A Guide for Producing Fiscal Notes for Private Educational Choice Programs

This handout provides guidelines for legislative fiscal analysts and stakeholders on producing fiscal notes for private school choice programs introduced in state legislatures.

In general terms, the net fiscal impact of private educational choice programs is simply savings from supporting fewer students in a public school system minus the cost of the choice program.

Taxpayers save money when students switch from a public school to a private school. In order to calculate the fiscal effect of an educational choice program, it is necessary to estimate the percentage of students who are "switchers," meaning those students who, in the absence of the educational choice program, would have enrolled in a public school. (These students are referred to as "switchers" because the choice program is what permits them to switch from a public to a private school.) To date, state legislatures have almost exclusively created choice programs where these savings more than offset the costs of these programs—and represent a net fiscal savings to taxpayers.

Measuring the fiscal effects of educational choice programs is complex because these effects can accrue unevenly to different groups of taxpayers. School funding comes from different sources (federal, state, and local governments), and complex school funding formulas determine the allocation of these revenues.

Short run fiscal effect on the state

The fiscal impact of a prospective educational choice program on a state's budget should be measured by the following:

Net Fiscal Effect = **Reduction in State Funding for Public School Districts from Switchers** - **State's Cost to Fund Choice Program**

The information required for estimating the net fiscal impact on the state's budget are:

1. Number of students likely to participate in the educational choice program

- Participation rates in private school choice programs tend to be very low. Of all currently operating ESA, voucher, and tax-credit scholarship programs in the U.S., 3% of all eligible students currently participate in them (including well-established programs that have been around for decades). Participation rates for programs in their initial years are lower than 3% – the average participation rate for programs in Year 1 is about 1%.[1]

- **Sound practice:** A fiscal note should use a realistic participation rate – rates in the range of 1% to 3% closely reflect experiences of choice programs currently in operation nationwide.

- **Caution:** Using unrealistically high participation rates will overstate the total cost of the program.

[1] Estimates are based on data from "School Choice in America Dashboard," EdChoice, last modified February 4, 2020 http://www.edchoice.org/school-choice/school-choice-in-america (accessed 10/8/2020)

2. Expected number of students in the program likely to be switchers

- "Switchers" are students who are likely to enroll in the public school system without financial assistance from a choice program. The choice program is what permits them to switch from a public to a private school, thus these students would attend a private school only if they receive a scholarship from the choice program. It's necessary to include this group of students in a fiscal analysis because they represent savings for the state where state funding of K-12 public education is tied to enrollment, and they lower costs for public school districts.

- The switcher rate will depend on program eligibility. For programs that target high-need students (e.g., programs for students with disabilities), switcher rates are likely to be high. Some choice programs require participating students to have been enrolled in public schools prior before entering the program. In both instances, it is reasonable to assume a switcher rate close to 100 percent.

- Some programs may have exceptions to prior enrollment requirements or may not have any requirement for enrolling in public schools. For instance, students in certain grades may be eligible for the program regardless of where they were enrolled before starting the program. This opens the program to "non-switchers" (students who would enroll in nonpublic school settings anyway even without the choice program in place). These students do not provide any offset to educational costs for the state.

- A body of empirical evidence on private school voucher programs based on random assignment provides information to help infer switcher rates. In these studies, researchers observed the percentage of families who lost a lottery after applying for a choice program and enrolled their children in public schools. Thus, these students would have attended a private school only if they had received a scholarship from a school choice program. Lueken (2020) summarized this body of research from six different school choice programs across the nation. He identified 27 estimates of switcher rates from this research and estimated lower bound and upper bound weighted average switcher rates – estimates that ranged from 84% to 90%.[2]

- **Sound practice:** A fiscal note should use a realistic switcher rate – for programs with no prior public school enrollment requirement, between 85% and 90% reflects switcher rates found in lottery-based studies. For programs that target students with special needs or have a prior public school requirement, fiscal notes can safely assume higher switcher rates.[3]

- **Caution:** A fiscal note should not assume all or most students who participate in a choice program are non-switchers – strong empirical evidence from actual school choice program experiences demonstrates the contrary (Lueken, 2020).

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[2] Lueken, Martin F. (2020). 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, published online at https://www.tandfonline.com/doi/abs/10.1080/15582159.2020.1735863.

[3] According to federal data, less than 2% of students with disabilities are enrolled in private schools nationwide, suggesting that switcher rates are likely much higher for this student population compared to the general student population. U.S. Department of Education, IDEA Section 618 Data Products: State Level Data Files, data retrieved from: https://www2.ed.gov/programs/osepidea/618-data/state-level-data-files/index.html
"How Private Schools and Districts Partner Up on Special Education," by Christina A. Samuels, Education Week, August 2, 2018, retrieved from: https://www.edweek.org/ew/articles/2018/08/02/how-private-schools-and-districts-partner-up.html

3. State's cost to educate students in the public school system

- Students who choose to leave or never enroll in the public school system (e.g. new Kindergarten students) as a result of the choice program will offset the cost of a choice program for the state. A fiscal note should estimate the savings to the state to fund these students in the public school system. The cost of supporting students' education in public schools usually varies by student background, where students with disadvantaged backgrounds (such as low-income or special needs students) generate higher educational costs for the state and therefore will represent greater savings for the state when they switch from public schools.

- All enrollment-driven state funding for public schools should be included in the fiscal note from the standpoint of accuracy.

- **Sound practice:** Apply the state's funding formula and all enrollment-driven (FTE-driven) funding to estimate savings from switchers; ideally, estimates will incorporate differential costs for students with background characteristics that's consistent with program eligibility requirements. For instance, a program for low-income students will use the cost of educating similar students in district schools. Analyses will understate savings from choice programs serving disadvantaged students if they use overall average costs.

- **Caution:** Sometimes legislative fiscal notes report only estimates for the total cost of a private school choice program without accounting for savings from switchers. This approach paints an incomplete and misleading picture of the potential fiscal impact of educational choice programs.

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