

Updated Fiscal Analysis of the Georgia Qualified Education Expense Tax Credit Program

From: Martin F. Lueken, Ph.D., Director of the Fiscal Research and Education Center, EdChoice

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Dear Rep. Carson,

At your request, I conducted a fiscal analysis of the Georgia Qualified Education Expense Tax Credit Program. This analysis follows previous fiscal analyses of the program and uses the most recent data available.

This analysis estimates the overall fiscal effects of the tax-credit scholarship program (TCSP) on state and local taxpayers through FY 2020. Please note that the fiscal effect on the state only will be different from what is reported in this memo. Determining such an effect will require a different analysis and different data.

Two key factors in any fiscal evaluation of a school choice program on state and local taxpayers are short-run variable costs and the switcher rate. Short-run variable costs are educational costs that vary with changes in student enrollment. The switcher rate is the proportion of scholarship students who would have enrolled in a public school had the TCSP not been in place. This latter group represents both a cost of the program and savings for their public school districts.

To estimate variable costs, I use the same accounting methods as Lueken (2018).¹ Notably, this approach is more cautious than the already-cautious approach used by Scafidi (2012).² Specifically, I employ school finance data that every state's education department reports to the U.S Department of Education. Estimated variable costs are comprised of the following three school expenditure categories: Instruction, Instruction Support Services, and Pupil Support Services. Please note that this approach excludes categories that are also variable or semi-variable, such as transportation, and are therefore cautious.

A fundamental economic principle is that all costs are variable in the long run. As such, I also estimate long-run fiscal effects by using the total per-pupil cost for public K-12 school systems in Georgia. This approach was employed by Lueken (2021).³ As the program has been operational for more than one decade, the program's fiscal effects on taxpayers is likely closer to the long-run fiscal effects estimates.

¹ Martin F. Lueken (2018), The Fiscal Effects of Tax-Credit Scholarship Programs in the United States, *Journal of School Choice*, 12(2), pp. 181–215, <https://dx.doi.org/10.1080/15582159.2018.1447725>

² Benjamin Scafidi (2012), *The Fiscal Effects of School Choice Programs on Public School Districts*, Friedman Foundation for Educational Choice, retrieved from EdChoice website: <https://www.edchoice.org/research/the-fiscal-effects-of-school-choice-programs-on-publicschool-districts>

³ Martin F. Lueken (2021), *Fiscal Effects of School Choice: Analyzing the costs and savings of private school choice programs in America*, EdChoice, retrieved from: <https://www.edchoice.org/wp-content/uploads/2021/11/The-Fiscal-Effects-of-School-Choice-WEB-reduced.pdf>

The analysis also accounts for switchers. Because the program requires most students to have been enrolled in public school before they participate in the program, the analysis assumes these students are switchers.

To estimate the number of switchers for other groups of students in the program, the analysis applies a range of switcher rates to the groups of students who are exempt from the program’s public school prior enrollment requirement. The analysis applies 60% and 90% switcher rates to students in prekindergarten, kindergarten, and first grade.^{4,5}

Note that the low-end assumption about the switcher rate for students exempt from the prior enrollment requirement produces an effective switcher rate of 91% for the program. This overall switcher rate is in line with random assignment studies of private school voucher programs (Lueken, 2020).⁶

The low-end fiscal effects estimate is based on short-run variable costs and a 60% switcher rate applied to students exempt from the public prior enrollment requirement.

The high-end fiscal effects estimate is based on long-run variable costs and a 90% switcher rate applied to students exempt from the public prior enrollment requirement.

All figures are reported in nominal dollars (i.e., they are not adjusted for inflation).

Results of the analysis are summarized in the tables below.

Summary of Results

Low-end estimates (short-run fiscal effect, 60% switcher rate)

Based on the analysis’s most cautious set of assumptions:

- Between FY 2011 and FY 2020, the Georgia Qualified Education Expense Tax Credit Program generated an estimated \$334 million in short-run savings overall for state and local taxpayers;

⁴ The 60% assumption is based on prior survey research by EdChoice which tends to find that, on average, 40 percent of respondents indicate private school as their most preferred setting for their children when asked, “If it were your decision and you could select any type of school, what type of school would you select in order to obtain the best education for your child?” For example, 39 percent of respondents in an Iowa survey indicated private school for their choice. Andrew D. Catt, Michael Shaw, John Kristof, and Trish Wilger, (2021), Iowa K–12 & School Choice Survey, EdChoice and Iowa Alliance for Choice in Education, retrieved from: <https://www.edchoice.org/wp-content/uploads/2021/03/Iowa-Polling-Brief-UPDATED.pdf>; also see entries in EdChoice’s Polling Paper series at <https://www.edchoice.org/research-library/>.

⁵ The analysis assumes a uniform distribution for scholarship students across grade levels.

⁶ Random assignment studies provide the best information available for estimating the counterfactual question of switchers. That is, they show the type of schools where students in the control group actually enroll after they did not win a lottery. Lueken (2020) identified 27 distinct estimates of switcher rates from studies of six private school choice programs. Lower bound and upper bound median switcher rates were 84% to 89%, and the average lower and upper bound switcher rates (weighted by sample in the control groups) were 84% to 90%. Switcher rates were on average 93% for minority students.

Martin F. Lueken (2019), The Fiscal Impact of K–12 Educational Choice: Using Random Assignment Studies of Private School Choice Programs to Infer Student Switcher Rates, *Journal of School Choice*, 15(2), pp. 170-193. Retrieved from: <https://doi.org/10.1080/15582159.2020.1735863>



- This estimated savings is equivalent to \$2,419 per student participating in the program;
- For every dollar of tax credit disbursed to taxpayers, the program generated \$1.58 in savings for state and local taxpayers in the short run;
- The break-even requirement for the program to be cost-saving in the short run is for at least 58% of scholarship students to be switchers. Thus, as long as the share of scholarship students who are switchers exceeds 58%, the program will be cost-saving for state and local taxpayers in the short run.

High-end estimates (long-run fiscal effect, 90% switcher rate)

- Between FY 2011 and FY 2020, the Georgia Qualified Education Expense Tax Credit Program generated an estimated \$952 million in long-run savings overall for state and local taxpayers;
- This estimated savings is equivalent to \$6,897 per student participating in the program;
- For every dollar of tax credit disbursed to taxpayers, the program generated \$2.65 in savings for state and local taxpayers in the long run;
- The break-even requirement for the program to be cost-saving in the long run is for at least 37% of scholarship students to be switchers. Thus, as long as the share of scholarship students who are switchers exceeds 37%, the program will be cost-saving for state and local taxpayers in the long run.

Figure 1 depicts the fiscal impact of the program by graphing the net impact per scholarship student, tax support (cost) per scholarship student, and long-run variable cost relief per student. The fiscal alignment between the variable cost per student and tax support per student is indicative of the structure of the program to generate savings (i.e., variable cost savings exceed tax credit disbursements).

Figure 2 depicts the funding gap between public effort to support the TCS program and the taxpayer costs to educate scholarship students in public school systems. Average tax credit disbursements per student for the program is 39% of average public school costs per-student (\$5,100 vs. \$13,200). This gap suggests significant savings for taxpayers overall when students leave public schools to participate in the program. How these savings accrue to different taxpayers will be governed by the state's school funding formula and requires a different analysis and different data. Overall, the program has generated significant fiscal benefits for Georgia taxpayers.

I hope this information is helpful. Please reach out to me if you have further questions.

Cordially,

Martin F. Lueken, Ph.D.
Director of the Fiscal Research and Education Center
EdChoice



Georgia Qualified Education Expense Tax Credit - Overall Short Run Fiscal Effects (60% switcher rate)

Year	Added Cost to Taxpayers				Reduced Short Run Cost Burden on Public Schools				Short Run Net Fiscal Effect			
	Students Participating in Program	Average Scholarship Amount	Average Tax Credit Disbursements Per Student	Total Tax Credit Disbursements	Switcher Rate	Students Switching From Public School [E] = AxD	Avg Variable Spending Per Student [F]	Enrollment Effect on Short Run Variable Costs [G] = ExF	Total Short Run Net Savings (Cost) [H] = G-C	Short Run Net Savings (Cost) Per Student [I] = H/A	Short Run Savings For Each Dollar Spent on Program [J] = G/C	Short Run Break-even Switcher Rate [K] = B/F
2011	11,292	\$3,494	\$4,194	\$47,358,986	91.4%	10,324	\$6,666	\$68,823,032	\$21,464,046	\$1,901	\$1.45	63%
2012	13,285	\$3,388	\$3,622	\$48,118,266	91.4%	12,146	\$6,639	\$80,641,838	\$32,523,572	\$2,448	\$1.68	55%
2013	13,268	\$3,515	\$4,139	\$54,915,196	91.4%	12,131	\$6,549	\$79,447,935	\$24,532,739	\$1,849	\$1.45	63%
2014	13,428	\$3,151	\$3,982	\$53,470,267	91.4%	12,277	\$6,545	\$80,357,145	\$26,886,878	\$2,002	\$1.50	61%
2015	13,555	\$3,509	\$3,549	\$48,107,138	91.4%	12,393	\$6,784	\$84,072,212	\$35,965,074	\$2,653	\$1.75	52%
2016	13,600	\$3,777	\$3,838	\$52,197,346	91.4%	12,434	\$7,055	\$87,729,670	\$35,532,324	\$2,613	\$1.68	54%
2017	13,247	\$3,454	\$4,272	\$56,593,545	91.4%	12,112	\$7,337	\$88,865,317	\$32,271,772	\$2,436	\$1.57	58%
2018	13,895	\$4,008	\$3,713	\$51,592,529	91.4%	12,704	\$7,688	\$97,673,331	\$46,080,802	\$3,316	\$1.89	48%
2019	16,358	\$4,560	\$5,032	\$82,312,427	91.4%	14,956	\$7,981	\$119,360,219	\$37,047,792	\$2,265	\$1.45	63%
2020	16,193	\$4,464	\$5,104	\$82,643,937	91.4%	14,805	\$8,405	\$124,434,355	\$41,790,418	\$2,581	\$1.51	61%
Cumulative Total									\$334,095,417	\$2,419	\$1.58	58%

Sources: Georgia Department of Revenue; U.S. Census Bureau; National Center for Education Statistics; EdChoice, National Catalogue of School Choice Programs

Note: Data were not reported for fiscal years 2008-2010. The analysis assumes 60% percent of prekindergarten, kindergarten, and first grade students were switchers.

Georgia Qualified Education Expense Tax Credit - Overall Long Run Fiscal Effects (90% switcher rate)

Year	Added Cost to Taxpayers				Reduced Long Run Cost Burden on Public Schools				Long Run Net Fiscal Effect			
	Students Participating in Program [A]	Average Scholarship Amount	Average Tax Credit Disbursements Per Student [B]	Total Tax Credit Disbursements [C] = Ax B	Switcher Rate [D]	Students Switching From Public School [E] = Ax D	Total Public K-12 Cost Per Student [L]	Long Run Savings From Not Educating Students in Public Schools [N] = Ex L	Total Long Run Net Savings (Cost) [O] = N-C	Long Run Net Savings (Cost) Per Student [P] = O/A	Long Run Savings For Each Dollar Spent [Q] = N/C	Program Cost As Percent of Total Cost [M] = B/L
2011	11,292	\$3,494	\$4,194	\$47,358,986	97.9%	11,050	\$10,278	\$113,573,257	\$66,214,271	\$5,864	\$2.40	41%
2012	13,285	\$3,388	\$3,622	\$48,118,266	97.9%	13,000	\$10,391	\$135,085,497	\$86,967,231	\$6,546	\$2.81	35%
2013	13,268	\$3,515	\$4,139	\$54,915,196	97.9%	12,984	\$10,233	\$132,865,659	\$77,950,463	\$5,875	\$2.42	40%
2014	13,428	\$3,151	\$3,982	\$53,470,267	97.9%	13,140	\$10,335	\$135,804,683	\$82,334,417	\$6,132	\$2.54	39%
2015	13,555	\$3,509	\$3,549	\$48,107,138	97.9%	13,265	\$10,694	\$141,851,764	\$93,744,626	\$6,916	\$2.95	33%
2016	13,600	\$3,777	\$3,838	\$52,197,346	97.9%	13,309	\$11,015	\$146,599,893	\$94,402,547	\$6,941	\$2.81	35%
2017	13,247	\$3,454	\$4,272	\$56,593,545	97.9%	12,963	\$11,599	\$150,359,226	\$93,765,681	\$7,078	\$2.66	37%
2018	13,895	\$4,008	\$3,713	\$51,592,529	97.9%	13,597	\$12,030	\$163,576,676	\$111,984,147	\$8,059	\$3.17	31%
2019	16,358	\$4,560	\$5,032	\$82,312,427	97.9%	16,007	\$12,562	\$201,081,748	\$118,769,321	\$7,261	\$2.44	40%
2020	16,193	\$4,464	\$5,104	\$82,643,937	97.9%	15,846	\$13,196	\$209,105,995	\$126,462,058	\$7,810	\$2.53	39%
Cumulative Total									\$952,594,762	\$6,897	\$2.65	37%

Sources: Georgia Department of Revenue; U.S. Census Bureau; National Center for Education Statistics; EdChoice, National Catalogue of School Choice Programs

Note: Data were not reported for fiscal years 2008-2010. The analysis assumes 90% percent of prekindergarten, kindergarten, and first grade students were switchers.

Figure 1: Georgia Qualified Education Expense Tax Credit – Net Fiscal Effect Per Scholarship Student, Long-Run Variable Cost Per Student, and Tax Support Per Student through FY 2020

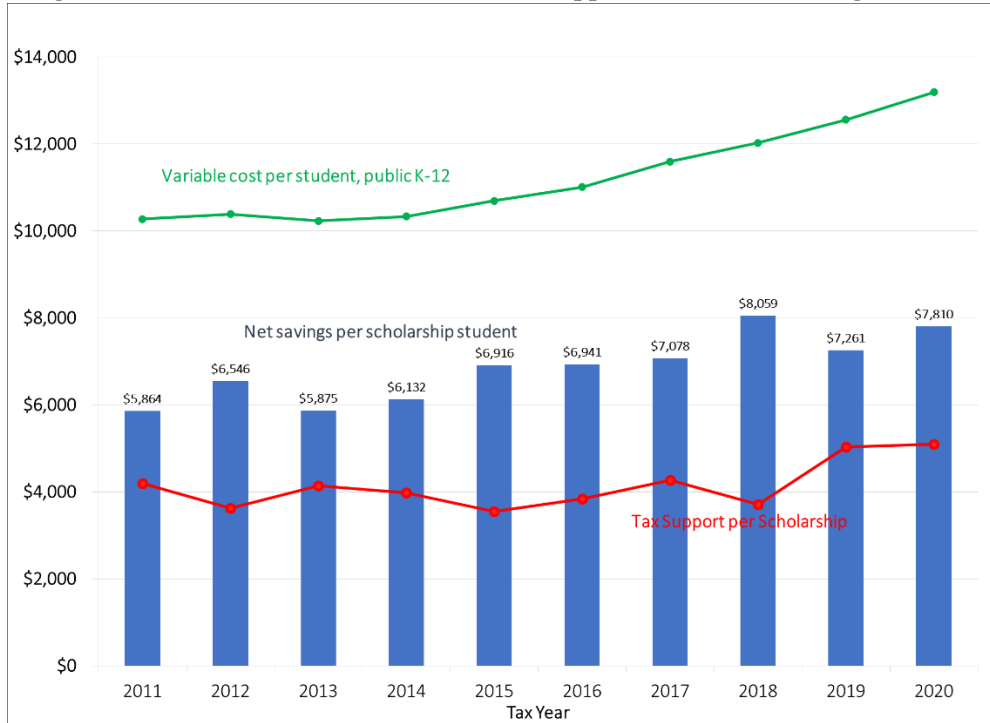


Figure 2: Per-Student Costs of Georgia Public Schools and the Georgia Qualified Education Expense Tax Credit Program, FY 2020

