisconsin – Milwaukee Parental Choice Program**

An ongoing state sponsored fiscal analysis of the Milwaukee Parental Choice Program (MPCP)—part of the School Choice Demonstration Project's five-year evaluation of the voucher program—has found that MPCP is producing growing net statewide taxpayer savings, "from \$24.6 million in FY07 to \$31.9 million in FY08 and \$37.2 million today."<sup>6</sup>

Furthermore, the state's nonpartisan Legislative Fiscal Bureau estimated that Wisconsin's school districts outside of Milwaukee received a net of nearly \$86 million in additional state funding for the 2007-08 school year because of the MPCP. In other words, if the program was eliminated, districts that would lose the additional funding would have had to raise property taxes if they wanted to recoup the loss.<sup>7</sup>

**In addition to the above state sponsored studies, there is evidence from other organizations showing that school choice programs are saving states money.**

## **Institute for Justice Analysis of Arizona's Corporate School Tuition Organization Tax Credit**

A 2006 fiscal analysis of Arizona's Corporate Tax Credit Scholarship Program, sponsored by the Institute for Justice, concluded that Arizona's General Fund could save an average of \$11.4 million dollars annually over the life of the program's authorization (FY2007-2011).<sup>8</sup> The report was based on an analysis by the state's Joint Legislative Budget Committee of a similar corporate tax credit scholarship program that was proposed in the legislature in 2005. The analysis showed that every student who would transfer from a public school to private school because of the program would save the state General Fund \$5,000 in FY 2007.<sup>9</sup>

While state revenue would be reduced at the same time due to the tax credits, author Vicki Murray concludes the corporate scholarship tax credit program will result in savings once the program is fully subscribed: "The program achieves a savings because students who transfer to private schools do so with scholarships that are less than the average per-student base funding for Arizona public schools."<sup>10</sup> In other words, more students can be served in private schools with the help of scholarship tax credit program donations than can be served with the same amount of state funding in the public school system.

## **Friedman Foundation for Educational Choice Analysis of Existing School Choice Programs and Other Proposed Programs**

A 2007 study by the Friedman Foundation for Educational Choice that looked at 10 voucher and scholarship tax credit programs that were in operation through the 2005-06 school year concluded: "School choice programs have saved a total of about \$444 million from 1990 to 2006, including a total of \$22 million saved in state budgets and \$422 million saved in local public school districts."<sup>11</sup>

Additionally, in a 2008 analysis, using a scenario nearly identical to new Corporate and Individual Scholarship Tax Credit Program enacted in Georgia in May 2008, the Friedman Foundation estimated the state's savings at \$5.9 million a year. Furthermore, it estimated local school district savings of more than \$94 million.<sup>12</sup>

A 2009 analysis that looked at the fiscal impact of a proposed scholarship tax credit program in Indiana found that after five years of operation, the program is estimated to save the state anywhere from \$6.4 million to \$17.6 million per year.<sup>13</sup>

**A number of fiscal impact analyses of school choice bills conducted by state legislatures have predicted state and/or local savings.<sup>14</sup>**

## **A fiscal note on a tuition tax credit bill introduced in North Carolina in the last legislative session showed the potential for state savings.**

A fiscal note on HB 388, Tax Credits for Children with Special Needs, introduced in the North Carolina General Assembly in the 2007 session, estimated that each student that transfers to a private school because of the tax credit would save the state approximately \$7,110 in operational

and capital expenditure costs.<sup>15</sup> Since the tax credit would be capped at \$6,000 per year, the state's net savings would amount to approximately \$1,110 per student. At the local level, districts would save \$2,195 per student that transfers.

Using a broad range of estimates for the number of students that would transfer to a private school, the fiscal note estimates that the state savings would range from \$438,730 to \$8,774,607 and local districts would save anywhere from \$867,235 to \$17,344,697. It should be noted that the bill as proposed allows some students already in private schools to use the tax credits, resulting in a cost for those students. However, enacting a program that limited eligibility to students currently attending public schools would be a guaranteed cost saver for the state and local districts.

### **A fiscal note on the expansion of Florida's Corporate Tax Credit Scholarship Program showcased additional savings to the state.**

In 2008, Florida further cemented its reputation as a school choice leader with the passage of HB 653, which expanded the state's tax-credit scholarship program to include foster children and the siblings of children currently enrolled in the program. This raised the scholarship cap in Florida from \$88 million to \$118 million. The fiscal note attached to this bill showed that aside from providing more education options to the families that needed them the most, this expansion also stands to save the state an additional \$5.7 million in its first year alone.<sup>16</sup>

This expansion of the current scholarship tax credit program will further boost the state savings that have already been recorded by the aforementioned Office of Program Policy Analysis & Government Accountability study.

### **A proposed special needs scholarship program in Colorado would have saved school districts up to \$1.23 million in its first year, according to state analysts.**

In 2008 SB 142, known as the Colorado Scholarships for Children with Disabilities Pilot Program Act, would have created a voucher program to allow students with exceptional needs to attend the private schools of their choice using government funds. The fiscal note which accompanied the bill showcased that while the program would be fiscally neutral at the state level, it would produce savings for local districts.

The total projected savings of SB 142 for districts ranged from \$70,000 to \$1.23 million depending on participation.<sup>17</sup> While the proposed program failed to become law, it provided yet another example of how school choice can help children while saving money.

## **Conclusion**

Legislators, researchers, and all citizens are concerned about the economy and worried about how tightening state budget belts will impact education. Now, more than ever, states should seriously consider enacting well designed voucher and scholarship tax credit programs as a way to save money and improve education for disadvantaged children.

## Notes

1. National Conference of State Legislatures, "Update on State Budget Gaps: FY 2009 & FY 2010," February 20, 2009.
2. Florida Office of Program Analysis & Government Accountability, "The Corporate Income Scholarship Tax Credit Program Saves State Dollars," Report No. 08-68, December 2008.
3. *Ibid*, p 4.
4. *Ibid*, p 1.
5. Florida Tax Watch, "Increase the Current Limits on the Corporate Income Tax Credit for Scholarships Program To Help Alleviate the Fiscal Burden of Amendment 9 Class-Size Reduction Requirements," February 2003; Collins Center for Public Policy, Inc., "The Florida Corporate Income Tax Credit Scholarship Program: Updated Fiscal Analysis," February 2007.
6. Robert M. Costrell, "The Fiscal Impact of the Milwaukee Parental Choice Program: 2009 Update," School Choice Demonstration Project Milwaukee Evaluation Report #7, March 2009, p 6. For the first fiscal impact study, see: Robert M. Costrell, "The Fiscal Impact of the Milwaukee Parental Choice Program in Milwaukee and Wisconsin, 1993-2008," School Choice Demonstration Project Milwaukee Evaluation Report #2, February 2008, p 1. Costrell's figures are based on the estimation that 90 percent of students participating in the Milwaukee Parental Choice Program would have attended Milwaukee Public Schools without the program. He bases this estimate on evidence from random assignment studies of other voucher programs. See Costrell, 2008, p 11.
7. Wisconsin Legislative Fiscal Bureau, Memo from Russ Kava, Fiscal Analyst, to Representative Jeff Fitzgerald, September 10, 2008. This estimate is based on the assumption that 90 percent of students participating in the Milwaukee Parental Choice Program (MPCP) would have attended Milwaukee Public Schools if the program was eliminated, and that the \$66.1 million in state funding for MPCP would have been appropriated for general school aids.
8. Vicki Murray, "Fiscal Analysis of Arizona's Corporate Tax Credit Scholarship Program," Institute for Justice, October 2006.
9. Arizona Joint Legislative Budget Committee, Fiscal Analysis of SB 1176, February 8, 2005.
10. Vicki Murray, p 1.
11. Susan Aud, "Education by the Numbers: The Fiscal Effect of School Choice Programs, 1990-2006," The Friedman Foundation for Educational Choice, April 2007, executive summary.
12. Brian Gottlob, "The Fiscal Impact of Tax-Credit Scholarships in Georgia," The Friedman Foundation for Educational Choice, February 2008.
13. David Stuit, "The Fiscal Impact of a Corporate and Individual Tax Credit Scholarship Program on the State of Indiana," The Friedman Foundation for Educational Choice, May 2009.
14. Special thanks to Christian D'Andrea of the Friedman Foundation for Educational Choice for his research assistance and contributions to this section.
15. North Carolina Fiscal Research Division, Legislative Fiscal Note for Session 2007 House Bill 388 (first edition), "Tax Credits for Children with Special Needs," March 28, 2007.
16. Florida Policy & Budget Council, "Staff Analysis for HB 563," April 23, 2008.
17. Colorado Legislative Council Staff, "Concerning Scholarships for Children With Disabilities," February 19, 2008.